



Township of Gaines
Audited Financial Statements
March 31, 2017

Prepared by Taylor & Morgan P.C.

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TOWNSHIP OF GAINES

GENESEE COUNTY

STATE OF MICHIGAN

TOWNSHIP BOARD MEMBERS

Paul Fortino
Supervisor

Michael Dowler
Clerk

Diane Hyrman
Treasurer

Lee Purdy
Trustee

Matthew Moros
Trustee

TOWNSHIP OF GAINES
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Independent Auditor's Report

August 8, 2017

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, 2017, 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, 2017 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 28-29 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, 2017

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, 2017. 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, 2017.

In light of continuing State budget problems, and constant threat(s) to take away all revenue sharing, the Township continues to exercise tight 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>2017</u>	Business-type Activities <u>2017</u>	Total <u>2017</u>	Total <u>2016</u>
Assets	\$ 3,123,353	\$ 3,012,374	\$ 6,135,727	\$ 6,120,719
Liabilities				
Current liabilities	39,635	60,245	99,880	76,915
Noncurrent liabilities	<u>118,744</u>	<u>584,602</u>	<u>703,346</u>	<u>856,380</u>
Total liabilities	158,379	644,847	803,226	933,295
Deferred inflow of resources	<u>184,948</u>	<u>-</u>	<u>184,948</u>	<u>94,772</u>
Invested in capital assets, net of related debt	545,302	638,633	1,183,935	1,127,788
Restricted	495,809	-	495,809	345,486
Unrestricted	<u>1,738,915</u>	<u>1,728,894</u>	<u>3,467,809</u>	<u>3,619,378</u>
Total net positions	<u>\$ 2,780,026</u>	<u>\$ 2,367,527</u>	<u>\$ 5,147,553</u>	<u>\$ 5,092,652</u>

The Township of Gaines' total net positions from governmental activities are \$2,780,026 and \$2,367,527 from business type activities; of these amounts, \$1,738,915 and \$1,728,894 are unrestricted.

	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total 2017</i>	<i>Total 2016</i>
Revenue				
Program revenue:				
Charges for services	\$ 384,713	\$ 549,343	\$ 934,056	\$ 906,344
Capital grants and contributions	14,194	-	14,194	34,155
Operating grants and contributions	10,000	-	10,000	10,000
General revenue:				
Property taxes	300,808	-	300,808	257,391
Special assessments	969	-	969	234,484
State-shared revenue	511,384	-	511,384	490,142
Interest	1,554	4,733	6,287	17,233
Franchise fees and other revenue	<u>62,847</u>	<u>-</u>	<u>62,847</u>	<u>78,172</u>
Total revenue	1,286,469	554,076	1,840,545	2,027,921
Program expenses				
General government	308,261	-	308,261	284,761
Public works	587,326	-	587,326	1,346,768
Fire protection	182,575	-	182,575	212,291
Police protection	144,717	-	144,717	127,541
Sanitation	-	519,448	519,448	503,830
Other	<u>43,317</u>	<u>-</u>	<u>43,317</u>	<u>4,109</u>
Total program expenses	<u>1,266,196</u>	<u>519,448</u>	<u>1,785,644</u>	<u>2,479,300</u>
Change in net positions	\$ <u>20,273</u>	\$ <u>34,628</u>	\$ <u>54,901</u>	\$ <u>(451,379)</u>

Governmental Activities

The Township of Gaines' total governmental activity revenues were \$ 1,286,469 compared to \$1,510,503 in the prior year. The decrease was primarily due to the following:

- Oakwood subdivision special assessment revenue is recorded as income in the year the special assessment district is approved. During the year ended March 31, 2016 the Oakwood subdivision special assessment was increased from \$527,319 to \$753,706. This increase caused revenue to decrease \$226,387 between March 31, 2016 and March 31, 2017.

Governmental activity expenditures of \$1,266,196 were recorded for the year. This decrease of \$709,274 from the prior year is due to the Oakwood Subdivision paving project.

Business Type Activities

The Township also provides municipal water and sanitary sewer to some residents. The Water and Waste Fund accounts for this activity. During the fiscal year ended March 31, 2017, there was an increase in the county water rate that was passed on to Township residents 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.

A special assessment for mosquito control began in 2016 and will continue through the 2020 tax roll. Property taxes of \$121,766 were levied and collected during the current fiscal year ended March 31, 2017, and applications for mosquito control were performed during the spring and summer months of 2017.

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 fifteen years for the paving of Baldwin Road. The Baldwin Road Special Assessment began in 2007 with a balance of \$405,175. In 2014 a new special assessments district was created for Oakwood subdivision. It has an assessed balance of \$767,845 and will be spread over eight years. All special assessment activity is recorded in the Capital Projects Fund.

Capital Assets

At the end of fiscal year 2017, the Township had \$545,302 in governmental activities and \$1,283,480 in business-type activities for a total \$1,828,782 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines (see Note 10). During the current fiscal year the following fixed assets were purchased:

- Township Hall Parking Lot \$132,100
- Fire Dept Utility Vehicle w/Equip \$27,090
- 21' Car Trailer w/Liner and Lettering \$11,361
- Pager/Radio \$1,502
- ID Card Maker \$2,638
- Radar Detectors \$3,405
- 2011 Ford Crown Victoria \$2,300

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 balance to be paid on the loan as of March 31, 2017 was \$110,393 and will be paid out of the General Fund over the next four years.

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

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. During the fiscal year ended March 31, 2017, the Township amended the budget of its general fund two times. Each amendment reflected a change in revenues and/or expenditures.

In the general fund, the actual revenue was \$934,095. This is more than the final amended budget of \$883,061 with a variance of approximately 6%. The actual expenditures of the general fund were \$1,014,490. This was less than the final amended budget of \$1,090,582.

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, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,553,134	\$ 477,370	\$ 2,030,504
Investments	276,667	1,206,129	1,482,796
Receivables (net)	696,607	45,403	742,010
Prepaid expenses	51,643	-	51,643
Capital assets (net)	545,302	1,283,472	1,828,774
Total assets	3,123,353	3,012,374	6,135,727
Liabilities			
Accounts payable	1,992	-	1,992
Current portion of bond principal	37,643	60,245	97,888
Noncurrent liabilities:			
Due in more than one year	118,744	584,602	703,346
Total liabilities	158,379	644,847	803,226
Deferred inflow of resources			
Property taxes levied for the following year	121,766	-	121,766
Bond interest	63,182	-	63,182
Total deferred inflow of resources	184,948	-	184,948
Invested in capital assets, net of related debt	545,302	638,625	1,183,927
Restricted	495,809	-	495,809
Unrestricted	1,738,915	1,728,902	3,467,817
Total net position	\$ 2,780,026	\$ 2,367,527	\$ 5,147,553

TOWNSHIP OF GAINES
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2017

	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	\$ 308,261	\$ 38,309	\$ 14,194	\$ -	\$ (255,758)	\$ -	\$ (255,758)
Public safety	327,292	-	-	10,000	(317,292)	-	(317,292)
Public works	587,326	346,404	-	-	(240,922)	-	(240,922)
Other	43,317	-	-	-	(43,317)	-	(43,317)
Total governmental activities	1,266,196	384,713	14,194	10,000	(857,289)	-	(857,289)
Business-type activities							
Water and waste	519,448	549,343	-	-	-	29,895	29,895
Total primary government	<u>\$ 1,785,644</u>	<u>\$ 934,056</u>	<u>\$ 14,194</u>	<u>\$ 10,000</u>	<u>(857,289)</u>	<u>29,895</u>	<u>(827,394)</u>
General revenues							
Property tax					300,808	-	300,808
Special assessments					969	-	969
State-shared revenues					511,384	-	511,384
Investment earnings					1,554	4,733	6,287
Franchise fees					44,127	-	44,127
Miscellaneous					18,720	-	18,720
Total general revenues					<u>877,562</u>	<u>4,733</u>	<u>882,295</u>
Change in net position					20,273	34,628	54,901
Net position - beginning of year					<u>2,759,753</u>	<u>2,332,899</u>	<u>5,092,652</u>
Net position - end of year					<u>\$ 2,780,026</u>	<u>\$ 2,367,527</u>	<u>\$ 5,147,553</u>

**TOWNSHIP OF GAINES
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2017**

	General	Special Revenue	Capital Projects	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 1,054,456	\$ 368,384	\$ 130,294	\$ 1,553,134
Investments	276,667	-	-	276,667
Receivables				
Delinquent taxes	26,111	22,173	1,810	50,094
Special assessments	493,842	-	-	493,842
Prepaid expenses	24,424	27,219	-	51,643
Due from other funds	2,869	-	-	2,869
Due from other governments	89,489	-	-	89,489
Total assets	\$ 1,967,858	\$ 417,776	\$ 132,104	\$ 2,517,738
 <u>Liabilities</u>				
Accounts payable	\$ 1,992	\$ -	\$ -	\$ 1,992
Due to other funds	-	2,869	-	2,869
Total liabilities	1,992	2,869	-	4,861
 <u>Deferred Inflow of Resources</u>				
Property taxes levied for following year	121,766	-	-	121,766
Unavailable revenue	519,953	22,173	1,810	543,936
Total deferred inflow of resources	641,719	22,173	1,810	665,702
 <u>Fund Equity</u>				
Non-Spendable	24,424	27,219	-	51,643
Restricted	-	365,515	130,294	495,809
Assigned	874,070	-	-	874,070
Unassigned	425,653	-	-	425,653
Total fund equity	1,324,147	392,734	130,294	1,847,175
Total liabilities and fund equity	\$ 1,967,858	\$ 417,776	\$ 132,104	\$ 2,517,738

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

TOWNSHIP OF GAINES
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2017

Total governmental fund balances	\$	1,847,175
Amounts reported for governmental activities in the statement of net position are different because:		
Bond interest subsidy is reported as a receivable in the statement of net position, but reported in the governmental funds when earned.		63,182
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	\$ 1,902,730	
Accumulated depreciation	<u>(1,357,428)</u>	545,302
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.		493,842
Revenue for delinquent taxes collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds.		50,094
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.		(156,387)
Deferred bond interest is reported as a liability in the statement of net position, but reported in the governmental funds when earned.		<u>(63,182)</u>
Total net position - governmental activities	\$	<u><u>2,780,026</u></u>

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2017

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 241,837	\$ -	\$ -	\$ 241,837
Special assessments	969	346,404	148,233	495,606
Fees and permits	82,436	-	-	82,436
Intergovernmental	511,384	-	-	511,384
Administrative services	53,274	-	-	53,274
Grant income	14,194	-	-	14,194
Fire contract	10,000	-	-	10,000
Interest	1,455	84	15	1,554
Miscellaneous	18,546	174	-	18,720
	<u>934,095</u>	<u>346,662</u>	<u>148,248</u>	<u>1,429,005</u>
Total revenues				
Expenditures				
General government	299,099	-	-	299,099
Public works	231,382	326,633	29,311	587,326
Fire protection	170,072	-	-	170,072
Police protection	138,520	-	-	138,520
Other	6,620	-	-	6,620
Capital outlay	168,797	-	-	168,797
	<u>1,014,490</u>	<u>326,633</u>	<u>29,311</u>	<u>1,370,434</u>
Total expenditures				
Excess/(deficiency) of revenues over/(under) expenditures	(80,395)	20,029	118,937	58,571
Fund balance - beginning of year	<u>1,404,542</u>	<u>372,705</u>	<u>11,357</u>	<u>1,788,604</u>
Fund balance - end of year	<u>\$ 1,324,147</u>	<u>\$ 392,734</u>	<u>\$ 130,294</u>	<u>\$ 1,847,175</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, 2017

Total net change in fund balances - governmental funds \$ 58,571

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	\$	180,395	
Depreciation expense		<u>(76,157)</u>	104,238

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. (148,233)

Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end. 5,697

Change in net position of governmental activities \$ 20,273

TOWNSHIP OF GAINES
STATEMENT OF NET POSITION
PROPRIETARY FUNDS-WATER AND WASTE FUNDS
MARCH 31, 2017

	<u>Usage</u>	<u>Tap in</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 223,746	\$ 253,624	\$ 477,370
Investments	621,215	584,914	1,206,129
Accounts receivable	45,403	-	45,403
Property and equipment - net	<u>-</u>	<u>1,283,472</u>	<u>1,283,472</u>
Total assets	890,364	2,122,010	3,012,374
<u>Liabilities</u>			
Current portion of bond principal	-	60,245	60,245
Noncurrent liabilities:			
Due in more than one year	<u>-</u>	<u>584,602</u>	<u>584,602</u>
Total liabilities	-	644,847	644,847
<u>Net Position</u>			
Invested in capital assets	-	638,625	638,625
Unassigned	<u>890,364</u>	<u>838,538</u>	<u>1,728,902</u>
Total net position	<u>\$ 890,364</u>	<u>\$ 1,477,163</u>	<u>\$ 2,367,527</u>

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS-WATER AND WASTE FUNDS
FOR THE YEAR ENDED MARCH 31, 2017

	<u>Usage</u>	<u>Tap in</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 524,983	\$ 24,360	\$ 549,343
Total operating revenues	524,983	24,360	549,343
Operating expenses			
Depreciation	-	22,895	22,895
Pump maintenance	34,894	-	34,894
County sewer charges	127,996	-	127,996
County water charges	303,980	-	303,980
Total operating expenses	466,870	22,895	489,765
Operating income/(loss)	58,113	1,465	59,578
Non-operating revenues/(expenses)			
Interest expense	(322)	(29,361)	(29,683)
Interest income	2,527	2,206	4,733
Transfers from/(to) other funds	(84,507)	84,507	-
Total non-operating revenues/(expenses)	(82,302)	57,352	(24,950)
Change in net position	(24,189)	58,817	34,628
Net position - beginning of year	914,553	1,418,346	2,332,899
Net position - end of year	\$ 890,364	\$ 1,477,163	\$ 2,367,527

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

**TOWNSHIP OF GAINES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS-WATER AND WASTE FUND
FOR THE YEAR ENDED MARCH 31, 2017**

	<u>Usage</u>	<u>Tap in</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 525,422	\$ 24,360	\$ 549,782
Payments to suppliers	<u>(469,564)</u>	<u>-</u>	<u>(469,564)</u>
Net cash provided/(used) by operating activities	55,858	24,360	80,218
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments to/from other funds	(84,507)	84,507	-
Bond obligation payments to county	<u>-</u>	<u>(84,507)</u>	<u>(84,507)</u>
Net cash provided/(used) by capital and related financing activities	(84,507)	-	(84,507)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<u>-</u>	<u>55</u>	<u>55</u>
Net cash provided/(used) by investing activities	<u>-</u>	<u>55</u>	<u>55</u>
Net increase/(decrease) in cash and cash equivalents	(28,649)	24,415	(4,234)
Cash and cash equivalents - beginning of year	<u>252,395</u>	<u>229,209</u>	<u>481,604</u>
Cash and cash equivalents - end of year	\$ <u><u>223,746</u></u>	\$ <u><u>253,624</u></u>	\$ <u><u>477,370</u></u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities			
Operating income	\$ 58,113	\$ 1,465	\$ 59,578
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	-	22,895	22,895
Decrease/(Increase) in accounts receivable	439	-	439
(Decrease)/Increase in accounts payable	<u>(2,694)</u>	<u>-</u>	<u>(2,694)</u>
Net cash provided/(used) by operating activities	\$ <u><u>55,858</u></u>	\$ <u><u>24,360</u></u>	\$ <u><u>80,218</u></u>

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

TOWNSHIP OF GAINES
STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2017

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and cash equivalents	\$ <u>4,335</u>
Total assets	\$ <u><u>4,335</u></u>
<u>Liabilities</u>	
Due to other governmental units	\$ <u>4,335</u>
Total liabilities	\$ <u><u>4,335</u></u>

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

NOTES TO FINANCIAL STATEMENTS

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity

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

Basis of Accounting

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.

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. It includes Waste and Refuse activities as well as capital projects of the Township.
- The Waste and Refuse Fund accounts for special assessments that are restricted for sanitation services.

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

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

- The Capital Projects Fund accounts for special assessments and other revenue that is restricted for capital asset and infrastructure improvements.

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.

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

- The Water and Waste Funds account for the cost of collection and treating of waste waters.

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

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

Interfund Activity

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

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

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

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

Report Presentation

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.

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 2016 ad valorem tax is levied and collectible on July 1, 2016, and is recognized as revenue in the year ended March 31, 2016, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2016 taxable valuation of the Gaines Township is \$172,475,301, on which the ad valorem tax levy consisted of .8451 mills for operating purposes and .5 mills for police operations. This resulted in \$241,837 of revenue, which was recognized in the General Fund.

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

Specific Balances and Transactions

Cash and cash equivalents – The Township has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired. Certificates of deposit with a maturity date of greater than three months at the time of purchase are recorded as investments on the financial statements. Investments are stated at fair value.

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

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

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

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

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

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

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

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

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

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

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

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

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Fund 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. There was \$51,643 in non-spendable fund equity for the year ended March 31, 2017.
- 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 balances in the special revenue Waste and Refuse Fund for special assessments that are restricted for sanitation services. The Township restricts fund balances in the Capital Projects Fund to reflect the stated restrictions in the tax levies that represent the fund's main source of revenue.
- Committed fund equity represents constrained amounts imposed by board resolution. The Township had no amounts committed at March 31, 2017.
- 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, 2017:

Fire Depreciation	\$246,831
Police Depreciation	30,270
Building and Site	275,000
Assigned for 17-18 Budget	<u>321,969</u>
Total Assigned Fund Equity	<u>\$874,070</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.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

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

Use of Estimates

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

NOTE 2 – DEPOSITS AND INVESTMENTS

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

The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Township's deposits and investment policies are in accordance with the statutory authority. The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Interest rate risk 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.

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, 2017, the Township had \$2,033,685 of its deposit balances uninsured and uncollateralized.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 3-FAIR VALUE MEASUREMENT

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

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

The Township has negotiable certificates of deposit of \$200,000 that are valued using quoted market prices (Level 1 inputs).

NOTE 4 – SPECIAL ASSESSMENT RECEIVABLES

As of March 31, 2017, the following special assessments for paving projects were still outstanding:

Baldwin Road	\$ 76,564
Oakwood Subdivision	<u>417,278</u>
Total	<u>\$ 493,842</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances as of March 31, 2017 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 2,869	\$ -
Waste & Refuse Fund	<u>-</u>	<u>2,869</u>
Total	<u>\$ 2,869</u>	<u>\$ 2,869</u>

These balances are the result of Waste and Refuse fund expenditures that were paid out of the General Fund.

During the fiscal year ended March 31, 2017, the Water and Waste-Usage Fund transferred \$84,507 to the Water and Waste-Tap In Fund for the purpose of making the required bond payment.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 6 - DEFERRED INFLOWS OF RESOURCES

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

	Governmental Funds	Governmental Activities
Property taxes levied for the following year	\$ 121,766	\$ 121,766
Unavailable revenue	543,936	-
Bond interest	-	63,182
Total deferred inflows	<u>\$ 665,702</u>	<u>\$ 184,948</u>

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 - PENSION PLAN

The Township has a qualified, contributory defined contribution pension plan covering elected officials and eligible employees. Eligible employees are those who work 40 hours per week on a regular basis. Burnham & Flower Insurance Group administers the plan, which was adopted by the Township board on March 6, 1991. Under the plan, the Township's contribution will amount to 10% of all eligible employees' annual compensation. Compensation is defined as the basic annual rate of pay in effect at the beginning of the plan year. For the year ended March 31, 2017, actual Township contributions totaled \$9,032. Participant plan contributions begin immediately with no waiting period for vesting. The plan is referred to as a money purchase pension plan and is not insured by the Pension Benefit Guaranty Corporation (PBGC).

NOTE 9 - BUILDING AND SIMILAR FEES

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

Building department revenues and expenditures for the year ended March 31, 2017 are as follows:

Revenues	\$32,507
Expenditures	\$25,922

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

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 10 - CAPITAL ASSETS

Summary of capital asset transactions of the primary government:

	<u>Balance</u> <u>April 1, 2016</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>March 31, 2017</u>
Governmental activities				
Land & improvements	\$ 19,775	\$ -	\$ -	\$ 19,775
Buildings & additions	317,458	132,100	-	449,558
Furniture & equipment	532,618	7,544	(174,600)	365,562
Fire trucks & other vehicles	<u>852,484</u>	<u>40,751</u>	<u>-</u>	<u>893,235</u>
Subtotal	1,722,335	180,395	(174,600)	1,728,130
Accumulated Depreciation:				
Buildings & additions	221,761	11,835	-	233,596
Furniture & equipment	436,738	25,531	(174,600)	287,669
Fire trucks & other vehicles	<u>622,772</u>	<u>38,791</u>	<u>-</u>	<u>661,563</u>
Subtotal	<u>1,281,271</u>	<u>76,157</u>	<u>(174,600)</u>	<u>1,182,828</u>
Governmental activities net capital assets	<u>\$ 441,064</u>	<u>\$ 104,238</u>	<u>\$ -</u>	<u>\$ 545,302</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>410,763</u>	<u>22,895</u>	<u>-</u>	<u>433,658</u>
Subtotal	<u>410,763</u>	<u>22,895</u>	<u>-</u>	<u>433,658</u>
Business-type activities net capital assets	<u>\$ 1,306,367</u>	<u>\$ (22,895)</u>	<u>\$ -</u>	<u>\$ 1,283,472</u>

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

Government activities	
General Government	\$ 9,162
Public Safety	<u>66,995</u>
Total governmental activities	<u>\$ 76,157</u>
 Business-type activities	
Sewer	<u>\$ 22,895</u>
Total business-type activities	<u>\$ 22,895</u>

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 11 – LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Township for the year ended March 31, 2017:

	<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	\$ 228,919	\$ -	\$ (72,532)	\$ 156,387	\$ 37,643
Business-type activities					
2006 General obligations					
4.0%-4.35% due 11/1/26	\$ 699,993	\$ -	\$ (55,146)	\$ 644,847	\$ 60,245

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>					
2018	\$ 37,643	\$ 6,787	\$ (15,795)	\$ 60,245	\$ 26,849
2019	38,561	5,153	(15,795)	62,763	24,330
2020	39,479	3,480	(15,795)	65,388	21,706
2021	40,704	1,768	(15,797)	68,121	18,972
2022	-	-	-	70,970	16,124
2023-2027	-	-	-	317,360	33,557
Total	<u>\$ 156,387</u>	<u>\$ 17,188</u>	<u>\$ (63,182)</u>	<u>\$ 644,847</u>	<u>\$ 141,538</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 \$110,393 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. As of March 31, 2017, the remaining principal and interest to be paid on the bonds is \$786,385. On May 18, 2017, a check in the amount of \$649,433 was written to Genesee County to satisfy the entire liability of these bonds.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 12 – SUBSEQUENT EVENTS

Management has reviewed subsequent events through August 8, 2017, 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, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		Over/(Under) Final Budget
Revenues				
Taxes	\$ 228,000	\$ 228,000	\$ 241,837	\$ 13,837
Special assessments	800	800	969	169
Fees and permits	43,400	43,400	82,436	39,036
Intergovernmental	496,000	496,000	511,384	15,384
Administrative fees	48,500	48,500	53,274	4,774
Grant income	18,500	31,808	14,194	(17,614)
Public service contracts	10,000	10,000	10,000	-
Interest	6,000	6,000	1,455	(4,545)
Miscellaneous	15,500	18,553	18,546	(7)
Total revenues	866,700	883,061	934,095	51,034
Expenditures				
General government				
Legislative	8,020	8,120	8,031	89
Chief executive	19,425	19,425	19,425	-
Financial and tax administration	135,150	135,250	129,559	5,691
Elections	6,000	12,000	11,552	448
General government	119,600	133,100	130,532	2,568
Building department	20,000	22,000	25,922	(3,922)
Code enforcement	4,000	4,000	525	3,475
Public safety				
Police department	124,900	144,903	138,520	6,383
Fire department	165,157	193,957	170,072	23,885
Public works	310,000	191,857	204,935	(13,078)
Other				
Planning commission	3,200	3,800	3,190	610
Zoning board of appeals	5,500	5,500	3,430	2,070
Capital outlay	210,000	216,670	168,797	47,873
Total expenditures	1,130,952	1,090,582	1,014,490	76,092
Other financing sources (uses)				
Operating transfers	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess of revenues over (under) expenditures and other financing sources (uses)	(264,252)	(207,521)	(80,395)	127,126
Fund balance - beginning of year	1,404,542	1,404,542	1,404,542	-
Fund balance - end of year	\$ 1,140,290	\$ 1,197,021	\$ 1,324,147	\$ 127,126

**TOWNSHIP OF GAINES
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-WASTE AND REFUSE FUND
FOR THE YEAR ENDED MARCH 31, 2017**

	<u>Budget</u>			Variance Over/(Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Special Assessments	\$ 344,000	\$ 344,000	\$ 346,404	\$ 2,404
Miscellaneous	150	150	174	24
Interest	<u>500</u>	<u>500</u>	<u>84</u>	<u>(416)</u>
Total revenues	344,650	344,650	346,662	2,012
Expenditures				
Contracted services	<u>320,000</u>	<u>320,000</u>	<u>326,633</u>	<u>(6,633)</u>
Total expenditures	<u>320,000</u>	<u>320,000</u>	<u>326,633</u>	<u>(6,633)</u>
Net change in fund balances	24,650	24,650	20,029	(4,621)
Fund balance - beginning of year	<u>372,705</u>	<u>372,705</u>	<u>372,705</u>	<u>-</u>
Fund balance - end of year	<u>\$ 397,355</u>	<u>\$ 397,355</u>	<u>\$ 392,734</u>	<u>\$ (4,621)</u>

TOWNSHIP OF GAINES
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
MARCH 31, 2017

Budgetary Information

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

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

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

The Township had the following budget overages:

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>	<u>Variance</u>
General Fund-Building Department	\$ 22,000	\$ 25,922	\$ (3,922)
General Fund-Public Works	\$ 191,857	\$ 204,935	\$ (13,078)
Waste and Refuse Fund-Contracted Svs	\$ 320,000	\$ 326,633	\$ (6,633)

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

August 27, 2017

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, 2017. 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 June 20, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the Township as of and for the year ended March 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Gaines' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Gaines' internal control. Accordingly, we do not express an opinion on the effectiveness of Township of Gaines' internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Auditor Proposed Adjustments-During the audit, we identified and proposed to Township management several adjustments to the accounting records. The material adjustments that were proposed and posted by management were to 1) adjust beginning fund balance, 2) record deferred revenue in the waste and refuse fund, and 3) record transfer between Water and Waste funds to make bond payment.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

During the year, the Township implemented new accounting policy GASB 77, *Disclosure Requirements Related to Tax Abatements*.

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.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 8, 2017.

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.

Prior Year Comments and Recommendations

Policies and Procedures

As part of the audit process, we review the internal control policies and procedures followed by staff and management. We found the Township to have some sound policies and procedures; however we did not see any documentation for most of them. In an entity where management can be subject to change every few years, it is important that there be documented policies and procedures to help ease the transition of new leaders. We recommended that internal control policies as well as board policies be reviewed and updated.

During the current year audit, we noted that many board policies as well as internal control policies had been reviewed and updated.

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.

Year-End Adjustments

In the course of our audit, we were required to make several "normal" closing entries in the Township's accounting records that were not completed upon our arrival. We recommended that a year-end closing process be initiated through the Township's accountant to ensure that the necessary adjustments and reconciliations are performed prior to our arrival.

During the current year audit, we noted that closing entries, including fund balance adjustments from the prior year's audit, were again not posted to the trial balance.

Restriction on Use

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

Taylor & Morgan, P.C.

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