TOWNSHIP OF GAINES

GENESEE COUNTY, MICHIGAN

REPORT ON
AUDITED FINANCIAL STATEMENTS

March 31, 2008

Taylor & Morgan

Certified Public Accountants

TOWNSHIP OF GAINES

GENESEE COUNTY

STATE OF MICHIGAN

TOWNSHIP BOARD MEMBERS

Paul Fortino
Supervisor

Michael Dowler
Clerk

Diane Hyrman
Treasurer

Susan Somers
Trustee

Lee Purdy
Trustee

TOWNSHIP OF GAINES
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Taylor & Morgan

Certified Public Accountants

Independent Auditor's Report

June 23, 2008

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, 2008, 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, 2008 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.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Gaines' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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, 2008

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, 2008. Please read it in conjunction with the Township's financial statements. Certain comparative information, ordinarily required, is not available the first year that the financial statements are prepared according to GASB 34 guidelines. Subsequent reports will include a prior year comparison of results.

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, 2008.

State shared revenues, our largest revenue source, was decreased approximately $42,000 by the State of Michigan this year. In light of continuing State budget problems, and constant threat(s) to take away all revenue sharing, the Township continues 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 taxpayers' 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 (in thousands of dollars):

	Governmental Activities 2008	Business-Type Activities 2008	Totals 2008	Total 2007
Assets	$ 2,560,166	$ 2,154,060	$ 4,714,226	$ 4.504,286
Current and Long-term liabilities	123,115	2,785	125,900	405,887
Total net assets	$ 2,437,051	$ 2,151,275	$ 4,588,326	$ 4,098,399

Township of Gaines net assets of governmental activities are $2,437,051 and $2,151,275 for business type activities; of these amounts $1,720,643 and $1,760,886 are unrestricted.

	Governmental Activities	Business-type Activities	Total 2008	Total 2007
Revenue				
Program Revenue				
Charges for Services	$ 367,989	$ 318,238	$ 686,227	$ 852,305
Capital grants and contributions	129,960	-	129,960	-
Operating grants and contributions	10,000		10,000	51,512
General revenue:				
Property taxes	175,480	-	175,480	165,992
Special assessments	296,580	-	296,580	199,251
State-shared revenue	470,317	-	470,317	466,419
Interest	24,147	111,274	135,421	13,474
Franchise fees and other revenue	27,115	-	27,115	22,830
Total revenue	1,501,588	429,512	1,931,100	1,771,783
Program expenses				
General government	308,514	-	308,514	310,842
Public works	481,583	-	481,583	575,966
Fire protection	216,898	-	216,898	221,217
Police protection	50,496	-	50,496	37,740
Road improvements	3,354	-	3,354	510,922
Sanitation	-	369,347	369,347	324,282
Other	10,981	-	10,981	5,200
Total program expenses	1,071,826	369,347	1,441,173	1,986,169
Change in net assets	$ 429,762	$ 60,165	$ 489,927	$ (214,386)

Governmental Activities

The Township of Gaines total governmental activity revenues were $1,501,588 compared to $1,522,218 in the prior year. There was a slight decrease in State-shared revenue, which was offset by a slight increase in property taxes and fees and permits.

Governmental activity expenditures of $1,071,826 were recorded for the year. This included increases in property and liability insurance rates.

Business Type Activities

The Township also provides municipal water and sanitary sewer to some residents. In the fiscal year ended March 31, 2008, the increase in water charges from the county were passed on to the users causing an increase in the 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, 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 is 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 where created and spread over ten years for the paving of Elms Road, Reid Road, Hill Road, Van Vleet Road, and Baldwin Road. Elms Road Special Assessment began in 1999 with a balance of $71,249.99. Reid Road Special Assessment began in 2002 with a balance of $219,728.06. Hill Road Special Assessment began in 1999 with a balance of $142,518.52. Van Vleet Road Special Assessment began in 2004 with a balance of $266,709.00. Morrish Road Special Assessment began in 2005 with a balance of $138,749.08. The Baldwin Road Special Assessment began with a balance of $405,175.

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. The most significant change was a decrease in State shared revenue. 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 years budget, including the fact that State Shared Revenue continues to be cut.

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, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash, cash equivalents and investments	$ 1,123,567	$ 1,633,419	$ 2,756,986
Receivables (net)	679,454	30,252	709,706
Due from other funds	14,013	100,000	114,013
Prepaid expenses	26,724	-	26,724
Capital assets (net)	716,408	390,389	1,106,797
Total assets	2,560,166	2,154,060	4,714,226
Liabilities			
Accounts payable	8,953	2,785	11,738
Due to other funds	114,162	-	114,162
Total liabilities	123,115	2,785	125,900
Invested in capital assets, net of related debt	716,408	390,389	1,106,797
Unrestricted	1,720,643	1,760,886	3,481,529
Total net assets	$ 2,437,051	$ 2,151,275	$ 4,588,326

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

TOWNSHIP OF GAINES
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008

		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	$ 308,514	$ 43,921	$ 129,960	$ -	$ (134,633)	$ -	$ (134,633)
Public works	481,583	324,068	-	-	(157,515)	-	(157,515)
Fire protection	216,898	-	-	10,000	(206,898)	-	(206,898)
Police protection	50,496	-	-	-	(50,496)	-	(50,496)
Road improvements	3,354	-	-	-	(3,354)	-	(3,354)
Other	10,981	-	-	-	(10,981)	-	(10,981)
Total governmental activities	1,071,826	367,989	129,960	10,000	(563,877)	-	(563,877)
Business-type activities							
Water and waste	369,347	318,238	-	-	-	(51,109)	(51,109)
Total primary government	$ 1,441,173	$ 686,227	$ 129,960	$ 10,000	(563,877)	(51,109)	(614,986)
General revenues							
Property tax					175,480	-	175,480
Special assessments					296,580	-	296,580
State-shared revenues					470,317	-	470,317
Unrestricted investment earnings					24,147	111,274	135,421
Franchise fees					21,936	-	21,936
Miscellaneous					5,179	-	5,179
Total general revenues					993,639	111,274	1,104,913
Change in net assets					429,762	60,165	489,927
Net assets - beginning of year					2,007,289	2,091,110	4,098,399
Net assets - end of year					$ 2,437,051	$ 2,151,275	$ 4,588,326

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

TOWNSHIP OF GAINES
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2008

	General	Special Revenue	Capital Projects	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 778,582	$ 256,632	$ 88,353	$ 1,123,567
Due from other funds	-	-	14,013	14,013
Receivables				
Delinquent taxes	17,804	26,436	-	44,240
Interest	1,095	-	-	1,095
Special assessments	568,311	-	-	568,311
Prepaid expenses	514	26,210	-	26,724
Due from other governments	65,808	-	-	65,808
Total assets	$ 1,432,114	$ 309,278	$ 102,366	$ 1,843,758
Liabilities and Fund Equity				
Liabilities				
Accounts payable	$ 8,953	$ -	$ -	$ 8,953
Deferred revenue	568,311	-	-	568,311
Due to other funds	114,162	-	-	114,162
Total liabilities	691,426	-	-	691,426
Fund Equity				
Fund equity				
Unreserved - designated	121,494	-	-	121,494
Unreserved - undesignated	619,194	309,278	-	928,472
Reserved for capital projects	-	-	102,366	102,366
Total fund equity	740,688	309,278	102,366	1,152,332
Total liabilities and fund equity	$ 1,432,114	$ 309,278	$ 102,366	$ 1,843,758

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

TOWNSHIP OF GAINES
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2008

Total governmental fund balances		$ 1,152,332
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	$ 1,415,351	
Accumulated depreciation	(698,943)	716,408
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.		568,311
Total net assets - governmental activities		$ 2,437,051

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

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

	General	Special Revenue	Capital Projects	Total Governmental Funds
Revenues				
Taxes	$ 175,480	$ -	$ -	$ 175,480
Special assessments	29,095	323,906	105,090	458,091
Fees and permits	65,857	-	-	65,857
Intergovernmental	418,709	-	-	418,709
Federal grant	129,960	-	-	129,960
Administrative services	51,608	-	-	51,608
Fire contract	10,000	-	-	10,000
Interest	22,586	931	630	24,147
Miscellaneous	5,179	162	-	5,341
Total revenues	908,474	324,999	105,720	1,339,193
Expenditures				
General government	304,595	-	-	304,595
Public works	175,956	305,627	-	481,583
Fire protection	160,885	-	-	160,885
Police protection	50,496	-	-	50,496
Other	3,685	-	3,354	7,039
Capital outlay	173,705	-	-	173,705
Total expenditures	869,322	305,627	3,354	1,178,303
Excess/(deficiency) of revenues over/(under) expenditures	39,152	19,372	102,366	160,890
Other financing sources/(uses)				
Operating transfers in/(out)	-	-	-	-
Total other financing sources/(uses)	-	-	-	-
Excess of revenues over/(under) expenditures and other financing sources/(uses)	39,152	19,372	102,366	160,890
Fund balance - beginning of year	701,536	289,906	-	991,442
Fund balance - end of year	$ 740,688	$ 309,278	$ 102,366	$ 1,152,332

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, 2008

Total net change in fund balances - governmental funds		$ 160,890
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	$ 168,054	
Depreciation expense	(61,577)	106,477
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.		
Special assessments	$ 251,322	
Current collection of special assessments	(88,927)	162,395
Change in net assets of governmental activities		$ 429,762

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

TOWNSHIP OF GAINES
STATEMENT OF NET ASSETS
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
MARCH 31, 2008

Assets		
Cash and cash equivalents	$	1,633,419
Due from other funds		100,000
Receivables:		
Accounts		20,180
Interest		10,072
Property and equipment - net		390,389
Total assets		2,154,060
Liabilities		
Accounts payable		2,785
Total liabilities		2,785
Net Assets		
Invested in capital assets		390,389
Unrestricted net assets		1,760,886
Total net assets	$	2,151,275

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

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, 2008

Operating revenues	
Charges for services	$ 318,238
Total operating revenues	318,238
Operating expenses	
Depreciation	7,769
Pump maintenance	54,053
County sewer charges	85,279
County water charges	136,587
Billing charges	380
Tap in costs	5,000
Total operating expenses	289,068
Operating income/(loss)	29,170
Non-operating revenues/(expenses)	
Bond obligation payments to County	(80,279)
Interest income	111,274
Total non-operating revenues/(expenses)	30,995
Change in net assets	60,165
Net assets - beginning of year	2,091,110
Net assets - end of year	$ 2,151,275

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

TOWNSHIP OF GAINES
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
FOR THE YEAR ENDED MARCH 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	314,021
Payments to suppliers		(277,082)
Net cash provided/(used) by operating activities		36,939
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond obligation payments to county		(80,279)
Transfers from other funds		100,000
Net cash provided/(used) by capital and related financing activities		19,721
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received		136,979
Net cash provided/(used) by investing activities		136,979
Net increase/(decrease) in cash and cash equivalents		193,639
Cash and cash equivalents - beginning of year		1,439,780
Cash and cash equivalents - end of year	$	1,633,419

Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities

Operating income	$	29,170
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		7,769
Net cash provided/(used) by operating activities	$	36,939

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

TOWNSHIP OF GAINES
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
MARCH 31, 2008

	Agency Funds
Assets	
Cash and cash equivalents	$ 81
Due from other funds	148
Total assets	$ 229
Liabilities	
Due to other governmental units	$ 229
Total liabilities	$ 229

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and fund financial statements

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

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

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

Reporting entity

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government." A fundamental characteristic of a primary government is that its' members are selected by the people in a general election. In addition to having an elected board, a primary government must be both a legally separate and a fiscally independent entity. Thus, Gaines Township qualifies as "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.

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.

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 relate 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 2007 ad valorem tax is levied and collectible on July 1, 2007, and is recognized as revenue in the year ended March 31, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the Gaines Township is $192,315,687, on which the ad valorem tax levy consisted of .9917 mills for operating purposes. The township bills and collects its own property taxes and also taxes for the school townships 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.

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

Land improvements	10 to 20 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, 2008:

Fire Depreciation	$105,087
Police Capital Outlay	16,407
	$121,494

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:

Budget item	Budget Appropriation	Actual Expenditure
General Fund-Clerk	$ 28,225	$ 29,963
General Fund-Board of Review	$ 2,200	$ 2,730
General Fund-Fire Protection	$ 158,707	$ 160,885
General Fund-Capital Outlay	$ 33,600	$ 173,705

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, 2008, the Township had $2,298,720 of its deposit balances uninsured and uncollateralized.

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

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

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances as of March 31, 2008 are as follows:

	Due to Other Funds	Due from Other Funds
General Fund	$ 114,162	$
Capital Projects Fund		14,013
Water and Sewer-Usage		100,000
Agency Fund		148
	$ 114,162	$ 114,162

NOTE 5 – SPECIAL ASSESSMENT RECEIVABLES

As of March 31, 2008, the following special assessments for paving projects were still outstanding:

Baldwin Road	$ 261,833
Morrish Road	110,890
Van Vleet Road	131,476
Reid Road	52,213
Hill Road	8,449
Elms Road	3,405
Total	$ 568,266

NOTE 6 - 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 7 - 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. Manu Life Financial administers the plan, which was adopted by the Township Board on March 6, 1991. The Township will make contributions to the plan of 10% of 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, 2008, actual Township contributions totaled $7,670. 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 8 - CAPITAL ASSETS

Summary of capital asset transactions of the primary government:

	Balance April 1, 2007	Additions	Disposals and Adjustments	Balance March 31, 2008
Governmental activities				
Land & improvements	$ 10,400	$	$	$ 10,400
Buildings & additions	358,477	16,734		375,211
Furniture & equipment	283,281	149,620		432,901
Fire trucks & other vehicles	595,139	1,700		596,839
Subtotal	1,247,297	168,054		1,415,351
Accumulated Depreciation:				
Buildings & additions	150,321	5,704		156,025
Furniture & equipment	118,541	31,971		150,512
Fire trucks & other vehicles	368,503	23,903		392,406
Subtotal	637,365	61,578		698,943
Governmental activities net capital assets	$ 609,932	$ 106,476	$	$ 716,408
Business-type activities				
Sewer system	$ 594,287	$	$	$ 594,287
Subtotal	594,287			594,287
Accumulated Depreciation:				
Sewer system	196,129	7,769		203,898
Subtotal	196,129	7,769		203,898
Business-type activities net capital assets	$ 398,158	$ (7,769)	$	$ 390,389

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

Government activities	
General Government	$ 5,823
Fire Protection	64,776
Total governmental activities	$ 70,599
Business-type activities	
Sewer	$ 7,769
Total business-type activities	$ 7,769

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, 2008 are as follows:

Revenues	$36,818
Expenditures	$34,563

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, 2008

	Budgeted Amounts			Variance
	Original	Final	Actual	Over/(Under) Final Budget
Revenues				
Taxes	$ 162,500	$ 162,500	$ 175,480	$ 12,980
Special assessments	-	-	29,095	29,095
Fees and permits	87,000	87,000	65,857	(21,143)
Intergovernmental	423,800	423,800	418,709	(5,091)
Federal grant	-	-	129,960	129,960
Administrative fees	48,000	48,000	51,608	3,608
Fire contract	10,000	10,000	10,000	-
Interest	36,294	36,294	22,586	(13,708)
Miscellaneous	1,000	1,000	5,179	4,179
Total revenues	768,594	768,594	908,474	139,880
Expenditures				
General government				
Trustees	2,520	2,520	2,120	400
Supervisor	19,425	19,425	19,425	-
Assessor	32,500	32,500	32,382	118
Elections	5,000	5,000	4,538	462
Clerk	26,225	28,225	29,963	(1,738)
Board of review	2,200	2,200	2,730	(530)
Treasurer	26,225	26,225	25,558	667
Building and grounds	52,000	52,000	42,957	9,043
General administration	167,800	181,397	144,922	36,475
Public works	191,050	180,903	175,956	4,947
Fire protection	147,207	158,707	160,885	(2,178)
Police protection	50,842	50,842	50,496	346
Other				
Planning commission	2,500	3,550	2,310	1,240
Zoning board of appeals	1,500	1,500	1,375	125
Capital outlay	41,600	33,600	173,705	(140,105)
Total expenditures	768,594	778,594	869,322	(90,728)
Other financing sources (uses)				
Operating transfers	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess of revenues over (under) expenditures and other financing sources (uses)	-	(10,000)	39,152	49,152
Fund balance - beginning of year	701,536	701,536	701,536	-
Fund balance - end of year	$ 701,536	$ 691,536	$ 740,688	$ 49,152

TOWNSHIP OF GAINES
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-SPECIAL REVENUE FUND-WASTE AND REFUSE
FOR THE YEAR ENDED MARCH 31, 2008

	Budget			Variance Over/(Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes	$ 307,320	$ 307,320	$ 323,906	$ 16,586
Miscellaneous	50	50	162	112
Interest	500	500	931	431
Total revenues	307,870	307,870	324,999	17,129
Expenditures				
Contracted services	302,000	302,000	305,627	(3,627)
Total expenditures	302,000	302,000	305,627	(3,627)
Net change in fund balances	5,870	5,870	19,372	13,502
Fund balance - beginning of year	289,906	289,906	289,906	-
Fund balance - end of year	$ 295,776	$ 295,776	$ 309,278	$ 13,502

OTHER SUPPLEMENTAL INFORMATION

Taylor & Morgan

Certified Public Accountants

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

June 23, 2008

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, 2008, which collectively comprise The Township of Gaines's basic financial statements and have issued our report dated June 23, 2008. 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's 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Township of Gaines's internal control over financial reporting.

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 significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects The Township of Gaines's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of The Township of Gaines's financial statements that is more than inconsequential will not be prevented or detected by The Township of Gaines's internal control. We consider the following deficiencyto be a significant deficiency in internal control over financial reporting.

As noted in more detail in a separate letter to the Board dated August 6, 2008, the Township's regular accounting procedures do not include procedure such as the booking of accounts payable and receivable balances, accrued payroll liabilities and the reconciliation of certificates of deposit. As a result, the accuracy of interim and preliminary year-end financial reporting is compromised, and numerous audit

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adjustments are required to bring the financial statements into compliance with generally accepted accounting principles.

A material weaknessis a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The Township of Gaines's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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's 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 6, 2008.

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

Taylor & Morgan, P.C.

TAYLOR & MORGAN, P.C.
Certified Public Accountants

Taylor & Morgan

Certified Public Accountants

August 6, 2008

To the Board of Trustees of
The Township of Gaines

We have audited the basic financial statements of Gaines Township (the Township) for the year ended March 31, 2008, and have issued our report thereon dated June 23, 2008. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under Generally Accepted Audited Standards
As stated in our engagement letter dated May 27, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we made a study and evaluation of the plan's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and accordingly do not express such an opinion.

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 opinion on the basic financial statements and do not provide assurance on the internal control over financial reporting.

Our consideration of the internal control over the financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Significant Accounting Policies
Management has the responsibility for 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 The Township of Gaines are described in Note 1 to the financial statements. We noted no transactions entered into by The Township of Gaines during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Significant Audit Adjustments
For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed several audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on The Township of Gaines' financial reporting process.

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.

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.

Issues Discussed Prior to Retention of Independent Auditors
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention of as The Township of Gaines' auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit
We encountered no difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Trustees of The Township of Gaines and its management and should not be used for any other purpose.

Management Letter Comments

Budgets
The budgets adopted and amended by the Board combine several accounts into individual line items. In order to make the budget easier to reconcile to the accounting records and better facilitate the budget to actual comparison, we recommend that the budgets include the chart of account detail with the summarized budget

PRIOR YEAR COMMENTS

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 recommend 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.

We noted again this year that the same concerns related to the "normal" closing entries and reconciliations were not performed. Below is a synopsis of the most significant entries that were not recorded.

The General Fund did not include $3,850.36 in accounts payable. Further, the State Revenue Sharing and Current and Delinquent taxes were not reconciled.

In the Capital Projects Fund the inter-fund payables were not reconciled and a prior year payable was not reversed.

In the Waste and Refuse Fund 13 months of payments were recorded causing a decrease in Net Assets of $26,210.40. In addition to this, delinquent taxes were not reconciled.

In the Water & Sewer Tap-In Fund a reclassification of a $22,492.85 expense was required, the receivables for the Tap-In fees were not reconciled, and the Certificates of Deposit were not reconciled.

In the Water & Sewage Usage Fund $2,784.66 in accounts payable were not recorded, the receivables related to the Usage fees were understated by $14,598.83, and the Certificates of Deposit were not reconciled.

Based on the above examples, it is apparent that the Township is lacking a process related to the year-end closing process. This lack of procedures is our reason for believing that there is a significant deficiency in the Township's internal controls over financial reporting. We strongly urge the Township to take the necessary steps to ensure this deficiency is corrected.

Chart of Accounts

The Township's chart of accounts is not in conformity with the State of Michigan's Uniform account structure. We are now required to report to the State of Michigan at the conclusion of all audits of local units of government this deficiency. It is our understanding that this is in the process of being remedied.

We noted during our audit that this comment was addressed.

Certificates of Deposit

We noted during our audit that the certificates of deposit are not reconciled in the accounting records. Due to the amount of certificates the Township holds, the interest adjustment is substantial and should be recorded monthly.

Based in part on our discussions last year the Treasurer's Office is keeping the Certificates of Deposit on an excel spreadsheet which includes interest rates, maturity date and amount. However, this information is not being incorporated into the accounting records causing what could be potentially large adjustments each year depending on the maturation dates and interest rates of the CD's. We strongly recommend that this information be updated monthly and accrued in the Township's accounting records.

Taylor & Morgan, P.C.

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