

**SOLON-CENTERVILLE FIRE DEPARTMENT**

**LEELANAU COUNTY, MICHIGAN**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED MARCH 31, 2016**



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Solon – Centerville Fire Department  
Leelanau County, Michigan

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and the general fund of the Solon - Centerville Fire Department, Michigan (the "Fire Department"), as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Fire Department'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 and the general fund of the Solon - Centerville Fire Department, Michigan, as of March 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

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



Gabridge & Company, PLC  
Traverse City, MI  
September 28, 2016

## **Management's Discussion and Analysis**

**Solon - Centerville Fire Department  
Leelanau County, Michigan  
Management's Discussion and Analysis**

As management of the Solon - Centerville Fire Department (the "Fire Department"), we offer readers of the Fire Department's financial statements this narrative overview and analysis of the financial activities of the Fire Department for the fiscal year ended March 31, 2016. We encourage readers to consider the information presented here in conjunction with the Fire Department's financial statements that follow this section.

The Solon - Centerville Fire Department is an Interlocal Fire Department made between the Township of Solon (50% interest) and the Township of Centerville (50% interest). The purpose of the agreement is to provide fire protection services throughout their respective jurisdictions through a single fire department jointly funded by the Townships.

***Financial Highlights***

- The Fire Department's net position was \$825,393 at March 31, 2016. Its change in net position was an \$81,137 decrease for the year ended March 31, 2016.
- As of the close of the current fiscal year, the Fire Department's general fund reported an ending fund balance of \$122,682, a decrease of \$62,830 in comparison with the prior year.
- The Fire Department's total debt decreased by \$12,515 during the current fiscal year. This is the result of the Fire Department making its required scheduled debt service payments throughout the year.

***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the Fire Department's basic financial statements. The Fire Department's basic financial statements are comprised of two components: the financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial statements.** The financial statements are presented in a columnar format. The Fire Department maintains only one fund, a governmental fund (operating, or general, fund) that is presented in the first column (*governmental funds* financial statements) and is prepared on the modified accrual basis of accounting. These fund financial statements present a short-term view and tell how resources were spent during the year as well as what remains for future spending. Such financial information may be helpful in evaluating the Fire Department's near-term financing requirements.

The second column in the financial statements presents the adjustments necessary to reconcile the *governmental funds* financial statements to the *governmental activities* financial statements (*statement of net position* and *statement of activities*) presented in the third column.

These *governmental activities* financial statements are designed to provide the readers with a broad view of the Fire Department's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Fire Department's finances and whether the full cost of government services have been funded. The two governmental activities statements are as follows:

- The *statement of net position* presents information on all of the Fire Department's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating.
- The *statement of activities* presents information showing how the Fire Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that result in cash flows in different fiscal periods.

The Fire Department adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

**Notes to the financial statements.** The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the governmental fund and governmental activities financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* presenting budgetary comparisons for the Fire Department's general fund.

### ***Financial Analysis of the Fire Department as a Whole***

The following table shows, in a condensed format, the net position of the Fire Department as of March 31, 2016 and 2014:

	<u>2016</u>	<u>2014</u>
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash	\$ 120,926	\$ 175,550
Accounts Receivable	16,063	16,127
Prepaid Expenses	-	5,663
<b><i>Total Current Assets</i></b>	<u>136,989</u>	<u>197,340</u>
<i>Noncurrent Assets</i>		
Capital Assets Being Depreciated, Net	<u>770,616</u>	<u>823,788</u>
<b><i>Total Assets</i></b>	<u>907,605</u>	<u>1,021,128</u>
<b>LIABILITIES</b>		
<i>Current Liabilities</i>		
Accounts Payable	1,131	3,239
Accrued Wages & Payroll Taxes	13,176	15,173
Current Portion of Note Payable	<u>12,515</u>	<u>46,162</u>
<b><i>Total Current Liabilities</i></b>	<u>26,822</u>	<u>64,574</u>
<i>Noncurrent Liabilities</i>		
Note Payable	<u>55,390</u>	<u>80,420</u>
<b><i>Total Liabilities</i></b>	<u>82,212</u>	<u>144,994</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	702,711	697,206
Restricted	27,745	64,843
Unrestricted	<u>94,937</u>	<u>114,085</u>
<b><i>Total Net Position</i></b>	<u>\$ 825,393</u>	<u>\$ 876,134</u>

Capital assets decreased during the year to \$770,616 as a result of depreciation expense. Cash decreased to \$120,926, which is similar to the decrease in net position as revenues came in under expenses. Liabilities decreased as the Fire Department continues to meet its annual debt service obligations.

The following analysis highlights the changes in net position for the years ended March 31, 2016 and 2014:

	<u>2016</u>	<u>2014</u>
<b>Revenue</b>		
<b>Program Revenues</b>		
Operating Contributions	\$ 365,172	\$ 300,000
Charges for Services	64,325	89,680
Grant Revenues	1,265	3,731
Capital Contributions	-	34,852
<b><i>Total Program Revenues</i></b>	<u>430,762</u>	<u>428,263</u>
<b>General Revenues</b>		
Other	5,064	9,600
<b><i>Total General Revenues</i></b>	<u>5,064</u>	<u>9,600</u>
<b><i>Total Revenues</i></b>	<u>435,826</u>	<u>437,863</u>
<b>Expenses</b>		
Public Safety	516,963	480,416
Interest on Long-term Debt	-	2,367
<b><i>Total Expenses</i></b>	<u>516,963</u>	<u>482,783</u>
<b><i>Change in Net Position</i></b>	<u>(81,137)</u>	<u>(44,920)</u>
<i>Net Position at Beginning of Period</i>	906,530	921,054
<b><i>Net Position at End of Period</i></b>	<u>\$ 825,393</u>	<u>\$ 876,134</u>

During the year operating contributions increased by \$65,172 due to an increase fire service expenditures. Capital contributions decreased because there were no major capital asset purchases during the year.

#### ***Financial Analysis of the Fire Department's Operating Fund***

The March 31, 2016 fund balance of the general fund is \$122,682, of which \$27,745 is considered restricted. Fund balance decreased during the year by \$62,830 for the reasons listed in the financial analysis section above.

#### ***Operating Fund Budgetary Highlights***

*Original budget compared to final budget.* During the year there was no need for any amendments to either increase either the original estimated revenues or original budgeted appropriations.

*Final budget compared to actual results.* A review of actual expenditures compared to the appropriations in the final budget showed no significant exceptions between the final amended budget and actual results.

### ***Capital Assets and Debt Administration***

***Capital assets*** - The Fire Department's capital assets as of March 31, 2016, amounted to \$770,616 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, equipment, and vehicles. The total change in the Fire Department's investment in capital assets for the current fiscal year was a net decrease of \$30,822. This decrease was due to depreciation expense of \$52,798 less capital asset purchases of \$21,976.

Additional information on the Fire Department's capital assets can be found in the notes to the financial statements section of this report.

***Long-term debt*** - At the end of the current fiscal year, the Fire Department had long-term debt of \$67,905 outstanding.

The Fire Department's total debt decreased by \$12,515 during the current fiscal year. Additional information on the Fire Department's long-term debt can be found in the notes to the financial statements section of this report.

### ***Economic Condition and Outlook***

#### ***Next Year's Budget***

On September 15, 2015, the Townships of Centerville, Cleveland, Kasson, and Solon entered into an Interlocal Fire Department Agreement to form the Cedar Area Fire & Rescue. This agreement terminates and supersedes the existing agreement between the Townships of Solon and Centerville. The purpose of the newly formed fire department (effective on April 1, 2016) is to ensure that the fire department runs smoothly and meets community expectations and to ensure that the fire department is supported through a mutually agreeable and uniform funding mechanism to provide fire protection and other emergency services throughout all four Townships.

Management of the newly formed fire department estimates that \$669,633 of revenues will be available for appropriation in the upcoming fiscal year to providing the resident's with an increased level of service throughout the participating Townships.

#### ***Contacting the Fire Department's Management***

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Fire Department's finances and to show the Fire Department's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Fire Department's chairperson.

## **BASIC FINANCIAL STATEMENTS**

**Solon-Centerville Fire Department  
Governmental Funds Balance Sheet / Statement of Net Position  
For the Year Ended March 31, 2016**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash	\$ 120,926		\$ 120,926
Accounts Receivable	16,063		16,063
<b>Total Current Assets</b>	136,989		136,989
<i>Noncurrent Assets</i>			
Capital Assets Being Depreciated, Net	-	(1) 770,616	770,616
<b>Total Assets</b>	\$ 136,989		907,605
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	\$ 1,131		1,131
Accrued Wages and Payroll Taxes	13,176		13,176
Current Portion of Note Payable	-	(2) 12,515	12,515
<b>Total Current Liabilities</b>	14,307		26,822
<i>Noncurrent Liabilities</i>			
Note Payable	-	(2) 55,390	55,390
<b>Total Liabilities</b>	14,307		82,212
<b>FUND BALANCE</b>			
Restricted	27,745	(27,745)	-
Unassigned	94,937	(94,937)	-
<b>Total Fund Balance</b>	122,682		
<b>Total Liabilities and Fund Balance</b>	\$ 136,989		
<b>NET POSITION</b>			
Net Investment in Capital Assets		702,711	702,711
<i>Restricted for:</i>			
Memorial		27,745	27,745
<i>Unrestricted</i>		94,937	94,937
<b>Total Net Position</b>			\$ 825,393

(1) Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

(2) Long-term liabilities applicable to the Fire Board's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (current and long-term) are reported in the statement of net position.

**Solon-Centerville Fire Department**  
**Statement of Governmental Funds Revenues, Expenditures, and Changes in Fund Balance /**  
**Statement of Activities**  
**For the Year Ended March 31, 2016**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Revenues</b>			
Operating Contributions	\$ 365,172		\$ 365,172
Grant Revenue	1,265		1,265
Charges for Services	64,325		64,325
Other Revenue	4,965		4,965
Interest Income	99		99
<b>Total Revenues</b>	<b>435,826</b>		<b>435,826</b>
<b>Expenditures</b>			
Public Safety	464,165	(1) 52,798	516,963
Capital Outlay	21,976	(1) (21,976)	-
Principal	12,515	(2) (12,515)	-
<b>Total Expenditures</b>	<b>498,656</b>		<b>516,963</b>
<b>Net Change in Fund Balance / Net position</b>	<b>(62,830)</b>		<b>(81,137)</b>
<i>Fund Balance / Net Position at Beginning of Period</i>	185,512		906,530
<b>Fund Balance / Net Position at End of Period</b>	<b>\$ 122,682</b>		<b>\$ 825,393</b>

- (1) Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their useful lives and reported as depreciation expense. This amount represents depreciation expense of \$52,798 less capital outlay expenditures of \$21,976.
- (2) Repayment of loan principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position.

## **NOTES TO THE FINANCIAL STATEMENTS**

## Solon – Centerville Fire Department

### Notes to the Financial Statements

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#### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Solon - Centerville Fire Department (the “Fire Department” or “government”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Solon - Centerville Fire Department.

#### **Reporting Entity**

The Solon–Centerville Fire Department is an Interlocal Fire Department formed between the Township of Solon and the Township of Centerville. The purpose of the agreement is to provide fire protection services throughout their respective jurisdictions through a single fire department jointly funded by the Townships. The Fire Department was formed pursuant to the Urban Cooperation Act of 1967, as amended, as a separate legal and administrative entity and public body governed, managed and controlled by a ten member Board comprised of five officials from Solon Township and five officials from Centerville Township.

#### **Government-wide and Fund Financial Statements**

Separate columns are included in the financial statements for the government-wide financial statements (e.g., the statement of net position and the statement of activities) and the fund financial statements, which present the sole governmental fund (the general fund) of the Fire Department.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fire Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Fire Department reports the following major governmental fund:

The *general fund* accounts for the resources accumulated and payments made for operation of the Fire Department.

# Solon – Centerville Fire Department

## Notes to the Financial Statements

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### Assets, Liabilities, and Fund Equity

**Cash** - The Fire Department's cash consist of demand deposits, savings deposits and time deposits.

**Receivables** - All receivables are reported net of estimated uncollectible amounts.

**Capital assets** - Capital assets which include land, buildings, equipment, and vehicles, are defined by the Fire Department as assets with an initial cost of more than \$5,000 and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value of the asset at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

<u>Description</u>	<u>Useful Life</u>
Buildings & Improvements	20 - 40 Years
Equipment	10 - 20 Years
Vehicles	5 - 15 Years

**Long-term Obligations** - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Long-term obligations are reported net of the applicable premium or discount. Debt issuance costs are reported as period cost. In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Net Position Flow Assumption** - Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**Fund Balance Flow Assumptions** - Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted,

## Solon – Centerville Fire Department

### Notes to the Financial Statements

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committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Fund Balance Policies** - Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of trustees is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of trustees may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principle generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

#### Note 2 - Stewardship, Compliance & Accountability

##### Budgetary Information

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Operating fund. All annual appropriations lapse at fiscal year end. The budget document presents information by function and line-item. The legal level of budgetary control adopted by

## Solon – Centerville Fire Department

### Notes to the Financial Statements

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the governing body is the functional level. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. In February of each year, a preliminary budget is prepared. By March 1, the proposed budget is presented to the Boards of Trustees.

#### **Excess of Expenditures over Appropriations**

A comparison of actual results of operations as compared to budget for the general fund is included in the required supplemental information for the year ended March 31, 2016.

The Fire Department had no expenditures significantly in excess of the amounts appropriated during the year.

#### **Note 3 - Deposits with Financial Institutions**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of State statutory authority as listed above.

The Fire Department's deposits and investment policy is in accordance with statutory authority.

***Custodial Credit Risk – Deposits.*** Custodial credit risk is the risk that in the event of a bank failure, the Fire Department's deposits may not be returned. The Fire Department does not have a deposit policy for custodial credit risk. At year end the bank balance of the Fire Department's deposits was \$120,926, all of which was covered by federal depository insurance.

At year-end, the Fire Department's deposits consisted of bank deposits (checking account) and imprest cash.

**Solon – Centerville Fire Department**

Notes to the Financial Statements

**Note 4 - Capital Assets**

Capital asset activity of the Fire Department for the current year was as follows:

	<u>March 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>March 31, 2016</u>
Capital assets				
Buildings & Improvements	\$ 658,000	\$ -	\$ -	\$ 658,000
Equipment	110,982	21,976	-	132,958
Vehicles	996,927	-	-	996,927
Total capital assets	<u>1,765,909</u>	<u>21,976</u>	<u>-</u>	<u>1,787,885</u>
Less accumulated depreciation				
Buildings & Improvements	143,791	16,450	-	160,241
Equipment	89,002	5,178	-	94,180
Vehicles	731,678	31,170	-	762,848
Total accumulated depreciation	<u>964,471</u>	<u>52,798</u>	<u>-</u>	<u>1,017,269</u>
<b>Capital Assets, Net</b>	<u>\$ 801,438</u>	<u>\$ (30,822)</u>	<u>\$ -</u>	<u>\$ 770,616</u>

Depreciation expense of \$52,798 was charged to the public safety function for the year ended March 31, 2016.

**Note 5 - Long-term Debt**

In the fiscal year 2012, the Fire Department received proceeds from a zero interest Economic Development Revolving Loan from Cheryland Electric Coop., payable in the amount of \$125,154 for the purchase of a new ambulance. The loan was issued with an interest rate of 0.00%. The note is due in 120 monthly principal installments of \$1,043 and matures in the fiscal year ending 2022.

Long-term liability activity for the year ended March 31, 2016, was as follows:

<u>Governmental Activities</u>	<u>Balance at</u> <u>March 31, 2015</u>	<u>Deletions</u>	<u>Balance at</u> <u>March 31, 2016</u>	<u>Due Within</u> <u>One Year</u>
Economic Development Revolving Loan	\$ 80,420	\$ 12,515	\$ 67,905	\$ 12,515

## Solon – Centerville Fire Department

### Notes to the Financial Statements

Debt service requirements to maturity for the above obligation are as follows:

Year Ending March 31,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 12,515	\$ -	\$ 12,515
2018	12,515	-	12,515
2019	12,515	-	12,515
2020	12,515	-	12,515
2021	12,515	-	12,515
2022	5,329	-	5,329
Totals	<u>\$ 67,905</u>	<u>\$ -</u>	<u>\$ 67,905</u>

#### Note 6 - Compensated Absences

As a benefit of employment full-time employees are provided paid personal/sick time off based on seniority. Employees may carry over a maximum of 36 hours of personal/sick leave to the subsequent year. However, vacation time may not be accrued and any unused vacation time will not be paid to employees. As of March 31, 2016 there was no liability for personal/sick time off.

#### Note 7 - Simple IRA Retirement Plan

The Solon – Centerville Fire Department participates in a Simple IRA Retirement plan.

##### *Eligibility*

- To be eligible to participate, must be a full-time employee or member of the board 18 years or older and have been employed by the department for one calendar year, and must have earned \$5,000 during one year and expect to earn at least \$5,000 in current calendar year.

##### *Employee Contributions*

- Individuals can contribute (elective defer) based on IRS regulations and can change their deferral at anytime during the year.

##### *Employer Matching Contributions*

- Solon – Centerville will match \$1.00 per \$1.00 on the first 3% of annual compensation that one defers.

##### *Vesting*

- Contributions are 100% vested at the time individuals are eligible to enter the plan.

## **Solon – Centerville Fire Department**

### Notes to the Financial Statements

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The Plan is administered by the clerk. During the year ended March 31, 2016, the department contributed \$5,873 and employees contributed \$7,641.

#### **Note 8 - Risk Management**

The Fire Department is exposed to various risks of loss related to general liability; torts; theft of, damage to and destruction of assets; errors and omissions; and workers' compensation for which the Fire Department carries commercial insurance.

#### **Note 9 - Subsequent Events**

On September 15, 2015, the Townships of Centerville, Cleveland, Kasson, and Solon entered into an Interlocal Fire Department Agreement to form the Cedar Area Fire & Rescue. The September 15, 2015 agreement terminates and supersedes the existing agreement between the Townships of Solon and Centerville. The purpose of the newly formed fire department (effective on April 1, 2016) is to ensure that the fire department runs smoothly and meets community expectations and to ensure that the fire department is supported through a mutually agreeable and uniform funding mechanism to provide fire protection and other emergency services throughout all four Townships. The fund balance and net position of the Solon-Centerville Fire Department will be transferred into the newly formed Cedar Area Fire & Rescue with an effective date of April 1, 2016.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Solon-Centerville Fire Department**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended March 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable (Unfavorable) Final to Actual</b>
<b>Revenues</b>				
Operating Contributions	\$ 364,000	\$ 364,000	\$ 365,172	\$ 1,172
Grant Revenue	1,800	1,800	1,265	(535)
Charges for Services	76,000	76,000	64,325	(11,675)
Other Revenue	1,000	1,000	4,965	3,965
Interest Income	50	50	99	49
<b>Total Revenues</b>	<u>442,850</u>	<u>442,850</u>	<u>435,826</u>	<u>(7,024)</u>
<b>Expenditures</b>				
Ambulance Operating	273,120	273,120	269,201	3,919
Fire Operating	221,550	221,550	229,455	(7,905)
<b>Total Expenditures</b>	<u>494,670</u>	<u>494,670</u>	<u>498,656</u>	<u>(3,986)</u>
<b>Net Change in Fund Balance</b>	<b>(51,820)</b>	<b>(51,820)</b>	<b>(62,830)</b>	<b>(11,010)</b>
<i>Fund Balance at Beginning of Period</i>	185,512	185,512	185,512	--
<b>Fund Balance at End of Period</b>	<b>\$ 133,692</b>	<b>\$ 133,692</b>	<b>\$ 122,682</b>	<b>\$ (11,010)</b>

September 28, 2016

To the Board of Trustees  
Solon-Centerville Fire Department  
Leelanau County, Michigan

We have audited the financial statements of the governmental activities and the general fund of the Solon-Centerville Fire Department (the "Fire Department") for the year ended March 31, 2016. 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 23, 2016. 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 Fire Department 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 the fiscal year 2016. We noted no transactions entered into by the Fire Department 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 Fire Department's financial statements was:

Management's estimate of the current year capital asset depreciation expense is based on the estimated useful lives of the Fire Department's capital assets. We evaluated the key factors and assumptions used to develop the current year capital asset depreciation expense in determining that the depreciation expense, and ending net book value of the underlying assets, 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 each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 28, 2016.

#### *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 Fire Department'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 Fire Department'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 management's discussion and analysis and the budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of 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.

### **Communication Regarding Internal Control**

In planning and performing our audit of the financial statements of the governmental activities and the general fund of the Fire Department as of and for the year ended March 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Fire Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fire Department'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. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified deficiencies in internal control that we consider to be material weaknesses.

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 Fire Department's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies to be material weaknesses:

#### **Financial statement preparation:**

*Criteria:* All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both; (1) recording, processing, and summarizing accounting data (i.e. maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).

*Condition:* As is the case with many small and medium-sized governmental units, the Fire Department has historically relied on its independent external auditor to assist with the

preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Fire Department's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Fire Department's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Fire Department's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, auditing standards require that such conditions be communicated in writing as material weaknesses.

*Cause:* This condition was caused by the Fire Department's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Fire Department to perform this task internally because outsourcing the task is considered more cost effective.

*Effect:* The Fire Department lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

*Auditor's Recommendation:* We recommend that management continue to monitor the relative costs and benefits of securing the internal or other external resources necessary to develop prepare a draft of the Fire Department's annual financial statements versus contracting with its auditor for these services.

*Management Response:* Management has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. Management will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

#### **Lack of segregation of incompatible duties:**

*Criteria:* Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Fire Department. A key element of internal control is the segregation of incompatible duties within the accounting function.

*Condition/Finding:* The Fire Department has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include payroll, cash receipts, and accounts payable transactions.

*Cause:* This condition is a result of the limited size of the Fire Department's accounting staff.

*Effect:* As a result of this condition, the Fire Department is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.

*Auditor's Recommendation:* While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

*Management's Response:* The Fire Department concurs with this finding. The Fire Department will require appropriate sign-offs of a second responsible person for key accounting functions.

### **The Fire Department's Response to Findings**

We did not audit the Fire Department's response to the internal control findings described above and, accordingly, we express no opinion on it.

### **Restriction on Use**

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

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC  
Traverse City, MI