

**TOWNSHIP OF SOMERSET  
HILLSDALE COUNTY, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS  
(with required supplementary information and  
other supplementary information)**

**YEAR ENDED JUNE 30, 2019**

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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, 2019, 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, 2019, 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.

**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.

*Manes Costeiran PC*

November 8, 2019

**TOWNSHIP OF SOMERSET**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following is a discussion and analysis of the Township of Somerset's (the Township's) financial performance and position, providing an overview of the activities for the year ended June 30, 2019. This analysis should be read in conjunction with the Independent Auditor's Report and with the Township's financial statements, which follow this section. This discussion and analysis provides comparisons with the previous year.

**Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2019.

- Governmental Funds fund balance increased approximately \$144,522 from the prior year.
- Total net position was \$3,427,626.

**Using This Annual Report**

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. This report also contains other supplementary information, in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The statement of net position and the statement of activities provide information about the activities of the Township 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 government services.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities).

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 13 and 15 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (including depreciation) are not reported on the fund financial statements of the governmental funds. Capital assets and depreciation expense are reported on the government-wide financial statements.
- Capital outlay spending results in capital assets on the government-wide financial statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide financial statements; however, they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.

**TOWNSHIP OF SOMERSET**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Fund Financial Statements.** 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 operations of the Township in more detail than the government-wide financial statements by providing information about the Township's most significant 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 of Somerset maintains six (6) 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 Fund, Police Fund, Fire Fund, and Road Fund, which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplementary Information section of this report.

The Township adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund, Fire Fund, Police Fund, and Road Fund to demonstrate compliance with this budget.

**Notes to the 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 17-28 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, such as this MD&A and the budgetary comparison schedules. Combining statements referred to earlier in connection with nonmajor governmental funds are presented as other supplementary information.

**TOWNSHIP OF SOMERSET**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**The Township as a Whole**

The following table shows, in a condensed format, the net position as of June 30, 2018 and 2019.

	<b>Governmental Activities</b>	
	<u>2018</u>	<u>2019</u>
<b>Assets</b>		
Current and Other Assets	\$ 1,757,614	\$ 1,898,311
Capital Assets	<u>1,736,654</u>	<u>1,709,157</u>
Total Assets	<u>3,494,268</u>	<u>3,607,468</u>
<b>Liabilities</b>		
Current Liabilities	68,038	66,429
Noncurrent Liabilities	<u>152,545</u>	<u>113,413</u>
Total Liabilities	<u>220,583</u>	<u>179,842</u>
<b>Net Position</b>		
Net investment in capital assets	1,546,042	1,556,613
Restricted	481,223	555,891
Unrestricted	<u>1,246,420</u>	<u>1,315,122</u>
Total net position	<u>\$ 3,273,685</u>	<u>\$ 3,427,626</u>

**TOWNSHIP OF SOMERSET**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Township's total net position was \$3,427,626 on June 30, 2019. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) was \$1,315,122 at the end of the fiscal year. The net position invested in capital assets, net of related debt was at \$1,556,613 and restricted net position was at \$555,891.

The following table shows the changes in net position during the current and prior year.

	<b>Governmental Activities</b>	
	2018	2019
<b>Revenues</b>		
Program revenue		
Charges for services	\$ 445,716	\$ 470,898
Operating grants and contributions	114,330	176,413
Capital grants and contributions	21,776	26,956
General revenues		
Property taxes	580,196	601,448
State Revenue Sharing	384,304	399,436
Investment earnings	9,634	31,583
Miscellaneous	67,021	5,574
<b>Total revenues</b>	<b>1,622,977</b>	<b>1,712,308</b>
<b>Expenses</b>		
General government	434,907	367,442
Public safety	844,059	900,337
Public works	92,438	195,362
Culture and recreation	81,499	69,994
Community and economic development	15,342	20,444
Interest on long-term debt	2,030	4,788
<b>Total expenses</b>	<b>1,470,275</b>	<b>1,558,367</b>
<b>Change in net position</b>	<b>\$ 152,702</b>	<b>\$ 153,941</b>

**Governmental Activities**

The Township's governmental revenues totaled \$1,712,308 with the greatest revenue source being property taxes, making up approximately 35% of total governmental revenue. Charges for services account for approximately 28% of revenue, and state shared revenues were approximately 23% of revenue.

The Township incurred expenses of \$1,558,367 during the year. This represents an increase of \$88,092, or approximately 6% over the prior year. The majority of expense, 57%, is associated with providing public safety services. The second largest expense category, general government activities, is about 24% of total current year expenses.



**TOWNSHIP OF SOMERSET**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**The Township's Funds**

**Governmental Funds.** The analysis of the Township's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township of Somerset's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millage. The Township's major funds for the fiscal year ended June 30, 2019 were the General Fund, Police Fund, Fire Fund, and Road Fund.

The General Fund pays for most of the Township's governmental services. Revenues exceeded expenditures and other financing uses in the General Fund by \$69,869 resulting in an ending fund balance of \$1,323,825. The most significant service provided during the fiscal year was general governmental services, which incurred expenditures of \$350,886 for the fiscal year. This was a decrease of \$2,038, or 5%, from the prior year.

The Fire Fund expenditures exceeded revenues and other financing sources by \$23,898, resulting in an ending fund balance of \$176,156.

The Police Fund expenditures exceeded revenues and other financing sources by \$10,367, resulting in an ending fund balance of \$23,286.

The Road Fund expenditures exceeded revenues and other financing sources by \$21,546, resulting in ending fund balance of \$102,294.

**General Fund Budgetary Highlights**

Over the course of the fiscal year, the Township Board made necessary budget adjustments to fund unanticipated expenditures during the year. Budgeted expenditures and other financing uses were adjusted throughout the year. Total budgeted expenditures were increased by \$17,327, or 3% from the original budget to the final budget.

**Fire Fund Budgetary Highlights**

Total budgeted expenditures in the Fire Fund were increased from \$593,634 in the original budget to \$726,954 in the final budget. Total budgeted expenditures were increased by \$133,320, or 22%.

**Police Fund Budgetary Highlights**

Total budgeted expenditures in the Police Fund were increased from \$228,365 in the original budget to \$234,265 in the final budget. Total budgeted expenditures were increased by \$5,900, or 2%.

**Road Fund Budgetary Highlights**

Total budgeted expenditures in the Road Fund were \$246,180 in the original budget and was not amended during the year.

**TOWNSHIP OF SOMERSET**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Capital Asset and Debt Administration**

**Capital Assets.** At the end of the fiscal year, the Township had approximately \$3,402,529 invested in a broad range of capital assets, including buildings, land and equipment, and capital assets held by the police and fire fund. Accumulated depreciation on these assets was \$1,693,372 for a net capital asset total of \$1,709,157. In addition, the Township has made certain investments in roads within the Township. These assets are not reported in the Township's fund statements, because under Michigan law, these roads are the property of the Hillsdale County Road Commission.

Additional information related to capital assets can be found in Note 5 of the financial statements.

**Long-term Debt.** During the prior year, the Township obtained long term debt from a commercial loan of \$200,000 to help purchase a new ambulance. The balance left outstanding at year end is \$152,544.

Additional information related to long-term debt can be found in Note 6 of the financial statements.

**Current Economic Factors**

The State of Michigan revenue sharing continues to be the most significant budgetary concern. Short term investment rates are recommended at this time as interest rates are slowly increasing.

**Contacting the Township Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township finances and demonstrates 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 Clerk or Treasurer at the Township Hall.

**BASIC FINANCIAL STATEMENTS**

**TOWNSHIP OF SOMERSET  
STATEMENT OF NET POSITION  
JUNE 30, 2019**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 1,360,039
Investments	120,000
Accounts receivable	52,927
Due from other governmental units	69,446
Prepays	<u>8,821</u>
Total current assets	<u>1,611,233</u>
Noncurrent assets	
Investments	287,078
Capital assets not being depreciated	226,100
Capital assets, net	<u>1,483,057</u>
Total noncurrent assets	<u>1,996,235</u>
<b>TOTAL ASSETS</b>	<u><u>3,607,468</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	7,131
Accrued liabilities	8,038
Due to other governmental units	4,051
Accrued interest payable	536
Current portion of compensated absences	7,542
Current portion of long-term debt	<u>39,131</u>
Total current liabilities	66,429
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>113,413</u>
<b>TOTAL LIABILITIES</b>	<u><u>179,842</u></u>
<b>NET POSITION</b>	
Net investment in capital assets	1,556,613
Restricted	555,891
Unrestricted	<u>1,315,122</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 3,427,626</u></u>

See accompanying notes to financial statements.

**TOWNSHIP OF SOMERSET  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental activities			Capital Grants and Contributions	
General government	\$ 367,442	\$ 184,748	\$ 25	\$ (182,369)
Public safety	900,337	278,445	26,931	(427,081)
Public works	195,362	-	-	(189,729)
Recreation and culture	69,994	7,705	-	(59,689)
Community and economic development	20,444	-	-	(20,444)
Interest on long-term debt	4,788	-	-	(4,788)
<b>Total governmental activities</b>	<b>\$ 1,558,367</b>	<b>\$ 470,898</b>	<b>\$ 26,956</b>	<b>(884,100)</b>
General revenues				
Property taxes				601,448
State shared revenues				399,436
Investment earnings				31,583
Miscellaneous				5,574
<b>Total general revenues</b>				<b>1,038,041</b>
Change in net position				153,941
Net position, beginning of the year				3,273,685
Net position, end of the year				<b>\$ 3,427,626</b>

See accompanying notes to financial statements.

**TOWNSHIP OF SOMERSET  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2019**

	General	Fire Fund	Police Fund	Road Fund	Nonmajor Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 821,184	\$ 223,235	\$ 24,953	\$ 88,486	\$ 202,181	\$ 1,360,039
Investments	341,529	-	-	13,808	51,741	407,078
Accounts receivable	22,043	30,830	54	-	-	52,927
Due from other funds	66,304	-	216	-	337	66,857
Due from other governmental units	69,446	-	-	-	-	69,446
Prepays	8,821	-	-	-	-	8,821
<b>TOTAL ASSETS</b>	<b>\$ 1,329,327</b>	<b>\$ 254,065</b>	<b>\$ 25,223</b>	<b>\$ 102,294</b>	<b>\$ 254,259</b>	<b>\$ 1,965,168</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 3,926	\$ 1,952	\$ 524	\$ -	\$ 729	\$ 7,131
Accrued liabilities	1,576	5,049	1,413	-	-	8,038
Due to other governmental units	-	4,051	-	-	-	4,051
Due to other funds	-	66,857	-	-	-	66,857
<b>TOTAL LIABILITIES</b>	<b>5,502</b>	<b>77,909</b>	<b>1,937</b>	<b>-</b>	<b>729</b>	<b>86,077</b>
<b>FUND BALANCES</b>						
Nonspendable - prepays	8,821	-	-	-	-	8,821
Restricted	-	176,156	23,286	102,294	-	199,442
Public safety	-	-	-	-	-	102,294
Public works	625	-	-	-	-	625
Perpetual care	-	-	-	-	-	-
Parks and recreation	-	-	-	-	107,140	107,140
Capital improvements	-	-	-	-	146,390	146,390
Unassigned	1,314,379	-	-	-	-	1,314,379
<b>TOTAL FUND BALANCES</b>	<b>1,323,825</b>	<b>176,156</b>	<b>23,286</b>	<b>102,294</b>	<b>253,530</b>	<b>1,879,091</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,329,327</b>	<b>\$ 254,065</b>	<b>\$ 25,223</b>	<b>\$ 102,294</b>	<b>\$ 254,259</b>	<b>\$ 1,965,168</b>

See accompanying notes to financial statements.

**TOWNSHIP OF SOMERSET  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019**

**Total fund balances - governmental funds** \$ 1,879,091

Amounts reported for the governmental activities in the statement of net position are different because:

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

The cost of capital assets is	\$ 3,402,529	
Accumulated depreciation is	<u>(1,693,372)</u>	
Capital assets, net		1,709,157

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Loan payable	(152,544)	
Compensated absences	(7,542)	
Accrued interest payable	<u>(536)</u>	
		<u>(160,622)</u>

**Net position of governmental activities** \$ 3,427,626

**TOWNSHIP OF SOMERSET  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2019**

	General	Fire Fund	Police Fund	Road Fund	Nonmajor Governmental Funds	Total
<b>REVENUES</b>						
Taxes	\$ 201,395	\$ 150,052	\$ 100,028	\$ 49,991	\$ 99,982	\$ 601,448
Fees and fines	12,542	-	1,886	-	-	14,428
Licenses and permits	81,871	-	-	-	-	81,871
Intergovernmental	399,736	125,400	2,039	5,633	-	532,808
Charges for services	90,335	340,457	354	-	-	431,146
Interest and rents	29,590	2,626	139	1,250	5,683	39,288
Other	3,355	2,696	4,237	518	513	11,319
<b>TOTAL REVENUES</b>	<b>818,824</b>	<b>621,231</b>	<b>108,683</b>	<b>57,392</b>	<b>106,178</b>	<b>1,712,308</b>
<b>EXPENDITURES</b>						
Current						
General government	350,886	-	-	-	-	350,886
Public safety	27,860	502,896	222,316	-	-	753,072
Public works	28,424	-	-	166,938	-	195,362
Recreation and culture	29,341	-	-	-	28,301	57,642
Community and economic development	20,444	-	-	-	-	20,444
Debt service	-	42,990	-	-	-	42,990
Capital outlay	-	131,447	-	-	15,943	147,390
<b>TOTAL EXPENDITURES</b>	<b>456,955</b>	<b>677,333</b>	<b>222,316</b>	<b>166,938</b>	<b>44,244</b>	<b>1,567,786</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>361,869</b>	<b>(56,102)</b>	<b>(113,633)</b>	<b>(109,546)</b>	<b>61,934</b>	<b>144,522</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	80,000	124,000	88,000	-	292,000
Transfers out	(292,000)	-	-	-	-	(292,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(292,000)</b>	<b>80,000</b>	<b>124,000</b>	<b>88,000</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>69,869</b>	<b>23,898</b>	<b>10,367</b>	<b>(21,546)</b>	<b>61,934</b>	<b>144,522</b>
Fund balances, beginning of year	1,253,956	152,258	12,919	123,840	191,596	1,734,569
Fund balances, end of year	\$ 1,323,825	\$ 176,156	\$ 23,286	\$ 102,294	\$ 253,530	\$ 1,879,091

See accompanying notes to financial statements.



**TOWNSHIP OF SOMERSET  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

**Net change in fund balances - total governmental funds** \$ 144,522

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 122,575	
Depreciation expense	<u>(150,072)</u>	
Excess of depreciation expense over capital outlay		(27,497)

Repayment of long-term debt is reported as expenditures in governmental funds, the repayment reduces long-term liabilities in the statement of net position. In the current year, this amount consist of:

Debt principal retirement		38,068
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in compensated absences	(1,286)	
Decrease in accrued interest payable	<u>134</u>	
		<u>(1,152)</u>

**Change in net position of governmental activities** \$ 153,941

**TOWNSHIP OF SOMERSET  
FIDUCIARY FUND  
STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 2019**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>2,806</u>
<b>LIABILITIES</b>	
Due to others	\$ <u>2,806</u>

See accompanying notes to financial statements.

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Township of Somerset, Michigan, (the Township) was organized as a township under provisions of the constitution and general law of the State of Michigan. The Township is one of eighteen (18) townships in Hillsdale County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and two Trustees and provides services to its residents in many areas including fire protection, police services, parks and recreation, and planning.

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

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the Township of Somerset. The Township does not have any activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of Somerset contain all the funds controlled by the Township Board.

Basis of Presentation

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net position and the statement of activities (the government-wide financial statements) present information for the primary government. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide financial statements). For the most part, interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

Basis of Presentation (continued)

**FUND FINANCIAL STATEMENTS**

The fund financial statements present the Township's individual major funds and aggregated nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Township reports the following major governmental funds:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Fire Fund accounts for the tax millage levied for the related fire protection costs and the billed services accounts for the emergency service costs incurred by the Township.
- c. The Police Fund accounts for the tax millage levied for the related police protection costs incurred by the Township.
- d. The Road Fund accounts for the tax millage levied for the related road maintenance and improvements incurred by the Township.

The Township also reports an agency fund to account for assets held by the Township as an agent for other governments or individuals. Agency funds are, by nature, custodial, therefore, operation results are not measured. The Township's agency fund is the Current Tax Fund.

Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as receivable and unavailable revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

Budgets for governmental fund is adopted on a basis consistent with the modified accrual basis used to reflect actual results in the fund financial statements. The Township employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to July 1, the budget is adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year at the activity level for the General Fund and total expenditure level for the Special Revenue Funds.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, uncategorized pooled investment accounts, and certificates of deposit with a maturity from date of purchase of 90 days or less.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at fair value.

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

Receivables

Receivables consist of amounts due from various individuals and businesses related to charges for services.

Property Tax

The Township of Somerset bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied twice per year. A summer tax is levied on July 1 and a winter tax is levied on December 1. The tax levies are due September 14 and February 14, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Hillsdale County Treasurer on March 1 of the year following the levy. The Hillsdale County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$0.9884 per \$1,000 of assessed valuation for general governmental services, up to \$0.7414 per \$1,000 of assessed valuation for fire protection services, up to \$0.4943 per \$1,000 of assessed valuation for police protection services, and up to \$0.2471 per \$1,000 of assessed valuation for parks and recreation services, road improvements, and capital improvements, respectively. For the year ended June 30, 2019, the Township levied the full amount for each levy. The total taxable value for the 2018 levy for property within the Township was \$202,373,993.

Interfund Transactions

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the government activities. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated acquisition cost on the date received.

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

Capital Assets (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Machinery and equipment	10 - 20 years
Furniture and fixtures	3 - 40 years
Buildings and improvements	20 - 50 years
Vehicles	5 - 20 years

Deferred Outflows/Inflows of Resources

In addition to assets, the balance sheet and the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of fund balance/net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure/expense) until that time.

In addition to liabilities, the balance sheet and the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance/net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Township does not currently have any items that meet the recognition criteria for classification as deferred outflows of resources or deferred inflows of resources.

Fund Balance Classifications

Fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard:

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

Fund Balance Classifications (continued)

*Unassigned* - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, Township of Somerset's highest level of decision-making authority is the Board of Trustees. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution of the Board of Trustees.

For assigned fund balance, the Township has not approved a policy indicating who is to assign amounts to a specific purpose. As a result, this authority is retained by the Board of Trustees.

The Township has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. Therefore, restricted resources will be used first, then unrestricted resources as they are needed.

Restrictions of Net Position

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes.

Compensated Absences

It is the Township's policy to permit employees to accumulate earned but unused vacation and sick time benefits, subject to certain limitations. These benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Tax Abatements

The Township's tax revenues have been reduced by tax abatements. Management has determined these amounts to be immaterial to the financial statements.

Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.



**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of June 30, 2019, the carrying amount of the Township's deposits was \$847,400 and the bank balance was \$962,493 all of which was covered by federal depository insurance.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. There are three (3) levels of inputs that may be used to measure fair value:

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

Fair Value Measurements (continued)

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The Township had the following fair value measurements as of June 30, 2019:

	Fair Value Measurements			Total	Weighted Average Maturity	S&P Rating
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
PRIMARY GOVERNMENT Uncategorized pooled investment funds Michigan CLASS	\$ -	\$ 922,348	\$ -	\$ 922,348	44 Days	AAAm

The Township participates in the Michigan Cooperative Liquid Asset Securities System (Michigan CLASS). Portfolio investments are assigned a level based on the observability of inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Because the value of the Michigan CLASS investments is not obtained from a quoted price in an active market, these investments are classified as Level 2. Fair value is determined based on the fair value of the pool's underlying investments. Michigan CLASS's annual financial statements may be obtained at [www.michiganclass.org](http://www.michiganclass.org).

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2019, rating information on the Township's investments is presented above.

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

Interest Rate Risk

The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of Credit Risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by designing its portfolio so that the investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements, based upon criteria disclosed in Note 1. The following summarizes the categorization of these amounts as of June 30, 2019:

	Primary Government	Fiduciary Fund	Total
Cash and cash equivalents	\$ 1,360,039	\$ 2,806	\$ 1,362,845
Investments - current	120,000	-	120,000
Investments - noncurrent	287,078	-	287,078
	<u>\$ 1,767,117</u>	<u>\$ 2,806</u>	<u>\$ 1,769,923</u>

The Township has \$175 in imprest cash as of June 30, 2019.

**NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2019, are as follows:

Due to General Fund from Fire Fund	\$ 66,304
Due to Police Fund from Fire Fund	\$ 216
Due to nonmajor governmental funds from Fire Fund	\$ 337

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers have been eliminated.

Transfer to Fire Fund from General Fund	<u>\$ 80,000</u>
Transfer to Police Fund from General Fund	<u>\$ 124,000</u>
Transfer to Road Fund from General Fund	<u>\$ 88,000</u>

Transfers from the General Fund are to fund current year operations.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 226,100	\$ -	\$ -	\$ 226,100
Capital assets being depreciated				
Buildings and improvements	1,022,320	9,000	-	1,031,320
Furniture and fixtures	183,652	-	-	183,652
Machinery and equipment	415,966	113,575	(6,699)	522,842
Vehicles	1,438,615	-	-	1,438,615
Total capital assets being depreciated	3,060,553	122,575	(6,699)	3,176,429
Less accumulated depreciation for				
Buildings and improvements	(571,378)	(33,035)	-	(604,413)
Furniture and fixtures	(152,720)	(4,725)	-	(157,445)
Machinery and equipment	(317,771)	(23,352)	6,699	(334,424)
Vehicles	(508,130)	(88,960)	-	(597,090)
Total accumulated depreciation	(1,549,999)	(150,072)	6,699	(1,693,372)
Net capital assets being depreciated	1,510,554	(27,497)	-	1,483,057
Net capital assets	\$ 1,736,654	\$ (27,497)	\$ -	\$ 1,709,157

Depreciation expense was charged to the following governmental activities:

General government	\$ 16,556
Recreation and culture	12,352
Public safety	<u>121,164</u>
Total	<u>\$ 150,072</u>

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations (including current portion) of the Township for the year ended June 30, 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Direct Borrowing					
Commercial Loan	\$ 190,612	\$ -	\$ 38,068	\$ 152,544	\$ 39,131
Compensated Absences	6,256	12,182	10,896	7,542	7,542
	<u>\$ 196,868</u>	<u>\$ 12,182</u>	<u>\$ 48,964</u>	<u>\$ 160,086</u>	<u>\$ 46,673</u>

Direct Borrowing - Commercial Loan

Hillsdale County National Bank Loan due in quarterly installments of \$10,748 through February 22, 2023, with interest of 2.75 percent, for an ambulance with an original cost of \$200,000.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 39,131	\$ 3,859
2021	40,242	2,748
2022	41,376	1,614
2023	31,795	448
	<u>\$ 152,544</u>	<u>\$ 8,669</u>

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick and vacation. The dollar amounts of these vested rights including related payroll taxes, have been accrued on the government-wide financial statements. The total liability amounted to approximately \$7,542 at June 30, 2019.

**NOTE 7 - RISK MANAGEMENT**

The Township maintains commercial insurance coverage for property, liability, wrongful acts, law enforcement, automobile, bond, crime, inland marine, boiler, EDP, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**TOWNSHIP OF SOMERSET  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RESTRICTED NET POSITION**

Restriction of net position shown in the government-wide financial statements indicate that restriction imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various restrictions in net position as of June 30, 2019:

Public safety	\$ 199,442
Capital improvements	146,390
Perpetual care	625
Parks and recreation	107,140
Public works	<u>102,294</u>
	<u>\$ 555,891</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWNSHIP OF SOMERSET  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 201,376	\$ 201,376	\$ 201,395	\$ 19
Fees and fines	10,000	10,000	12,542	2,542
Licenses and permits	78,200	78,200	81,871	3,671
Intergovernmental	390,549	390,549	399,736	9,187
Charges for services	91,100	91,100	90,335	(765)
Interest and rents	7,350	7,350	29,590	22,240
Other	5,200	5,200	3,355	(1,845)
<b>TOTAL REVENUES</b>	<b>783,775</b>	<b>783,775</b>	<b>818,824</b>	<b>35,049</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
<b>General government</b>				
Township board	12,650	12,780	11,274	1,506
Supervisor	17,150	17,150	15,898	1,252
Treasurer	58,225	59,325	51,182	8,143
Assessor	94,950	94,950	84,089	10,861
Clerk	48,450	51,950	49,738	2,212
Elections	14,600	19,800	13,137	6,663
Building and grounds	50,721	52,741	42,461	10,280
Board of review	1,520	1,520	479	1,041
Professional fees	29,200	29,200	19,594	9,606
Data and computer processing	1,500	1,500	534	966
Utilities	28,500	28,500	29,439	(939)
Other	42,150	42,150	33,061	9,089
<b>Total general government</b>	<b>399,616</b>	<b>411,566</b>	<b>350,886</b>	<b>60,680</b>
<b>Public safety</b>				
Inspections	25,000	25,000	27,860	(2,860)
<b>Public works</b>				
Cemetery	29,500	29,500	26,466	3,034
Sanitation and cleanup	3,000	3,000	1,381	1,619
Drain assessment	2,000	2,000	577	1,423
<b>Total public works</b>	<b>34,500</b>	<b>34,500</b>	<b>28,424</b>	<b>6,076</b>
<b>Recreation and culture</b>				
Fireworks	3,500	5,000	3,345	1,655
Library	26,250	27,477	25,996	1,481
<b>Total recreation and culture</b>	<b>29,750</b>	<b>32,477</b>	<b>29,341</b>	<b>3,136</b>



**TOWNSHIP OF SOMERSET  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE (continued)  
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (continued)				
Current (continued)				
Community and economic development				
Planning and zoning	\$ 23,685	\$ 26,535	\$ 20,444	\$ 6,091
TOTAL EXPENDITURES	<u>512,551</u>	<u>530,078</u>	<u>456,955</u>	<u>73,123</u>
EXCESS OF REVENUES OVER EXPENDITURES	271,224	253,697	361,869	108,172
OTHER FINANCING (USES)				
Transfer out	<u>(405,424)</u>	<u>(405,424)</u>	<u>(292,000)</u>	<u>113,424</u>
NET CHANGE IN FUND BALANCE	(134,200)	(151,727)	69,869	221,596
Fund balance, beginning of year	<u>1,253,956</u>	<u>1,253,956</u>	<u>1,253,956</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,119,756</u></u>	<u><u>\$ 1,102,229</u></u>	<u><u>\$ 1,323,825</u></u>	<u><u>\$ 221,596</u></u>

**TOWNSHIP OF SOMERSET  
FIRE FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 150,440	\$ 150,440	\$ 150,052	\$ (388)
Intergovernmental	-	-	125,400	125,400
Charges for services	258,383	258,383	340,457	82,074
Interest	500	500	2,626	2,126
Other	2,300	133,970	2,696	(131,274)
<b>TOTAL REVENUES</b>	<u>411,623</u>	<u>543,293</u>	<u>621,231</u>	<u>77,938</u>
<b>EXPENDITURES</b>				
Current				
Public safety				
Personnel services	336,000	337,650	318,158	19,492
Payroll taxes and benefits	55,000	55,000	52,172	2,828
Supplies	13,000	13,000	38,820	(25,820)
Fuel	10,000	10,000	13,924	(3,924)
Repairs and maintenance	33,000	33,000	37,933	(4,933)
Insurance	16,000	16,000	14,803	1,197
Telephone	1,000	1,000	917	83
Printing and publishing	50	50	-	50
Education and training	14,000	14,000	5,067	8,933
Contracted services	19,000	19,000	18,988	12
Dues and subscriptions	1,600	1,600	2,084	(484)
Other	-	-	30	(30)
<b>Total public safety</b>	<u>498,650</u>	<u>500,300</u>	<u>502,896</u>	<u>(2,596)</u>
Debt service				
Principal payments	50,000	50,000	38,060	11,940
Interest	5,000	5,000	4,930	70
<b>Total debt service</b>	<u>55,000</u>	<u>55,000</u>	<u>42,990</u>	<u>12,010</u>
Capital outlay	<u>39,984</u>	<u>131,670</u>	<u>131,447</u>	<u>223</u>
<b>TOTAL EXPENDITURES</b>	<u>593,634</u>	<u>686,970</u>	<u>677,333</u>	<u>9,637</u>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	(182,011)	(143,677)	(56,102)	87,575
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>182,011</u>	<u>183,111</u>	<u>80,000</u>	<u>(103,111)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	39,434	23,898	(15,536)
Fund balance, beginning of year	<u>152,258</u>	<u>152,258</u>	<u>152,258</u>	-
Fund balance, end of year	<u>\$ 152,258</u>	<u>\$ 191,692</u>	<u>\$ 176,156</u>	<u>\$ (15,536)</u>

**TOWNSHIP OF SOMERSET  
POLICE FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 100,183	\$ 100,183	\$ 100,028	\$ (155)
Intergovernmental	-	-	2,039	2,039
Charges for services	-	-	354	354
Fines and forfeits	3,500	3,500	1,886	(1,614)
Interest and rents	-	-	139	139
Other	5,758	5,758	4,237	(1,521)
<b>TOTAL REVENUES</b>	<u>109,441</u>	<u>109,441</u>	<u>108,683</u>	<u>(758)</u>
<b>EXPENDITURES</b>				
Current				
Public safety				
Personnel services	130,365	130,365	112,649	17,716
Payroll taxes and benefits	50,000	55,900	57,666	(1,766)
Supplies	750	750	10,465	(9,715)
Fuel	7,000	7,000	8,343	(1,343)
Repairs and maintenance	6,100	6,100	1,113	4,987
Insurance	18,500	18,500	15,957	2,543
Telephone	2,650	2,650	3,576	(926)
Education and training	7,500	7,500	10,248	(2,748)
Professional fees	1,000	1,000	437	563
Dues and subscriptions	500	500	258	242
Other	2,000	2,000	1,604	396
<b>Total public safety</b>	<u>226,365</u>	<u>232,265</u>	<u>222,316</u>	<u>9,949</u>
<b>TOTAL EXPENDITURES</b>	<u>226,365</u>	<u>232,265</u>	<u>222,316</u>	<u>9,949</u>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<u>(116,924)</u>	<u>(122,824)</u>	<u>(113,633)</u>	<u>9,191</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer in	<u>118,924</u>	<u>121,824</u>	<u>124,000</u>	<u>2,176</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>2,000</u>	<u>(1,000)</u>	<u>10,367</u>	<u>11,367</u>
Fund balance, beginning of year	<u>12,919</u>	<u>12,919</u>	<u>12,919</u>	<u>-</u>
Fund balance, end of year	<u>\$ 14,919</u>	<u>\$ 11,919</u>	<u>\$ 23,286</u>	<u>\$ 11,367</u>

**TOWNSHIP OF SOMERSET  
ROAD FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 50,007	\$ 50,007	\$ 49,991	\$ (16)
Intergovernmental	4,884	4,884	5,633	749
Interest	800	800	1,250	450
Other revenue	-	-	518	518
<b>TOTAL REVENUES</b>	<u>55,691</u>	<u>55,691</u>	<u>57,392</u>	<u>1,701</u>
<b>EXPENDITURES</b>				
Current				
Public works				
Road maintenance	238,680	238,680	159,418	79,262
Insurance	7,500	7,500	7,520	(20)
<b>TOTAL EXPENDITURES</b>	<u>246,180</u>	<u>246,180</u>	<u>166,938</u>	<u>79,242</u>
<b>EXCESS OF REVENUES     (UNDER) EXPENDITURES</b>	(190,489)	(190,489)	(109,546)	80,943
<b>OTHER FINANCING SOURCES</b>				
Transfer In	190,489	190,489	88,000	(102,489)
<b>NET CHANGE IN FUND BALANCE</b>	-	-	(21,546)	(21,546)
Fund balance, beginning of year	123,840	123,840	123,840	-
Fund balance, end of year	<u>\$ 123,840</u>	<u>\$ 123,840</u>	<u>\$ 102,294</u>	<u>\$ (21,546)</u>

**TOWNSHIP OF SOMERSET  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2019**

**NOTE 1 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated. The Township's budgeted expenditures in the General Fund have been adopted at the activity level and at the total fund level for the Special Revenue Funds.

During the year ended June 30, 2019, the Township incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Utilities	\$ 28,500	\$ 29,439	\$ 939
Public Safety			
Inspections	25,000	27,860	2,860

**OTHER SUPPLEMENTARY INFORMATION**

**TOWNSHIP OF SOMERSET  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2019**

	Special Revenue <u>Parks and Recreation</u>	Capital Projects <u>Improvement Fund</u>	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 71,721	\$ 130,460	\$ 202,181
Investments	35,811	15,930	51,741
Due from other funds	337	-	337
<b>TOTAL ASSETS</b>	<u>\$ 107,869</u>	<u>\$ 146,390</u>	<u>\$ 254,259</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 729	\$ -	\$ 729
<b>FUND BALANCES</b>			
Restricted for parks and recreation	107,140	-	107,140
Restricted for capital improvements	-	146,390	146,390
<b>TOTAL FUND BALANCES</b>	<u>107,140</u>	<u>146,390</u>	<u>253,530</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 107,869</u>	<u>\$ 146,390</u>	<u>\$ 254,259</u>

**TOWNSHIP OF SOMERSET  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2019**

	<u>Special Revenue Parks and Recreation</u>	<u>Capital Projects Improvement Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Taxes	\$ 49,991	\$ 49,991	\$ 99,982
Interest and rents	4,200	1,483	5,683
Other	488	25	513
<b>TOTAL REVENUES</b>	<u>54,679</u>	<u>51,499</u>	<u>106,178</u>
<b>EXPENDITURES</b>			
Current			
Recreation and culture	28,301	-	28,301
Capital outlay	-	15,943	15,943
<b>TOTAL EXPENDITURES</b>	<u>28,301</u>	<u>15,943</u>	<u>44,244</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	26,378	35,556	61,934
Fund balances, beginning of year	<u>80,762</u>	<u>110,834</u>	<u>191,596</u>
Fund balances, end of year	<u>\$ 107,140</u>	<u>\$ 146,390</u>	<u>\$ 253,530</u>



November 8, 2019

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset (the Township) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information orally to you on September 25, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 22, 2019, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

We have been engaged to report on nonmajor combining statements, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope, Timing of the Audit, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

### 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 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 2019. We noted no transactions entered into by the Township 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 estimates affecting the governmental activities financial statements were:

Management's calculation of depreciation expense for the current period is based on an estimate of the useful lives of the capital assets. We evaluated the key factors and assumptions used to develop the useful lives for the capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's calculation of the allowance for doubtful accounts related to ambulance services provided is based on historical collection rates. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that they are 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 the financial statement 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 November 8, 2019.

### *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 Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

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

### Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted on inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI. We were engaged to report on the nonmajor governmental funds combining statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Restriction on Use

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

Very truly yours,

*Maney Costeiran PC*

November 8, 2019

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, 2019, 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.

*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.

Our consideration of internal control was for the limited purpose described in the first 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. Given these limitations, during our audit we did not identify any deficiencies in internal controls that we considered to be material weaknesses. However, as described below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

#### BANK RECONCILIATIONS NOT BEING REVIEWED

During the audit we noted that bank reconciliations were not being reviewed. We noted that there were two separate reconciliations being completed, but there was not a review over the bank reconciliations.

We would recommend that the Township start a process where after the bank reconciliation is completed, they should examine over each of the bank reconciliations and ensure they both match. Another solution would be to just have one person complete the bank reconciliation then have the other person review over it and sign off to show a signature of approval.

## PURCHASE ORDERS

During the audit it was noted that the Township did not have purchase orders on items over their \$300 threshold. In the Townships policy it states that all purchases over \$300 should have a purchase order with two signatures.

We would recommend that someone in the office should examine over all invoices and ensure a purchase order is complete with two signatures before anything can be purchased. Another recommendation is in the policy state specific vendors which would not require a purchase order, this allows the staff to get their supplies in case of emergencies and not have to be concerned about getting a purchase order signed.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township'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.

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.

Very truly yours,

*Maney Costeiran PC*