

*Township of Solon*  
*Kent County, Michigan*

**FINANCIAL STATEMENTS**

*Year ended March 31, 2015*

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Township of Solon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the Township of Solon, Michigan, as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, as listed in the contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of the Township of Solon, Michigan, as of March 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required supplementary information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the 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.

Management has omitted the budgetary comparison information for the Fire Fund that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Siegfried Crandall P.C.*

July 6, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Solon's (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended March 31, 2015. Please read it in conjunction with the Township's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Township's total net position increased by \$281,920 (13 percent) as a result of this year's activities.
- Of the \$2,511,623 total net position reported, \$1,055,896 (42 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$584,750, which represents 75 percent of the actual total General Fund expenditures for the current fiscal year.

**Overview of the financial statements**

The Township's annual report is comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
  - Governmental funds statements explain how government services, like general government, public safety, and public works, were financed in the short-term, as well as what remains for future spending.
  - Fiduciary funds statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the government-wide financial statements for 2015 and 2014 is also presented.

**Government-wide financial statements**

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net position and how it has changed. Net position (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements present governmental activities. These activities include functions most commonly associated with government (e.g., general government, public safety, public works, library, etc.). Property taxes and state grants generally fund these services.

**Fund financial statements**

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes subject to the following criteria:

- Certain funds are required by state law.
- The Township Board establishes other funds to control and manage money for particular purposes, such as the accumulation of funds for future capital projects.

The Township has two types of funds:

- *Governmental funds.* The Township's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the Township. The Township is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purposes. The Township's fiduciary balances are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

**Net position**

Total net position at the end of the fiscal year was \$2,511,623. Of this total, \$1,422,895 represents a net investment in capital assets and \$32,832 represents equity that is restricted for public safety. Consequently, unrestricted net position was \$1,055,896.

*Condensed financial information*  
*Net position*

	<i>Governmental activities</i>	
	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 1,111,394	\$ 1,019,109
Capital assets	<u>1,422,895</u>	<u>1,429,744</u>
Total assets	<u>2,534,289</u>	<u>2,448,853</u>
Current and other liabilities	22,666	29,027
Long-term debt	<u>-</u>	<u>190,123</u>
Total liabilities	<u>22,666</u>	<u>219,150</u>
Net position:		
Net investment in capital assets	1,422,895	1,285,822
Restricted	32,832	-
Unrestricted	<u>1,055,896</u>	<u>943,881</u>
Total net position	<u>\$ 2,511,623</u>	<u>\$ 2,229,703</u>

**Changes in net position**

The Township's total revenues were \$911,679 in the current year. Nearly 51 percent of the Township's revenues comes from property taxes and 25 percent comes from state shared revenue.

The total cost of the Township's programs amounted to \$629,759. About 54 percent of the Township's costs relates to the provision of general governmental services, while public safety costs account for 27 percent. No other expense category exceeds 9 percent of the total.

*Condensed financial information  
Changes in net position*

	<i>Governmental activities</i>	
	<u>2015</u>	<u>2014</u>
Program revenues:		
Charges for services	\$ 123,704	\$ 147,948
Operating grants and contributions	23,748	7,725
Capital grants and contributions	-	53,901
General revenues:		
Property taxes	460,457	441,750
State shared revenue	232,458	155,442
Franchise fees	68,688	64,215
Interest income	2,624	2,375
	<u>911,679</u>	<u>873,356</u>
Expenses:		
General government	341,490	359,719
Public safety	168,583	152,980
Public works	44,585	45,659
Community and economic development	18,866	23,838
Recreation and culture	53,907	53,121
Interest on long-term debt	2,328	8,036
	<u>629,759</u>	<u>643,353</u>
Changes in net position	<u>\$ 281,920</u>	<u>\$ 230,003</u>
Net position, end of year	<u>\$ 2,511,623</u>	<u>\$ 2,229,703</u>

**Governmental activities**

Governmental activities increased the Township's net position by \$281,920 in the current year compared to \$230,003 in the prior year. The Township experienced a larger increase in net position during the current year, as revenues rose by \$38,323 and expenses went down by \$13,594. Revenues rose primarily due to an increase in property tax revenues related to a new levy for fire protection purposes that generated an additional \$76,748, even though capital contributions declined by \$53,901. Expenses went down primarily due to an \$18,229 decrease in general government costs associated with a decline in repair and maintenance costs.

The total cost of governmental activities this year was \$629,759. After subtracting the direct charges to those who directly benefited from the programs (\$139,929) and operating grants (\$7,523), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$482,307.

**FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS****Governmental funds**

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,045,024, an increase of \$104,443 over the prior year.

The General Fund is the primary operating fund of the Township. At the end of the fiscal year, its fund balance at year end was \$584,750, an increase of \$21,891, as revenues, transfers in, and insurance recovery, totaling \$866,412, exceeded expenditures and transfers out of \$844,521.

The Fire Fund, a new special revenue fund, has a fund balance of \$32,832 at the end of the fiscal year. A new tax levy, restricted for fire protection costs, generated revenues of \$76,748, and the Fund's expenditures amounted to \$43,916 for the period from December 1, 2014 through March 31, 2015.

The Street Fund, a capital project fund, had a fund balance of \$200,000 due to a \$50,000 transfer from the General Fund.

The Building Fund was eliminated in the current year, as it transferred its remaining fund balance of \$21,999 to the General Fund to retire the debt issued to construct the new Township hall.

The Fire Capital Fund, a capital project fund, increased by \$21,719 due to a \$20,000 transfer from the General Fund and \$1,719 in other revenues and interest. Fund balance, which is assigned for capital equipment acquisitions for the Fire Department, amounted to \$227,442 at year end.

**General Fund budgetary highlights**

The Township did not amend its General Fund budget during the fiscal year.

Total revenues were \$28,196 higher than budgeted, as virtually every revenue category exceeded expectations.

Total expenditures were \$94,349 greater than the amounts appropriated. The most significant variance involved debt service principal, which was \$160,246 more than budgeted, as the Board decided to pay off the loan used to finance the construction of the Township hall in the current year and did not amend the budget.

Other financing sources include an insurance recovery, in the amount of \$16,225, that was not anticipated in the budget, and transfers in were \$21,999 more than planned, as the equity of the Building Fund was transferred to the General Fund and used to retire the debt.

These variances resulted in a \$27,929 negative budget variance, with a \$21,891 increase in fund balance compared to a budget that anticipated a \$49,820 increase in fund balance.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital assets**

The Township's investment in capital assets for its governmental activities as of March 31, 2015, is \$1,422,895 (net of accumulated depreciation). This investment includes land, buildings, equipment, vehicles, and the Township's share of road costs. The Township's net investment in capital assets decreased by \$6,849 for the current year, as \$72,129 in asset acquisitions were offset by \$78,978 in current depreciation.

The major capital asset addition during the current fiscal year involved the following:

- The Township incurred road improvement costs of \$72,129 that were capitalized as intangible assets.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

**Debt**

The Township has no debt at the end of the year, as \$190,123 in principal payments was made to retire the debt that financed the construction of the Township hall.

More detailed information about the Township's long-term debt is presented in Note 7 of the notes to the basic financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Township plans to primarily use current revenues to provide essential services in fiscal year 2016 in order to maintain current fund balances. Expenditures are expected to increase by nominal amounts compared to fiscal year 2015. The ongoing costs of providing essential services for the citizens of the Township will again need to be monitored in order to maintain the financial condition and operational capabilities of the Township.

**CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Robert Ellick, Township Supervisor  
Township of Solon  
15185 Algoma Avenue  
Cedar Springs, MI 49319

[supervisor@solontwp.org](mailto:supervisor@solontwp.org)  
Phone: (616) 696-1718

## **BASIC FINANCIAL STATEMENTS**

*Township of Solon*

**STATEMENT OF NET POSITION**

*March 31, 2015*

	<i><b>Governmental activities</b></i>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 969,269
Receivables	105,421
Prepaid expenses	<u>8,704</u>
Total current assets	<u>1,083,394</u>
Noncurrent assets:	
Receivables	28,000
Capital assets not being depreciated	128,669
Capital assets, net of accumulated depreciation	<u>1,294,226</u>
Total noncurrent assets	<u>1,450,895</u>
Total assets	<u>2,534,289</u>
<b>LIABILITIES</b>	
Current liabilities - payables	<u>22,666</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,422,895
Restricted - public safety	32,832
Unrestricted	<u>1,055,896</u>
Total net position	<u>\$ 2,511,623</u>

*See notes to financial statements*

**STATEMENT OF ACTIVITIES**

Year ended March 31, 2015

	<u>Program revenues</u>			<i>Net (expenses) revenues and change in net position</i>
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Governmental activities</u>
<b>Functions/Programs</b>				
Governmental activities:				
General government	\$ 341,490	\$ 72,505	\$ -	\$ (268,985)
Public safety	168,583	45,469	-	(123,114)
Public works	44,585	1,420	7,523	(35,642)
Community and economic development	18,866	4,310	-	(14,556)
Recreation and culture	53,907	-	16,225	(37,682)
Interest on long-term debt	<u>2,328</u>	<u>-</u>	<u>-</u>	<u>(2,328)</u>
Total governmental activities	<u>\$ 629,759</u>	<u>\$ 123,704</u>	<u>\$ 23,748</u>	<u>\$ (482,307)</u>
General revenues:				
				460,457
				232,458
				68,688
				<u>2,624</u>
				764,227
				281,920
				<u>2,229,703</u>
				<u>\$ 2,511,623</u>

**BALANCE SHEET - governmental funds**

March 31, 2015

	<u>General</u>	<u>Special</u>	<u>Capital project funds</u>			<u>Total governmental funds</u>
		<u>revenue</u>	<u>Street</u>	<u>Building</u>	<u>Fire</u>	
		<u>Fire</u>				
<b>ASSETS</b>						
Cash	\$ 508,507	\$ 33,320	\$ 200,000	\$ -	\$ 227,442	\$ 969,269
Receivables	<u>129,508</u>	<u>3,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,421</u>
Total assets	<u>\$ 638,015</u>	<u>\$ 37,233</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 227,442</u>	<u>\$ 1,102,690</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
Liabilities - payables	<u>\$ 18,265</u>	<u>\$ 4,401</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,666</u>
Deferred inflows of resources - unavailable special assessment revenue	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,000</u>
Fund balances:						
Restricted for fire protection	-	32,832	-	-	-	32,832
Assigned for capital improvements	-	-	200,000	-	227,442	427,442
Unassigned	<u>584,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>584,750</u>
Total fund balances	<u>584,750</u>	<u>32,832</u>	<u>200,000</u>	<u>-</u>	<u>227,442</u>	<u>1,045,024</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 638,015</u>	<u>\$ 37,233</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 227,442</u>	<u>\$ 1,102,690</u>
Reconciliation of the balance sheet to the statement of net position:						
Total fund balance - total governmental funds						\$ 1,045,024
Amounts reported for <i>governmental activities</i> in the statement of net position (page 11) are different because:						
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.						1,422,895
Special assessments receivable are not available to liquidate liabilities of the current period, and, therefore, are a deferred inflow of resources in the funds.						35,000
Prepaid expenses are not a current financial resource and, therefore, are not reported in the funds.						<u>8,704</u>
Net position of <i>governmental activities</i>						<u>\$ 2,511,623</u>

Township of Solon

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended March 31, 2015

	General	Special	Capital project funds			Total
		revenue	Street	Building	Fire	governmental
		Fire				funds
<b>REVENUES</b>						
Property taxes	\$ 203,583	\$ 76,748	\$ -	\$ -	\$ -	\$ 280,331
Licenses and permits	112,932	-	-	-	-	112,932
State grants	467,980	-	-	-	-	467,980
Charges for services	20,438	-	-	-	-	20,438
Interest	8,705	-	-	-	469	9,174
Other	14,550	-	-	-	1,250	15,800
Total revenues	<u>828,188</u>	<u>76,748</u>	<u>-</u>	<u>-</u>	<u>1,719</u>	<u>906,655</u>
<b>EXPENDITURES</b>						
Current:						
General government	307,715	-	-	-	-	307,715
Public safety	103,149	43,916	-	-	-	147,065
Public works	87,757	-	-	-	-	87,757
Community and economic development	18,866	-	-	-	-	18,866
Recreation and culture	53,907	-	-	-	-	53,907
Capital outlay	5,596	-	-	-	-	5,596
Debt service:						
Principal	190,123	-	-	-	-	190,123
Interest	7,408	-	-	-	-	7,408
Total expenditures	<u>774,521</u>	<u>43,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>818,437</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>53,667</u>	<u>32,832</u>	<u>-</u>	<u>-</u>	<u>1,719</u>	<u>88,218</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Insurance recovery	16,225	-	-	-	-	16,225
Transfers in	21,999	-	50,000	-	20,000	91,999
Transfers out	(70,000)	-	-	(21,999)	-	(91,999)
Net other financing sources (uses)	<u>(31,776)</u>	<u>-</u>	<u>50,000</u>	<u>(21,999)</u>	<u>20,000</u>	<u>16,225</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>21,891</u>	<u>32,832</u>	<u>50,000</u>	<u>(21,999)</u>	<u>21,719</u>	<u>104,443</u>
<b>FUND BALANCES - BEGINNING</b>	<u>562,859</u>	<u>-</u>	<u>150,000</u>	<u>21,999</u>	<u>205,723</u>	<u>940,581</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 584,750</u>	<u>\$ 32,832</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 227,442</u>	<u>\$ 1,045,024</u>

See notes to financial statements

**Township of Solon**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - governmental funds (Continued)**

Year ended March 31, 2015

Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities:

Net change in fund balance - total governmental funds (page 14)	\$ 104,443
Amounts reported for <i>governmental activities</i> in the statement of activities (page 12) are different because:	
Capital assets:	
Assets acquired	72,129
Provision for depreciation	(78,978)
Decrease in special assessment receivable	(11,201)
Net increase in prepaid expenses	324
Principal payments on long-term debt	190,123
Decrease in accrued interest payable	<u>5,080</u>
Change in net position of <i>governmental activities</i>	<u>\$ 281,920</u>

See notes to financial statements

*Township of Solon*

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - Escrow Fund**

*March 31, 2015*

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**ASSETS**

Cash \$ 31,169

**LIABILITIES**

Escrow deposits \$ 31,169

*See notes to financial statements*

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township of Solon, Michigan (the Township), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

*Reporting entity:*

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*, these financial statements present only the Township (the primary government), located in Kent County. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and existence of a financial benefit or burden, and whether the financial statements would be misleading if data were not included. Management of the Township has determined that no other entity qualifies for inclusion as a component unit.

*Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

*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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Township.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Measurement focus, basis of accounting, and financial statement presentation (continued):*

The Township reports the following major governmental funds:

The General Fund is the Township’s primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Fire Fund, a special revenue fund, accounts for financial resources used to fund the costs of the Township's fire department. Revenues are primarily derived from property taxes.

The Fire Equipment Fund, a capital project fund, accounts for the Township’s accumulation of funds for the acquisition of fire equipment.

The Street Fund, a capital project fund, accounts for the Township’s accumulation of funds for street improvements within the Township.

The Township reports a fiduciary fund, the Escrow Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, and other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

*Assets, liabilities, deferred inflows of resources, and net position or equity:*

*Cash* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

*Receivables* - No allowance for uncollectible accounts has been recorded, as the Township considers all receivables to be fully collectible.

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

*Capital assets* - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., shared road costs and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$2,500 (\$10,000 for infrastructure) and an estimated useful life in excess of 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 at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

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

Buildings and improvements	15 - 50 years
Equipment	5 - 15 years
Vehicles	5 - 20 years
Shared road costs	20 years

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Assets, liabilities, deferred inflows of resources, and net position or equity (continued):*

*Deferred inflows of resources* - The governmental funds balance sheet includes a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The related revenues will not be recognized until a future event occurs. The Township has one item included in this category: unavailable special assessments. Special assessment revenue, which is not recognized until available (collected not later than 60 days after the end of the Township's fiscal year) is deferred and recognized as an inflow of resources in the period that the revenues become available.

*Net position* - Net position represents the difference between assets, and liabilities and deferred inflows of resources. The Township reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Township's debt. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Township.

*Net position flow assumption* - Sometimes, the Township 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 financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

*Fund equity* - Governmental funds report restricted fund balance when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Township Board retains the authority to assign fund balance. Unassigned fund balance is the residual classification for the General Fund. When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township's policy to use restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

*Property tax revenue recognition* - Property taxes are levied each December 1 (lien date) on the taxable valuation of property as of the preceding December 31. Property taxes are considered delinquent on March 1 of the following year, at which time interest and penalties are assessed. It is the Township's policy to recognize revenue from the tax levy in the current year, when the proceeds are budgeted and made available for the financing of operations.

*Use of estimates* - The preparation of financial statements in conformity with accounting principles 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 revenue and expenses during the period.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for governmental funds. The budget document presents information by fund, function, and activity. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

*Excess of expenditures over appropriations* - The following schedule sets forth the reportable budget variances:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public works	Road improvements	\$ 84,500	\$ 86,892	\$ 2,392
	Debt service	Principal	29,877	190,123	160,246

The Township did not adopt an annual budget for the Fire Fund, as required by state statute. Actual expenditures amounted to \$43,916. The fund reported a positive fund balance at March 31, 2015.

**NOTE 3 - CASH AND INVESTMENTS**

The components of cash and investments of the Township’s funds consisted of the following:

<u>Governmental activities</u>	<u>Fiduciary activity</u>	<u>Total</u>
\$ 969,269	\$ 31,169	\$ 1,000,438

*Deposits* - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Township’s investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township’s deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township’s investment policy does not specifically address custodial credit risk for deposits. At March 31, 2015, \$252,686 of the Township’s bank balances of \$1,017,353 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**NOTE 4 - RECEIVABLES**

Receivables as of March 31, 2015, for the Township's funds were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Property taxes</u>	<u>Special assessment</u>	<u>Inter governmental</u>	<u>Totals</u>
General	\$ 17,511	\$ 8,337	\$ 35,000	\$ 68,660	\$ 129,508
Fire (special revenue)	-	3,913	-	-	3,913
Total governmental funds	<u>\$ 17,511</u>	<u>\$ 12,250</u>	<u>\$ 35,000</u>	<u>\$ 68,660</u>	<u>\$ 133,421</u>
Amounts due beyond one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,000</u>	<u>\$ -</u>	<u>\$ 28,000</u>

All receivables are considered fully collectible.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2015, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 128,669	\$ -	\$ -	\$ 128,669
Capital assets being depreciated:				
Buildings and improvements	1,044,384	-	-	1,044,384
Equipment	225,017	-	-	225,017
Vehicles	204,582	-	-	204,582
Shared road costs	353,196	72,129	-	425,325
Subtotal	<u>1,827,179</u>	<u>72,129</u>	<u>-</u>	<u>1,899,308</u>
Less accumulated depreciation for:				
Buildings and improvements	(135,254)	(25,238)	-	(160,492)
Equipment	(139,939)	(11,787)	-	(151,726)
Vehicles	(164,833)	(12,996)	-	(177,829)
Shared road costs	(86,078)	(28,957)	-	(115,035)
Subtotal	<u>(526,104)</u>	<u>(78,978)</u>	<u>-</u>	<u>(605,082)</u>
Total capital assets being depreciated, net	<u>1,301,075</u>	<u>(6,849)</u>	<u>-</u>	<u>1,294,226</u>
Governmental activities capital assets, net	<u>\$ 1,429,744</u>	<u>\$ (6,849)</u>	<u>\$ -</u>	<u>\$ 1,422,895</u>

**NOTE 5 - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:		
General government	\$	28,273
Public safety		21,748
Public works		<u>28,957</u>
Total governmental activities	\$	<u>78,978</u>

**NOTE 6 - PAYABLES**

Payables as of March 31, 2015, for the Township's funds were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Totals</u>
General	\$ 8,027	\$ 10,238	\$ 18,265
Fire	<u>-</u>	<u>4,401</u>	<u>4,401</u>
Total governmental funds	<u>\$ 8,027</u>	<u>\$ 14,639</u>	<u>\$ 22,666</u>

**NOTE 7 - LONG-TERM DEBT**

In 2012, the Township issued a 4.125% \$200,000 installment purchase agreement with a local bank, due in annual installments of \$18,177 including interest, through August 2027. The loan was retired early, within penalty, in July 2014, using funds available in the General Fund.

Long-term debt activity for the year ended March 31, 2015, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current maturities</u>
Choice One Bank	<u>\$ 190,123</u>	<u>\$ -</u>	<u>\$ (190,123)</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 8 - INTERFUND TRANSFERS**

A summary of interfund transfers for the year ended March 31, 2015, is as follows:

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
General	\$ 21,999	Building	\$ 21,999
Fire Equipment	50,000		
Street	<u>20,000</u>		
	<u>70,000</u>	General	<u>70,000</u>
Totals	<u>\$ 91,999</u>		<u>\$ 91,999</u>

The transfer to the General Fund represents funds remaining in the Building Fund, a capital project fund, which funded the construction of the Township hall in prior years.

The transfer from the General Fund to the Fire Equipment Fund represents an addition to the amount being accumulated for future purchases of fire department capital assets.

The transfer from the General Fund to the Street Fund represents an addition to the amount being accumulated for future street improvements.

**NOTE 9 - TAX REVENUES**

The 2014 taxable valuation of the Township approximated \$152,400,000, on which ad valorem taxes levied consisted of 0.8245 mills for operating purposes, and .5000 mills for public safety, raising approximately \$127,000 for operating purposes and \$77,000 for public safety. These amounts are recognized in the fund financial statements as property tax revenue.

**NOTE 10 - DEFINED CONTRIBUTION PENSION PLANS**

The Township maintains two defined contribution retirement plans. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan state statutes assign the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate from the date of employment. Elected officials are covered under one plan, to which the Township contributes a minimum of either \$500 or 15% of covered salaries. Township-appointed officials and certain other employees are included under a second plan, to which the Township and employees both contribute 5% of covered salaries. The Township and employees made the required contributions of \$14,757 and \$2,089, respectively. The Township is not a trustee of the plans, nor is the Township responsible for investment management of plan assets.

**NOTE 11 - DEFERRED COMPENSATION PLAN**

The Township offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan are held in trust (custodial account or annuity contract), as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Township’s financial statements.

**NOTE 12 - CONSTRUCTION CODE ACT**

A summary of construction code enforcement transactions for the year ended March 31, 2015, is as follows:

Cumulative excess revenues, beginning of year	<u>\$ -</u>
Revenues	\$ 43,784
Expenses	<u>(44,074)</u>
Deficiency of revenues over expenses	<u>\$ (290)</u>
Cumulative excess revenues, end of year	<u>\$ -</u>

**NOTE 13 - JOINT VENTURE**

The Township, along with six other municipalities, is a participant in the Cedar Springs Area Parks and Recreation Board (the Board) under the provisions of Public Act 156 of 1917. The governing body of the Board consists of members appointed by each participating unit. The Board was formed for the purpose of providing recreation services to the citizens of its member municipalities. The inter-local agreement governing the joint venture does not convey to its members an explicit interest in the assets of the joint venture.

Costs of operations and capital asset acquisitions of the Board are supported by contributions from the member municipalities and fees from recreation programs. During the year ended March 31, 2015, the Township contributed \$4,000 to the Board.

The Township is unaware of any indication that the Board is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit or burden on the Township in the near future. Separate financial statements are issued for the Board and may be obtained from the Cedar Springs Parks and Recreation Board.

**NOTE 14 - RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers’ compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 15 - PENDING ACCOUNTING PRONOUNCEMENT**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for periods beginning after June 15, 2014. This Statement generally carries forward the requirements of Statement No. 27 for employer accounting and financial reporting for defined contribution plans. In this Statement, the definition of defined contribution pensions, as well as the accounting requirements for such pensions, includes provisions to accommodate circumstances in which the timing of payments into individual accounts does not coincide with the period of employee service to which defined contributions pertain (as when a nonvested employee accumulates credits for which the employer delays payment into the employee's account until vesting provisions have been satisfied). This Statement also establishes requirements to address accounting for forfeitures. The Statement also enhances accountability and transparency through revised note disclosures. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning April 1, 2015.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Township of Solon**

**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended March 31, 2015

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 202,267	\$ 202,267	\$ 203,583	\$ 1,316
Licenses and permits	105,485	105,485	112,932	7,447
State grants	459,850	459,850	467,980	8,130
Charges for services	22,295	22,295	20,438	(1,857)
Interest	6,015	6,015	8,705	2,690
Other	<u>4,080</u>	<u>4,080</u>	<u>14,550</u>	<u>10,470</u>
Total revenues	<u>799,992</u>	<u>799,992</u>	<u>828,188</u>	<u>28,196</u>
<b>EXPENDITURES</b>				
General government:				
Legislative	6,950	6,950	7,274	(324)
Supervisor	32,816	32,816	29,944	2,872
Elections	9,850	9,850	6,372	3,478
Assessor	44,220	44,220	46,970	(2,750)
Clerk	34,920	34,920	34,370	550
Board of review	950	950	800	150
Treasurer	37,035	37,035	35,616	1,419
Hall and grounds	50,880	50,880	38,778	12,102
Cemetery	9,995	9,995	9,034	961
Other	<u>113,830</u>	<u>113,830</u>	<u>98,557</u>	<u>15,273</u>
Total general government	<u>341,446</u>	<u>341,446</u>	<u>307,715</u>	<u>33,731</u>
Public safety:				
Fire department	67,308	67,308	59,075	8,233
Construction code inspections	<u>45,885</u>	<u>45,885</u>	<u>44,074</u>	<u>1,811</u>
Total public safety	<u>113,193</u>	<u>113,193</u>	<u>103,149</u>	<u>10,044</u>
Public works:				
Road improvements and maintenance	84,500	84,500	86,892	(2,392)
Street lighting	<u>900</u>	<u>900</u>	<u>865</u>	<u>35</u>
Total public works	<u>85,400</u>	<u>85,400</u>	<u>87,757</u>	<u>(2,357)</u>
Community and economic development -				
planning and zoning	<u>30,256</u>	<u>30,256</u>	<u>18,866</u>	<u>11,390</u>

Township of Solon

**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2015

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>EXPENDITURES (Continued)</b>				
Recreation and culture:				
Parks and recreation	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
Historical society	4,000	4,000	4,000	-
Library	<u>46,000</u>	<u>46,000</u>	<u>45,907</u>	<u>93</u>
Total recreation and culture	<u>54,000</u>	<u>54,000</u>	<u>53,907</u>	<u>93</u>
Capital outlay	<u>17,700</u>	<u>17,700</u>	<u>5,596</u>	<u>12,104</u>
Debt service:				
Principal	<u>29,877</u>	<u>29,877</u>	<u>190,123</u>	<u>(160,246)</u>
Interest	<u>8,300</u>	<u>8,300</u>	<u>7,408</u>	<u>892</u>
Total expenditures	<u>680,172</u>	<u>680,172</u>	<u>774,521</u>	<u>(94,349)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>119,820</u>	<u>119,820</u>	<u>53,667</u>	<u>(66,153)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recovery	<u>-</u>	<u>-</u>	<u>16,225</u>	<u>16,225</u>
Transfers in - Building Fund	<u>-</u>	<u>-</u>	<u>21,999</u>	<u>21,999</u>
Transfers out:				
Fire Fund	(20,000)	(20,000)	(20,000)	-
Street Fund	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Total transfers out	<u>(70,000)</u>	<u>(70,000)</u>	<u>(70,000)</u>	<u>-</u>
Net other financing uses	<u>(70,000)</u>	<u>(70,000)</u>	<u>(31,776)</u>	<u>38,224</u>
<b>NET CHANGES IN FUND BALANCES</b>	49,820	49,820	21,891	(27,929)
<b>FUND BALANCES - BEGINNING</b>	<u>562,859</u>	<u>562,859</u>	<u>562,859</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 612,679</u>	<u>\$ 612,679</u>	<u>\$ 584,750</u>	<u>\$ (27,929)</u>

July 6, 2015

To the Board of Trustees  
Township of Solon

We have audited the financial statements of the governmental activities, each major fund, and the remaining fund information of the Township of Solon for the year ended March 31, 2015. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, 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 February 24, 2015. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Solon are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2015. We noted no transactions entered into by the Township of Solon 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 financial statements was capital asset depreciation.

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

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Audit Adjustments*

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

#### *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 July 6, 2015.

#### *Other Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Solon's auditor. 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 schedule, 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 response 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. Management has omitted the budgetary comparison information for the Fire Fund that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

#### **Communication Regarding Internal Control**

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the remaining fund information of the Township of Solon as of and for the year ended March 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Solon'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 Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 identified a deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 Township's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Township of Solon's internal control, which is a repeat finding, to be a material weakness:

Material audit adjustments and 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:* We identified and proposed material audit adjustments that management reviewed and approved. Adjustments were recorded to:

- Create a new special revenue fund for the fire protection millage
- Convert the fund-based data necessary to prepare the government-wide financial statements.

As is the case with many small and medium-sized governmental units, the Township 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 Township'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 Township'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 Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses.

*Cause:* This condition was caused by the Township'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 Township to perform this task internally because outsourcing the task is considered more cost effective.

*Effect:* The Township's accounting records were initially misstated by amounts material to the financial statements. In addition, the Township 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 material adjustments and prepare a draft of the Township'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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Township of Solon's internal control to be a significant deficiency:

Statutory noncompliance regarding adoption of a budget for the Fire Fund:

*Criteria:* The Township Board is required, by State statute, to adopt a budget for its General Fund and all special revenue funds.

*Condition:* The Board did not adopt a budget for its Fire Fund, a special revenue fund.

*Effect:* As a result of this condition, the Township has not complied with State statutes concerning budgeting.

*Cause:* A voter approved millage for fire protection services was approved during the fiscal year, which required the creation of a special revenue fund. A separate budget was not adopted for the 2015 activity of this new special revenue fund.

*Auditor's Recommendation:* As required by State statute, the Township should adopt budgets for its General Fund and all special revenue funds in future years.

*Management Response:* Management was unaware of the requirement to adopt a budget for the new special revenue fund, as the Township had no special revenue funds in prior years. Management intends to adopt a budget for the Fire Fund for the fiscal year ending March 31, 2016, as soon as possible.

We did not audit the Township of Solon's response to the internal control finding described above and, accordingly, we express no opinion on it.

This information is intended solely for the use of the Board of Trustees of the Township of Solon and the State of Michigan Department of Treasury and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.