

City of Watervliet, Michigan

**Financial Report
with Supplemental Information
June 30, 2009**

City of Watervliet, Michigan

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Independent Auditor's Report

To the City Commission
City of Watervliet, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Watervliet, Michigan (the "City") as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Watervliet, Michigan's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Watervliet, Michigan as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Commission
City of Watervliet, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

November 23, 2009

City of Watervliet, Michigan

Management's Discussion and Analysis

Within this section of the City of Watervliet's (the "City") annual financial report, the City management presents a narrative and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. This discussion focuses on the City's primary government.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2009:

- The last phase of the water system improvement project was completed during the year and involved the purchase and installation of 100 electronic meters. The cost of the final phase was approximately \$40,000 which was subsidized with the remaining USDA loan proceeds.
- Total net assets related to the City's governmental activities decreased by approximately \$83,000. Total net assets related to the City's business-type activities increased by approximately \$35,000, for a total City-wide decrease of approximately \$48,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

City of Watervliet, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Summary Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Assets						
Current assets	\$ 889,688	\$ 925,669	\$ 493,490	\$ 486,887	\$ 1,383,178	\$ 1,412,556
Noncurrent assets	<u>1,034,559</u>	<u>1,108,848</u>	<u>3,764,459</u>	<u>3,733,900</u>	<u>4,799,018</u>	<u>4,842,748</u>
Total assets	1,924,247	2,034,517	4,257,949	4,220,787	6,182,196	6,255,304
Liabilities						
Current liabilities	81,151	112,787	36,618	15,979	117,769	128,766
Long-term liabilities	<u>107,891</u>	<u>103,082</u>	<u>2,478,000</u>	<u>2,497,000</u>	<u>2,585,891</u>	<u>2,600,082</u>
Total liabilities	<u>189,042</u>	<u>215,869</u>	<u>2,514,618</u>	<u>2,512,979</u>	<u>2,703,660</u>	<u>2,728,848</u>
Net Assets						
Invested in capital assets -						
Net of related debt	913,293	990,205	949,645	1,027,181	1,862,938	2,017,386
Restricted	334,447	346,963	-	-	334,447	346,963
Unrestricted	<u>487,465</u>	<u>481,480</u>	<u>793,686</u>	<u>680,627</u>	<u>1,281,151</u>	<u>1,162,107</u>
Total net assets	<u>\$ 1,735,205</u>	<u>\$ 1,818,648</u>	<u>\$ 1,743,331</u>	<u>\$ 1,707,808</u>	<u>\$ 3,478,536</u>	<u>\$ 3,526,456</u>

The City's combined net assets decreased slightly from a year ago - from \$3,526,456 to \$3,478,536. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities net assets decreased by approximately 4.5 percent, while the business activities net assets increased by approximately 2 percent.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$6,000 for the governmental activities. This represents an increase of approximately 1.2 percent. The current level of unrestricted net assets for our governmental activities stands at \$487,465, or about 40 percent of expenditures. This is within the targeted range set by the City during its last budget process.

City of Watervliet, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

Summary Condensed Statement of Operations

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenue						
Program revenue:						
Charges for services	\$ 101,439	\$ 111,383	\$ 627,584	\$ 625,780	\$ 729,023	\$ 737,163
Operating grants and contributions	126,291	124,247	-	-	126,291	124,247
Capital grants and contributions	19,894	26,670	-	-	19,894	26,670
General revenue:						
Property taxes	564,105	565,445	-	-	564,105	565,445
State-shared revenue	237,847	230,244	-	-	237,847	230,244
Unrestricted investment earnings	10,558	28,580	7,436	18,998	17,994	47,578
Transfers and other revenue	60,894	61,502	127,095	-	187,989	61,502
Total revenue	1,121,028	1,148,071	762,115	644,778	1,883,143	1,792,849
Program Expenses						
General government	485,972	323,006	-	-	485,972	323,006
Public safety	299,980	358,046	-	-	299,980	358,046
Public works	365,791	422,889	-	-	365,791	422,889
Parks and recreation	52,728	50,423	-	-	52,728	50,423
Water and sewer	-	-	726,592	637,711	726,592	637,711
Total program expenses	1,204,471	1,154,364	726,592	637,711	1,931,063	1,792,075
Change in Net Assets	\$ (83,443)	\$ (6,293)	\$ 35,523	\$ 7,067	\$ (47,920)	\$ 774

Governmental Activities

The City's total governmental revenues decreased approximately 2.4 percent during the year. The change in revenue is primarily attributed to the decrease in investment earnings.

Expenses increased by about 4.3 percent during the year. Significant increases were seen in the general government. To offset these increased costs, the City closely monitored its spending in all other areas, including seasonal hiring and overtime spending. In addition to this, the City opted to continue the use of part-time labor to assist with service delivery in both the police and public works departments. Through the use of part-time labor, the City is able to control benefit costs related to full-time employment, while maintaining the quantity/quality of our services.

City of Watervliet, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Funds.

We provide water services through a locally owned and operated water system, which consists of three wells, a network of underground piping, and a water tower. During the year, new electronic meters were installed on a number of residences within the City as part of the water system improvement project.

We provide sewage treatment through a jointly owned and operated sewage treatment plant. In January 1971, the cities and townships of Coloma and Watervliet agreed to jointly acquire, own, and operate a sewage treatment and disposal facility. As part of the agreement, the board was established to control, manage, and operate the joint sewage facility. The board consists of two appointed representatives from each of the four municipalities. Ownership of the infrastructure passed to the municipalities in May 1993 when the related construction debt was retired.

The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as Act 51 street money. The City's major funds for 2009 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Capital Projects Fund, and the City's two Enterprise Funds - the Water and Sewer Funds.

The General Fund pays for most of the City's governmental services. The most significant are police and public services, which incurred expenses of approximately \$445,000 in 2009. These two services are mostly supported by the City's operating tax millage and state-shared revenue.

General Fund Budgetary Highlights

The City amended the budget to take into account events during the fiscal year. Total budgeted revenue was decreased slightly, taking into consideration actual property tax collections. Total budgeted expenditures were increased due to an anticipated increase in City administration and public works costs, as well as police services.

Capital Asset and Debt Administration

At the end of the fiscal year, the City had total bonded outstanding debt of \$2,478,000. The debt is backed by the full faith and credit of the City (general obligation and revenue bonds) with the debt service fully funded by the Sewer and Water Funds.

City of Watervliet, Michigan

Management's Discussion and Analysis (Continued)

At the end of 2009, the City had approximately \$7 million of gross costs (\$4.3 million net of depreciation) invested in a broad range of capital assets, including buildings, police equipment, and water and sewer lines. During 2009, the City invested an additional \$13,000 in governmental capital assets. These additions were paid for by General Fund surplus and did not require any additional debt financing.

Economic Factors and Next Year's Budgets and Rates

The City of Watervliet, Michigan is facing serious challenges. Rising costs of insurance and constant reductions in state-shared revenue are just two of these challenges. For the current fiscal year (2009-2010), the City is taking steps to address these issues while maintaining quality service delivery. The City is focused on continuing to provide the services that residents have come to depend on (e.g., 24-hour police coverage, snow plowing, water/sewer services, up-to-date park system, a thriving local community, etc.) while recognizing the local budget constraints. As part of the planning process, the City has focused on several key items that greatly impact the local budget. Some of these highlights are addressed below:

- The State of Michigan's economy has continued to struggle and has forced the continued reductions in state-shared revenue. As a result of this, the City's portion of state-shared revenue has been reduced consistently and dramatically during the past years.
- The cost of providing hospitalization insurance coverage to the City's full-time staff has been, and will continue to be, a major portion of the City's General Fund spending. The rising costs of health care are a nationwide issue, affecting both private and public organizations.
- The taxable value for the City of Watervliet, Michigan is a primary concern for elected and appointed officials. With the growth of the community's taxable value, the City will further develop its resources and aid in an effort to improve services. Throughout the previous year, and continuing into the current year, the City is working on several projects that should aid in the further development of the City's taxable value, while aiding in the creation of jobs and providing resources to members of the community. Two examples of this growth are found in the City's sale of an estimated 22 acres of property located along the Paw Paw River several years ago. This property, and the adjacent acreage, is currently being developed and will hold 73 single-family homes. This development will represent an estimated \$10 million addition to the community's taxable value. Also, the City is working with a local developer on the mixed use development of roughly 154 acres located along Interstate 94. This project began in 2007 and has brought a new hotel and commercial outlets to the area. The project is expected to continue in 2010, bringing new homes and other commercial developments.

City of Watervliet, Michigan

Management's Discussion and Analysis (Continued)

Management's Comments

Further reductions in the State of Michigan's shared revenue, as a result of the declines experienced in the state of Michigan's economy, were an anticipated reality in this fiscal year and are expected to continue for the coming year. As a result of these reductions, the City has been forced to create a leaner budget that reflects the fiscal reality. This budgeting has forced the reduction in overtime spending for various governmental services along with an increased use of part-time labor to assist with service delivery.

Contacting the City's Management

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

The City encourages questions and/or comments from concerned citizens. For more information on the projects and programs in which the City is currently involved, please visit the City's website at: www.watervliet.org.

City of Watervliet, Michigan

Statement of Net Assets June 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash and investments (Note 3)	\$ 634,386	\$ 527,266	\$ 1,161,652	\$ 52,206
Customer receivables	-	152,993	152,993	-
Other receivables	-	-	-	32,688
Internal balances	186,769	(186,769)	-	-
Due from other governmental units	51,703	-	51,703	-
Prepaid expenses and other	16,830	-	16,830	-
Capital assets - Net (Note 4):				
Assets not subject to depreciation	221,342	13,500	234,842	-
Assets subject to depreciation	691,951	3,414,145	4,106,096	-
Investment in redevelopment property	92,558	-	92,558	-
Investment in joint ventures	28,708	336,814	365,522	-
Total assets	1,924,247	4,257,949	6,182,196	84,894
Liabilities				
Accounts payable	55,689	18,583	74,272	3,575
Accrued and other liabilities	25,462	18,035	43,497	-
Noncurrent liabilities - Due within one year (Note 6):				
Accrued compensated absences	15,333	-	15,333	-
Long-term debt	-	62,000	62,000	-
Due in more than one year - Long-term debt	92,558	2,416,000	2,508,558	-
Total liabilities	189,042	2,514,618	2,703,660	3,575
Net Assets				
Invested in capital assets - Net of related debt	913,293	949,645	1,862,938	-
Restricted for streets and highways	334,447	-	334,447	-
Unrestricted	487,465	793,686	1,281,151	81,319
Total net assets	\$ 1,735,205	\$ 1,743,331	\$ 3,478,536	\$ 81,319

City of Watervliet, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 485,972	\$ 85,099	\$ -	\$ 19,894
Public safety	299,980	16,340	-	-
Public works	365,791	-	126,291	-
Parks and recreation	52,728	-	-	-
Total governmental activities	1,204,471	101,439	126,291	19,894
Business-type activities:				
Water	366,772	353,481	-	-
Sewer	359,820	274,103	-	-
Total business-type activities	726,592	627,584	-	-
Total primary government	<u>\$ 1,931,063</u>	<u>\$ 729,023</u>	<u>\$ 126,291</u>	<u>\$ 19,894</u>
Component unit - Downtown Development Authority	<u>\$ 33,578</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes
 State-shared revenues
 Interest income
 Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2009

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Downtown Development Authority
\$ (380,979)	\$ -	\$ (380,979)	\$ -
(283,640)	-	(283,640)	-
(239,500)	-	(239,500)	-
(52,728)	-	(52,728)	-
(956,847)	-	(956,847)	-
-	(13,291)	(13,291)	-
-	(85,717)	(85,717)	-
-	(99,008)	(99,008)	-
(956,847)	(99,008)	(1,055,855)	-
-	-	-	(33,578)
564,105	-	564,105	44,109
237,847	-	237,847	-
10,558	7,436	17,994	243
60,894	127,095	187,989	12,000
873,404	134,531	1,007,935	56,352
(83,443)	35,523	(47,920)	22,774
1,818,648	1,707,808	3,526,456	58,545
<u>\$ 1,735,205</u>	<u>\$ 1,743,331</u>	<u>\$ 3,478,536</u>	<u>\$ 81,319</u>

City of Watervliet, Michigan

Governmental Funds Balance Sheet June 30, 2009

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Total Governmental Funds
Assets					
Cash	\$ 27,600	\$ 53,592	\$ 23,486	\$ 4,988	\$ 109,666
Investments	184,447	250,215	-	90,058	524,720
Due from other governmental units	32,366	13,916	5,421	-	51,703
Due from other funds	300,029	2,353	-	55,000	357,382
Other assets	16,830	-	10	-	16,840
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 561,272</u>	<u>\$ 320,076</u>	<u>\$ 28,917</u>	<u>\$ 150,046</u>	<u>\$ 1,060,311</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 49,012	\$ 6,677	\$ -	\$ -	\$ 55,689
Accrued and other liabilities	25,462	10	-	-	25,472
Due to other funds	57,353	-	7,859	105,401	170,613
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	131,827	6,687	7,859	105,401	251,774
Fund Balance - Unreserved and undesignated	<u>429,445</u>	<u>313,389</u>	<u>21,058</u>	<u>44,645</u>	808,537
Total liabilities and fund balance	<u>\$ 561,272</u>	<u>\$ 320,076</u>	<u>\$ 28,917</u>	<u>\$ 150,046</u>	

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds	913,293
Investments in joint ventures and redevelopment property are not reported in the funds	121,266
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(107,891)</u>
Net assets of governmental activities	<u>\$ 1,735,205</u>

City of Watervliet, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2009

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Total Governmental Funds
Revenue					
Property taxes	\$ 564,105	\$ -	\$ -	\$ -	\$ 564,105
Federal sources	78,683	-	-	-	78,683
State sources	239,450	92,822	33,469	-	365,741
Licenses and permits	13,384	-	-	-	13,384
Fines and forfeitures	1,353	-	-	-	1,353
Interest income	4,316	4,792	69	1,381	10,558
Rental income	71,565	-	-	-	71,565
Other	68,745	3,060	-	-	71,805
Total revenue	1,041,601	100,674	33,538	1,381	1,177,194
Expenditures					
General government	464,268	-	-	2,434	466,702
Public safety	292,470	-	-	-	292,470
Public works	187,069	83,921	62,807	-	333,797
Parks and recreation	29,781	-	-	-	29,781
Total expenditures	973,588	83,921	62,807	2,434	1,122,750
Excess (Deficiency) of Revenue Over Expenditures	68,013	16,753	(29,269)	(1,053)	54,444
Other Financing Sources (Uses)					
Transfers in	-	-	31,740	-	31,740
Transfers out	-	(31,740)	-	-	(31,740)
Total other financing sources (uses)	-	(31,740)	31,740	-	-
Net Change in Fund Balance	68,013	(14,987)	2,471	(1,053)	54,444
Fund Balance - Beginning of year	361,432	328,376	18,587	45,698	754,093
Fund Balance - End of year	\$ 429,445	\$ 313,389	\$ 21,058	\$ 44,645	\$ 808,537

City of Watervliet, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 54,444
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(58,789)
Investments in joint ventures are not financial resources and are not reported in the funds	2,623
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Current year capital additions	13,059
Current year allocation of depreciation	(86,488)
Gain/Loss on disposal of assets	(3,483)
Increase in accumulated employee vacation pay is recorded when earned in the statement of activities	<u>(4,809)</u>
Change in Net Assets of Governmental Activities	<u>\$ (83,443)</u>

City of Watervliet, Michigan

Proprietary Funds Statement of Net Assets June 30, 2009

	Sewer Fund	Water Fund	Total Enterprise Funds
Assets			
Current assets:			
Cash	\$ 94,425	\$ 432,841	\$ 527,266
Customer receivables - Net	68,648	84,345	152,993
Total current assets	163,073	517,186	680,259
Noncurrent assets:			
Capital assets	537,694	2,889,951	3,427,645
Investment in joint venture	336,814	-	336,814
Total noncurrent assets	874,508	2,889,951	3,764,459
Total assets	1,037,581	3,407,137	4,444,718
Liabilities			
Current liabilities:			
Accounts payable	16,258	2,325	18,583
Accrued and other liabilities	992	17,043	18,035
Due to other funds	147,133	39,636	186,769
Current portion of long-term debt	35,000	27,000	62,000
Total current liabilities	199,383	86,004	285,387
Noncurrent liabilities - Long-term debt -			
Net of current portion	-	2,416,000	2,416,000
Total liabilities	199,383	2,502,004	2,701,387
Net Assets			
Investment in capital assets - Net of related debt	502,694	446,951	949,645
Unrestricted	335,504	458,182	793,686
Total net assets	\$ 838,198	\$ 905,133	\$ 1,743,331

City of Watervliet, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2009

	Sewer Fund	Water Fund	Total Enterprise Funds
Operating Revenue			
Sewage disposal charges	\$ 274,103	\$ -	\$ 274,103
Sale of water	-	352,554	352,554
Other	-	927	927
Total operating revenue	<u>274,103</u>	<u>353,481</u>	<u>627,584</u>
Operating Expenses			
Cost of sewage treatment	319,472	-	319,472
Cost of water produced	-	150,171	150,171
Depreciation	38,136	95,918	134,054
Total operating expenses	<u>357,608</u>	<u>246,089</u>	<u>603,697</u>
Operating (Loss) Income	(83,505)	107,392	23,887
Nonoperating Revenue (Expense)			
Interest income	1,965	5,471	7,436
Interest expense	(2,212)	(120,683)	(122,895)
Increase in investment in joint venture	127,095	-	127,095
Total nonoperating revenue (expense)	<u>126,848</u>	<u>(115,212)</u>	<u>11,636</u>
Change in Net Assets	43,343	(7,820)	35,523
Net Assets - Beginning of year	<u>794,855</u>	<u>912,953</u>	<u>1,707,808</u>
Net Assets - End of year	<u><u>\$ 838,198</u></u>	<u><u>\$ 905,133</u></u>	<u><u>\$ 1,743,331</u></u>

City of Watervliet, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2009

	Sewer Fund	Water Fund	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 279,109	\$ 353,469	\$ 632,578
Payments to suppliers	(262,737)	(73,112)	(335,849)
Payments to employees	(53,233)	(76,965)	(130,198)
Net cash (used in) provided by operating activities	(36,861)	203,392	166,531
Cash Flows from Noncapital Financing Activities -			
Loans received from other funds - Net of repayments	12,133	17,660	29,793
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	-	(37,518)	(37,518)
Proceeds from the issuance of long-term debt	-	37,000	37,000
Principal and interest paid on capital debt	(32,212)	(129,640)	(161,852)
Net cash used in capital and related financing activities	(32,212)	(130,158)	(162,370)
Cash Flows from Investing Activities - Interest received on investments	1,965	5,471	7,436
Net (Decrease) Increase in Cash	(54,975)	96,365	41,390
Cash - Beginning of year	149,400	336,476	485,876
Cash - End of year	<u>\$ 94,425</u>	<u>\$ 432,841</u>	<u>\$ 527,266</u>
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities			
Operating (loss) income	\$ (83,505)	\$ 107,392	\$ 23,887
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation	38,136	95,918	134,054
Changes in assets and liabilities:			
Receivables	5,006	(12)	4,994
Accounts payable	5,010	94	5,104
Accrued and other liabilities	(1,508)	-	(1,508)
Net cash (used in) provided by operating activities	<u>\$ (36,861)</u>	<u>\$ 203,392</u>	<u>\$ 166,531</u>

Noncash Investing, Capital, and Financing Activities - During the year, the City had no noncash investing, capital, or financing activities.

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Watervliet, Michigan (the "City") 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 City of Watervliet, Michigan:

Reporting Entity

The City of Watervliet, Michigan is governed by an elected seven-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Unit - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to encourage growth within the downtown district. The Authority's governing body, which consists of seven individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission. A separate financial statement is not prepared for the Downtown Development Authority.

Jointly Governed Organizations - The City, along with Watervliet Township, Coloma Charter Township, and the City of Coloma, is a participant in a joint venture to provide sanitary sewage treatment and collection facilities for the residents of these communities. The Paw Paw Lake Regional Joint Sewage Disposal Board was created for this purpose. The City's equity interest in the amount of \$336,814 is recorded in business-type activities on the government-wide financial statements. Complete financial statements for the board can be obtained from the City of Watervliet's mayor's office.

The City, along with Watervliet Township, is also a member of the Watervliet Joint Fire Board. The Fire Board was created to provide fire protection services to residents of these two municipalities. The City has no defined equity interest in the Fire Board. The Fire Board levies property taxes to the City and Township residents to fund annual operations. Complete financial statements for the Fire Board can be obtained from the City's mayor's office.

Note I - Summary of Significant Accounting Policies (Continued)

The City is a participant with Watervliet Township in a joint venture to provide for the administration and operations of the cemetery. The Watervliet City/Township Cemetery Board was formed for this purpose. The City contributed \$5,000 to the cemetery and has an equity interest in the amount of \$28,708 recorded in governmental activities in the government-wide financial statements. Complete financial statements for the cemetery can be obtained from the City's mayor's office.

The City is also a participant with Watervliet Township in a joint venture to operate a local airport. The Watervliet Joint Airport Board was created for this purpose. The City's equity interest is not significant and is not recorded in the City's financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

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, as are the proprietary fund and component unit financial statements. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a “deferred revenue” liability.

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. When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, the City has chosen to first apply restricted resources.

The City reports the following major governmental funds:

General Fund - The General Fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Streets Fund - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Projects Fund - The Capital Projects Fund accounts for funds that have been set aside to fund future capital expenditures for the City's governmental activities.

The City reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue 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 revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2008 tax is levied and collectible on December 1, 2008 and is recognized as revenue in the year ended June 30, 2009, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2008 taxable valuation of the City totaled approximately \$30 million (a portion of which is captured by the DDA), on which taxes levied consisted of 16.9389 mills for operating purposes and 2.9106 mills for police protection. This resulted in approximately \$485,000 for operating and \$83,000 for police protection. These amounts are recognized in the General Fund's financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. 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.

Note I - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	25 years
Utility systems	10 to 40 years
Buildings	25 to 40 years
Equipment	4 to 10 years
Improvements	15 years
Vehicles	5 years

Investment in Redevelopment Property - The City, Watervliet Township, and Berrien County entered into an agreement to help demolish and redevelop certain property within the City and the Township. The agreement allows the County to work toward redevelopment, incurring costs on behalf of the City, which is due to the County upon completion of the project and/or expiration of the Renaissance Zone designation in 2012. The City's obligation is reduced by the proceeds of property sales. If the County does not recover its costs by the sale of properties before 2012, the City will be responsible for the balance. The City has recorded an investment and obligation in the amount of \$92,558 at June 30, 2009.

Compensated Absences (Vacation Leave) - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond 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.

City of Watervliet, Michigan

Notes to Financial Statements June 30, 2009

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since July 1, 2005 is as follows:

Shortfall at July 1, 2008		\$ (30,359)
Current year building permit revenue	\$ 9,565	
Related expenses - Direct costs	<u>16,777</u>	
Current year shortfall		<u>(7,212)</u>
Accumulated shortfall at June 30, 2009		<u>\$ (37,571)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices 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; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures 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 that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The City has designated three banks for the deposit of its funds. The investment policy adopted by the Commission in accordance with Public Act 196 of 1997 has authorized investments in all vehicles listed above, except for commercial paper.

The City of Watervliet, Michigan's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$343,500 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Watervliet, Michigan

Notes to Financial Statements June 30, 2009

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2008	Additions	Disposals	Balance June 30, 2009
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 221,342	\$ -	\$ -	\$ 221,342
Capital assets being depreciated:				
Roads and sidewalks	217,334	-	-	217,334
Buildings	195,056	1,200	-	196,256
Vehicles	288,701	-	-	288,701
Land improvements	305,381	1,990	-	307,371
Equipment	647,234	9,869	35,220	621,883
Subtotal	1,653,706	13,059	35,220	1,631,545
Accumulated depreciation:				
Roads and sidewalks	27,169	8,693	-	35,862
Buildings	130,308	2,544	-	132,852
Vehicles	254,254	13,213	-	267,467
Improvements	98,064	19,275	-	117,339
Equipment	375,048	42,763	31,737	386,074
Subtotal	884,843	86,488	31,737	939,594
Net capital assets being depreciated	768,863	(73,429)	3,483	691,951
Net capital assets	<u>\$ 990,205</u>	<u>\$ (73,429)</u>	<u>\$ 3,483</u>	<u>\$ 913,293</u>
Business-type Activities				
Capital assets not being depreciated -				
Land	\$ 13,500	\$ -	\$ -	\$ 13,500
Capital assets being depreciated:				
Utility systems	4,938,680	-	-	4,938,680
Buildings and improvements	75,600	-	-	75,600
Equipment	54,183	37,518	-	91,701
Subtotal	5,068,463	37,518	-	5,105,981
Accumulated depreciation:				
Utility systems	1,445,894	124,947	-	1,570,841
Buildings and improvements	58,209	1,291	-	59,500
Equipment	53,679	7,816	-	61,495
Subtotal	1,557,782	134,054	-	1,691,836
Net capital assets being depreciated	3,510,681	(96,536)	-	3,414,145
Net capital assets	<u>\$ 3,524,181</u>	<u>\$ (96,536)</u>	<u>\$ -</u>	<u>\$ 3,427,645</u>

City of Watervliet, Michigan

Notes to Financial Statements June 30, 2009

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:		
General government		\$ 21,399
Public safety		12,101
Public works		30,041
Recreation and culture		<u>22,947</u>
	Total governmental activities	<u>\$ 86,488</u>
Business-type activities:		
Water		\$ 95,918
Sewer		<u>38,136</u>
	Total business-type activities	<u>\$ 134,054</u>

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 39,636
General Fund	Sewer Fund	147,133
General Fund	Capital Improvement Fund	105,401
General Fund	Local Streets Fund	7,859
Capital Improvement Fund	General Fund	55,000
Major Streets Fund	General Fund	<u>2,353</u>
	Total	<u>\$ 357,382</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Watervliet, Michigan

Notes to Financial Statements June 30, 2009

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Detail of Interfund Transfers

Fund Providing Resources	Fund Receiving Resources	Amount
Major Streets Fund	Local Streets Fund	<u>\$ 31,740</u>

The transfer from the Major Streets Fund to the Local Streets Fund represents the use of unrestricted resources to finance programs, in accordance with budgetary authorizations.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
County contractual obligation:						
Amount of issue: \$100,000						
Maturing in 2012						
	-	\$ 92,558	\$ -	\$ -	\$ 92,558	\$ -
Other liabilities - Compensated absences						
	-	10,524	4,809	-	15,333	15,333
Total governmental activities		<u>\$ 103,082</u>	<u>\$ 4,809</u>	<u>\$ -</u>	<u>\$ 107,891</u>	<u>\$ 15,333</u>
Business-type Activities						
General obligation bonds:						
Amount of issue: \$360,000						
Maturing through 2010						
	8.50%	\$ 65,000	\$ -	\$ 30,000	\$ 35,000	\$ 35,000
Revenue bonds:						
Amount of issue: \$2,500,000						
Maturing through 2046						
	4.25%	2,432,000	37,000	26,000	2,443,000	27,000
Total business-type activities		<u>\$ 2,497,000</u>	<u>\$ 37,000</u>	<u>\$ 56,000</u>	<u>\$ 2,478,000</u>	<u>\$ 62,000</u>

City of Watervliet, Michigan

Notes to Financial Statements June 30, 2009

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ -	\$ -	\$ -	\$ 62,000	\$ 103,743	\$ 165,743
2011	-	-	-	28,000	102,680	130,680
2012	92,558	-	92,558	29,000	101,490	130,490
2013	-	-	-	30,000	100,258	130,258
2014	-	-	-	32,000	98,983	130,983
2015-2019	-	-	-	180,000	473,408	653,408
2020-2024	-	-	-	221,000	431,843	652,843
2025-2029	-	-	-	273,000	380,673	653,673
2030-2034	-	-	-	336,000	317,518	653,518
2035-2039	-	-	-	414,000	239,785	653,785
2040-2044	-	-	-	511,000	143,863	654,863
2045-2047	-	-	-	362,000	31,238	393,238
Total	\$ 92,558	\$ -	\$ 92,558	\$ 2,478,000	\$ 2,525,482	\$ 5,003,482

The City has pledged substantially all revenue of the Water Fund, net of operating expenses, to repay the above water revenue bond. Proceeds from the bond provided financing for improvements to the water system. The bond is payable solely from the net revenues of the water system. The remaining principal and interest to be paid on the bond approximate \$4,950,000. During the current year, net revenues of the system were \$107,392, compared to the annual debt requirements of \$129,640. The debt service requirements for upcoming fiscal years can be seen in the table above.

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee life and disability, and participates in the Michigan Municipal League risk pool for property, general liability, medical, and workers' compensation claims.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Upcoming Accounting Pronouncement

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011.

Required Supplemental Information

City of Watervliet, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 600,000	\$ 564,105	\$ 564,105	\$ -
Federal sources	59,107	66,683	78,683	12,000
State sources	235,000	234,398	239,450	5,052
Licenses and permits	16,400	12,124	13,384	1,260
Fines and forfeitures	2,000	1,353	1,353	-
Interest income	4,500	3,750	4,316	566
Rental income	84,600	84,680	71,565	(13,115)
Other	34,650	57,418	68,745	11,327
	<u>1,036,257</u>	<u>1,024,511</u>	<u>1,041,601</u>	<u>17,090</u>
Total revenue				
Expenditures				
General government:				
City Commission	11,027	15,760	15,755	5
City manager	12,383	11,197	9,429	1,768
Mayor	3,377	3,549	3,534	15
Elections	3,439	2,182	2,181	1
Contracted services	-	1,000	-	1,000
Assessor	18,015	16,201	15,048	1,153
Clerk's office	50,466	67,132	52,612	14,520
Treasurer	12,699	23,533	23,531	2
Board of Review	1,427	1,707	1,707	-
Hall and grounds	44,958	26,474	26,687	(213)
Planning and zoning	1,311	1,600	2,359	(759)
Insurance	256,882	264,684	183,221	81,463
Administration	86,850	101,570	101,497	73
Other	9,000	15,708	26,707	(10,999)
	<u>511,834</u>	<u>552,297</u>	<u>464,268</u>	<u>88,029</u>
Total general government				

City of Watervliet, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Public safety:				
Police	\$ 265,869	\$ 273,243	\$ 258,266	\$ 14,977
Ambulance	10,000	9,500	8,515	985
Inspection	21,317	18,067	16,777	1,290
Crossing guard	4,381	9,496	8,912	584
Total public safety	301,567	310,306	292,470	17,836
Parks and recreation	16,974	30,298	29,781	517
Public works	210,182	219,446	187,069	32,377
Total expenditures	1,040,557	1,112,347	973,588	138,759
Net Change in Fund Balance	(4,300)	(87,836)	68,013	155,849
Fund Balance - Beginning of year	361,432	361,432	361,432	-
Fund Balance - End of year	\$ 357,132	\$ 273,596	\$ 429,445	\$ 155,849

City of Watervliet, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Major Streets Fund Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 103,904	\$ 93,584	\$ 92,822	\$ (762)
Interest income	9,000	4,005	4,792	787
Other	9,000	3,100	3,060	(40)
Total revenue	121,904	100,689	100,674	(15)
Expenditures				
Street construction	70,000	35,741	8,625	27,116
Routine maintenance	17,598	23,198	29,136	(5,938)
Trees and shrubs	1,334	1,334	279	1,055
Traffic services	1,250	2,213	1,947	266
Winter maintenance	20,796	17,914	23,890	(5,976)
Administrative	21,880	21,977	20,044	1,933
Total expenditures	132,858	102,377	83,921	18,456
Excess of Revenue Over (Under) Expenditures	(10,954)	(1,688)	16,753	18,441
Other Financing Uses - Transfers to other funds	26,722	31,740	31,740	-
Net Change in Fund Balance	(37,676)	(33,428)	(14,987)	18,441
Fund Balance - Beginning of year	328,376	328,376	328,376	-
Fund Balance - End of year	<u>\$ 290,700</u>	<u>\$ 294,948</u>	<u>\$ 313,389</u>	<u>\$ 18,441</u>

City of Watervliet, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Local Streets Fund Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 36,200	\$ 33,502	\$ 33,469	\$ (33)
Interest income	400	80	69	(11)
Other	2,000	-	-	-
Total revenue	38,600	33,582	33,538	(44)
Expenditures				
Street construction	-	2,820	2,820	-
Routine maintenance	42,614	41,611	39,695	1,916
Traffic services	600	440	88	352
Winter maintenance	16,725	14,996	14,997	(1)
Administrative	5,383	5,520	5,207	313
Total expenditures	65,322	65,387	62,807	2,580
Excess of Expenditures Over Revenue	(26,722)	(31,805)	(29,269)	2,536
Other Financing Sources - Transfers from other funds	26,722	31,740	31,740	-
Net Change in Fund Balance	-	(65)	2,471	2,536
Fund Balance - Beginning of year	18,587	18,587	18,587	-
Fund Balance - End of year	<u>\$ 18,587</u>	<u>\$ 18,522</u>	<u>\$ 21,058</u>	<u>\$ 2,536</u>

City of Watervliet, Michigan

Note to Required Supplemental Information June 30, 2009

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget		Actual
General Fund - Other	\$ 15,708	\$	26,707
Major Streets - Routine maintenance	23,198		29,136
Major Streets - Winter maintenance	17,914		23,890

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*

To the City Commission
City of Watervliet

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watervliet as of and for the year ended June 30, 2009, which collectively comprise the City of Watervliet's basic financial statements, and have issued our report thereon dated November 23, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Watervliet's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Watervliet's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Watervliet's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following deficiency to be a significant deficiency in internal control:

To the City Commission
City of Watervliet, Michigan

Payroll

During our testing of employee compensation, it came to our attention that timecards are not reviewed or approved for administrative employees, including the individuals responsible for processing payroll. In addition, there is no review performed by management or the finance committee of the payroll registers ensuring the amounts paid are reasonable and properly recorded. We recommend timecards be reviewed and approved for all employees and the payroll register be reviewed in conjunction with the signing of the payroll checks.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the following deficiencies constitute material weaknesses:

Cash and Investments

During our audit, we noted the following deficiencies related to the internal controls surrounding cash:

In relation to cash collections, amounts are collected throughout the week and recorded within the general ledger and then deposited on an as-needed basis. At the time of deposit, a reconciliation is not being performed between the amount deposited, the daily receipts slips, and the amount recorded within the general ledger system. We recommend that the cash collected be recorded daily and a reconciliation be performed between the cash collected, the daily receipts, the amount recorded within the general ledger, and the bank deposit.

In relation to the collection and disbursement of property taxes, the treasurer is responsible for the recording and disbursement of property taxes collected, as well as reconciling the related bank accounts. The bank reconciliation is not independently reviewed. The treasurer also has the ability to post manual journal entries within the general ledger. In addition, the responsibilities of recording cash receipts related to general revenues (state-shared revenue, grant payments, etc.) as well as generating accounts payable disbursements and performing wire transfers were also given to the treasurer in the current year. While the treasurer has the responsibility of overseeing the investments of the City, investment laws require a quarterly reporting of the investments to the City Commission. We did not note any documented review of the investments held by the City Commission or finance committee.

The risks associated with the lack of segregation of duties identified above were magnified as bank reconciliations were not performed for most of the year which resulted in multiple audit adjustments to cash. Risks are further magnified by the fact that passwords for the general ledger software are being shared between employees, essentially giving all administrative employees rights to all fund balance modules.

To the City Commission
City of Watervliet, Michigan

It is recommended that bank statements, including those for the investments held, be reviewed and reconciled on a monthly basis. These reconciliations should then be reviewed by a second individual. In addition, it is recommended that the number of individuals with access to the general ledger be limited to appropriate personnel and individual employee passwords be kept confidential.

Accounts Payable

During our testing of accounts payable, it was noted the account had not been reconciled during the year which led to a significant audit adjustment. In addition, we identified several expenditures that were recorded within the incorrect fiscal year. In the future, we recommend a thorough review be performed of all disbursements made in June as well as the months subsequent to year end to ensure the related expenditures are recorded in the proper period.

Control Over Manual Journal Entries

Due to the turnover in personnel during the year, the manual journal entries posted to the general ledger were initiated and entered by multiple individuals. We found that these entries were not reviewed by a second individual. To strengthen internal controls surrounding general ledger adjustments, we recommend that a process be implemented in which a separate individual (or possibly the finance committee) reviews all manual journal entries posted in the general ledger on a monthly basis, including the supporting documentation for those entries.

Customer Receivables

During our testing of customer receivables, we noted the receivable balances recorded within the general ledger of the Water and Sewer Funds were not reconciled with the amounts shown on the utility billing system during the year, which resulted in an audit adjustment. It was also noted that multiple billing adjustments were recorded throughout the year for which supporting documentation was not available. In addition, the billing registers for the first two quarters of the fiscal year were unable to be located. In order to strengthen the controls in this area, it is recommended that a reconciliation process for the water and sewer receivable accounts be established. An approval process for water and sewer adjustments, as well as ensuring adequate support for each adjustment is maintained, is also recommended.

Audit Adjustments

Significant required adjustments were identified by Plante & Moran, PLLC during the audit and corrected via the recording of adjusting journal entries. These necessary adjustments impacted numerous accounts and funds of the City.

To the City Commission
City of Watervliet, Michigan

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Watervliet in a separate letter dated November 23, 2009.

This report is intended solely for the information and use of management, the City Council, others within the City, the State of Michigan, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Morse, PLLC

November 23, 2009

City of Watervliet, Michigan

Report to the City Commission

June 30, 2009



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To the City Commission
City of Watervliet

We have recently completed our audit of the basic financial statements of the City of Watervliet (the "City") for the year ended June 30, 2009. In addition to our audit report, we are providing the following letter of increased audit communications, recommendations, and informational comments which impact the City:

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Results of the Audit	2-4
Other Recommendations	5-6
Informational	7-9

We are grateful for the opportunity to be of service to the City of Watervliet. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

November 23, 2009

Results of the Audit

November 23, 2009

To the City Commission
City of Watervliet

We have audited the financial statements of the City of Watervliet for the year ended June 30, 2009 and have issued our report thereon dated November 23, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 26, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Watervliet. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the City of Watervliet's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the City of Watervliet's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated November 23, 2009 regarding our consideration of the City of Watervliet's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the City of Watervliet, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on September 28, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Watervliet are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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. Material misstatements detected as a result of audit procedures were corrected by management related to the increase in the investment in the Paw Paw Lake Regional Joint Sewage Disposal Board, recording the USDA bond activity, accruing interest payable on the USDA bond, allocating health insurance expense to the appropriate funds, and adjusting cash to actual amounts held by the City.

Disagreements with Management

For the purpose 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 November 23, 2009.

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 City'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

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

This information is intended solely for the use of the City commission and management of the City of Watervliet and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Kenley G. Penner, CPA
Partner

Other Recommendations

We identified the following items that may be of value to the City:

- As members of the governing body and management of the City of Watervliet, you are well aware of the fiscal challenges facing local governments throughout the state of Michigan. The fiscal challenges range from avoiding a budget shortfall, to the uncertainty surrounding state-shared revenues, to concerns surrounding increased taxes and reduced services. Unfortunately, the challenges do not end there; the demand for services continues to rise, creating a strain on local governments to do more with fewer resources as revenues are not projected to increase in the foreseeable future. In light of the challenges facing local governments, an opportunity has been created to evaluate and prioritize local government services and projects, identify cost reduction opportunities, and implement a fiscal sustainability planning process.

We recommend that over the course of the next year, the City Commission and management work together to evaluate the fiscal sustainability of the City. To be effective, the evaluation process should include the following:

- An assessment of the City's current financial condition
- Identification of anticipated capital outlay expenditures over the next five years
- Evaluation of the importance, cost, and value added for each department
- Development of a five-year financial forecast which includes evaluating potential additional revenue and cost-saving opportunities

We have tools available to assist throughout the evaluation and planning process and are happy to offer suggestions along the way.

- During the audit, it was noted that documentation supporting a wage increase for a nonunion employee was not kept in the individual's personnel file. In the future, we recommend that pay increases be documented, signed by the employee's supervisor or a commission member, and kept on file.
- As a result of our audit procedures, we found that neither the City Commission nor the finance committee reviews the investments held by the City. Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. We recommend the City Commission review required reports on a quarterly basis. The reports should list investments by institution along with maturity dates, interest rates, and year-to-date interest income.

Informational

Revenue Sharing

As you are aware, the legislature has been working to pass the State's budget for fiscal year 2009-2010. The budget deadline (September 30) came and went and there was not a final agreement on the budget. As a result, a continuation budget was passed to get the State through the next 30 days. There is discussion that the legislature may look for additional revenues to restore some of the cuts that had been passed by both the Senate and the House (but not signed into law by the governor), including significant cuts to revenue sharing for local governments.

It appears that the total revenue-sharing payments (constitutional and statutory) will be reduced by an overall factor of 11.06 percent if the budgets that came out of conference are ultimately enacted. The constitutional portion is expected to decrease based on the May 2009 revenue-estimating conference from \$649 million to \$621 million (about 4 percent). The statutory portion is expected to be cut from \$388 million to \$314 million (about 19 percent).

Communities that no longer receive the statutory portion will see a decline of about 4 percent. Those that still have statutory revenue sharing will see a much larger decline. The 11.06 percent that is being reported is the total amount of the cut, but the specific cuts will vary widely by community. We encourage you to continue to budget very conservatively when it comes to revenue sharing because a long-term solution to the State's structural deficit has not yet been identified.

Property Tax Developments

Many communities in Michigan are continuing to face the challenges inherent in the real estate market decline given the effects of Proposal A. Some communities are seeing a decline in overall taxable value this year - many will see similar or greater declines in future years. The impact on each community and over what period of time will vary. The one constant, however, is that there will be an impact that each community will need to consider come budget time.

Many of the bills related to property taxes pending at the end of the 2008 Michigan legislative session have subsequently died with the changeover in the legislature after the November 2008 election. However, a few of those bills have been reintroduced. One series of bills that is worthy of specific mention is the re-introduction of the concept of the "super-cap" legislation from last year.

Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have been reminded, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values).

Because many property owners feel it is unfair to see their taxable value increase in a declining market, a third variable, called “change in market value,” was proposed last year to be added to the Proposal A formula.

Under the legislation introduced last year, the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would have been changed to the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. This measure passed the House in 2008 but did not advance further.

In January 2009, several versions of this legislation were introduced which reinstate a similar constitutional amendment. Such a change would ultimately need to be approved by the voters before it can be enacted.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Streets Fund (MSF) to their Local Streets Fund (LSF) at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local streets systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Streets Fund and the Local Streets Fund if certain conditions are met.

In the current instructions to the Act 51 reports, MDOT has stipulated that these transfers from the MSF to the LSF will not be allowed after December 31, 2008, except to the extent matched by local revenues expended by the city or village of the major street system. It is unclear whether the actual legislation that allows this transfer (MCL Section 247.663(12) of PA 51 of 1951, as amended) is set to expire at the end of the year. Local governmental units should, however, be aware of this potential sunset and take appropriate action prior to December 31, 2008 to make transfers that are allowable through this date.