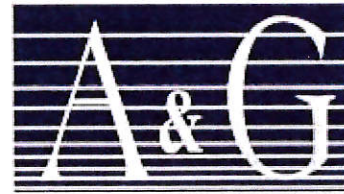


# Township of Somerset

## Year Ended June 30, 2016

Audit Presentation  
October 20, 2016

Presented by:  
James C. Frendt, CPA  
Manager



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants



**SETTING THE STANDARD FOR QUALITY  
GOVERNMENTAL AUDITS**



## Principals

Dale J. Abraham, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA



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## INDEPENDENT AUDITOR'S REPORT

Members of the Township Board  
Township of Somerset  
Hillsdale County, 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, Michigan (the Township), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk 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.

## **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, Michigan, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Changes in Accounting Principles**

As discussed in Note K to the financial statements, the Township implemented GASB issued Statement No. 72, *Fair Value Measurement and Application*, during the year. As a result, this statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Our opinions are not modified with respect to this matter.

## **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 identified 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 17, 2016

Township of Somerset

Governmental Funds

BALANCE SHEET

June 30, 2016

	General	Road Fund	Fire Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 526,065	\$ 96,938	\$ 131,021
Investments	327,449	8,190	-
Due from other funds	7,000	-	-
Due from other governmental units	80,920	5,849	-
Accounts receivable	10,655	3	48,461
<b>TOTAL ASSETS</b>	<b>\$ 952,089</b>	<b>\$ 110,980</b>	<b>\$ 179,482</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 5,814	\$ 16,770	\$ 4,347
Accrued liabilities	119	-	4,413
Due to other governmental units	-	-	5,797
Due to other funds	-	-	7,553
<b>TOTAL LIABILITIES</b>	<b>5,933</b>	<b>16,770</b>	<b>22,110</b>
<b>FUND BALANCES</b>			
Restricted			
Public safety	-	-	157,372
Public works	-	94,210	-
Perpetual care and endowment	596	-	-
Parks and recreation	-	-	-
Capital improvements	-	-	-
Unassigned	945,560	-	-
<b>TOTAL FUND BALANCES</b>	<b>946,156</b>	<b>94,210</b>	<b>157,372</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 952,089</b>	<b>\$ 110,980</b>	<b>\$ 179,482</b>

See accompanying notes to financial statements.

Police Fund	Nonmajor Governmental Funds	Total
\$ 45,788	\$ 117,441	\$ 917,253
-	54,655	390,294
216	337	7,553
828	-	87,597
6	481	59,606
<u>\$ 46,838</u>	<u>\$ 172,914</u>	<u>\$ 1,462,303</u>
\$ 1,823	\$ 1,960	\$ 30,714
160	225	4,917
-	-	5,797
-	-	7,553
<u>1,983</u>	<u>2,185</u>	<u>48,981</u>
44,855	-	202,227
-	-	94,210
-	-	596
-	59,937	59,937
-	110,792	110,792
-	-	945,560
<u>44,855</u>	<u>170,729</u>	<u>1,413,322</u>
<u>\$ 46,838</u>	<u>\$ 172,914</u>	<u>\$ 1,462,303</u>

Township of Somerset

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2016

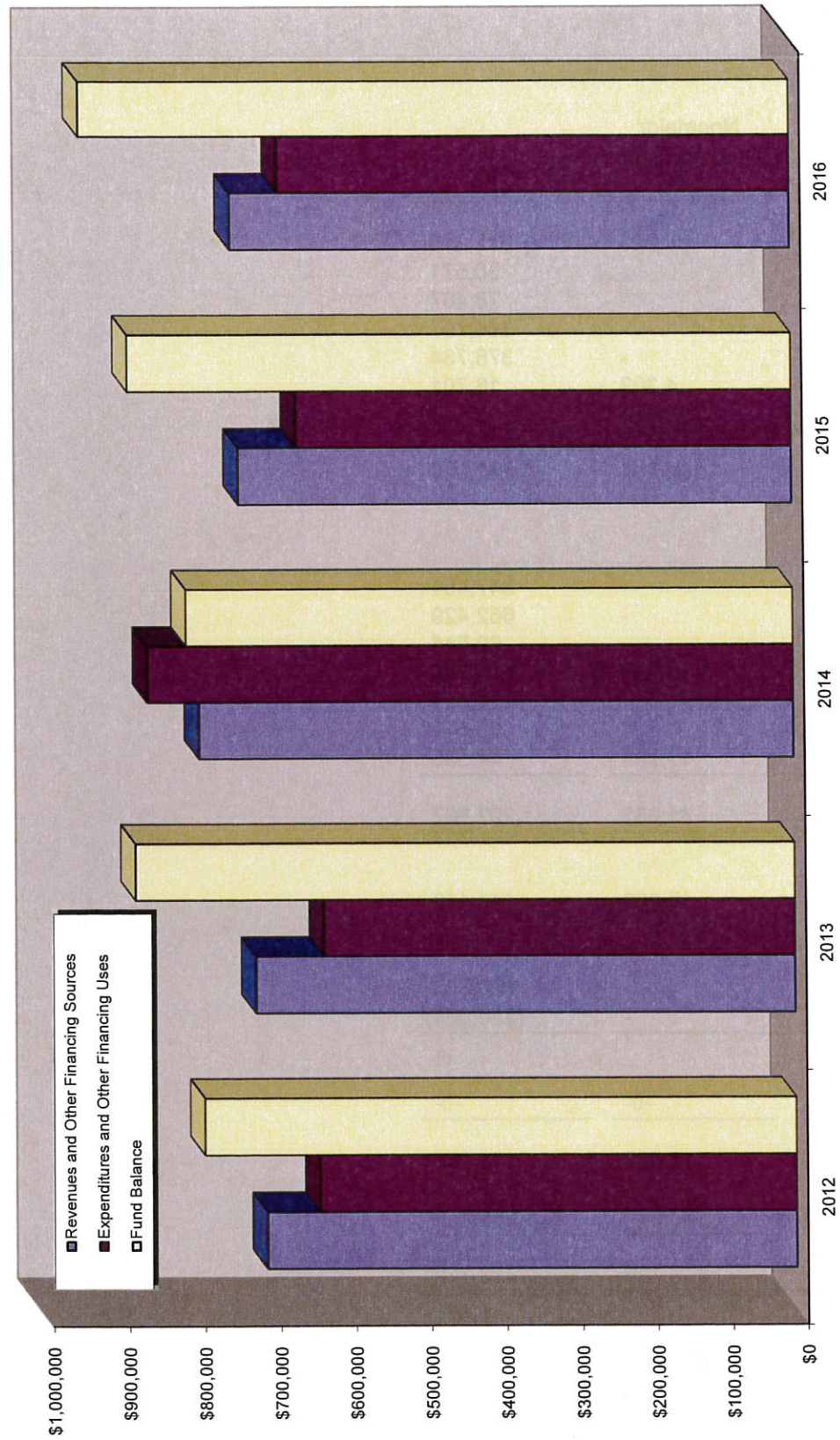
	General	Road Fund	Fire Fund
REVENUES			
Taxes	\$ 191,316	\$ 47,613	\$ 142,882
Fees and fines	21,772	-	-
Licenses and permits	78,467	-	-
Intergovernmental	348,858	5,849	-
Charges for services	86,432	-	290,093
Interest and rents	11,661	360	290
Other	7,025	170	689
TOTAL REVENUES	745,531	53,992	433,954
EXPENDITURES			
Current			
General government	347,454	-	-
Public safety	28,151	-	454,650
Public works	2,779	66,766	-
Recreation and culture	30,337	-	-
Community and economic development	22,952	-	-
Debt service	-	-	50,547
Capital outlay	-	-	26,694
TOTAL EXPENDITURES	431,673	66,766	531,891
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	313,858	(12,774)	(97,937)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	56,449	109,658
Transfers out	(250,663)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(250,663)	56,449	109,658
NET CHANGE IN FUND BALANCES	63,195	43,675	11,721
Fund balances, beginning of year	882,961	50,535	145,651
Fund balances, end of year	\$ 946,156	\$ 94,210	\$ 157,372

See accompanying notes to financial statements.

Police Fund	Nonmajor Governmental Funds	Total
\$ 95,248	\$ 95,226	\$ 572,285
8,799	-	30,571
-	-	78,467
-	-	354,707
209	-	376,734
87	4,303	16,701
4,125	535	12,544
108,468	100,064	1,442,009
-	-	347,454
179,628	-	662,429
-	-	69,545
-	70,013	100,350
-	-	22,952
-	-	50,547
5,927	11,969	44,590
185,555	81,982	1,297,867
(77,087)	18,082	144,142
84,556	-	250,663
-	-	(250,663)
84,556	-0-	-0-
7,469	18,082	144,142
37,386	152,647	1,269,180
\$ 44,855	\$ 170,729	\$ 1,413,322

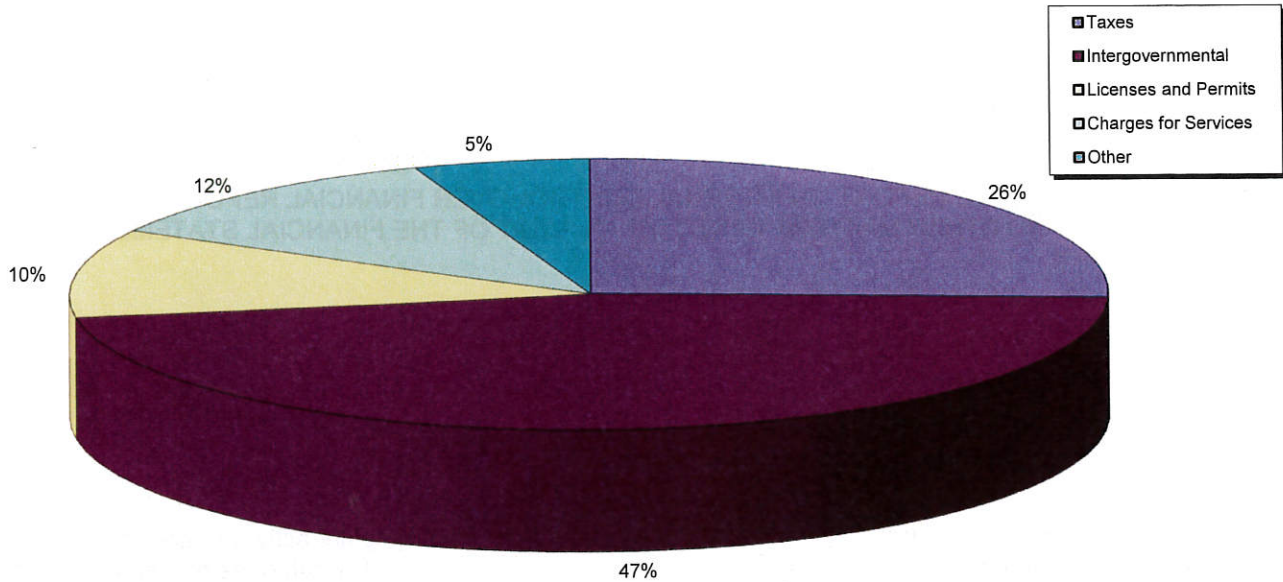


**Township of Somerset**  
**General Fund Revenues, Expenditures, and Fund Balance**

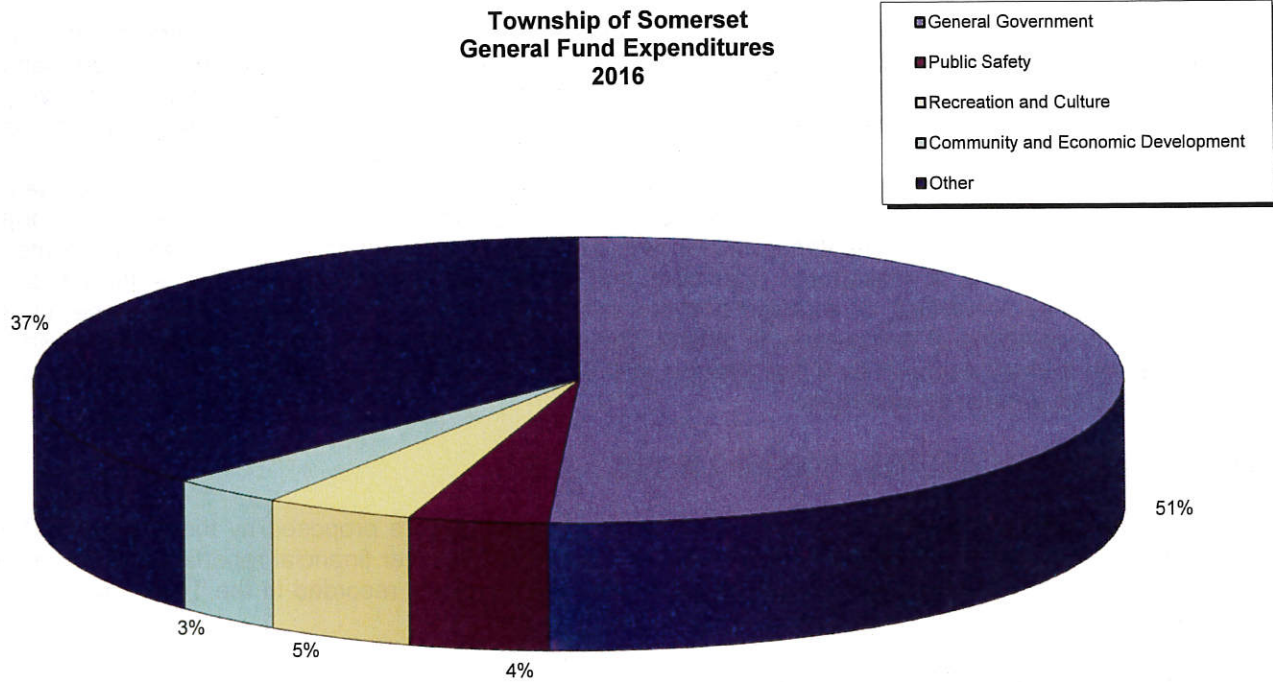




**Township of Somerset  
General Fund Revenues  
2016**

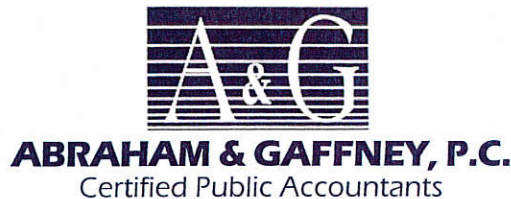


**Township of Somerset  
General Fund Expenditures  
2016**



Principals

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

Members of the Township Board  
Township of Somerset  
Hillsdale County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset (the Township) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township'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 discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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

**MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS**

Material journal entries for the adjustment of accounts receivable were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the Township's general ledger.

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position and results of operations, including the proper recording of journal entries to assure the trial balances from which the financial statements are prepared are in conformity with U.S. generally accepted accounting principles.

We recommend that the Township take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance and other matters.

### POLICIES AND PROCEDURES

Based on our discussions with management during the current year audit, we noted that the Township has not formally adopted written procedures and policies for several areas of operation. This issue was also noted and reported in the prior year audit. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Township formally adopt, and implement written procedures and policies in the following areas:

- a. Fraud risk management program - We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.
- b. Business continuity plan - A business continuity plan would clarify the Township's position if an interruption of critical business processes were to occur. We recommend the Township develop and implement a policy addressing business continuity and include it in the policy manual.

This communication is intended solely for the information and use of members of the Township Board of the Township of Somerset, others within the Township, and applicable departments of the State of Michigan, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 17, 2016