

**SOLON-CENTERVILLE FIRE DEPARTMENT**

**LEELANAU COUNTY, MICHIGAN**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED MARCH 31, 2014**



## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Governmental Funds Balance Sheet / Statement of Net Position	8
Statement of Governmental Funds Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities	9
<b>Notes to the Financial Statements</b>	10
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	17

## 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, 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 Fire Department as of March 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014, on our consideration of the Fire Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire Department's internal control over financial reporting and compliance.



Gabridge & Company, PLC  
Grand Rapids, Michigan  
September 29, 2014

**Solon – Centerville Fire Department  
Leelanau County, Michigan  
Management’s Discussion and Analysis**

As management of 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, 2014. 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 \$876,134 at March 31, 2014. Its change in net position was a \$44,920 decrease for the year ended March 31, 2014.
- As of the close of the current fiscal year, the Fire Department’s governmental general fund reported an ending fund balance of \$178,928, a decrease of \$3,801 in comparison with the prior year.
- The Fire Department’s total debt decreased by \$46,042 during the current fiscal year. This is the result of the Fire Department making its required scheduled debt service payments during 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.

The basic *governmental fund* financial statements and *governmental activities* financial statements can be found on pages 8 - 9 of this report.

**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.

The notes to the financial statements can be found on pages 10 - 16 of this report.

**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.

The required supplemental information can be found on page 17 of this report.

**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, 2014 and 2012:

**Solon - Centerville Fire Department  
Net Position as of March 31, 2014 and March 31, 2012**

	<b>Governmental Activities</b>	
	<u>2014</u>	<u>2012</u>
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash	\$ 175,550	\$ 157,457
Accounts Receivable	16,127	13,344
Prepaid Expenses	5,663	6,343
<b>Total Current Assets</b>	<u>197,340</u>	<u>177,144</u>
<i>Noncurrent Assets</i>		
Capital Assets Being Depreciated, Net	823,788	921,002
<b>Total Assets</b>	<u>1,021,128</u>	<u>1,098,146</u>
<b>LIABILITIES</b>		
<i>Current Liabilities</i>		
Accounts Payable	3,239	9,477
Accrued Wages & Payroll Taxes	15,173	10,690
Current Portion of Note Payable	46,162	-
<b>Total Current Liabilities</b>	<u>64,574</u>	<u>20,167</u>
<i>Noncurrent Liabilities</i>		
Note Payable	80,420	-
<b>Total Liabilities</b>	<u>144,994</u>	<u>20,167</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	697,206	921,002
Restricted	64,843	47,078
Unrestricted	114,085	109,899
<b>Total Net Position</b>	<u>\$ 876,134</u>	<u>\$ 1,077,979</u>

During the year investments in capital assets decreased to \$697,206 as a result of depreciation expense. Cash increased to \$175,550. Liabilities also increased with the acquisition of new assets and associated debt.

The following analysis highlights the changes in net position for the years ended March 31, 2014 and 2012:

**Solon - Centerville Fire Department  
Change in Net Position for Fiscal Year Ended  
March 31, 2014 and March 31, 2012**

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2012</b>
<b>Revenue</b>		
<b>Program Revenues</b>		
Operating Contributions	\$ 300,000	\$ 240,000
Charges for Services	89,680	61,075
Operating Grants	3,731	-
Capital Contributions	34,852	125,154
<b>Total Program Revenues</b>	428,263	426,229
<b>General Revenues</b>		
Other	9,600	2,479
<b>Total General Revenues</b>	9,600	2,479
<b>Total Revenues</b>	437,863	428,708
<b>Expenses</b>		
Public Safety	480,416	565,769
Interest on Long-term Debt	2,367	-
<b>Total Expenses</b>	482,783	565,769
<b>Change in Net Position</b>	(44,920)	(137,061)
<i>Net Position at Beginning of Period</i>	921,054	418,608
<b>Net Position at End of Period</b>	\$ 876,134	\$ 281,547

During the year operating contributions increased by \$60,000 due to an increase fire service contracts. Total expenditures also decreased because there were no major purchases.

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

Total revenue sources for fiscal year 2014 increased by \$2,034 (0.5%) to \$428,263. Expenditures for fiscal year 2014 increased by \$9,155 (2%) to \$437,863.

The March 31, 2014 fund balance of the general fund is \$178,928 of which \$5,663 is considered non-spendable for prepaid items and \$64,843 is restricted.



### **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 two budget exceptions as personnel & benefits expenditures of \$265,152 exceeded the budgeted amount of \$238,600. Also debt service expenditures of \$46,042 exceeded the budget of \$34,851.

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

**Capital assets** - The Fire Department's investment in capital assets as of March 31, 2014, amounted to \$823,788 (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 \$87,161. This decrease was due to depreciation expense of \$87,161.

Additional information on the Fire Department's capital assets can be found in note 4 on page 14 of this report.

**Long-term debt** - At the end of the current fiscal year, the Fire Department had long-term debt of \$126,582 outstanding.

The Fire Department's total debt decreased by \$46,042 during the current fiscal year. Additional information on the Fire Department's long-term debt can be found in note 5 on page 15 of this report.

### **Economic Condition and Outlook**

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

Management estimates that \$432,500 of revenues will be available for appropriation in the general fund in the upcoming year. The Fire Department continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2015, the Fire Department plans again to use current revenues to provide essential services and to maintain the Fire Department's financial reserves at similar levels.

### **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, 2014**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash	\$ 175,550		\$ 175,550
Accounts Receivable	16,127		16,127
Prepaid Expenses	5,663		5,663
<b>Total Current Assets</b>	<b>197,340</b>		<b>197,340</b>
<i>Noncurrent Assets</i>			
Capital Assets Being Depreciated, Net	-	(1) 823,788	823,788
<b>Total Assets</b>	<b>197,340</b>		<b>1,021,128</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	3,239		3,239
Accrued Wages and Payroll Taxes	15,173		15,173
Current Portion of Note Payable	-	(2) 46,162	46,162
<b>Total Current Liabilities</b>	<b>18,412</b>		<b>64,574</b>
<i>Noncurrent Liabilities</i>			
Note Payable	-	(2) 80,420	80,420
<b>Total Liabilities</b>	<b>18,412</b>		<b>144,994</b>
<b>FUND BALANCE</b>			
Nonspendable	5,663	(5,663)	-
Restricted	64,843	(64,843)	-
Unassigned	108,422	(108,422)	-
<b>Total Fund Balance</b>	<b>178,928</b>		
<b>Total Liabilities and Fund Balance</b>	<b>\$ 197,340</b>		
<b>NET POSITION</b>			
Net Investment in Capital Assets		697,206	697,206
<i>Restricted for:</i>			
Memorial		52,641	52,641
Equipment Acquisition		12,202	12,202
<i>Unrestricted</i>		114,085	114,085
<b>Total Net Position</b>			<b>\$ 876,134</b>

- (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 both current and long-term are reported in the statement of net position.

The Notes to the Financial Statements are an integral part of these Financial Statements

**Solon-Centerville Fire Department**  
**Statement of Governmental Funds Revenues, Expenditures, and Changes in Fund Balance /**  
**Statement of Activities**  
**For the Year Ended March 31, 2014**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Revenues</b>			
Operating Contributions	\$ 300,000		\$ 300,000
Capital Contributions	34,852		34,852
Grant Revenue	3,731		3,731
Charges for Services	89,680		89,680
Other Revenue	9,407		9,407
Interest Income	193		193
<b>Total Revenues</b>	<b>437,863</b>		<b>437,863</b>
<b>Expenditures</b>			
Public Safety	393,255	(1) 87,161	480,416
Principal	46,042	(2) (46,042)	-
Interest	2,367		2,367
<b>Total Expenditures</b>	<b>441,664</b>		<b>482,783</b>
<b>Net Change in Fund Balance / Net position</b>	<b>(3,801)</b>		<b>(44,920)</b>
<i>Fund Balance / Net Position at Beginning of Period</i>	182,729		921,054
<b>Fund Balance / Net Position at End of Period</b>	<b>\$ 178,928</b>		<b>\$ 876,134</b>

(1) In the statement of activities, a provision for depreciation of \$87,161 was recorded on the capital assets recorded in the statement of net position. In the governmental (general) fund there is no depreciation recorded.

(2) Repayment of principal on long-term debt is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. Conversely, proceeds from notes payable are reported as an other financing source in governmental (general) funds and, thus, has the effect of increasing fund balance because current financial resources have been received. For the Fire Board as a whole, however, the principal payments and note payable proceeds reduce / increase the liabilities in the statement of net position and do not result in an expense in the statement of activities.

## **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.

**Prepaid items** - Certain payments to vendors reflect costs applicable to future fiscal years and as recorded as prepaid items in both government-wide and fund financial statements.

**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.

## Solon – Centerville Fire Department

### Notes to the Financial Statements

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**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, 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 or majority vote prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution or majority vote remains in place until a similar action is taken (the adoption of another resolution or majority vote) 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.



# Solon – Centerville Fire Department

## Notes to the Financial Statements

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### 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 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, 2014. The Fire Department incurred expenditures in excess of the amounts appropriated, as follows:

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u> <u>Final to Actual</u>
Personnel & Benefits	238,600	265,152	(26,552)
Debt Service	34,851	46,042	(11,191)

### 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.

## Solon – Centerville Fire Department

### Notes to the Financial Statements

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 \$175,550, 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.

#### Note 4 - Capital Assets

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

<b>Governmental Activities</b>	<u>March 31, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>March 31, 2014</u>
Capital assets being depreciated				
Buildings & Improvements	\$ 658,000	\$ -	\$ -	\$ 658,000
Equipment	88,342	-	-	88,342
Vehicles	996,927	-	-	996,927
Total capital assets, being depreciated	<u>1,743,269</u>	<u>-</u>	<u>-</u>	<u>1,743,269</u>
Less accumulated depreciation				
Buildings & Improvements	117,471	13,160	-	130,631
Equipment	88,342	-	-	88,342
Vehicles	626,507	74,001	-	700,508
Total accumulated depreciation	<u>832,320</u>	<u>87,161</u>	<u>-</u>	<u>919,481</u>
Net capital assets being depreciated	910,949	(87,161)	-	823,788
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 910,949</u>	<u>\$ (87,161)</u>	<u>\$ -</u>	<u>\$ 823,788</u>

Depreciation expense of \$87,161 was charged to the public safety function for the year ended March 31, 2014.

#### Note 5 - Long-term Debt

In the fiscal year 2010, the Fire Department entered into lease-purchase agreement in the amount of \$157,000 to purchase a new fire truck. This lease is a five year agreement at an interest rate of 3.58% per annum with \$34,851 due every year. Final payment on this agreement is due during the fiscal year ending 2015.

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.

## Solon – Centerville Fire Department

### Notes to the Financial Statements

Long-term liability activity for the year ended March 31, 2014, was as follows:

<u>Governmental Activities</u>	<u>Balance at March 31, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at March 31, 2014</u>	<u>Due Within One Year</u>
Economic Development Revolving Loan - 2012	\$ 106,493		\$ 13,558	\$ 92,935	\$ 12,515
Installment Purchase Agreement - 2009	66,131	-	32,484	33,647	33,647
Total	<u>\$ 172,624</u>	<u>\$ -</u>	<u>\$ 46,042</u>	<u>\$ 126,582</u>	<u>\$ 46,162</u>

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

Year Ending March 31,	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 46,162	\$ 1,205	\$ 47,367
2016	12,515	-	12,515
2017	12,515	-	12,515
2018	12,515	-	12,515
2019	12,515	-	12,515
2010-2022	30,359	-	30,359
Totals	<u>\$ 126,582</u>	<u>\$ 1,205</u>	<u>\$ 127,787</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 be paid to employees. As of March 31, 2014 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.

## Solon – Centerville Fire Department

### Notes to the Financial Statements

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#### ***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.

The Plan is administered by the clerk. During the year ended March 31, 2014, the department contributed \$469 and employees contributed \$653.

#### **Note 8 - Restricted Fund Balance**

Due to outside agreements, contracts, and obligations, the following represents restricted assets that may only be used for a designated purpose:

<i>Restricted for:</i>	
Memorial Fund	\$ 52,641
Equipment Acquisition Fund	12,202
<b><i>Total</i></b>	<b><u>\$ 64,843</u></b>

#### **Note 9 - 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.

**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, 2014**

	<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	\$ 300,000	\$ 300,000	\$ 300,000	\$ --
Capital Contributions	34,850	34,850	34,852	2
Grant Revenue	--	--	3,731	3,731
Charges for Services	82,000	82,000	89,680	7,680
Other Revenue	--	--	9,407	9,407
Interest Income	--	--	193	193
<b>Total Revenues</b>	<u>416,850</u>	<u>416,850</u>	<u>437,863</u>	<u>21,013</u>
<b>Other Financing Sources</b>				
<b>Total Revenues and Other Financing Sources</b>	<u>416,850</u>	<u>416,850</u>	<u>437,863</u>	<u>21,013</u>
<b>Expenditures</b>				
Personnel & Benefits	238,600	238,600	265,152	(26,552)
Supplies	14,200	14,200	9,675	4,525
Operating Cost	54,550	54,550	52,310	2,240
Training and Preparation	12,500	12,500	8,693	3,807
Contracted Services	6,000	6,000	5,248	752
Insurance	56,000	56,000	50,486	5,514
Repairs & Maintenance	6,500	6,500	2,743	3,757
Fire Suppression & Rescue Supplies	6,300	6,300	1,315	4,985
Debt Service	34,851	34,851	46,042	(11,191)
<b>Total Expenditures</b>	<u>429,501</u>	<u>429,501</u>	<u>441,664</u>	<u>(12,163)</u>
<b>Other Financing Uses</b>				
<b>Total Expenditures and Other Financing Uses</b>	<u>429,501</u>	<u>429,501</u>	<u>441,664</u>	<u>(12,163)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>(12,651)</u>	<u>(12,651)</u>	<u>(3,801)</u>	<u>8,850</u>
<b>Net Change in Fund Balance</b>	<u>(12,651)</u>	<u>(12,651)</u>	<u>(3,801)</u>	<u>8,850</u>
<i>Fund Balance at Beginning of Period</i>	182,729	182,729	182,729	--
<b>Fund Balance at End of Period</b>	<u>\$ 170,078</u>	<u>\$ 170,078</u>	<u>\$ 178,928</u>	<u>\$ 8,850</u>

September 29, 2014

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 for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 19, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Solon - Centerville 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 ended March 31, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

### *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 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, professional standards define a disagreement with management as 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 29, 2014.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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



*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.

*Restriction of Use*

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

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

Gabridge & Company, PLC  
Grand Rapids, MI

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 29, 2014

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of Solon - Centerville Fire Department, Michigan, (the "Fire Board") as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise The Fire Board's basic financial statements, and have issued our report thereon dated September 29, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Fire Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fire Board's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC  
Grand Rapids, MI