

Township of Somerset
County of Hillsdale, Michigan

Financial Statements
And Independent Auditors' Report

Year Ended June 30, 2014

Table of Contents

	<u>Page</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-vi
Government-Wide Financial Statements:	
Statement of Net Position.....	1
Statement of Activities.....	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	3
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Position of Governmental Activities on the Statement of Net Position.....	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	6
Statement of Net Position – Agency Funds.....	7
Notes to Financial Statements	8-16
Required Supplementary Information:	
General Fund:	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual.....	17
Road Fund:	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual.....	18
Fire Fund:	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual.....	19
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-22



Independent Auditors' Report

Township Board
Township of Somerset
Somerset Center, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

JACKSON

2545 Spring Arbor Road, Suite 200
Jackson, MI 49203-3690
Phone: (517) 788-8660 | Fax (517) 788-9872

WILLIS & JURASEK, P.C.

E-Mail: willis@willispc.com
Website: www.willispc.com

GRAND RAPIDS

2759 West River Drive, NW
Grand Rapids, MI 49544
Phone: (616) 361-0011 | Fax (616) 361-0154

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2014, on our consideration of the Township of Somerset's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township of Somerset's internal control over financial reporting and compliance.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 5, 2014

Township of Somerset
Management's Discussion and Analysis
Year Ended June 30, 2014

As management of **Township of Somerset**, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the year ended June 30, 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Township include general government, public safety, public works and community and economic development.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, road, parks and recreation, capital improvement, police, and cemetery funds.

Township of Somerset
Management's Discussion and Analysis
Year Ended June 30, 2014

The Township adopts an annual appropriated budget for all of its funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets for the general fund and the special revenue funds.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for the government-wide financial statements.

The basic fiduciary fund financial statements can be found on page 7 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8-16 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's general and special revenue fund budgets, which is found on pages 17-19 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Township of Somerset, assets exceeded liabilities by \$2,793,534 at the close of the most recent fiscal year, which is an increase from last year of \$137,200.

A large portion of the Township's net position reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and furniture and fixtures); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In a condensed format, the table below shows net assets as of each fiscal year-end:

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Non-capital assets	\$1,185,127	\$1,159,141
Capital assets	<u>1,801,291</u>	<u>1,528,398</u>
Total assets	<u>2,986,418</u>	<u>2,687,539</u>
Current liabilities	32,844	31,205
Non-current liabilities	<u>160,040</u>	<u>-</u>
Total liabilities	<u>192,884</u>	<u>31,205</u>
Net position:		
Net investment in capital assets	1,641,251	1,528,398
Restricted	296,120	221,293
Unrestricted	<u>856,163</u>	<u>906,643</u>
Total net position	<u>\$2,793,534</u>	<u>\$2,656,334</u>

Township of Somerset
Management's Discussion and Analysis
Year Ended June 30, 2014

The following table shows the changes in net position for each fiscal year.

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Program revenues:		
Charges for services	\$ 361,720	\$ 365,775
Capital grants and contributions	2,400	-
Operating grants	4,879	5,121
General revenues:		
Property taxes	583,877	578,129
State-shared revenue	346,795	338,848
Investment earnings and rentals	12,015	10,298
Other	<u>128,646</u>	<u>53,005</u>
Total revenues	<u>1,440,332</u>	<u>1,351,176</u>
Program expenses:		
General government	356,249	340,896
Public safety	659,377	653,490
Public works	122,423	58,754
Culture and recreation	67,041	65,739
Community and economic development	14,027	15,850
Capital outlay	81,202	58,236
Interest on long-term debt	<u>2,813</u>	<u>382</u>
Total expenses	<u>1,303,132</u>	<u>1,193,347</u>
Changes in net position	<u>\$ 137,200</u>	<u>\$ 157,829</u>

General Fund Highlights

The General Fund is the main operating fund of the Township. Total General Fund revenues for the fiscal year 2013-2014 increased \$74,000 compared to the prior fiscal year while expenditures increased \$196,000. The General Fund also contributes monies to the other funds to help them sustain their budgets. These transfers were approximately \$249,000 in fiscal year 2014 and \$213,000 in fiscal year 2013, an increase of \$36,000. The total change in fund balance was (\$68,175), while the prior year change in fund balance was \$90,023. As of June 30, 2014, the fund balance in the General Fund was \$806,757, which is higher than budgeted by approximately \$250,000.

Other Township Fund Highlights

The **Road Fund** ended the year with a fund balance of \$102,256, an increase of \$17,882. The fund balance monies are available for future road projects when deemed necessary.

The **Fire Fund** had an increase of revenues over expenditures of \$23,810 and an ending fund balance of \$42,259.

The **Police Fund** had an increase of revenues over expenditures of \$14,175, with an ending fund balance at \$15,079.

The **Capital Improvement Fund**, which is used to make capital purchases, ended the year with a fund balance of \$67,591, an increase of \$35,880.

Township of Somerset
 Management's Discussion and Analysis
 Year Ended June 30, 2014

The **Parks and Recreation Fund** had an increase of revenues over expenditures of \$775, and an ending fund balance of \$118,341.

Capital Asset and Debt Administration

At the end of the 2013-2014 fiscal year, the Township had a total investment in capital assets for governmental activities of \$1,801,291 which is made up of a broad range of capital assets, including land, buildings, police and fire equipment, furniture and fixtures, vehicles, and capital improvements.

The following table summarizes the fixed assets of the Township at each fiscal year-end:

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Land	\$ 226,100	\$ 226,100
Buildings and improvements	864,076	848,042
Furniture and fixtures	173,223	173,103
Machinery and equipment	385,741	385,741
Vehicles	1,321,088	1,132,156
Accumulated depreciation	<u>(1,168,937)</u>	<u>(1,236,744)</u>
Net capital assets	<u>\$ 1,801,291</u>	<u>\$ 1,528,398</u>

Capital assets increased primarily from the purchases of a fire truck and an ambulance. Other additions included purchase of a copier, new carpeting, and a deposit towards replacement of the tennis court.

The following table summarizes the debt outstanding at each fiscal year-end:

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Commercial loan	\$ <u>160,040</u>	\$ <u> -</u>

The Township's total debt increased \$160,040 due to borrowing \$181,500 from County National Bank for the purchase of an ambulance. Payments on this new debt by year-end totaled \$21,460.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 2014-2015 is based on steady property tax rates and continuous growth in the tax base. However, because of the impact of the economy, the Township will continue to watch its budget very closely.

Contacting the Township Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township office located at 12715 East Chicago Road, Somerset Center, Michigan 49282.

Township of Somerset

Statement of Net Position

June 30, 2014

	<u>Primary Government Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 125,244
Investments	956,169
Receivables	100,139
Prepaid expenses	3,375
Due from tax collection fund	200
Capital assets:	
Non-depreciable assets	226,100
Depreciable assets, net	1,575,191
Total assets	<u>2,986,418</u>
Liabilities:	
Accounts payable	26,158
Accrued expenses	2,639
Due to other governments	4,047
Non-current liabilities:	
Due within one year	44,015
Due in more than one year	116,025
Total liabilities	<u>192,884</u>
Net Position:	
Net investment in capital assets	1,641,251
Restricted for:	
Special revenue	227,935
Capital improvements	67,591
Cemetery perpetual care	594
Unrestricted	856,163
Total net position	<u>\$ 2,793,534</u>

See Notes to Financial Statements.

Township of Somerset
Statement of Activities
Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expenses) Revenues and Changes in Net Position Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
General government	\$ 356,249	\$ 105,676	\$ -	\$ -	\$ (250,573)
Public safety	659,377	251,744	-	2,400	(405,233)
Public works	122,423	4,300	4,879	-	(113,244)
Culture and recreation	67,041	-	-	-	(67,041)
Community and economic development	14,027	-	-	-	(14,027)
Interest on long-term debt	2,813	-	-	-	(2,813)
Capital outlay	81,202	-	-	-	(81,202)
Total governmental activities	<u>1,303,132</u>	<u>361,720</u>	<u>4,879</u>	<u>2,400</u>	<u>(934,133)</u>
General revenues:					
Property taxes					583,877
State shared revenues					346,795
Investment earnings and rentals					12,015
Gain on disposal of assets					54,483
Other revenue					74,163
Total general revenues					<u>1,071,333</u>
Change in Net Position					137,200
Net Position - Beginning of Year					<u>2,656,334</u>
Net Position - End of Year					<u>\$ 2,793,534</u>

See Notes to Financial Statements.

Township of Somerset
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General Fund</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>(Non-Major) Police Fund</u>	<u>(Non-Major) Parks and Recreation Fund</u>	<u>(Non-Major) Capital Improvement Fund</u>	<u>Total</u>
<u>Assets</u>							
Cash and cash equivalents	\$ 70,882	\$ 12,162	\$ 8,716	\$ (9)	\$ 23,278	\$ 10,215	\$ 125,244
Investments	626,299	106,704	53,010	17,119	95,661	57,376	956,169
Receivables:							
Advances due from other funds	19,897	-	-	-	-	-	19,897
Due from other funds	7,200	-	-	216	337	-	7,753
Due from other governmental units	74,399	-	-	-	-	-	74,399
Other receivables	8,183	-	17,557	-	-	-	25,740
Prepaid expenditures	3,375	-	-	-	-	-	3,375
Total assets	<u>\$ 810,235</u>	<u>\$ 118,866</u>	<u>\$ 79,283</u>	<u>\$ 17,326</u>	<u>\$ 119,276</u>	<u>\$ 67,591</u>	<u>\$ 1,212,577</u>
<u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 3,349	16,610	\$ 3,247	\$ 2,077	\$ 875	\$ -	\$ 26,158
Advances due to other funds	-	-	19,897	-	-	-	19,897
Due to other funds	-	-	7,553	-	-	-	7,553
Due to other governmental units	-	-	4,047	-	-	-	4,047
Salaries payable	129	-	2,184	270	60	-	2,643
Other accrued expenditures	-	-	96	(100)	-	-	(4)
Total liabilities	<u>3,478</u>	<u>16,610</u>	<u>37,024</u>	<u>2,247</u>	<u>935</u>	<u>-</u>	<u>60,294</u>
Fund Balances:							
Nonspendable:							
Prepaid expenditures	3,375	-	-	-	-	-	3,375
Restricted:							
Special revenue funds	-	102,256	42,259	15,079	118,341	-	277,935
Capital improvements	-	-	-	-	-	67,591	67,591
Perpetual care and endowment	594	-	-	-	-	-	594
Unassigned	802,788	-	-	-	-	-	802,788
Total fund balances	<u>806,757</u>	<u>102,256</u>	<u>42,259</u>	<u>15,079</u>	<u>118,341</u>	<u>67,591</u>	<u>1,152,283</u>
Total liabilities and fund balances	<u>\$ 810,235</u>	<u>\$ 118,866</u>	<u>\$ 79,283</u>	<u>\$ 17,326</u>	<u>\$ 119,276</u>	<u>\$ 67,591</u>	<u>\$ 1,212,577</u>

See Notes to Financial Statements.

Township of Somerset

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Position
of Governmental Activities on the Statement of Net Position
June 30, 2014

Total Fund Balances - Governmental Funds \$ 1,152,283

Amounts reported for governmental activities in the Statement
of Net Position are different because:

Capital assets used in governmental activities are not current financial
resources and are not reported in the funds.

The cost of capital assets is
Accumulated depreciation is

\$ 2,970,228	
<u>(1,168,937)</u>	
	1,801,291

Long-term liabilities not due and payable in the current period
and not reported in the funds:

Long-term debt

<u>(160,040)</u>

Total Net Position - Governmental Activities \$ 2,793,534

Township of Somerset
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	<u>General Fund</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>(Non-Major) Police Fund</u>	<u>(Non-Major) Parks and Recreation Fund</u>	<u>(Non-Major) Capital Improvement Fund</u>	<u>Total</u>
Revenues:							
Taxes	\$ 208,897	\$ 46,864	\$ 140,635	\$ 93,753	\$ 46,864	\$ 46,864	\$ 583,877
Fees and fines	15,021	-	-	2,094	-	-	17,115
Licenses and permits	26,122	-	-	-	-	-	26,122
Intergovernmental	349,195	4,879	-	-	-	-	354,074
Charges for services	64,533	4,300	249,480	170	-	-	318,483
Interest and rentals	8,533	490	29	3	2,789	171	12,015
Other revenue	117,664	159	8,203	2,409	2,256	1,500	132,191
Total revenues	<u>789,965</u>	<u>56,692</u>	<u>398,347</u>	<u>98,429</u>	<u>51,909</u>	<u>48,535</u>	<u>1,443,877</u>
Expenditures:							
General government	332,244	-	-	-	-	-	332,244
Public safety	28,871	-	396,074	141,499	-	-	566,444
Public works	13,613	108,810	-	-	-	-	122,423
Culture and recreation	30,086	-	-	-	28,727	-	58,813
Community and economic development	14,027	-	-	-	-	-	14,027
Debt service:							
Principal payments	-	-	21,460	-	-	-	21,460
Interest	-	-	2,813	-	-	-	2,813
Capital outlay	190,000	-	216,825	5,919	22,407	47,655	482,806
Total expenditures	<u>608,841</u>	<u>108,810</u>	<u>637,172</u>	<u>147,418</u>	<u>51,134</u>	<u>47,655</u>	<u>1,601,030</u>
Revenues Over (Under) Expenditures	<u>181,124</u>	<u>(52,118)</u>	<u>(238,825)</u>	<u>(48,989)</u>	<u>775</u>	<u>880</u>	<u>(157,153)</u>
Other Financing Sources (Uses):							
Proceeds from long-term debt, net	-	-	181,500	-	-	-	181,500
Transfers in	-	70,000	81,135	63,164	-	35,000	249,299
Transfers out	(249,299)	-	-	-	-	-	(249,299)
Total other financing sources (uses)	<u>(249,299)</u>	<u>70,000</u>	<u>262,635</u>	<u>63,164</u>	<u>-</u>	<u>35,000</u>	<u>181,500</u>
Net Changes in Fund Balances	(68,175)	17,882	23,810	14,175	775	35,880	24,347
Fund Balances - Beginning of Year	<u>874,932</u>	<u>84,374</u>	<u>18,449</u>	<u>904</u>	<u>117,566</u>	<u>31,711</u>	<u>1,127,936</u>
Fund Balances - End of Year	<u>\$ 806,757</u>	<u>\$ 102,256</u>	<u>\$ 42,259</u>	<u>\$ 15,079</u>	<u>\$ 118,341</u>	<u>\$ 67,591</u>	<u>\$ 1,152,283</u>

See Notes to Financial Statements.

Township of Somerset

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds: \$ 24,347

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	\$ (125,166)	
Capital outlay	401,604	
	276,438	276,438

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Position.

Issuance of debt	(181,500)	
Payments on long-term debt	21,460	
	(160,040)	(160,040)

Governmental funds report the entire net sales price (proceeds) from the disposal of assets as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of assets. Thus, the change in net position differs from the change in fund balance by the cost of the assets disposed.

Net book value of assets disposed		(3,545)
		(3,545)

Change in Net Position of Governmental Activities \$ 137,200

Township of Somerset
Statement of Net Position
Fiduciary Fund - Agency
June 30, 2014

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 182
Due from other governmental units	18
Total assets	<u>\$ 200</u>
Liabilities:	
Due to other funds	\$ 200
Total liabilities	<u>\$ 200</u>

Township of Somerset
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Township of Somerset, Michigan have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Reporting Entity

The Township of Somerset operates under a part-time elected five-member Board of Trustees and provides various services to its residents including public safety, fire, ambulance, parks and recreation, public improvements, and general administration. The financial statements of the Township of Somerset have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, fiscal dependency, scope of public service, and whether the financial statements would be misleading if data were not included. Based on the application of the criteria, the Township does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, 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 revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (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 not properly included among program revenues are reported instead as general revenues.

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 are reported as separate columns in the fund financial statements. Currently, the Township has no business-type/proprietary funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the 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. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

It is the Township's policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

Township of Somerset
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Fund-Based Statements - 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 Township 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, expenditures relating to compensated absences, and claims and judgments are recorded only when a payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current resources. The Township has presented the following governmental funds:

General Fund – The General Fund is the Township’s primary operating fund. This major fund accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than debt services, expendable trusts and major capital projects) requiring separate accounting because of regulatory provisions or administrative action. The Road Fund and Fire Fund are the Township’s major special revenue funds. In addition, the Township maintains two non-major special revenue funds, the Police Fund and the Parks and Recreation Fund.

Capital Improvement Fund – The Capital Improvement Fund, a non-major fund, is used to record loan proceeds or other revenue and the disbursement of funds specifically designated for acquiring and constructing major capital projects and equipment.

The Township reports the following Fiduciary Fund (not included in government-wide financial statements):

Tax Fund – This fund accounts for taxes which are to be distributed to various funds and other governmental units.

Revenues, Assets, Liabilities, and Net Position or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments in certificates of deposit with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity. Accordingly, investments in bankers’ acceptances and commercial paper are recorded at amortized cost.

Township of Somerset
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Deposits and Investments (Continued) – State statutes authorize the Township to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Township is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

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 either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 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 value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	15 - 40
Furniture and fixtures	3 - 5
Machinery & equipment	5 - 20
Vehicles	3 - 20

Compensated Absences – Full time employees are eligible to earn vacation and sick/personal leave time. Vacation time is earned based on number of service years employed; sick/personal leave is earned annually and limited to six days per year. Leave time earned is available at the employee's anniversary date and is not allowed to accumulate. The balance of unused leave time at the end of the fiscal year was minimal and has not been recorded.

Township of Somerset
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are reported as a deferred inflow or outflow of resources, separate from assets or liabilities, and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – The Township has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision making authority (Board of Trustees) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose. It is the Township's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Property Taxes - The Township's property taxes are levied each July 1 and December 1, on the State taxable valuation of property located in the Township as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14 and February 28, respectively; any remaining unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Township for 2013 had a taxable value of approximately \$188,000,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2013-14 was 1.00 mills for general operations and 2.00 of additional mills for roads, fire operations, police, capital improvements, and parks and recreation.

Ambulance Service Revenue and Receivables – Ambulance service revenue is reported at the net realizable amount of gross service revenue less the proration insurance companies will not reimburse. The Township has established a reserve for service receivables based on the rate of current year adjustments for uncollectible insurance reimbursements to total ambulance service revenue. The allowance at year-end was \$5,000.

Note 2 – Stewardship, Compliance and Accountability

Budgetary Information – The general and special revenue funds are the governmental fund types under formal budgetary control. The Township adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and annual appropriation act to implement the budget. Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State Law for the general fund and special revenue funds. All annual appropriations lapse at fiscal year end. Encumbrances are not employed. The government's final budget must be adopted prior to July 1st of each year.

Township of Somerset
Notes to Financial Statements

Note 2 – Stewardship, Compliance and Accountability (Continued)

Budgetary Information (Continued) – The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. State law permits entities to amend their budgets during the year. Any budget amendments are reflected in the budgetary comparison schedules for the general, road, and fire funds (see table of contents).

Excess of Expenditures Over Appropriations – Expenditures in excess of amounts budgeted are a violation of Michigan law. For the year ended June 30, 2014, expenditures that exceeded appropriations in the General Fund or the major special revenue funds, if any, are disclosed in the Required Supplementary Information as listed in the table of contents.

Note 3 – Cash and Investments

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 125,244
Investments	<u>956,169</u>
	<u>1,081,413</u>
 Statement of Fiduciary Net Position:	
Agency Fund cash and cash equivalents	<u>182</u>
Total cash and investments	<u>\$1,081,595</u>

The breakdown between deposits and investments for the Township is as follows:

Bank deposits (checking accounts, savings accounts, and short-term certificates of deposit)	\$ 125,251
Investments in money markets accounts and long-term certificates of deposit	606,908
Investments in interlocal public sector pool	349,261
Petty cash or cash on hand	<u>175</u>
Total	<u>\$1,081,595</u>

Investments include certificates of deposit with original maturities greater than ninety days, money market accounts held with investments, and funds held in a Michigan public sector joint investment program per an interlocal trust agreement as allowed by the Urban Cooperation Act of 1967 of the State of Michigan.

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1. The Township's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair values of the Township's investments to market interest rate fluctuations is provided in the following table that shows the distribution of the Township's investments by maturity.

Township of Somerset
Notes to Financial Statements

Note 3 – Cash and Investments (Continued)

Rating S&P	Investment Type	Remaining Maturity		
		12 Months or Less	1 to 5 Years	Greater Than 5 Years
N/A	Multi-Bank Securities, Inc. money market	\$ 96	\$ -	\$ -
N/A	Multi-Bank Securities, Inc. certificates of deposit	100,207	331,224	-
AAAm	Federated ACMT money market	175,381	-	-
AAAm	Michigan CLASS	349,261	-	-

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the local unit. The Township has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, all of the Township's balances held at financial institutions totaling \$174,757 were covered by FDIC (Federal Deposit Insurance Corporation). In addition, investments held with Multi-Bank Securities, Inc. totaling \$431,527 were covered by SIPC (Securities Investor Protection Corporation).

Note 4 – Operating Lease

The Township serves as a landlord on a lease agreement with New Cingular Wireless PCS, LLC (AT&T) for a cellular phone tower site. Terms of the lease include monthly payments of \$1,200 increasing by 3% annually effective June 1, 2015, a five-year initial term and five additional five-year terms subject to termination rights. Future minimum rental income expected from this lease over the next five fiscal years is calculated to be \$14,400, \$14,832, \$15,277, \$15,735, and \$16,207, respectively.

Note 5 – Receivables

Receivables of the governmental activities of the primary government at year-end consisted of the following:

Other governmental units	\$ 74,399
Franchise fees	8,183
Charges for services, net of allowance of \$5,000	<u>17,557</u>
Total	<u>\$100,139</u>

Note 6 – Interfund Receivables, Payables and Transfers

The Township reports interfund balances between its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Advances (non-current) were made to reduce interest costs using interfund loaning.

Township of Somerset
Notes to Financial Statements

Note 6 – Interfund Receivables, Payables and Transfers (Continued)

The amounts of interfund receivables and payables are as follows:

	<u>Receivable</u>	<u>Payable</u>
Due From/To Other Funds:		
General Fund	\$ 7,200	\$ -
Fire Fund	-	7,553
Police Fund	216	-
Parks and Recreation Fund	337	-
Agency Fund	-	200
	<u>\$ 7,753</u>	<u>\$ 7,753</u>
Advances From/To Other Funds:		
Fire Fund/General Fund	\$ <u>19,897</u>	\$ <u>19,897</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ -	\$ 249,299
Capital Improvement Fund	35,000	-
Fire Fund	81,135	-
Police Fund	63,164	-
Road Fund	70,000	-
	<u>\$ 249,299</u>	<u>\$ 249,299</u>

Note 7 – Capital Assets

Capital asset activity for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 226,100	\$ -	\$ -	\$ 226,100
Capital assets being depreciated:				
Buildings and improvements	848,042	16,034	-	864,076
Furniture and fixtures	173,103	6,070	5,950	173,223
Machinery and equipment	385,741	-	-	385,741
Vehicles	<u>1,132,156</u>	<u>379,500</u>	<u>190,568</u>	<u>1,321,088</u>
Total capital assets being depreciated	2,539,042	401,604	196,518	2,744,128
Less accumulated depreciation	<u>1,236,744</u>	<u>125,166</u>	<u>192,973</u>	<u>1,168,937</u>
Net capital assets being depreciated	<u>1,302,298</u>	<u>276,438</u>	<u>(3,545)</u>	<u>1,575,191</u>
Governmental activities capital assets - net of depreciation	<u>\$ 1,528,398</u>	<u>\$ 276,438</u>	<u>\$ (3,545)</u>	<u>\$ 1,801,291</u>

Township of Somerset
Notes to Financial Statements

Note 7 – Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 24,005
Culture and recreation	8,228
Public safety	<u>92,933</u>
Total governmental activities	<u>\$125,166</u>

Note 8 – Long-Term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction.

In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt services.

The Township held no bond or special assessment bond obligations at the end of June 30, 2014.

The Township issued a commercial loan with County National Bank on August 13, 2013 in the amount of \$181,500 for the purchase of a new ambulance, which secures the loan. The agreement terms include semi-annual payments of \$24,274, an interest rate of 3.00%, and a maturity date of August, 2017.

Bond and contractual obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Interest Due Within One Year</u>
Governmental Activities						
Commercial loan	\$ -	\$ 181,500	\$ 21,460	\$ 160,040	\$ 44,015	\$ 4,533
Total governmental activities	<u>\$ -</u>	<u>\$ 181,500</u>	<u>\$ 21,460</u>	<u>\$ 160,040</u>	<u>\$ 44,015</u>	<u>\$ 4,533</u>

Annual debt service requirements, to maturity on the above commercial loan obligation, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 44,015	\$ 4,533	\$ 48,548
2016	45,364	3,184	48,548
2017	46,748	1,799	48,547
2018	<u>23,913</u>	<u>361</u>	<u>24,274</u>
Total	<u>\$ 160,040</u>	<u>\$ 9,877</u>	<u>\$ 169,917</u>

Township of Somerset
Notes to Financial Statements

Note 9 – Major Customers

One taxpayer represents approximately 19% of total property tax revenue.

Note 10 – Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Township purchases insurance from independent third parties for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensation. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Contingencies

The Township is subject to legal action as a normal course of business. However, management, with counsel's assistance, vigorously upholds their position on any such action. The ultimate resolution of these matters, if any, is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

Required Supplementary Information

Township of Somerset
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget to Actual
General Fund
Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues:			
Taxes	\$ 189,344	\$ 189,344	\$ 208,897
Fees and fines	12,400	12,400	15,021
Licenses and permits	16,175	16,175	26,122
Intergovernmental	346,079	346,079	349,195
Charges for services	82,740	82,740	64,533
Interest and rentals	7,450	7,450	8,533
Other revenue	36,350	94,375	117,664
Total revenues	<u>690,538</u>	<u>748,563</u>	<u>789,965</u>
Expenditures:			
General government:			
Township board	16,889	16,889	12,442
Supervisor	16,827	16,827	15,674
Treasurer	50,706	50,706	47,967
Assessor	84,845	84,845	71,314
Clerk	48,010	48,010	44,263
Elections	5,100	5,100	146
Buildings and grounds	41,185	42,685	35,547
Board of review	1,419	1,419	680
Cemetery	27,885	27,885	25,346
Professional fees	8,750	8,750	6,585
Data and computer processing	675	675	646
Utilities	30,000	32,800	32,778
Other	33,900	41,700	38,856
Total general government	<u>366,191</u>	<u>378,291</u>	<u>332,244</u>
Public safety:			
Inspections	<u>30,323</u>	<u>30,323</u>	<u>28,871</u>
Public works:			
Sanitation and cleanup	2,700	2,700	1,532
Drain assessment	6,500	6,500	1,606
Underground storage tanks	10,000	10,475	10,475
Total public works	<u>19,200</u>	<u>19,675</u>	<u>13,613</u>
Culture and recreation:			
Fireworks	7,000	10,125	6,750
Library	30,213	30,213	23,336
Total culture and recreation	<u>37,213</u>	<u>40,338</u>	<u>30,086</u>
Community and economic development:			
Planning and zoning	<u>24,088</u>	<u>24,088</u>	<u>14,027</u>
Capital outlay	<u>-</u>	<u>140,000</u>	<u>190,000</u>
Total expenditures	<u>477,015</u>	<u>632,715</u>	<u>608,841</u>
Revenues Over (Under) Expenditures	<u>213,523</u>	<u>115,848</u>	<u>181,124</u>
Other Financing Sources (Uses):			
Operating transfers out	<u>(228,999)</u>	<u>(433,999)</u>	<u>(249,299)</u>
Net Changes in Fund Balances	(15,476)	(318,151)	(68,175)
Fund Balances - Beginning of Year	<u>874,932</u>	<u>874,932</u>	<u>874,932</u>
Fund Balances - End of Year	<u>\$ 859,456</u>	<u>\$ 556,781</u>	<u>\$ 806,757</u>

Township of Somerset
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget to Actual
Road Fund
Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues:			
Taxes	\$ 47,066	\$ 47,066	\$ 46,864
Intergovernmental	-	-	4,879
Charges for services	-	-	4,300
Interest and rentals	260	260	490
Other revenue	-	-	159
Total revenues	<u>47,326</u>	<u>47,326</u>	<u>56,692</u>
Expenditures:			
Public works:			
Road maintenance	60,826	110,826	102,546
Insurance	<u>6,500</u>	<u>6,500</u>	<u>6,264</u>
Total expenditures	<u>67,326</u>	<u>117,326</u>	<u>108,810</u>
Revenues Over (Under) Expenditures	<u>(20,000)</u>	<u>(70,000)</u>	<u>(52,118)</u>
Other Financing Sources (Uses):			
Operating transfers in	<u>20,000</u>	<u>70,000</u>	<u>70,000</u>
Net Changes in Fund Balances	-	-	17,882
Fund Balances - Beginning of Year	<u>84,374</u>	<u>84,374</u>	<u>84,374</u>
Fund Balances - End of Year	<u>\$ 84,374</u>	<u>\$ 84,374</u>	<u>\$ 102,256</u>

Township of Somerset
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget to Actual
Fire Fund
Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues:			
Taxes	\$ 141,183	\$ 141,183	\$ 140,635
Charges for services	182,306	182,306	249,480
Interest and rentals	10	10	29
Other revenue	5,100	5,100	8,203
Total revenues	328,599	328,599	398,347
Expenditures:			
Public safety:			
Personnel services	218,000	218,000	256,884
Payroll taxes and benefits	45,849	45,849	40,297
Supplies	12,450	12,450	4,416
Fuel	10,000	10,000	14,933
Repairs and maintenance	20,200	20,200	36,473
Insurance	15,000	15,000	13,044
Telephone	1,500	1,500	1,261
Printing and publishing	50	50	451
Education and training	5,000	5,000	13,168
Contracted services	4,200	4,200	6,342
Professional fees	250	250	-
Dues and subscriptions	1,500	1,500	525
Other	5,000	5,000	8,280
Total public safety	338,999	338,999	396,074
Debt service:			
Principal payments	44,198	44,198	21,460
Interest	5,056	5,056	2,813
Total debt service	49,254	49,254	24,273
Capital outlay	39,055	39,055	216,825
Total expenditures	427,308	427,308	637,172
Revenues Over (Under) Expenditures	(98,709)	(98,709)	(238,825)
Other Financing Sources (Uses):			
Proceeds from long-term debt, net	-	-	181,500
Operating transfers in	114,185	114,185	81,135
Total other financing sources (uses)	114,185	114,185	262,635
Net Changes in Fund Balances	15,476	15,476	23,810
Fund Balances - Beginning of Year	18,449	18,449	18,449
Fund Balances - End of Year	\$ 33,925	\$ 33,925	\$ 42,259

Other Supplemental Information



**Independent Auditors' 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***

To the Township Board of Trustees
Township of Somerset, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Township of Somerset's basic financial statements and have issued our report thereon dated September 5, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described as 2014-1 in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as 2014-2 in the accompany schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

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

Township of Somerset's Response to Findings

The Township of Somerset's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Township of Somerset's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

Jackson, Michigan
September 5, 2014

Township of Somerset, Michigan
Schedule of Findings and Responses
Year Ended June 30, 2014

2014-1 – Financial Statement Preparation

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: As is the case with many smaller and medium-sized entities, the Township has relied on its independent external auditors to assist with the preparation of the financial statements and footnotes.

Cause: The Township has determined that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary expertise required to perform this task internally.

Effect: The Township lacks complete internal control over the preparation of financial statements in accordance with GAAP, and instead has relied on the external auditors for this expertise.

Recommendation: We do not recommend any changes to the situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Professional Standards AU-C 265.

Views of Responsible Officials and Planned Corrective Action: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for technical assistance. We would expect this situation to be ongoing in future years.

2014-2 – Budget Overages

Criteria or Specific Requirement: It is management's responsibility to comply with the State of Michigan Uniform Budget and Accounting Act. According to the Uniform Budget Manual, a municipality's expenditures shall not exceed the amount adopted in the budget by the governing body. However, the Township's expenditures exceeded the budget adopted by the Trustees in various categories in the General Fund and special revenue funds.

Condition: Funds have budgeted expenditures less than actual amounts expended at the activity level.

Cause: The Township did not properly amend funds to meet the requirement to expend no more than budgeted.

Effect: The Township's General Fund and special revenue funds were not budgeted in accordance with the Uniform Budget and Accounting Act.

Recommendation: We recommend the Township consider reviewing the procedures for budget amendments to ensure the budgets are sufficient for anticipated expenditures.

Views of Responsible Officials and Planned Corrective Action: We are aware of the overages and will continue to monitor both the budget and the expenditures to account for potential variances.



September 5, 2014

To the Board of Trustees
Township of Somerset, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Somerset, Michigan for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Somerset are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the government-wide financial statements was:

Management's estimate of the capital asset balances is based on an analysis of the residual. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 5, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

There have been budget overages reported both this year and prior years. We recommend a more thorough process during the final amendment process to prevent this in the future.

We recommend implementing a process to keep track of capital asset purchases and disposals so that all are captured properly.

Other Matters

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

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.