

TOWNSHIP OF GAINES
GENESEE COUNTY, MICHIGAN
REPORT ON
AUDITED FINANCIAL STATEMENTS
March 31, 2011

Taylor &
Morgan

Certified Public Accountants

The Township of Gaines
2010-2011 Financial Statement Audit
Executive Summary

Taylor &
Morgan

Certified Public Accountants



Certified Public Accountants

August 3, 2011

Board of Trustees
Gaines Township
Gaines, MI

Thank you for the opportunity to complete the annual audit of your Township as of and for the year ended March 31, 2011. We completed the audit and consulted with the Clerk, Deputy Clerk and Treasurer on the draft copies of the financial statements and management letter. We have prepared this "executive summary" to highlight certain aspects of the Township's financial performance and position.

Opinion

The audit was given an unqualified opinion. This is the highest level of assurance that can be provided by an audit.

Summary of Fund financial position as of March 31, 2011

The primary measure of financial position in a Township is a concept referred to as "fund balance". Fund Balance reflects the excess of an organization's current assets over its current liabilities and includes the Township's cash & investments, accounts receivable, and any other current assets.

General Fund

As of March 31, 2011, the Township's General Fund fund balance was \$943,174 an increase of \$19,298 and is sufficient to continue to maintain the services to its residents even in the event of a revenue shortfall.

The total General Fund revenues were \$994,356 and total expenditures \$975,058. This was comparable to the final budgeted revenue and expenditure amounts of \$959,131 and \$1,047,027, respectively. Overall, the Township had a favorable revenue variance of \$35,225 and a favorable expenditure variance of \$71,969.

Waste and Refuse Fund-special revenue

The special revenue funds (waste & refuse) also showed an increase in fund balance from the previous year of \$5,162 for an ending fund balance of \$339,820. The Township's revenues were \$325,394 and expenditures were \$320,232 in this fund.

Capital Projects Fund

The Capital Projects Fund had an excess of revenues over expenditures of \$7,142 for the year.

The Township received \$75,449 in special assessments from paving projects and \$498 in interest income. Expenditures totaled \$68,805 in this fund and were from the Cook Road gravel project and culvert replacement.

Water and Waste Fund-enterprise fund

The Water and Waste Fund had an increase in net assets of \$2,903 for the year, leaving ending net assets of \$2,260,234. Income from operations was \$35,583, interest income was \$7,940, and interest expense was \$40,620.

Comments & Recommendations

As part of our audit every year we review the internal control system of the organization with management and make recommendations as appropriate to improve controls. In addition, we perform various tests on the systems of disbursements and payroll to ensure various internal controls are in place and working as intended. Although our tests disclosed nothing that indicated material weaknesses in the internal control system, we have addressed certain recommendations in our report that we feel the Township could benefit from implementing.

We are available, if desired, to help explain and/or implement any of the above suggestions. We appreciate the opportunity to be of service.

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Certified Public Accountants

TOWNSHIP OF GAINES

GENESEE COUNTY

STATE OF MICHIGAN

TOWNSHIP BOARD MEMBERS

Paul Fortino
Supervisor

Michael Dowler
Clerk

Diane Hyrman
Treasurer

Charles Timmons
Trustee

Lee Purdy
Trustee

TOWNSHIP OF GAINES
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Balance Sheet-Governmental Funds	8
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	9
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Statement of Net Assets-Business-type Activities	12
Statement of Revenues, Expenditures and Changes in Fund Net Assets-Business-type Activities	13
Statement of Cash Flows-Business-type Activities	14
Statement of Fiduciary Net Assets	15
Notes to the Basic Financial Statements	16-24
Required Supplemental Information:	
Budgetary Comparison Schedule-General Fund	25
Budgetary Comparison Schedule-Special Revenue Fund	26
Other Supplemental Information:	
Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	27-28



Certified Public Accountants

Independent Auditor's Report

June 30, 2011

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, 2011, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gaines as of March 31, 2011 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-5 and 25-26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sincerely,

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis
Year Ended March 31, 2011

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, 2011. 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, 2011.

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

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township of Gaines as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

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

The Township of Gaines as a Whole

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

	Governmental Activities <u>2011</u>	Business-type Activities <u>2011</u>	Total <u>2011</u>	Total <u>2010</u>
Assets	\$ 3,266,684	\$ 3,204,999	\$ 6,471,683	\$ 5,981,224
Current and long-term liabilities	<u>530,414</u>	<u>944,765</u>	<u>1,475,179</u>	<u>1,171,117</u>
Total net assets	<u>\$ 2,736,270</u>	<u>\$ 2,260,234</u>	<u>\$ 4,996,504</u>	<u>\$ 4,810,107</u>

The Township of Gaines' net assets from governmental activities are \$2,736,270 and \$2,260,234 from business type activities; of these amounts, \$1,911,865 and \$1,776,882 are unrestricted.

Revenue	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total 2011</i>	<i>Total 2010</i>
Program revenue:				
Charges for Services	\$ 356,422	\$ 418,233	\$ 774,655	\$ 771,905
Capital grants and contributions	256,289	-	256,289	5,898
Operating grants and contributions	10,000	-	10,000	10,000
General revenue:				
Property taxes	214,811	-	214,811	179,901
Special assessments	22,943	-	22,943	30,867
State-shared revenue	402,421	-	402,421	427,087
Interest	24,491	7,940	32,431	43,972
Franchise fees and other revenue	40,683	-	40,683	34,028
Total revenue	1,328,060	426,173	1,754,233	1,503,658
Program expenses				
General government	313,973	-	313,973	310,538
Public works	461,318	-	461,318	439,366
Fire protection	213,671	-	213,671	207,377
Police protection	50,831	-	50,831	52,631
Sanitation	-	423,270	423,270	415,632
Other	104,773	-	104,773	14,4228
Total program expenses	1,144,566	423,270	1,567,836	1,439,772
Change in net assets	\$ <u>183,494</u>	\$ <u>2,903</u>	\$ <u>186,397</u>	\$ <u>63,886</u>

Governmental Activities

The Township of Gaines' total governmental activity revenues were \$ 1,328,060 compared to \$1,075,076 in the prior year. The increase was due to a grant that was received for the purchase of a new fire truck in the amount of \$237,500 and a grant received for building and sidewalk improvements in the amount of \$17,089.

Governmental activity expenditures of \$1,144,566 were recorded for the year.

Business Type Activities

The Township also provides municipal water and sanitary sewer to some residents. In the fiscal year ended March 31, 2011, the increases in water charges from the county were passed onto the users, creating an small increase in net assets.

Township of Gaines Funds

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

a) **General Fund**

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

b) **Police Fund**

The Police Department Fund is funded through the General Fund.

c) **Fire Fund**

The Fire Department Fund is funded through the General Fund.

d) **Garbage Fund**

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

e) **Township of Gaines**

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

Long-term Debt

During the current fiscal year, the Township entered into an agreement with Genesee County to replace seven large culverts located within the Township. The County issued bonds to complete the project and is passing 25% of the cost onto the Township in the form of an installment loan requiring annual payments through 2020. The total principal and interest to be paid on the loan at March 31, 2011 was \$297,049 and will be paid out of the Capital Projects Fund.

The Township also has a note payable of \$937,490 related to an agreement with Genesee County for the Western Trunk Extension of the County's sanitary sewage disposal system. The note payable is backed by the full faith and credit of the Township and is expected to be paid in full in 2027.

General Fund Budgetary Highlights

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

Economic Factors and Next Years Budgets and Rates

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

Contacting the Township of Gaines Management

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

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF GAINES
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
MARCH 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 715,667	\$ 500,284	\$ 1,215,951
Investments	716,262	1,246,636	1,962,898
Receivables (net)	615,272	37,237	652,509
Prepaid expenses	27,828	-	27,828
Construction in progress	367,250	-	-
Capital assets (net)	824,405	1,420,842	2,245,247
Total assets	3,266,684	3,204,999	6,471,683
Liabilities			
Accounts payable	5,212	7,275	12,487
Deferred Bond Interest	157,952	-	157,952
Current portion of bond principal	34,277	-	34,277
Noncurrent liabilities:			
Due in more than one year	332,973	937,490	1,270,463
Total liabilities	530,414	944,765	1,475,179
Invested in capital assets, net of related debt	824,405	483,352	1,307,757
Unrestricted	1,911,865	1,776,882	3,688,747
Total net assets	\$ 2,736,270	\$ 2,260,234	\$ 4,996,504

TOWNSHIP OF GAINES
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Functions/Programs:							
Primary government							
General government	\$ 313,973	\$ 31,540	\$ 256,289	\$ -	\$ (26,144)	\$ -	\$ (26,144)
Public works	461,318	324,882	-	-	(136,436)	-	(136,436)
Fire protection	213,671	-	-	10,000	(203,671)	-	(203,671)
Police protection	50,831	-	-	-	(50,831)	-	(50,831)
Other	104,773	-	-	-	(104,773)	-	(104,773)
Total governmental activities	1,144,566	356,422	256,289	10,000	(521,855)	-	(521,855)
Business-type activities							
Water and waste	423,270	418,233	-	-	-	(5,037)	(5,037)
Total primary government	<u>\$ 1,567,836</u>	<u>\$ 774,655</u>	<u>\$ 256,289</u>	<u>\$ 10,000</u>	<u>(521,855)</u>	<u>(5,037)</u>	<u>(526,892)</u>
General revenues							
Property tax					214,811	-	214,811
Special assessments					22,943	-	22,943
State-shared revenues					402,421	-	402,421
Unrestricted investment earnings					24,491	7,940	32,431
Franchise fees					30,702	-	30,702
Miscellaneous					9,981	-	9,981
Total general revenues					705,349	7,940	713,289
Change in net assets					183,494	2,903	186,397
Net assets - beginning of year					2,552,776	2,257,331	4,810,107
Net assets - end of year					<u>\$ 2,736,270</u>	<u>\$ 2,260,234</u>	<u>\$ 4,996,504</u>

**TOWNSHIP OF GAINES
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 342,957	\$ 190,511	\$ 182,199	\$ 715,667
Investments	515,626	100,318	100,318	716,262
Receivables				
Delinquent taxes	13,426	21,163	-	34,589
Interest	6,843	-	-	6,843
Franchise fees	6,730	-	-	6,730
Special assessments	346,354	-	-	346,354
Prepaid expenses	-	27,828	-	27,828
Due from other governments	62,804	-	-	62,804
Construction in progress	-	-	367,250	367,250
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ <u>1,294,740</u>	\$ <u>339,820</u>	\$ <u>649,767</u>	\$ <u>2,284,327</u>
 <u>Liabilities and Fund Equity</u>				
<u>Liabilities</u>				
Accounts payable	\$ 5,212	\$ -	\$ -	\$ 5,212
Deferred revenue	<u>346,354</u>	<u>-</u>	<u>-</u>	<u>346,354</u>
Total liabilities	351,566	-	-	351,566
 <u>Fund Equity</u>				
Fund equity				
Unreserved - designated	97,659	-	-	97,659
Unreserved - undesignated	845,515	339,820	-	1,185,335
Reserved for capital projects	<u>-</u>	<u>-</u>	<u>649,767</u>	<u>649,767</u>
Total fund equity	<u>943,174</u>	<u>339,820</u>	<u>649,767</u>	<u>1,932,761</u>
Total liabilities and fund equity	\$ <u>1,294,740</u>	\$ <u>339,820</u>	\$ <u>649,767</u>	\$ <u>2,284,327</u>

TOWNSHIP OF GAINES
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2011

Total governmental fund balances	\$	1,932,761
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	\$ 1,694,066	
Accumulated depreciation	<u>(869,661)</u>	824,405
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.		
		346,354
Bond proceeds are reported as liabilities in the governmental funds and as revenue or other financing sources in the statement of activities		
		<u>(367,250)</u>
Total net assets - governmental activities	\$	<u><u>2,736,270</u></u>

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2011

	General	Special Revenue	Capital Projects	Total Governmental Funds
Revenues				
Taxes	\$ 162,867	\$ -	\$ -	\$ 162,867
Special assessments	15,131	324,636	75,449	415,216
Fees and permits	55,932	-	-	55,932
Intergovernmental	402,421	-	-	402,421
Administrative services	51,944	-	-	51,944
Grant Income	256,289	-	-	256,289
Fire contract	10,000	-	-	10,000
Interest	23,481	512	498	24,491
Miscellaneous	16,291	246	-	16,537
	994,356	325,394	75,947	1,395,697
Total revenues				
Expenditures				
General government	306,319	-	-	306,319
Public works	141,086	320,232	-	461,318
Fire protection	142,205	-	-	142,205
Police protection	50,831	-	-	50,831
Other	3,300	-	68,805	72,105
Capital outlay	331,317	-	-	331,317
	975,058	320,232	68,805	1,364,095
Total expenditures				
Excess/(deficiency) of revenues over/(under) expenditures	19,298	5,162	7,142	31,602
Other financing sources/(uses)				
Bond Proceeds	-	-	367,250	367,250
	-	-	367,250	367,250
Total other financing sources/(uses)				
Excess of revenues over/(under) expenditures and other financing sources/(uses)	19,298	5,162	374,392	398,852
Fund balance - beginning of year	923,876	334,658	275,375	1,533,909
Fund balance - end of year	\$ 943,174	\$ 339,820	\$ 649,767	\$ 1,932,761

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, 2011

Total net change in fund balances - governmental funds \$ 398,852

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	\$	298,649	
Depreciation expense		<u>(79,120)</u>	219,529

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. (67,637)

Governmental funds report bond proceeds as an other financing source. However, in the statement of activities, these proceeds are recorded as a liability. (367,250)

Change in net assets of governmental activities \$ 183,494

**TOWNSHIP OF GAINES
STATEMENT OF NET ASSETS
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
MARCH 31, 2011**

Assets

Cash and cash equivalents	\$ 500,284
Investments	1,246,636
Receivables:	
Accounts	22,393
Interest	14,844
Property and equipment - net	<u>1,420,842</u>

Total assets 3,204,999

Liabilities

Accounts payable	7,275
Noncurrent liabilities:	
Due in more than one year	<u>937,490</u>

Total liabilities 944,765

Net Assets

Invested in capital assets	483,352
Unrestricted net assets	<u>1,776,882</u>

Total net assets \$ 2,260,234

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
FOR THE YEAR ENDED MARCH 31, 2011

Operating revenues		
Charges for services	\$	<u>418,233</u>
Total operating revenues		418,233
Operating expenses		
Depreciation		22,895
Pump maintenance		31,357
County sewer charges		114,060
County water charges		202,213
Transportation fees		<u>12,125</u>
Total operating expenses		<u>382,650</u>
Operating income/(loss)		35,583
Non-operating revenues/(expenses)		
Interest expense		(40,620)
Interest income		<u>7,940</u>
Total non-operating revenues/(expenses)		<u>(32,680)</u>
Change in net assets		2,903
Net assets - beginning of year		<u>2,257,331</u>
Net assets - end of year	\$	<u><u>2,260,234</u></u>

**TOWNSHIP OF GAINES
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
FOR THE YEAR ENDED MARCH 31, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 420,859
Payments to suppliers	<u>(355,073)</u>
Net cash provided/(used) by operating activities	65,786
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bond obligation payments to county	(81,979)
Transfers from other funds	<u>95,530</u>
Net cash provided/(used) by capital and related financing activities	13,551
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investents	(450,000)
Interest received	<u>5,881</u>
Net cash provided/(used) by investing activities	<u>(444,119)</u>
Net increase/(decrease) in cash and cash equivalents	(364,782)
Cash and cash equivalents - beginning of year	<u>865,066</u>
Cash and cash equivalents - end of year	<u>\$ 500,284</u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities	
Operating income	\$ 35,583
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	22,895
Decrease in accounts receivable	2,626
Increase in accounts payable	<u>4,682</u>
Net cash provided/(used) by operating activities	<u>\$ 65,786</u>

TOWNSHIP OF GAINES
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
MARCH 31, 2011

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and cash equivalents	\$ <u>577</u>
Total assets	\$ <u><u>577</u></u>
<u>Liabilities</u>	
Due to other governmental units	\$ <u>577</u>
Total liabilities	\$ <u><u>577</u></u>

NOTES TO FINANCIAL STATEMENTS

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and fund financial statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

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

Reporting entity

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

Measurement focus, basis of accounting and financial statement presentation

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

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

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 sanitary 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, 2011

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, 2010, and is recognized as revenue in the year ended March 31, 2011, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2010 taxable valuation of the Gaines Township is \$181,108,650, on which the ad valorem tax levy consisted of .8451 mills for operating purposes. The township bills and collects its own property taxes and also taxes for the school districts of Swartz Creek, Linden, and Durand, and for Genesee County. Collection on all taxes and remittance of them to the various taxing jurisdictions are accounted for in the tax collections fund. Township property tax revenues are recognized when levied.

Assets, liabilities and net assets or equity

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

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

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

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

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

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

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

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

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

Fire Depreciation	\$ 64,286
Police Capital Outlay	<u>33,373</u>
Total Unreserved-designated	<u>\$ 97,659</u>

Use of estimates

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

Comparative data

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

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

Excess of expenditures over appropriations in budgeted funds

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

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund-Assessor	\$ 31,800	\$ 31,830
General Fund-Elections	\$ 8,944	\$ 9,098
General Fund-Clerk	\$ 32,425	\$ 32,506
General Fund-Treasurer	\$ 27,825	\$ 27,872
General Fund-General Admin	\$ 128,110	\$ 132,290
Waste and Refuse Fund-Contracted Svs	\$ 315,000	\$ 320,232

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

NOTE 3 – CASH AND INVESTMENTS

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

The investment policy adopted by the Board authorized all of the investments allowable under Michigan law and is in accordance with statutory authority.

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

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

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

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned or the Township will not be able to recover collateral securities, if any, in the possession of an outside party. At March 31, 2011, the Township had \$1,676,919 of its deposit balances uninsured and uncollateralized.

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

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

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011**

NOTE 4 – SPECIAL ASSESSMENT RECEIVABLES

As of March 31, 2011, the following special assessments for paving projects were still outstanding:

Baldwin Road	\$ 196,932
Morrish Road	71,051
Van Vleet Road	64,506
Reid Road	<u>13,865</u>
Total	<u>\$ 346,354</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, 2011, actual Township contributions totaled \$8,894. 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, 2011**

NOTE 7 - CAPITAL ASSETS

Summary of capital asset transactions of the primary government:

	Balance April 1, 2010	Additions	Disposals and Adjustments	Balance March 31, 2011
Governmental activities				
Land & improvements	\$ 10,400	\$ 9,375	\$	\$ 19,775
Buildings & additions	411,277	8,955		420,232
Furniture & equipment	432,901	22,394		455,295
Fire trucks & other vehicles	<u>596,839</u>	<u>257,925</u>	<u>56,000</u>	<u>798,764</u>
Subtotal	1,451,417	298,649	56,000	1,694,066
Accumulated Depreciation:				
Buildings & additions	171,500	8,694		180,194
Furniture & equipment	236,803	42,878		279,681
Fire trucks & other vehicles	<u>438,238</u>	<u>27,548</u>	<u>56,000</u>	<u>409,786</u>
Subtotal	<u>846,541</u>	<u>79,120</u>	<u>56,000</u>	<u>869,661</u>
Governmental activities net capital assets	<u>\$ 604,876</u>	<u>\$ 219,529</u>	<u>\$</u>	<u>\$ 824,405</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>273,393</u>	<u>22,895</u>		<u>296,288</u>
Subtotal	<u>273,393</u>	<u>22,895</u>		<u>296,288</u>
Business-type activities net capital assets	<u>\$ 1,443,737</u>	<u>\$ (22,895)</u>	<u>\$</u>	<u>\$ 1,420,842</u>

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

Government activities	
General Government	\$ 7,654
Fire Protection	<u>71,466</u>
Total governmental activities	<u>\$ 79,120</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, 2011**

NOTE 8 – LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Township for the year ended March 31, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Governmental activities					
2010 Recovery Zone Bond					
4.34% due 8/1/2020	\$ _____ -	\$ 367,250	\$ _____ -	\$ 367,250	\$ 34,277
Business-type activities					
2006 General obligations					
4.0%-4.35% due 11/1/26	\$ 978,850	\$ _____ -	\$ (41,360)	\$ 937,490	\$ _____ -

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

Year Ending	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>	<u>Principal</u>	<u>Interest</u>
2012	\$	34,277	\$ 13,371	\$ (15,795)	\$ -	\$ 19,429
2013		34,277	14,451	(15,795)	42,892	38,000
2014		34,583	12,963	(15,795)	44,424	36,254
2015		35,195	11,463	(15,795)	47,487	34,416
2016		35,807	9,935	(15,795)	50,551	32,455
2017-2021		193,111	25,568	(78,977)	291,054	129,309
2022-2026		-	-	-	373,770	60,807
2027		-	-	-	87,312	1,899
Total		<u>\$ 367,250</u>	<u>\$ 87,751</u>	<u>\$ (157,952)</u>	<u>\$ 937,490</u>	<u>\$ 352,569</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 total principal and interest to be paid on the bonds is \$297,049 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 \$1,290,059.

The principal payment of \$41,360 due May 1, 2011 was paid in March 2011; therefore there is no current portion due for the year ended March 31, 2011.

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

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, 2011 are as follows:

Revenues	\$25,230
Expenditures	\$24,214

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.

REQUIRED SUPPLEMENTAL INFORMATION

TOWNSHIP OF GAINES
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final		Over/(Under) Final Budget
Revenues				
Taxes	\$ 153,000	\$ 153,000	\$ 162,867	\$ 9,867
Special assessments	-	-	15,131	15,131
Fees and permits	71,500	95,931	55,932	(39,999)
Intergovernmental	385,000	385,000	402,421	17,421
Administrative fees	52,000	52,000	51,944	(56)
Grant Income	-	239,200	256,289	17,089
Fire contract	10,000	10,000	10,000	-
Interest	20,000	20,000	23,481	3,481
Miscellaneous	4,000	4,000	16,291	12,291
Total revenues	695,500	959,131	994,356	35,225
Expenditures				
General government				
Trustees	2,520	2,840	2,835	5
Supervisor	19,425	19,425	19,425	-
Assessor	32,700	31,800	31,830	(30)
Elections	7,000	8,944	9,098	(154)
Clerk	28,925	32,425	32,506	(81)
Board of review	2,200	2,200	1,715	485
Treasurer	26,225	27,825	27,872	(47)
Building department	41,000	46,625	31,583	15,042
General administration	136,500	128,110	132,290	(4,180)
Township Hall	23,000	19,300	17,165	2,135
Public works	137,050	157,920	141,086	16,834
Fire protection	158,052	158,052	142,205	15,847
Police protection	59,700	59,700	50,831	8,869
Other				
Planning commission	5,000	3,000	2,365	635
Zoning board of appeals	1,500	1,000	935	65
Capital outlay	45,600	347,861	331,317	16,544
Total expenditures	726,397	1,047,027	975,058	71,969
Other financing sources (uses)				
Operating transfers	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess of revenues over (under) expenditures and other financing sources (uses)	(30,897)	(87,896)	19,298	107,194
Fund balance - beginning of year	923,876	923,876	923,876	-
Fund balance - end of year	<u>\$ 892,979</u>	<u>\$ 835,980</u>	<u>\$ 943,174</u>	<u>\$ 107,194</u>

TOWNSHIP OF GAINES
 REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE-SPECIAL REVENUE FUND-WASTE AND REFUSE
 FOR THE YEAR ENDED MARCH 31, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over/(Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 324,000	\$ 324,000	\$ 324,636	\$ 636
Miscellaneous	50	50	246	196
Interest	<u>500</u>	<u>500</u>	<u>512</u>	<u>12</u>
Total revenues	324,550	324,550	325,394	844
Expenditures				
Contracted services	<u>315,000</u>	<u>315,000</u>	<u>320,232</u>	<u>(5,232)</u>
Total expenditures	<u>315,000</u>	<u>315,000</u>	<u>320,232</u>	<u>(5,232)</u>
Net change in fund balances	9,550	9,550	5,162	(4,388)
Fund balance - beginning of year	<u>334,658</u>	<u>334,658</u>	<u>334,658</u>	<u>-</u>
Fund balance - end of year	<u>\$ 344,208</u>	<u>\$ 344,208</u>	<u>\$ 339,820</u>	<u>\$ (4,388)</u>

OTHER SUPPLEMENTAL INFORMATION



Certified Public Accountants

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 30, 2011

Township Board
Township of Gaines
Genesee County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gaines as of and for the year ended March 31, 2011, which collectively comprise the Township of Gaines' basic financial statements and have issued our report dated June 30, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

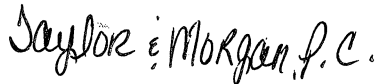
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.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

Compliance and Other Matters

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

We noted other matters that we reported to the management of the Township of Gaines in a separate letter dated August 3, 2011.

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



TAYLOR & MORGAN, P.C.
Certified Public Accountants