

Principals

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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, 2015. 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 in our letter to you dated May 26, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. 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 estimate affecting the governmental activities financial statements was:

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.

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. The following misstatements detected as a result of audit procedures were corrected by management: accounts receivable.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 10, 2015.

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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 7, 2015

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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, 2015, 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, we noted that the Township has not formally adopted written procedures and policies for several areas of operation. This issue was 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 7, 2015

**Township of Somerset
Hillsdale County, Michigan**

FINANCIAL STATEMENTS

June 30, 2015

Township of Somerset

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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, 2015, 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, 2015, 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 7, 2015

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, 2015. 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, 2015.

- Governmental Funds fund balance increased approximately \$116,897 from the prior year.
- Total net position was \$2,914,112.

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 5 and 8 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.

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 Services Fund, Fire Services Fund, and Road Services 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. A budgetary comparison statement has been provided for the General 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 10-20 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.

The Township as a Whole

The following table shows, in a condensed format, the net position as of June 30, 2015.

	Governmental Activities	
	2014	2015
Assets		
Current and Other Assets	\$ 1,185,127	\$ 1,307,654
Capital Assets	1,801,291	1,746,274
Total Assets	2,986,418	3,053,928
Liabilities		
Current Liabilities	32,844	85,182
Noncurrent Liabilities	160,040	54,634
Total Liabilities	192,884	139,816
Net Position		
Net investment in capital assets	1,641,251	1,646,151
Restricted	296,120	386,813
Unrestricted	856,163	881,148
Total net position	\$ 2,793,534	\$ 2,914,112

The Township's total net position was \$2,914,112 on June 30, 2015. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) was \$881,148 at the end of the fiscal year. The net position invested in capital assets, net of related debt was at \$1,646,151.

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

	Governmental Activities	
	2014	2015
Revenues		
Program revenue:		
Charges for services	\$ 361,720	\$ 451,784
Operating grants and contributions	4,879	44,274
Capital grants and contributions	2,400	22,996
General revenues:		
Property taxes	583,877	563,069
State Revenue Sharing	346,795	354,993
Investment earnings	12,015	5,203
Miscellaneous	128,646	5,851
Total revenues	1,440,332	1,448,170
Expenses		
General government	356,249	381,048
Public safety	659,377	673,796
Public works	122,423	111,843
Culture and recreation	67,041	131,446
Community and economic development	14,027	23,728
Capital outlay	81,202	-
Interest on long-term debt	2,813	5,731
Total expenses	1,303,132	1,327,592
Change in net position	\$ 137,200	\$ 120,578

Governmental Activities

The Township's governmental revenues totaled \$1,448,170 with the greatest revenue source being property taxes, making up approximately 39% of total governmental revenue. Charges for services account for approximately 31% of revenue, and state shared revenues were approximately 25% of revenue.

The Township incurred expenses of \$1,327,592 during the year. This represents an increase of \$24,460 or approximately 2% over the prior year. The majority of expense, 51%, is associated with providing public safety services. The second largest expense category, general government activities, is about 29% of total current year expenses.

The Township's Funds

Governmental Funds. The analysis of the Township's major funds begins on page 3, 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, 2015 were the General Fund, Police Services Fund, Fire Services Fund, and Road Services 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 \$76,204 resulting in an ending fund balance of \$882,961. The most significant service provided during the fiscal year was general governmental services, which incurred expenditures of \$356,725 for the fiscal year. This was an increase of \$24,481, or 7%, from the prior year, primarily due to increases in assessing and election activities.

The Fire Services Fund revenues and other financing exceeded expenditures by \$103,392, resulting in an ending fund balance of \$145,651. The expenditure budget was increased during the year as a result of greater than anticipated activity.

The Police Services Fund revenues and other financing exceeded expenditures by \$22,307, resulting in an ending fund balance of \$37,386.

The Road Services Fund expenditures exceeded revenues by \$51,721, resulting in ending fund balance of \$50,535. The Road Services Fund reported expenditures of \$107,585 during the year for maintenance of roads, streets, and bridges within the Township. The expenditure budget was increased during the year as a result of greater than anticipated activity.

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 between departments as needed throughout the year, but in total remained unchanged from the original budget.

Capital Asset and Debt Administration

Capital Assets. At the end of the fiscal year, the Township had approximately \$2,788,433 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 \$1,268,259, for a net capital asset total of \$1,746,274. 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 E of the financial statements.

Long-term Debt. During the previous year the Township reduced the amount owed on its only debt, a commercial loan, from \$160,040 to \$100,123.

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

Current Economic Factors

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan is experiencing significant budget problems, and as they look for solutions, revenue sharing continues to be under attack.

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, 2015

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 774,864
Investments	334,145
Due from other governmental units	86,495
Accounts receivable	58,375
Prepays	<u>3,375</u>
Total current assets	1,257,254
Noncurrent assets	
Investments	50,400
Capital assets not being depreciated	226,100
Capital assets, net	<u>1,520,174</u>
Total noncurrent assets	<u>1,796,674</u>
TOTAL ASSETS	3,053,928
LIABILITIES	
Current liabilities	
Accounts payable	30,612
Accrued liabilities	2,938
Due to other governments	4,924
Accrued interest	1,219
Current portion of long-term debt	<u>45,489</u>
Total current liabilities	85,182
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>54,634</u>
TOTAL LIABILITIES	<u>139,816</u>
NET POSITION	
Net investment in capital assets	1,646,151
Restricted	386,813
Unrestricted	<u>881,148</u>
TOTAL NET POSITION	<u>\$ 2,914,112</u>

See accompanying notes to financial statements.

Township of Somerset

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 381,048	\$ 178,288	\$ 60	\$ -	\$ (202,700)
Public safety	673,796	262,570	35,452	22,996	(352,778)
Public works	111,843	4,300	4,633	-	(102,910)
Recreation and culture	131,446	6,626	4,129	-	(120,691)
Community and economic development	23,728	-	-	-	(23,728)
Debt service	5,731	-	-	-	(5,731)
Total governmental activities	\$ 1,327,592	\$ 451,784	\$ 44,274	\$ 22,996	(808,538)
General revenues					
Property taxes					563,069
State shared revenues					354,993
Investment earnings					5,203
Miscellaneous					5,851
Total general revenues					929,116
Change in net position					120,578
Net position, beginning of the year					2,793,534
Net position, end of the year					\$ 2,914,112

See accompanying notes to financial statements.

Township of Somerset

Governmental Funds

BALANCE SHEET

June 30, 2015

	General	Road Fund	Fire Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 490,263	\$ 42,604	\$ 117,278
Investments	295,608	20,068	-
Due from other funds	7,000	-	-
Due from other governmental units	80,407	4,633	-
Accounts receivable	9,937	-	48,438
Prepays	3,375	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 886,590</u>	<u>\$ 67,305</u>	<u>\$ 165,716</u>
LIABILITIES			
Accounts payable	\$ 3,590	\$ 16,770	\$ 4,689
Accrued liabilities	39	-	2,899
Due to other governmental units	-	-	4,924
Due to other funds	-	-	7,553
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	3,629	16,770	20,065
FUND BALANCES			
Nonspendable - prepaids	3,375	-	-
Restricted			
Public safety	-	-	145,651
Public works	-	50,535	-
Perpetual care and endowment	594	-	-
Parks and recreation	-	-	-
Capital improvements	-	-	-
Unassigned	878,992	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>882,961</u>	<u>50,535</u>	<u>145,651</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 886,590</u>	<u>\$ 67,305</u>	<u>\$ 165,716</u>

See accompanying notes to financial statements.

Police Fund	Nonmajor Governmental Funds	Total
\$ 37,742	\$ 86,977	\$ 774,864
-	68,869	384,545
216	337	7,553
1,455	-	86,495
-	-	58,375
-	-	3,375
<u>\$ 39,413</u>	<u>\$ 156,183</u>	<u>\$ 1,315,207</u>
\$ 2,027	\$ 3,536	\$ 30,612
-	-	2,938
-	-	4,924
-	-	7,553
<u>2,027</u>	<u>3,536</u>	<u>46,027</u>
-	-	3,375
37,386	-	183,037
-	-	50,535
-	-	594
-	77,926	77,926
-	74,721	74,721
-	-	878,992
<u>37,386</u>	<u>152,647</u>	<u>1,269,180</u>
<u>\$ 39,413</u>	<u>\$ 156,183</u>	<u>\$ 1,315,207</u>

Township of Somerset

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2015

Total fund balances - governmental funds \$ 1,269,180

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	\$ 3,014,533	
Accumulated depreciation is	<u>(1,268,259)</u>	
Capital assets, net		1,746,274

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:

Long-term debt	(100,123)	
Accrued interest payable	<u>(1,219)</u>	
		<u>(101,342)</u>

Net position of governmental activities \$ 2,914,112

Township of Somerset

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2015

	General	Road Fund	Fire Fund
REVENUES			
Taxes	\$ 188,794	\$ 46,776	\$ 140,371
Fees and fines	18,892	-	-
Licenses and permits	72,668	-	-
Intergovernmental	354,993	4,633	-
Charges for services	86,728	4,300	312,505
Interest and rents	9,366	155	53
Other	4,563	-	175
TOTAL REVENUES	736,004	55,864	453,104
EXPENDITURES			
Current			
General government	356,725	-	-
Public safety	28,167	-	396,166
Public works	4,258	107,585	-
Recreation and culture	30,092	-	-
Community and economic development	23,728	-	-
Debt service	-	-	64,429
Capital outlay	-	-	24,761
TOTAL EXPENDITURES	442,970	107,585	485,356
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	293,034	(51,721)	(32,252)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	135,644
Transfers out	(216,830)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(216,830)	-0-	135,644
NET CHANGE IN FUND BALANCES	76,204	(51,721)	103,392
Fund balances, beginning of year	806,757	102,256	42,259
Fund balances, end of year	<u>\$ 882,961</u>	<u>\$ 50,535</u>	<u>\$ 145,651</u>

See accompanying notes to financial statements.

Police Fund	Nonmajor Governmental Funds	Total
\$ 93,576	\$ 93,552	\$ 563,069
6,231	-	25,123
-	-	72,668
-	-	359,626
306	-	403,839
8	2,248	11,830
1,977	5,300	12,015
<u>102,098</u>	<u>101,100</u>	<u>1,448,170</u>
-	-	356,725
151,738	-	576,071
-	-	111,843
-	89,629	119,721
-	-	23,728
-	-	64,429
9,239	44,756	78,756
<u>160,977</u>	<u>134,385</u>	<u>1,331,273</u>
(58,879)	(33,285)	116,897
81,186	-	216,830
-	-	(216,830)
<u>81,186</u>	<u>-0-</u>	<u>-0-</u>
22,307	(33,285)	116,897
15,079	185,932	1,152,283
<u>\$ 37,386</u>	<u>\$ 152,647</u>	<u>\$ 1,269,180</u>

Township of Somerset

Governmental Funds

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, 2015

Net change in fund balances - total governmental funds \$ 116,897

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	\$ 77,561	
Depreciation expense	<u>(132,578)</u>	
Excess of depreciation expense over capital outlay		(55,017)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Debt principal retirement		59,917
---------------------------	--	--------

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 accrued interest payable		<u>(1,219)</u>
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Change in net position of governmental activities \$ 120,578

Township of Somerset

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 137</u>
LIABILITIES	
Due to others	<u>\$ 137</u>

Township of Somerset

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: 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.

1. 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.

2. 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 as a whole. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. 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 incurred by the Township.
- c. The Road Fund accounts for the tax millage levied to fund road, streets, and bridge infrastructure projects in the Township.
- d. The Police Fund accounts for the millage levied for the related police protection costs 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.

3. 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.

4. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

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.

5. Budgets and Budgetary Accounting

Budgets for General 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.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, and temporary investments in various instruments 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 market value.

7. Receivables

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

Township of Somerset

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. 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 \$1.00 per \$1,000 of assessed valuation for general governmental services, up to \$0.75 per \$1,000 of assessed valuation for fire protection services, up to \$0.50 per \$1,000 of assessed valuation for police protection services, and up to \$0.25 per \$1,000 of assessed valuation for parks and recreation services, road improvements, and capital improvements, respectively. For the year ended June 30, 2015, the Township levied the full amount for each levy. The total taxable value for the 2014 levy for property within the Township was \$187,680,385.

9. 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 or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

10. 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 recorded in the proprietary funds, but not 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 fair market value on the date received.

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

11. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Deferred Outflows/Inflows of Resources - continued

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.

12. 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.

13. Long-Term Obligation

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary funds when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

14. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

15. 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.

NOTE B: 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

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, 2015, the carrying amount of the Township's deposits was \$517,442 and the bank balance was \$610,945, of which \$609,356 was covered by federal depository insurance. The remaining amount of \$1,589 was uninsured and uncollateralized.

Investments

As of June 30, 2015, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents caption on the combined balance sheet are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
Michigan Class	\$ 514,113	\$ 514,113	51 days
Federated Cash Management Trust	127,816	127,816	46 days
	<u>\$ 641,929</u>	<u>\$ 641,929</u>	

Credit risk

In accordance with Michigan Compiled Laws and the Township's investment policy, certain types of investments must be rated prime or better by a nationally recognized statistical rating organization (NRSRO's). As of June 30, 2015, all investments are rated AAAm by Standard and Poor's.

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.

Township of Somerset

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of credit risk - continued

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 A. The following summarizes the categorization of these amounts as of June 30, 2015:

	<u>Primary Government</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 774,864	\$ 137	\$ 775,001
Investments	384,545	-	384,545
	<u>\$ 1,159,409</u>	<u>\$ 137</u>	<u>\$ 1,159,546</u>

The Township has \$175 in imprest cash as of June 30, 2015.

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2015, are as follows:

Due to General Fund from:	
Fire Fund	<u>\$ 7,000</u>
Due to Police Fund from:	
Fire Fund	<u>\$ 216</u>
Due to nonmajor governmental funds from:	
Fire Fund	<u>\$ 337</u>

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.

NOTE D: 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 Police Fund from:	
General Fund	<u>\$ 81,186</u>
Transfer to Fire Fund from:	
General Fund	<u>\$ 135,644</u>

Transfers from the General Fund to the Police Fund and Fire Fund are for Current Year Operations.

Township of Somerset

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Governmental activities				
Capital assets not being depreciated				
Land	\$ 226,100	\$ -	\$ -	\$ 226,100
Capital assets being depreciated				
Buildings and improvements	864,076	46,337	-	910,413
Furniture and fixtures	173,223	-	-	173,223
Machinery and equipment	385,741	-	-	385,741
Vehicles	1,321,088	31,224	(33,256)	1,319,056
Total capital assets being depreciated	2,744,128	77,561	(33,256)	2,788,433
Less accumulated depreciation for:				
Buildings and improvements	(453,611)	(29,891)	-	(483,502)
Furniture and fixtures	(134,977)	(9,563)	-	(144,540)
Machinery and equipment	(228,678)	(23,662)	-	(252,340)
Vehicles	(351,671)	(69,462)	33,256	(387,877)
Total accumulated depreciation	(1,168,937)	(132,578)	33,256	(1,268,259)
Net capital assets being depreciated	1,575,191	(55,017)	-0-	1,520,174
Net capital assets	<u>\$ 1,801,291</u>	<u>\$ (55,017)</u>	<u>\$ -0-</u>	<u>\$ 1,746,274</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 24,323
Recreation and culture	11,725
Public safety	96,530
Total	<u>\$ 132,578</u>

Township of Somerset

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Township for the year ended June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Commercial Loan	\$ 160,040	\$ -	\$ 59,917	\$ 100,123	\$ 45,489

Significant details regarding outstanding long-term debt (including current portion) are presented below:

\$181,500 Ambulance loan dated August 15, 2013, payable in semi-annual installments of \$24,273, including interest of 3.00 percent, through August 15, 2017. \$ 100,123

Annual Requirements for Debt

The annual requirements to pay debt principal and interest outstanding for the loan are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 45,489	\$ 3,059
2017	46,748	1,798
2018	7,886	237
	<u>\$ 100,123</u>	<u>\$ 5,094</u>

NOTE G: OPERATING LEASE

The following is a summary of changes in operating lease of the Township for the year ended June 30, 2015:

\$93,145 capital lease (cellular phone tower site), dated June 1, 2015, due in monthly installments of \$1,200 increasing by 3% annually for an initial five-year term and five additional five-year terms subject to termination rights. \$ 78,745

The annual requirements for the operating lease receivable are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Capital Lease</u>
2016	\$ 14,832
2017	15,277
2018	15,735
2019	16,207
2020	16,694
	<u>\$ 78,745</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE H: RISK MANAGEMENT

The Township participates in the Michigan Township Participating Plan (the Plan) with other municipalities for auto, employee benefits, property, public officials, electronic data processing (EDP), crime, inland marine, boiler and machinery, and liability losses. The Plan is organized under Public Act 138 of 1982, as amended. The Plan, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to the transfer of risk to U.S. Specialty Insurance Company ("USSIC") backing the Michigan Township Participating Plan under a master policy for the period July 1, 2011 to July 1, 2019. Due to this Master Policy purchase, there is no pooling of risk between members but instead it is commercial insurance. Settled claims relating to this insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

The Township also maintains commercial insurance coverage for 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.

NOTE I: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established 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.

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.

Township of Somerset

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE J: 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, 2015:

Public safety	\$	183,037
Public works		50,535
Perpetual care		594
Parks and recreation		77,926
Capital improvements		<u>74,721</u>
	\$	<u>386,813</u>

NOTE K: UPCOMING ACCOUNTING PRONOUNCEMENTS

In March 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is 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. 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. The Township is currently evaluating the impact this standard will have on the financial statements when adopted for the 2015-2016 fiscal year.

In August 2015, the GASB issues Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the Township's 2016-2017 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Somerset

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 188,699	\$ 188,699	\$ 188,794	\$ 95
Fees and fines	11,000	11,000	18,892	7,892
Licenses and permits	48,310	48,310	72,668	24,358
Intergovernmental	358,916	358,916	354,993	(3,923)
Charges for services	79,325	79,325	86,728	7,403
Interest and rents	7,200	7,200	9,366	2,166
Other	25,547	25,547	4,563	(20,984)
TOTAL REVENUES	718,997	718,997	736,004	17,007
EXPENDITURES				
Current				
General government				
Township board	14,216	14,216	12,592	1,624
Supervisor	17,375	17,375	16,920	455
Treasurer	51,430	53,800	53,756	44
Assessor	85,094	82,724	78,683	4,041
Clerk	47,425	47,425	45,258	2,167
Elections	10,200	10,200	9,357	843
Building and grounds	40,280	40,555	34,490	6,065
Board of Review	1,419	1,419	636	783
Cemetery	29,505	29,505	29,108	397
Professional fees	8,600	8,600	6,635	1,965
Data and computer processing	675	400	377	23
Utilities	31,000	30,202	27,697	2,505
Other	48,933	49,701	41,216	8,485
Total general government	386,152	386,122	356,725	29,397
Public safety				
Inspections	28,170	28,170	28,167	3
Public works				
Sanitation and cleanup	2,700	2,700	1,427	1,273
Drain assessment	6,500	6,500	1,603	4,897
Underground storage tanks	6,978	6,978	1,228	5,750
Total public works	16,178	16,178	4,258	11,920
Recreation and culture				
Fireworks	7,000	7,000	6,750	250
Library	25,438	25,438	23,342	2,096
Total recreation and culture	32,438	32,438	30,092	2,346

Township of Somerset

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Community and economic development				
Planning and zoning	\$ 24,581	\$ 24,611	\$ 23,728	\$ 883
TOTAL EXPENDITURES	487,519	487,519	442,970	44,549
EXCESS OF REVENUES OVER EXPENDITURES	231,478	231,478	293,034	61,556
OTHER FINANCING (USES)				
Transfer out	(231,478)	(231,478)	(216,830)	14,648
NET CHANGE IN FUND BALANCE	-0-	-0-	76,204	76,204
Fund balance, beginning of year	806,757	806,757	806,757	-0-
Fund balance, end of year	\$ 806,757	\$ 806,757	\$ 882,961	\$ 76,204

Township of Somerset

Road Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 46,902	\$ 46,902	\$ 46,776	\$ (126)
Intergovernmental	4,879	4,879	4,633	(246)
Charges for services	4,300	4,300	4,300	-0-
Interest and rentals	300	300	155	(145)
TOTAL REVENUE	56,381	56,381	55,864	(517)
EXPENDITURES				
Current				
Public works				
Road maintenance	79,529	101,129	101,123	6
Insurance	6,500	6,500	6,462	38
TOTAL EXPENDITURES	86,029	107,629	107,585	44
EXCESS OF REVENUES (UNDER) EXPENDITURES	(29,648)	(51,248)	(51,721)	(473)
OTHER FINANCING SOURCES				
Transfer In	29,648	29,648	-	(29,648)
NET CHANGE IN FUND BALANCE	-0-	(21,600)	(51,721)	(30,121)
Fund balance, beginning of year	102,256	102,256	102,256	-0-
Fund balance, end of year	\$ 102,256	\$ 80,656	\$ 50,535	\$ (30,121)

Township of Somerset

Fire Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 141,066	\$ 141,066	\$ 140,371	\$ (695)
Charges for services	191,126	191,126	312,505	121,379
Interest	10	10	53	43
Other	5,600	5,600	175	(5,425)
TOTAL REVENUES	337,802	337,802	453,104	115,302
EXPENDITURES				
Current				
Public safety				
Personnel services	224,000	249,000	255,620	(6,620)
Payroll taxes and benefits	46,500	46,500	43,622	2,878
Supplies	12,450	12,450	16,462	(4,012)
Fuel	10,000	10,000	12,698	(2,698)
Repairs and maintenance	17,500	17,500	27,651	(10,151)
Insurance	15,000	15,000	12,440	2,560
Telephone	1,000	1,000	1,495	(495)
Printing and publishing	100	100	316	(216)
Education and training	10,000	10,000	12,815	(2,815)
Contracted services	7,500	7,500	9,747	(2,247)
Professional fees	250	250	305	(55)
Dues and subscriptions	1,500	1,500	1,634	(134)
Other	2,000	2,000	1,361	639
Total public safety	347,800	372,800	396,166	(23,366)
Debt service				
Principal payments	44,015	44,015	59,916	(15,901)
Interest	4,533	4,533	4,513	20
Total debt service	48,548	48,548	64,429	(15,881)
Capital outlay	42,201	42,201	24,761	17,440
TOTAL EXPENDITURES	438,549	463,549	485,356	(21,807)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(100,747)	(125,747)	(32,252)	93,495
OTHER FINANCING SOURCES (USES)				
Transfer in	120,644	120,644	135,644	15,000
Transfer out	(19,897)	(19,897)	-	19,897
TOTAL OTHER FINANCING SOURCES (USES)	100,747	100,747	135,644	34,897
NET CHANGE IN FUND BALANCE	-0-	(25,000)	103,392	128,392
Fund balance, beginning of year	42,259	42,259	42,259	-0-
Fund balance, end of year	\$ 42,259	\$ 17,259	\$ 145,651	\$ 128,392

Township of Somerset

Police Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 93,929	\$ 93,929	\$ 93,576	\$ (353)
Fees and fines	2,300	2,300	6,231	3,931
Charges for services	325	325	306	(19)
Interest and rents	2	2	8	6
Other	2,200	2,200	1,977	(223)
TOTAL REVENUES	98,756	98,756	102,098	3,342
EXPENDITURES				
Current				
Public safety				
Personnel services	100,492	100,492	90,301	10,191
Payroll taxes and benefits	26,000	26,000	28,089	(2,089)
Supplies	1,200	1,200	398	802
Fuel	10,000	10,000	7,024	2,976
Repairs and maintenance	9,000	9,000	2,953	6,047
Insurance	13,750	13,750	13,592	158
Telephone	2,800	2,800	2,503	297
Education and training	3,000	3,000	2,260	740
Professional fees	4,500	4,500	450	4,050
Dues and subscriptions	200	200	370	(170)
Other	2,500	2,500	3,798	(1,298)
Total public safety	173,442	173,442	151,738	21,704
Capital outlay	6,500	6,500	9,239	(2,739)
TOTAL EXPENDITURES	179,942	179,942	160,977	18,965
EXCESS OF REVENUES (UNDER) EXPENDITURES	(81,186)	(81,186)	(58,879)	22,307
OTHER FINANCING SOURCES				
Transfer in	81,186	81,186	81,186	-0-
NET CHANGE IN FUND BALANCE	-0-	-0-	22,307	22,307
Fund balance, beginning of year	15,079	15,079	15,079	-0-
Fund balance, end of year	\$ 15,079	\$ 15,079	\$ 37,386	\$ 22,307

Township of Somerset

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2015

NOTE A: 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 functional classification level and at the total fund level for the Special Revenue Funds.

During the year ended June 30, 2015, the Township incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Fire Fund	\$ 483,446	\$ 485,356	\$ 1,910

OTHER SUPPLEMENTARY INFORMATION

Township of Somerset
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET

June 30, 2015

	Special Revenue Parks and Recreation	Capital Projects Capital Improvement	Total
ASSETS			
Cash and cash equivalents	\$ 23,864	\$ 63,113	\$ 86,977
Investments	53,818	15,051	68,869
Due from other funds	337	-	337
TOTAL ASSETS	\$ 78,019	\$ 78,164	\$ 156,183
LIABILITIES			
Accounts payable	\$ 93	\$ 3,443	\$ 3,536
FUND BALANCES			
Restricted for parks and recreation	77,926	-	77,926
Restricted for capital improvements	-	74,721	74,721
TOTAL FUND BALANCES	77,926	74,721	152,647
TOTAL LIABILITIES AND FUND BALANCES	\$ 78,019	\$ 78,164	\$ 156,183

Township of Somerset

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2015

	<u>Special Revenue</u> Parks and Recreation	<u>Capital Projects</u> Capital Improvement	<u>Total</u>
REVENUES			
Taxes	\$ 46,776	\$ 46,776	\$ 93,552
Interest and rents	2,138	110	2,248
Other	300	5,000	5,300
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	49,214	51,886	101,100
EXPENDITURES			
Current			
Recreation and culture	89,629	-	89,629
Capital outlay	-	44,756	44,756
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	89,629	44,756	134,385
NET CHANGE IN FUND BALANCES	(40,415)	7,130	(33,285)
Fund balances, beginning of year	<hr/> 118,341	<hr/> 67,591	<hr/> 185,932
Fund balances, end of year	<u>\$ 77,926</u>	<u>\$ 74,721</u>	<u>\$ 152,647</u>

