

CITY OF SAUGATUCK, MICHIGAN

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2008	\$ 1,170,730	\$ 1,242,158	\$ 71,428	94%	\$ 161,763	44%
12/31/2009	1,206,830	1,292,495	85,665	93%	359,038	24%
12/31/2010	1,268,387	1,359,695	91,308	93%	380,376	24%

CITY OF SAUGATUCK, MICHIGAN

**Combining Schedule of Balance Sheet Accounts by Activity
General Fund**

June 30, 2011

	<u>General Fund</u>	<u>Business Licenses</u>	<u>Parks</u>	<u>Total General Fund</u>
Assets				
Cash and cash equivalents	\$ 1,151,125	\$ 1,265	\$ 228,292	\$ 1,380,682
Investments	117,460	-	-	117,460
Receivables	26,443	-	-	26,443
Total assets	<u>\$ 1,295,028</u>	<u>\$ 1,265</u>	<u>\$ 228,292</u>	<u>\$ 1,524,585</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 38,221	\$ 1,265	\$ 2,890	\$ 42,376
Accrued liabilities	25,323	-	-	25,323
Total liabilities	<u>63,544</u>	<u>1,265</u>	<u>2,890</u>	<u>67,699</u>
Fund balances				
Committed	325,000	-	-	325,000
Unassigned	906,484	-	225,402	1,131,886
Total fund balances	<u>1,231,484</u>	<u>-</u>	<u>225,402</u>	<u>1,456,886</u>
Total liabilities and fund balances	<u>\$ 1,295,028</u>	<u>\$ 1,265</u>	<u>\$ 228,292</u>	<u>\$ 1,524,585</u>

CITY OF SAUGATUCK, MICHIGAN

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances by Activity
General Fund**

For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Business Licenses</u>	<u>Parks</u>	<u>Total General Fund</u>
Revenues				
Taxes	\$ 1,523,948	\$ -	\$ -	\$ 1,523,948
Licenses and permits	66,715	-	-	66,715
Intergovernmental revenue	3,579,725	-	-	3,579,725
Charges for services	298,044	-	-	298,044
Fines and forfeitures	30,925	-	-	30,925
Interest and rentals	61,775	31	3,919	65,725
Other revenue	20,098	-	-	20,098
Total revenues	<u>5,581,230</u>	<u>31</u>	<u>3,919</u>	<u>5,585,180</u>
Expenditures				
Current:				
General government	386,386	-	-	386,386
Legislative	81,960	-	-	81,960
Public safety	615,592	-	-	615,592
Public works	276,555	16,914	-	293,469
Recreation and culture	362,665	-	7,430	370,095
Debt service:				
Principal	46,000	-	-	46,000
Interest	3,065	-	-	3,065
Capital outlay	3,537,512	-	-	3,537,512
Total expenditures	<u>5,309,735</u>	<u>16,914</u>	<u>7,430</u>	<u>5,334,079</u>
Revenues over (under) expenditures	271,495	(16,883)	(3,511)	251,101
Other financing uses				
Transfers out	<u>(160,843)</u>	-	-	<u>(160,843)</u>
Net changes in fund balances	110,652	(16,883)	(3,511)	90,258
Fund balances, beginning of year	<u>1,120,832</u>	<u>16,883</u>	<u>228,913</u>	<u>1,366,628</u>
Fund balances, end of year	<u>\$ 1,231,484</u>	<u>\$ -</u>	<u>\$ 225,402</u>	<u>\$ 1,456,886</u>

CITY OF SAUGATUCK, MICHIGAN

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2011

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	
	<u>Major Streets</u>	<u>Sewer Debt</u>	<u>Streetscape</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 135,596	\$ 49,173	\$ -	\$ 184,769
Receivables	8,509	26	-	8,535
Total assets	<u>\$ 144,105</u>	<u>\$ 49,199</u>	<u>\$ -</u>	<u>\$ 193,304</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 615	\$ -	\$ -	\$ 615
Accrued liabilities	711	-	-	711
Total liabilities	1,326	-	-	1,326
Fund balances				
Restricted	142,779	49,199	-	191,978
Total liabilities and fund balances	<u>\$ 144,105</u>	<u>\$ 49,199</u>	<u>\$ -</u>	<u>\$ 193,304</u>

CITY OF SAUGATUCK, MICHIGAN

**Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds**

For the Year Ended June 30, 2011

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	
	<u>Major Streets</u>	<u>Sewer Debt</u>	<u>Streetscape</u>	<u>Total</u>
Revenues				
Taxes	\$ -	\$ 264,594	\$ -	\$ 264,594
Intergovernmental revenue	111,340	-	-	111,340
Interest and rentals	391	379	6,190	6,960
Total revenues	<u>111,731</u>	<u>264,973</u>	<u>6,190</u>	<u>382,894</u>
Expenditures				
Current:				
Public works	178,317	1,100	-	179,417
Debt service:				
Principal	-	100,000	-	100,000
Interest	-	161,995	-	161,995
Capital outlay	-	-	617,160	617,160
Total expenditures	<u>178,317</u>	<u>263,095</u>	<u>617,160</u>	<u>1,058,572</u>
Revenues over (under) expenditures	(66,586)	1,878	(610,970)	(675,678)
Other financing sources				
Transfers in	145,617	-	-	145,617
Net change in fund balances	79,031	1,878	(610,970)	(530,061)
Fund balances, beginning of year	63,748	47,321	610,970	722,039
Fund balances, end of year	<u>\$ 142,779</u>	<u>\$ 49,199</u>	<u>\$ -</u>	<u>\$ 191,978</u>



Rehmann Robson
2330 East Paris Ave., SE
Grand Rapids, MI 49546
Ph: 616.975.4100
Fx: 616.975.4400
www.rehmann.com

September 19, 2011

Honorable Mayor and Members of
the City Council
City of Saugatuck, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Saugatuck* (the "City") for the year ended June 30, 2011, and have issued our report thereon dated September 19, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated August 1, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform 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. Such considerations were 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on July 12, 2011.

Significant Results of the Audit

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 are described in Note 1 to the financial statements. Other than the adoption of GASB Statement No. 54, which is described in Note 9 to the financial statements, no other accounting policies were adopted and the application of existing policies was not changed during the year. 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.

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 estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. The following significant unusual accounting transactions occurred during the year:

- During 2011, the City was awarded a \$3.5 million grant from the State of Michigan to purchase land. This was recorded in general fund intergovernmental revenue and capitalized on the government-wide statements. The City was also the recipient of a \$2.1 million donation from private parties to purchase land. This was recorded as a capital contribution in the recreation and culture function on the government-wide financial statements.

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 to communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, as noted in Finding 2011-1 in Attachment A, we proposed various audit adjustments, all of which were recorded by management, and which had a material effect on the City's financial reporting process.

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 attached management representation letter dated September 19, 2011.

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 entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

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

Very truly yours,

Rehmann Johnson

City of Saugatuck

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

In planning and performing our audit of the financial statements of the City of Saugatuck (the "City") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

Material Weaknesses

We consider the following deficiencies in internal control over financial reporting to be material weaknesses:

Finding 2011-1 – Preparation of Financial Statements in Accordance with GAAP/ Material Audit Adjustments Material Weakness in Internal Control over Financial Reporting

Criteria. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's 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 books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition. As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process.

City of Saugatuck

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

In addition, material audit adjustments were necessary to record:

- Transfers received from the General Fund in to the Local Streets Fund
- Additional payable amounts in the Local Streets Fund

Accordingly, the government's ability to prepare general purpose external financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause. This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect. As a result of this condition, the government's accounting records were initially misstated by an amount material to the financial statements of the General and Local Streets Funds. Further, the government lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. The material audit adjustment was related to transfer entries incorrectly posted in the current year and one invoice that was not properly accrued to the current year. The related correcting entries have been reviewed and approved by management, and no further corrective action is required at this time.

View of Responsible Officials. The government has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the proposed journal entries, draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2011-2 – Segregation of Incompatible Duties Material Weakness in Internal Control over Financial Reporting

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

Condition. The City has several transaction cycles that are performed by the same individual or are not subject to independent review and approval, including: (1) responsibilities for payroll accounting are not separated from the general ledger function, (2) after payroll is processed, there is no comparison of approved timesheets to the payroll register for accuracy, (3) an authorized signer on the bank account is also responsible for printing checks and performing the monthly bank review and reconciliation, (4) cash deposit are made by an individual who is also responsible for posting receipts and preparing deposit slips, (5) bank accounts are not reconciled by individuals

City of Saugatuck

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

independent of cash receipts and disbursements functions, or consistently reviewed by an independent employee, (6) maintenance of the receivable subsidiary ledger is not independent of general ledger maintenance, and (7) there is no overall review of deposits to the subsidiary detail and to the amount posted to the general ledger by an independent employee.

Cause. This condition is the result of staffing constraints typical of smaller governmental units.

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

Recommendation. There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the City to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the City's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

Other Matters

Council Approval of Disbursements

The City's disbursement policy allows certain routine invoices to be paid prior to Council approval in order to expedite payment. However, the policy states that such disbursements should then be submitted to and approved by the Council at a subsequent meeting. As part of our audit, we compared the disbursements made during the month of April 2011 to the list of invoices submitted to and approved by the Council. Based on our review, it appears that certain recurring payments (such as utility bills) are not routinely presented to the Council for review and approval, even after the fact. Furthermore, there is not currently a process to ensure that non-routine disbursements (such as those paid by ACH/wire, rather than by check) are presented to the Council. In order to more fully comply with State law and the City's own policies, we recommend that the Council receive copies of all completed check registers, along with a separate log of any ACH/wire payments made since the last Council meeting.

* * * * *

City of Saugatuck
Attachment B - Schedule of Adjustments Passed (SOAP)
For the June 30, 2011 Audit

In accordance with the provisions of SAS 107, *Audit Risk and Materiality*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 107, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures
General Fund					
Prior year effect of unrecorded accrued interest on certificate of deposit - 2009, net of 2010 amount. (Corrected in 2011.)	\$ -	\$ -	\$ (3,309)	\$ 3,309	\$ -
Major Streets Fund					
Prior year effect of underrecorded revenue related to the road maintenance millage. (Corrected in 2011.)	\$ -	\$ -	\$ (2,715)	\$ 2,715	\$ -
Governmental Activities					
Sum of items above	\$ -	\$ -	\$ (6,024)	\$ 6,024	\$ -



September 19, 2011

Rehmann Robson
2330 East Paris Ave
Grand Rapids, 49546

We are providing this letter in connection with your audit of the financial statements of the *City of Saugatuck* as of June 30, 2011 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund of the City of Saugatuck and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of September 19, 2011, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We are in agreement with the adjusting journal entries you have proposed, and they have been posted.



6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations.
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
12. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
13. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
 - b. Guarantees, whether written or oral, under which the City is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.



14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

15. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.

16. As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

17. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

18. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

20. The financial statements properly classify all funds and activities.



21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
23. Provisions for uncollectible receivables have been properly identified and recorded.
24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
28. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
29. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

A handwritten signature in cursive script, appearing to read 'Kirk Harrier', written over a horizontal line.

Kirk Harrier, City Manager

A handwritten signature in cursive script, appearing to read 'Peter Stanislawski', written over a horizontal line.

Peter Stanislawski, City Treasurer

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2011

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

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Rehmann Robson
2330 East Paris Ave., SE
Grand Rapids, MI 49546
Ph: 616.975.4100
Fx: 616.975.4400
www.rehmann.com

INDEPENDENT AUDITORS' REPORT

October 13, 2011

Honorable Mayor and Members of
the City Council
City of the Village of Douglas, Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of the Village of Douglas, Michigan*, (the "City") as of and for the year ended June 30, 2011, 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'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 discretely presented component unit, each major fund and the aggregate remaining fund information of the City as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-7 and the historical supplementary information for the Employees' Retirement Systems are not required parts of the basic financial statements but are supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the City's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF THE VILLAGE OF DOUGLAS

Management's Discussion and Analysis

June 30, 2011

As management of the City of the Village of Douglas, we offer readers of the City of the Village of Douglas's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2011. Please read it in conjunction with the City's financial statements.

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, 2011:

- Additional emphasis placed on investing in certificate of deposits covered by FDIC insurance; however interest income decreased from the previous years as a result of the stock market falling.
- The Major Street and Local Street Funds both receive ACT 51 funding from the State of Michigan. However, the ACT 51 funding only covers about 40% and 28% of the operating expenditures for the Major Street and Local Street Funds respectively. In order for these funds to maintain a positive fund balance they are both significantly supported with monies from the General Fund.
- Property tax revenues increased approximately \$8,000 from the prior year and General Fund expenditures decreased approximately \$110,000.
- Total governmental fund balances increased by \$832,927 including \$569,833 in the General Fund.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued interest on long-term debt).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community and economic development, and recreation and culture.

The government-wide financial statements include not only the City itself (known as the primary government), but also legally separate component units for which the City is financially accountable. The City's component unit is the Downtown Development Authority. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 7-9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City reports 7 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Major Streets Funds, each of which are considered to be major funds. Data from the other 5 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein for all major funds to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 10-16 of this report.

Proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statement can be found on page 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-35 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 37-40 of this report.

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2011 and 2010, respectively.

	Governmental Activities	
	2011	2010
Assets		
Current & other assets	\$ 3,657,821	\$ 2,963,298
Capital assets	5,567,057	5,776,267
Total assets	9,224,878	8,739,565
Liabilities		
Current liabilities	88,437	318,417
Long-term liabilities	981,484	400,308
Total liabilities	1,069,921	718,725
Net Assets		
Invested in capital assets net of related debt	4,867,939	5,360,358
Restricted	754,300	497,889
Unrestricted	2,532,718	2,162,593
	\$ 8,154,957	\$ 8,020,840

The City's total net assets were \$8,154,957 at June 30, 2011, representing an increase of \$134,117 from the prior year. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$2,532,718 at the end of the fiscal year, representing an increase of \$370,125 from the prior year.

The following table shows the changes in net assets during the prior year and current year, respectively.

	Governmental Activities	
	2011	2010
Revenue		
Program revenue		
Charges for services	\$ 626,107	\$ 632,313
Operating grants & contributions	152,139	159,069
Capital grants & contributions	122,586	128,805
General revenue		
Property taxes	1,823,754	1,815,691
State shared revenue	83,116	82,294
Investment earnings	15,140	27,078
Other revenues	31,426	36,772
Total revenue	2,854,268	2,882,022

	Governmental Activities	
	2011	2010
Program Expenses		
General government	\$ 749,854	\$ 606,299
Public safety	843,915	985,780
Public works	810,775	777,822
Community & economic development	164,215	162,451
Recreation & culture	124,156	117,786
Interest on long-term debt	27,236	17,975
Total expenses	<u>2,720,151</u>	<u>2,668,113</u>
 Change in net assets	 134,117	 213,909
 Net assets, beginning of year	 <u>8,020,840</u>	 <u>7,806,931</u>
 Net assets, end of year	 <u>\$ 8,154,957</u>	 <u>\$ 8,020,840</u>

Governmental Activities

The City's governmental revenues totaled \$2,854,268, which represents a decrease of \$27,754 from the prior year, with the greatest revenue source being property taxes. Property taxes make up approximately 64 percent of total governmental revenue. Over the past few years, state shared revenue has declined as well as investment earnings. The significant decline in investment earnings is the result of drastic decreases in certificate of deposit rates.

The City incurred governmental expenses of \$2,720,151, which represents an increase of \$52,038 from the prior year. The largest area of governmental expense is the public safety function which showed a decrease in expenses. The public safety function provides services to both the City of the Village of Douglas and the City of Saugatuck. The second highest area of governmental expense is the public works function which maintains roads and parks including snow removal.

The net assets of the governmental activities increased by \$134,177.

The City's Funds - Fund Level Financial Statements

The General Fund pays for most of the City's governmental services. The most significant services provided by the General Fund during the fiscal year were public safety and general government. General government includes City Hall and grounds and other City services provided. Public safety includes the police department for both the City of the Village of Douglas and the City of Saugatuck. The General Fund incurred expenditures for public safety and general government of \$827,039 and \$481,546 respectively, for the fiscal year ending June 30, 2011.

The Major Street Fund generates revenue from state revenue received from ACT 51. However, the money received from the state to plow the roads in the winter and to maintain the roads only covers about 1/3 of the cities expenditures in this fund. The significant remaining portions of expenditures are covered by transfers from the General Fund every year.

General Fund Budgetary Highlights

The City underestimated budgeted revenue by \$160,667 and expended \$409,166 less than budgeted expenditures for the General Fund for fiscal year ending June 30, 2011. The General Fund's expenditures for general government, public works, and public safety were under budget by \$137,508, \$77,268 and \$92,064 respectively. The City's General Fund, after budget amendments, was budgeted for no change in fund balance and fund balance actually increased by \$569,833. The General Fund had budgeted monies for some projects that were not completed in the fiscal year ending June 30, 2011 creating the large budget variances.

Capital Asset and Debt Administration

At the end of the fiscal year, the City had \$5,567,057 invested in a broad range of capital assets, including buildings, land, equipment, and infrastructure. The city incurred depreciation expense of \$432,769 for the current fiscal year. Additional information on the City's capital assets can be found in Note 4 on pages 29-30 of this report.

During the current year the City paid \$41,791 in principal on installment purchase debt. The City has \$981,484 of long-term debt outstanding as of June 30, 2011, including \$78,428 of accumulated compensated absences. Of the \$981,484 of outstanding long-term debt, \$353,709 is expected to be paid within the next fiscal year. The City issued new capital improvement bonds during the fiscal year of \$325,000. Additional information on the City's long-term debt can be found in Note 6 on page 31 of this report.

Current Economic Factors

The State of Michigan is experiencing significant budget problems, and as they look for solutions, revenue sharing continues to be cut for municipalities. The ACT 51 revenue that the City receives from the state for Major and Local Street Funds is insufficient to cover the required costs just to maintain the roads. This requires money from the General Fund to be transferred to the Major and Local Street Funds annually just to cover the operating costs of maintaining the streets in the city.

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 demonstrate 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 City Clerk or Treasurer at the City Hall.

BASIC FINANCIAL STATEMENTS

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Net Assets

June 30, 2011

	Governmental Activities	Component Unit Downtown Development Authority
Assets		
Cash and cash equivalents	\$ 2,085,771	\$ 66,939
Investments	1,253,247	-
Receivables	295,111	-
Prepays and other assets	23,692	4,355
Capital assets not being depreciated	167,356	-
Capital assets being depreciated, net	5,399,701	-
Total assets	9,224,878	71,294
Liabilities		
Payables, and accrued liabilities	86,727	4,575
Due to other governments	710	-
Unearned revenue	1,000	3,650
Long-term debt:		
Due within one year	353,709	-
Due in more than one year	627,775	-
Total liabilities	1,069,921	8,225
Net assets		
Invested in capital assets, net of related debt	4,867,939	-
Restricted for:		
Highways and streets	307,954	-
Capital improvements	446,346	-
Unrestricted	2,532,718	63,069
Total net assets	\$ 8,154,957	\$ 63,069

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2011

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental activities					
General government	\$ 749,854	\$ 32,503	\$ 3,064	\$ -	\$ (714,287)
Public safety	843,915	569,372	7,723	-	(266,820)
Public works	810,775	816	141,352	122,586	(546,021)
Community and economic development	164,215	14,450	-	-	(149,765)
Recreation and culture	124,156	8,966	-	-	(115,190)
Interest on long-term debt	27,236	-	-	-	(27,236)
Total governmental activities	<u>\$ 2,720,151</u>	<u>\$ 626,107</u>	<u>\$ 152,139</u>	<u>\$ 122,586</u>	<u>\$ (1,819,319)</u>
Component unit					
Downtown Development Authority	<u>\$ 47,805</u>	<u>\$ -</u>	<u>\$ 16,811</u>	<u>\$ -</u>	<u>\$ (30,994)</u>

(Continued)

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Activities (Concluded)

For the Year Ended June 30, 2011

	<u>Governmental Activities</u>	<u>Component Unit Downtown Development Authority</u>
Changes in net assets		
Net (expense) revenue	\$ (1,819,319)	\$ (30,994)
 General revenues:		
Property taxes	1,823,754	36,382
State shared revenues	83,116	-
Unrestricted investment income	15,140	250
Other general revenue	31,426	-
 Total general revenues	<u>1,953,436</u>	<u>36,632</u>
 Change in net assets	134,117	5,638
 Net assets, beginning of year	<u>8,020,840</u>	<u>57,431</u>
 Net assets, end of year	<u>\$ 8,154,957</u>	<u>\$ 63,069</u>

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Balance Sheet
Governmental Funds**

June 30, 2011

	<u>General</u> <u>Fund</u>	<u>Major</u> <u>Streets</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets				
Cash and cash equivalents	\$ 1,321,646	\$ 217,228	\$ 454,397	\$ 1,993,271
Investments	1,253,247	-	-	1,253,247
Accounts receivable	9,186	-	-	9,186
Due from other governments	135,174	13,077	5,637	153,888
Interest receivable	1,656	-	-	1,656
Deposits with others	-	-	130,381	130,381
Prepays	9,732	806	666	11,204
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 2,730,641	\$ 231,111	\$ 591,081	\$ 3,552,833
	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 53,416	\$ 437	\$ 4,610	\$ 58,463
Due to other governments	382	328	-	710
Accrued liabilities	21,771	1,022	655	23,448
Deferred revenue	105,000	-	1,000	106,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	180,569	1,787	6,265	188,621
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances (Note 9)				
Nonspendable	9,732	806	666	11,204
Restricted	-	228,518	524,310	752,828
Committed	935,230	-	59,840	995,070
Assigned	688,938	-	-	688,938
Unassigned	916,172	-	-	916,172
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	2,550,072	229,324	584,816	3,364,212
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 2,730,641	\$ 231,111	\$ 591,081	\$ 3,552,833
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2011

Fund balances - total governmental funds	\$ 3,364,212
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.	
Capital assets not being depreciated	167,356
Capital assets being depreciated, net	5,234,730
Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.	
Deferred receivable	105,000
An internal service fund is used by management to charge the costs of certain activities, such as equipment usage and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.	
Net assets of governmental activities accounted for in the internal service fund	256,718
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:	
Long-term debt	(699,118)
Litigation settlement	(203,938)
Unamortized deferred bond issuance costs	12,488
Compensated absences	(78,428)
Accrued interest on long-term debt	(4,063)
Net assets of governmental activities	<u>\$ 8,154,957</u>

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds**

For the Year Ended June 30, 2011

	General Fund	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,823,754	\$ -	\$ -	\$ 1,823,754
Licenses and permits	33,423	-	-	33,423
Intergovernmental	747,427	93,443	51,935	892,805
Charges for services	54,346	-	8,966	63,312
Fines and forfeitures	6,344	-	-	6,344
Interest revenue	14,178	-	962	15,140
Rentals	500	-	-	500
Other revenue	22,642	-	11,348	33,990
Total revenues	2,702,614	93,443	73,211	2,869,268
Expenditures				
Current:				
General government	481,546	-	-	481,546
Public safety	827,039	-	-	827,039
Public works	180,417	162,486	140,120	483,023
Community and economic development	164,215	-	-	164,215
Recreation and culture	86,469	-	9,381	95,850
Other functions	25,254	-	-	25,254
Debt service:				
Principal	41,791	-	-	41,791
Interest	23,585	-	-	23,585
Bond issuance costs	-	-	13,500	13,500
Capital outlay	41,965	65,818	97,755	205,538
Total expenditures	1,872,281	228,304	260,756	2,361,341
Revenues over (under) expenditures	830,333	(134,861)	(187,545)	507,927
Other financing sources (uses)				
Issuance of long-term debt	-	-	325,000	325,000
Transfers in	4,500	130,000	135,000	269,500
Transfers out	(265,000)	-	(4,500)	(269,500)
Total other financing sources (uses)	(260,500)	130,000	455,500	325,000
Net changes in fund balances	569,833	(4,861)	267,955	832,927
Fund balances, beginning of year, as restated	1,980,239	234,185	316,861	2,531,285
Fund balances, end of year	\$ 2,550,072	\$ 229,324	\$ 584,816	\$ 3,364,212

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2011

Net changes in fund balances - total governmental funds \$ 832,927

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

Capital outlays are reported as expenditures in governmental funds, but are allocated over their useful lives as depreciation expense in the statement of activities.

Purchases of capital assets	217,973
Depreciation expense	(374,449)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Change in deferred long-term receivables	(15,000)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on long-term liabilities	41,791
Proceeds from issuance of long-term debt	(325,000)
Issuance costs related to long-term debt	13,500

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued interest on bonds	(2,639)
Accrual for compensated absences	4,394
Amortization of deferred issuance costs	(1,012)
Accrual for litigation settlement	(203,938)

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to that fund is reported with governmental activities.

Operating loss from governmental activities in the internal service fund	(54,930)
Interest income from governmental activities in the internal service fund	500

Change in net assets of governmental activities	<u>\$ 134,117</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund**

For the Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Revenue				
Taxes	\$ 1,830,100	\$ 1,830,100	\$ 1,823,754	\$ (6,346)
Licenses and permits	19,200	24,700	33,423	8,723
Intergovernmental revenue	580,997	581,147	747,427	166,280
Charges for services	52,000	52,500	54,346	1,846
Fines and forfeitures	5,000	5,000	6,344	1,344
Interest revenue	22,500	22,500	14,178	(8,322)
Rentals	500	500	500	-
Other revenue	25,500	25,500	22,642	(2,858)
Total revenues	2,535,797	2,541,947	2,702,614	160,667
Expenditures				
Current:				
General government:				
City Council	17,095	17,105	9,550	(7,555)
Attorney	90,000	90,000	19,314	(70,686)
City manager	118,400	118,430	113,713	(4,717)
Assessing	46,900	46,900	45,860	(1,040)
Elections	5,600	5,600	3,523	(2,077)
Buildings and grounds	63,225	69,245	36,663	(32,582)
Clerk / Treasurer	248,375	256,774	239,723	(17,051)
Other	15,000	15,000	13,200	(1,800)
Total general government	604,595	619,054	481,546	(137,508)
Public safety:				
Police department	919,470	919,103	827,039	(92,064)
Public works:				
Department of public works	257,305	257,685	180,417	(77,268)
Community and economic development:				
Planning and zoning	200,860	204,935	164,215	(40,720)
Recreation and culture:				
Parks department	104,430	98,370	86,469	(11,901)
Other:				
Insurance	26,000	23,633	23,633	-
Other	43,562	43,562	1,621	(41,941)
Total other	69,562	67,195	25,254	(41,941)

(Continued)

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Concluded)
General Fund**

For the Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Debt service:				
Principal	\$ 44,600	\$ 41,791	\$ 41,791	\$ -
Interest	24,975	23,684	23,585	(99)
Total debt service	<u>69,575</u>	<u>65,475</u>	<u>65,376</u>	<u>(99)</u>
Capital outlay	<u>49,500</u>	<u>49,630</u>	<u>41,965</u>	<u>(7,665)</u>
Total expenditures	<u>2,275,297</u>	<u>2,281,447</u>	<u>1,872,281</u>	<u>(409,166)</u>
Revenues over (under) expenditures	<u>260,500</u>	<u>260,500</u>	<u>830,333</u>	<u>569,833</u>
Other financing sources (uses)				
Transfers in	4,500	4,500	4,500	-
Transfers out	<u>(265,000)</u>	<u>(265,000)</u>	<u>(265,000)</u>	-
Total other financing sources (uses)	<u>(260,500)</u>	<u>(260,500)</u>	<u>(260,500)</u>	-
Net change in fund balance	-	-	569,833	569,833
Fund balance, beginning of year, as restated	<u>1,980,239</u>	<u>1,980,239</u>	<u>1,980,239</u>	-
Fund balance, end of year	<u>\$ 1,980,239</u>	<u>\$ 1,980,239</u>	<u>\$ 2,550,072</u>	<u>\$ 569,833</u>

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balance

Budget and Actual

Major Streets Special Revenue Fund

For the Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Revenue				
Intergovernmental	\$ 85,000	\$ 85,000	\$ 93,443	\$ 8,443
Expenditures				
Current:				
Public works	171,025	182,525	162,486	(20,039)
Capital outlay	40,000	66,285	65,818	(467)
Total expenditures	211,025	248,810	228,304	(20,506)
Revenue over (under) expenditures	(126,025)	(163,810)	(134,861)	28,949
Other financing sources				
Transfers in	130,000	130,000	130,000	-
Net change in fund balance	3,975	(33,810)	(4,861)	28,949
Fund balance, beginning of year	234,185	234,185	234,185	-
Fund balance, end of year	\$ 238,160	\$ 200,375	\$ 229,324	\$ 28,949

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Statement of Net Assets
Proprietary Fund**

June 30, 2011

	<u>Internal Service Fund</u> <u>Motor Pool</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 92,500
Noncurrent assets:	
Capital assets being depreciated, net	<u>164,971</u>
Total assets	<u>257,471</u>
Liabilities	
Current liabilities:	
Accounts payable	<u>753</u>
Net assets	
Invested in capital assets	164,971
Unrestricted	<u>91,747</u>
Total net assets	<u>\$ 256,718</u>

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Statement of Revenue, Expenses
and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2011**

	<u>Internal Service Fund Motor Pool</u>
Operating revenue	
Charges for services	\$ 26,000
Operating expenses	
Operating supplies	22,610
Depreciation	<u>58,320</u>
Total operating expenses	<u>80,930</u>
Operating loss	(54,930)
Nonoperating revenue	
Interest income	<u>500</u>
Change in net assets	(54,430)
Net assets, beginning of year	<u>311,148</u>
Net assets, end of year	<u><u>\$ 256,718</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Statement of Cash Flows
Proprietary Fund**

For the Year Ended June 30, 2011

	Internal Service Fund
	Motor Pool
Cash flows from operating activities	
Receipts from interfund services provided	\$ 26,000
Payments to suppliers	<u>(22,467)</u>
Net cash provided by operating activities	3,533
Cash flows from capital and related financing activities	
Acquisition of capital assets	(5,586)
Cash flows from investing activities	
Interest earned on investments	<u>500</u>
Net decrease in cash and cash equivalents	(1,553)
Cash and cash equivalents, beginning of year	<u>94,053</u>
Cash and cash equivalents, end of year	<u><u>\$ 92,500</u></u>
Cash flows from operating activities	
Operating income	\$ (54,930)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	58,320
Changes in operating assets and liabilities which provided cash:	
Accounts payable	<u>143</u>
Net cash provided by operating activities	<u><u>\$ 3,533</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Statement of Fiduciary Assets and Liabilities
Agency Fund**

June 30, 2011

	Tax Collection Fund
Assets	
Due from other governments	<u>\$ 9,523</u>
Liabilities	
Negative equity in cash and cash equivalents	\$ 4,069
Undistributed receipts	<u>5,454</u>
Total liabilities	<u>\$ 9,523</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of the Village of Douglas is located in Allegan County, Michigan and has a population of approximately 1,200. The City operates under a Council-Manager, non-partisan form of government and provides services to its residents in many areas, including general government, law enforcement, highways and streets.

A regular City election is held in November each year. Councilpersons are elected at large for two-year terms. At one election, four councilpersons are elected. At the following elections, three councilpersons are elected. The Council holds an organization meeting at the first regular meeting following the election of its members. At that time, the Council elects a mayor and a mayor pro-tem from its members.

The accounting policies of the City of the Village of Douglas, (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City, which is incorporated under the Home Rule City Act (P.A. 279 of 1979) and is governed by a seven-member Council. These financial statements present the financial activities of the City and its component unit, the Downtown Development Authority. The Downtown Development Authority is discretely presented to emphasize that they are legally separate from the City.

Discretely Presented Component Unit

The Downtown Development Authority is reported on a separate column to emphasize that, while legally separate, the City of the Village of Douglas remains financially accountable for this entity.

The governing body of the Downtown Development Authority is appointed by the City Council, the Authority's budget is subject to the approval of the City Council and the City temporarily relinquishes part of its tax base to the Authority (tax increment revenues). A separate report is not issued for the Authority.

Joint Ventures

a) Township of Saugatuck Fire District

The Township of Saugatuck Fire District (the "District") is a joint venture of the City, the Township of Saugatuck and the City of Saugatuck. The administrative Board of the District consists of five members, two at-large members and one member from each of the three participating units. The budget of the District is approved at a joint meeting of the participating units. The participating units levy special millages for fire protection that are used to finance the cost of operations and capital expenditures of the District. During the year ended June 30, 2011, the City contributed \$133,645 to the District. Complete audited financial statements for the District can be obtained from the Township of Saugatuck's Clerk.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

b) Interurban Transit Authority

The Interurban Transit Authority (the "Authority") is a joint venture of the City, the Township of Saugatuck, and the City of Saugatuck. The Authority's Administrative Board consists of six members, two members appointed by each of the three participating units. During the year ended June 30, 2011, the City contributed \$57,789 to the Authority. Complete audited financial statements for the Authority can be obtained from their offices or the City of the Village of Douglas' City Hall.

c) Kalamazoo Lake Sewer and Water Authority

The Kalamazoo Lake Sewer and Water Authority (the "Authority") is a joint venture of the City, the Township of Saugatuck, and the City of Saugatuck. The Authority's Administrative Board consists of five members appointed by each of the three participating units. The Authority was formed to operate, maintain, administer and manage the water and sewerage systems located within the constituent units of government. During the year ended June 30, 2011, the City contributed \$84 to the Authority. Any infrastructure constructed or paid by the City is recorded as infrastructure on the City's records. Complete audited financial statements for the Authority can be obtained from their offices or the City of the Village of Douglas' City Hall.

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are 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. The City has no business-type activities for the year ended June 30, 2011.

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 revenues*.

Separate financial statements are provided for governmental funds, internal service funds, and fiduciary funds, even though the latter are excluded from the 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*, as are the internal service fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the 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. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding real property taxes as of that date.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

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*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City. The City reports the following major governmental funds:

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

The *Major Streets Fund* accounts for City tax levy, and state gas and weight tax that are restricted for expenditures related to maintaining and improving the City's major streets.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for restricted or committed revenues for specified purposes other than debt service or capital projects that comprise, or are expected to comprise a substantial portion of the fund's total reported inflows.

The *Capital Project Funds* account for the accumulation and disbursement of financial resources for the Blue Star Bridge and water and sewer system improvements.

The *Internal Service Fund* is used to account for motor pool revenues and expenditures, which are used by other departments.

The *Agency Funds* account for the collection and disbursements of delinquent taxes and deposits due to other units and individuals.

Amounts reported as program revenue include: (1) charges to customers of 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operating. The principal operating revenues of the enterprise funds are charges for services. Operation expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and the Major Special Revenue Fund. The City Council adopts a legally enforceable budget for the General Fund and Special Revenue Funds with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the government fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2011. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

Budgets for expenditures are adopted on an activity level.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. The City does not have a formal policy in place establishing capitalization thresholds, but in practice, capital assets are those with an initial individual cost of \$3,000 or more and an established useful life of more than three years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Improvements	10-15
Infrastructure	10-40
Machinery and equipment	3-10

Deferred Revenue

The City reports deferred revenue when cash receipts do not meet both the "measurable" and "available" criteria for recognition in the current period.

Compensated Absences

City employees are granted vacation, sick leave, and personal leave in varying amounts. Certain non-salaried, non-FLSA exempt City employees may also elect to accumulate compensatory time up to certain varying maximum limits in lieu of taking overtime pay. In the event of termination, an employee is paid for accumulated vacation, half of sick leave time, and personal days and compensatory time. All employees with accumulated vacation, half of sick leave time, and personal days and compensatory time at June 30, 2011, were vested and the total due to the employees, along with the related payroll taxes, is recorded entirely in the government-wide financial statements.

Long-term Obligations

In the government-wide financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

Property Taxes

The City of the Village of Douglas bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the City of the Village of Douglas on July 1 are payable without penalty through September 15. The July 1 levy is composed of the City's millages, County's operating millage, school taxes and State Education Tax. The December 1 levy is composed of County's Senior and Road millage, Transit Authority, District Library, Fire District, and school taxes. All real property taxes not paid to the City by March 1 are turned over to the Allegan County Treasurer for collection. The Allegan County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. City property tax revenues are recognized as revenue in the fiscal year levied.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

The Internal Service Fund (Motor Pool) records charges for equipment rental to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expense.

Use of Estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Based on the City's fund balance policy, the City Council has authorized the City manager the ability to assign fund balance. Unassigned fund balance is the residual classification for the general fund.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

2. DEPOSITS AND INVESTMENTS

Deposits and investments consist of the following at June 30, 2011:

	Governmental Activities	Agency Fund	Component Unit	Total
Cash and cash equivalents	\$ 2,085,771	\$ -	\$ 66,939	\$ 2,152,710
Investments	1,253,247	-	-	1,253,247
Negative equity in cash and cash equivalents	-	(4,069)	-	(4,069)
Total	\$ 3,339,018	\$ (4,069)	\$ 66,939	\$ 3,401,888

Deposits and investments consist of the following at June 30, 2011:

Bank deposits	\$ 467,976
Certificates of deposit (due within one year)	1,253,350
Investments	1,680,562
Total	\$ 3,401,888

Deposits

These deposits and investments are in eight (8) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in the City's records at cost. Interest is recorded when earned.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year end, \$328,740 of the City's bank balance of \$1,623,237 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Statutory Authority

Act 217, PA 1982, authorizes the City to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City chooses to disclose its investments by specifically identifying each. As of year end, the City had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
MBIA Class Fund	Various	\$ 1,329,177	S&P/AAA
Money Market Funds	Various	<u>351,385</u>	Unrated
Total investments		<u>\$ 1,680,562</u>	

Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under “statutory authority” above. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City’s specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in “statutory authority” above. The City’s investment policy does not allow investments in banker acceptances or mutual funds. The credit rating on the City’s investments are identified above.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year-end are reported above.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

3. RECEIVABLES AND DEFERRED REVENUE

At June 30, 2011, the City's receivables were as follows:

	General	Major Streets	Nonmajor Governmental Funds	Totals
Accounts	\$ 9,186	\$ -	\$ -	\$ 9,186
Due for other governments	135,174	13,077	5,637	153,888
Interest	-	1,656	-	1,656
Deposits with others	-	-	130,381	130,381
Total	\$ 144,360	\$ 14,733	\$ 136,018	\$ 295,111

Of the amounts reported for receivables above, an amount due from other governments of \$90,000 is not expected to be collected within one year.

Governmental funds report deferred revenues in connection with revenues that are not yet considered to be available to liquidate liabilities of the current period, which includes a long-term receivable from Saugatuck Township for \$105,000.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 93,800	\$ -	\$ -	\$ 93,800
Construction in progress	187,614	64,082	(178,140)	73,556
Total capital assets, not being depreciated	281,414	64,082	(178,140)	167,356
Capital assets, being depreciated:				
Buildings	788,669	15,693	-	804,362
Improvements	538,617	-	-	538,617
Machinery and equipment	731,478	30,247	(23,812)	737,913
Infrastructure	7,309,913	291,677	-	7,601,590
Total capital assets, being depreciated	9,368,677	337,617	23,812	9,682,482
Less accumulated depreciation for:				
Buildings	(356,542)	(35,682)	-	(392,224)
Improvements	(179,945)	(28,399)	-	(208,344)
Machinery and equipment	(440,038)	(86,385)	23,812	(502,611)
Infrastructure	(2,897,299)	(282,303)	-	(3,179,602)
Total accumulated depreciation	(3,873,824)	(432,769)	23,812	(4,282,781)
Net capital assets, being depreciated	5,494,853	(95,152)	-	5,399,701
Net governmental activities capital assets	\$ 5,776,267	\$ (31,070)	\$ (178,140)	\$ 5,567,057

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

Depreciation expense was charged to functions/programs as follows:

General government	\$ 33,830
Public safety	19,760
Public works	306,684
Recreation and culture	14,175
Internal service fund	<u>58,320</u>
Total depreciation expense	<u>\$ 432,769</u>

5. PAYABLES, AND ACCRUED LIABILITIES

At June 30, 2011, the City's payables and accrued liabilities were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Totals</u>
General Fund	\$ 53,416	\$ 21,771	\$ 75,187
Major Streets	437	1,022	1,459
Nonmajor governmental funds	4,610	655	5,265
Internal service fund	<u>753</u>	<u>-</u>	<u>753</u>
Subtotal	<u>\$ 59,216</u>	<u>\$ 23,448</u>	82,664
Accrued interest on long-term debt			<u>4,063</u>
Total			<u>\$ 86,727</u>

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

6. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
<i>Governmental activities</i>					
\$190,000 Loan agreement dated March 17, 2006, due in monthly installments ranging from \$689 to \$1,509 through March 1, 2021, with interest of 5.14%.	\$ 149,513	\$ -	\$ (11,123)	\$ 138,390	\$ 11,252
\$448,403 Loan agreement dated July 10, 2004, due in monthly installments ranging from \$560 to \$3,549 through August 10, 2017, with interest of 3.5%.	266,396	-	(30,668)	235,728	35,091
\$325,000 2010 Capital Improvement Bonds dated October 1, 2010, due in annual installments ranging from \$25,000 to \$40,000 through October 1, 2020, with interest paid semi-annually at 5%.	-	325,000	-	325,000	25,000
Subtotal installment debt	415,909	325,000	(41,791)	699,118	71,343
Litigation settlement	-	203,938	-	203,938	203,938
Compensated absences	82,822	92,140	(96,534)	78,428	78,428
Total governmental activities	\$ 498,731	\$ 621,078	\$ (138,325)	\$ 981,484	\$ 353,709

The annual requirements to amortize all debt outstanding (excluding long-term compensated absences and litigation settlements) as of June 30, 2011 are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 71,343	\$ 30,278
2013	73,213	27,158
2014	80,139	23,857
2015	82,144	20,352
2016	84,223	16,773
2017-2021	308,056	34,854
Total	\$ 699,118	\$ 153,272

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

7. PENSION PLANS

Defined Benefit Plan

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering certain bargaining units. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N Canal, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined amount, which for the current year was \$123,669. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2011, the City's annual pension cost of \$123,669 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year, compounded annually based on inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the latest actuarial valuation, was 28 years.

Year Ended	Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 96,663	100%	\$ -
2010	112,786	100%	-
2011	123,669	100%	-

Funded Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was 76 percent funded. The actuarial accrued liability for benefits was \$2,216,487, and the actuarial value of assets was \$1,691,096, resulting in an unfunded actuarial accrued liability (UAAL) of \$525,391. The covered payroll (annual payroll of active employees covered by the plan) was \$781,445, and the ratio of the UAAL to the covered payroll was 67 percent.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Defined Contribution Plan

The City offers its employees a deferred compensation plan sponsored by ICMA Retirement Corporation, which is a compensation plan created in accordance with IRC Section No. 457. The deferred compensation is not available to the individual until termination, retirement, or death, or unforeseeable emergency. The City's deferred compensation program is administered by the ICMA Retirement Corporation.

The City also has three employees who participate in a 457 deferred compensation plan administered through Nationwide. The deferred compensation is not available to the individual until termination, retirement, or death, or unforeseeable emergency.

The City also participates in defined contribution option provided by MERS, covering the City Manager. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the City. The City is required to contribute 12% of the Manager's gross wages. The City's contributions for the year ended June 30, 2011 totaled \$9,378.

8. INTERFUND TRANSFERS

	Transfers in:			Total
	General Fund	Major Streets	Nonmajor governmental funds	
Transfers out:				
General Fund	\$ -	\$ 130,000	\$ 135,000	\$ 265,000
Nonmajor governmental funds	4,500	-	-	4,500
Total	\$ 4,500	\$ 130,000	\$ 135,000	\$ 269,500

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to financial various programs accounted for in other funds in accordance with budgetary authorizations.

9. FUND BALANCES – GOVERNMENTAL FUNDS

The District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. GASB 54 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. While the classifications of fund balance in the City's various governmental funds were revised, the implementation of this standard had no effect on total fund balance. Beginning fund balance of the General Fund increased by \$810,906, which was comprised of amounts previously reported in the Road Millage special revenue fund. Detailed information on fund balances of governmental funds is as follows:

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

	General Fund	Major Streets Fund	Nonmajor Governmental Funds	Total
Nonspendable for:				
Prepays	\$ 9,732	\$ 806	\$ 666	\$ 11,204
Restricted for:				
Highways and streets	-	228,518	77,964	306,482
Capital improvements	-	-	446,346	446,346
	-	228,518	524,310	752,828
Committed for:				
Highways and streets	935,230	-	-	935,230
Special events	-	-	7,427	7,427
Recreation and culture	-	-	52,413	52,413
	935,230	-	59,840	995,070
Assigned for:				
Litigation settlement	203,938	-	-	203,938
Land acquisition	200,000	-	-	200,000
Pension contribution	285,000	-	-	285,000
	688,938	-	-	688,938
Unassigned	916,172	-	-	916,172
Total fund balances	\$ 2,550,072	\$ 229,324	\$ 584,816	\$ 3,364,212

10. NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of June 30, 2011, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 167,356
Capital assets being depreciated, net	5,399,701
	<u>5,567,057</u>
Related debt:	
Total bonds and notes payable	699,118
	<u>699,118</u>
Invested in capital assets, net of capital-related debt	<u>\$ 4,867,939</u>

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2011

11. RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Liability and Property Pool with other municipalities for property, liability, in-land marine, boiler and machinery, auto, and crime. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event that the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

12. CONTINGENT LIABILITIES

The City is party to various pending legal actions. It is the opinion of the City's legal counsel that it is not reasonably possible to determine the outcome of these matters at this time. However, management has estimated that the City's potential liability, if any, above amounts that would be covered by insurance, would likely be immaterial.

A settlement did occur during the fiscal year that resulted in an expected liability of \$203,938 as of June 30, 2011. This liability had not been paid as of year end and therefore has been recorded in the governmental-wide financial statements.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2005	\$1,113,392	\$1,407,308	\$ 293,916	79%	\$ 682,016	43%
12/31/2006	1,280,631	1,663,832	383,201	77%	738,339	52%
12/31/2007	1,404,289	1,799,344	395,055	78%	630,356	63%
12/31/2008	1,476,585	1,975,079	498,494	75%	653,935	76%
12/31/2009	1,571,699	2,278,110	706,411	69%	911,052	78%
12/31/2010	1,691,096	2,216,487	525,391	76%	781,445	67%

COMBINING FINANCIAL STATEMENTS

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2011

	Special Revenue		
	Local Streets	Special Events	Schultz Park Launch Ramp
Assets			
Cash and cash equivalents	\$ 72,982	\$ 8,427	\$ 52,413
Due from other governments	5,637	-	-
Deposits with others	-	-	-
Prepays	666	-	-
Total assets	\$ 79,285	\$ 8,427	\$ 52,413
 Liabilities and fund balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	655	-	-
Deferred revenue	-	1,000	-
Total liabilities	655	1,000	-
 Fund balances			
Nonspendable	666	-	-
Restricted	77,964	-	-
Committed	-	7,427	52,413
Total fund balances	78,630	7,427	52,413
 Total liabilities and fund balances	 \$ 79,285	 \$ 8,427	 \$ 52,413

Capital Projects		
Water and Sewer Revolving	Blue Star Bridge	Total
\$ 62,120	\$ 258,455	\$ 454,397
-	-	5,637
130,381	-	130,381
-	-	666
<u>\$ 192,501</u>	<u>\$ 258,455</u>	<u>\$ 591,081</u>
\$ -	\$ 4,610	\$ 4,610
-	-	655
-	-	1,000
-	4,610	6,265
-	-	666
192,501	253,845	524,310
-	-	59,840
<u>192,501</u>	<u>253,845</u>	<u>584,816</u>
<u>\$ 192,501</u>	<u>\$ 258,455</u>	<u>\$ 591,081</u>

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds**

For the Year Ended June 30, 2011

	Special Revenue		
	Local Streets	Special Events	Schultz Park Launch Ramp
Revenues			
Intergovernmental	\$ 42,494	\$ -	\$ -
Charges for services	-	-	8,966
Interest revenue	-	-	250
Other revenue	-	11,348	-
Total revenues	42,494	11,348	9,216
Expenditures			
Current:			
Public works	111,492	-	-
Recreation and culture	-	5,628	3,753
Debt:			
Bond issuance costs	-	-	-
Capital outlay	40,000	-	-
Total expenditures	151,492	5,628	3,753
Revenue over (under) expenditures	(108,998)	5,720	5,463
Other financing sources (uses)			
Issuance of long-term debt	-	-	-
Transfers in	135,000	-	-
Transfers out	-	-	(4,500)
Total other financing sources (uses)	135,000	-	(4,500)
Net change in fund balances	26,002	5,720	963
Fund balances, beginning of year	52,628	1,707	51,450
Fund balances, end of year	\$ 78,630	\$ 7,427	\$ 52,413

Capital Projects		
Water and Sewer Revolving	Blue Star Bridge	Total
\$ 9,441	\$ -	\$ 51,935
-	-	8,966
612	100	962
-	-	11,348
<u>10,053</u>	<u>100</u>	<u>73,211</u>
28,628	-	140,120
-	-	9,381
-	13,500	13,500
-	57,755	97,755
<u>28,628</u>	<u>71,255</u>	<u>260,756</u>
<u>(18,575)</u>	<u>(71,155)</u>	<u>(187,545)</u>
-	325,000	325,000
-	-	135,000
-	-	(4,500)
<u>-</u>	<u>325,000</u>	<u>455,500</u>
(18,575)	253,845	267,955
<u>211,076</u>	<u>-</u>	<u>316,861</u>
<u>\$ 192,501</u>	<u>\$ 253,845</u>	<u>\$ 584,816</u>

COMPLIANCE AND INTERNAL CONTROL

**INDEPENDENT AUDITORS' 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**

October 13, 2011

Honorable Mayor and Members of
the City Council
City of the Village of Douglas, Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of the Village of Douglas, Michigan*, (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's financial statements, and have issued our report thereon dated [Date]. 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's internal control over financial reporting as a basis for designing our auditing procedures 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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a certain deficiency in internal control over financial reporting 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency below to be a material weakness.

**Finding 2011-1 – Preparation of Financial Statements in Accordance with GAAP/
Material Audit Adjustments
Material Weakness in Internal Control over Financial Reporting**

Criteria. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's 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 books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition. As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. In addition, a material audit adjustment was necessary to record additional amounts payable by the Downtown Development Authority component unit.

Accordingly, the government's ability to prepare general purpose external financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause. This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect. As a result of this condition, the government's accounting records were initially misstated by an amount material to the financial statements of the Downtown Development Authority component unit. Further, the government lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. The material audit adjustment was related to accounts payable accruals in the Downtown Development Authority that were initially overlooked. The related correcting entries have been reviewed and approved by management, and no further corrective action is required at this time.

View of Responsible Officials. The government has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the proposed journal entries, 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 deficiency below to be a significant deficiency.

**Finding 2011-2 – Segregation of Incompatible Duties
Significant Deficiency in Internal Control over Financial Reporting**

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

Condition. The City has several transaction cycles that are performed by the same individual or are not subject to independent review and approval, including: (1) responsibilities for payroll accounting are not separated from the general ledger function, (2) after payroll is processed, there is no comparison of approved timesheets to the payroll register for accuracy, (3) cash deposits are made by an individual who is also responsible for posting receipts and preparing deposit slips, (4) bank accounts are not reconciled by individuals independent of cash receipts and disbursements functions, or consistently reviewed by an independent employee, (5) maintenance of the receivable subsidiary ledger is not independent of general ledger maintenance, and (6) there is no independent review of general journal entries posted to the general ledger.

Cause. This condition is the result of staffing constraints typical of smaller governmental units.

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

Recommendation. There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the City to mitigate this risk by requiring as much documented independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the City's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

In addition, we noted certain matters that we reported to management of the City in a separate letter dated October 13, 2011.

The City's responses to the findings identified in our audit are described above. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

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





Rehmann Robson

2330 East Paris Ave., SE

Grand Rapids, MI 49546

Ph: 616.975.4100

Fx: 616.975.4400

www.rehmann.com

October 13, 2011

Honorable Mayor and Members of
the City Council
City of the Village of Douglas, Michigan

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of the Village of Douglas* (the "City") for the year ended June 30, 2011, and have issued our report thereon dated October 13, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated August 1, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on September 6, 2011.

Significant Results of the Audit

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 are described in Note 1 to the financial statements. Other than the adoption of GASB Statement No. 54, which is described in Note 9 to the financial statements, no other accounting policies were adopted and the application of existing policies was not changed during the year. 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.

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 estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has corrected all such misstatements. In addition, we proposed various audit adjustments, all of which were recorded by management, which collectively had a material effect on the City's financial reporting process.

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 attached management representation letter dated October 13, 2011.

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 entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

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

Very truly yours,



City of the Village of Douglas

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

In planning and performing our audit of the financial statements of the City of the Village of Douglas (the "City") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. The deficiency we noted that we consider to be a material weaknesses is described in our 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*.

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. The deficiency we noted that we consider to be significant deficiency is described in our 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*.

Other Matters

Outdated Reconciling Items on Bank Reconciliations

During our review of bank reconciliations, we noted that there are several outstanding checks older than one year. We recommend that the City make reasonable efforts to locate the rightful recipients of such funds and then escheat any remaining amounts to the State under applicable statutes.

City of the Village of Douglas

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2011

Internal Controls over Information Technology

During our audit, we reviewed a list of recommended internal controls over information technology with management. We noted that several of these controls (such as the development and testing of a disaster recovery plan, user stations programmed to time-out after a period of inactivity, and detection or prevention of unauthorized software use) are not in place. We recommend that these controls be evaluated for potential effectiveness at the City, and implemented where deemed beneficial.

* * * * *

CITY OF THE VILLAGE OF DOUGLAS
Attachment B - Schedule of Adjustments Passed (SOAP)
For the June 30, 2011 Audit

In accordance with the provisions of SAS 107, *Audit Risk and Materiality*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 107, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures
General Fund					
Accounts payable includes an invoice accrued for services rendered during fiscal year 2012.	\$ -	\$ 1,067	\$ -	\$ -	\$ 1,067
Governmental Activities:					
Effect of items noted above	\$ -	\$ 1,067	\$ -	\$ -	\$ 1,067
Beginning accumulated depreciation difference between prior year audited financial statements and the capital asset detail, corrected in 2011.	-	-	(13,570)	-	(13,570)
Total governmental activities	\$ -	\$ 1,067	\$ (13,570)	\$ -	\$ (12,503)



10/13/2011

The Village of Friendliness ~ Since 1870

Rehmann Robson
2330 East Paris Ave.
Grand Rapids, MI 49546

We are providing this letter in connection with your audit of the financial statements of *City of the Village of Douglas* as of June 30, 2011 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, the major fund, and the aggregate remaining fund information of City of the Village of Douglas and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of 10/13/2011, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, you have proposed adjusting journal entries that have been posted. We are in agreement with those adjustments.

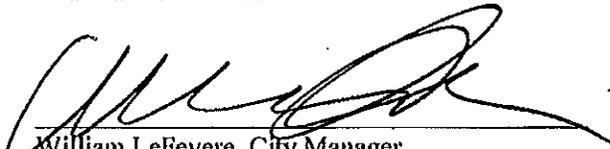
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations.
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
12. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
13. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
 - b. Guarantees, whether written or oral, under which the City is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

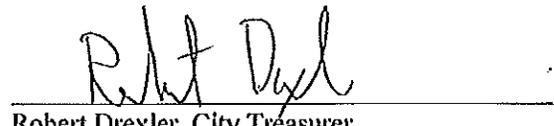
15. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
16. As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
17. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
18. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
20. The financial statements properly classify all funds and activities.
21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
23. Provisions for uncollectible receivables have been properly identified and recorded.
24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
28. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
29. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.



William LeFevere, City Manager



Robert Drexler, City Treasurer

Township of Saugatuck
Allegan County, Michigan
FINANCIAL STATEMENTS
Year ended June 30, 2011

SiegfriedCrandallPC

Certified Public Accountants & Advisors

Township of Saugatuck
Allegan County, Michigan
FINANCIAL STATEMENTS
Year ended June 30, 2011

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Siegfried Crandall PC

Certified Public Accountants & Advisors

246 E. Kilgore Road
Kalamazoo, MI 49002-5599
www.siegfriedcrandall.com

Telephone 269-381-4970
800-876-0979
Fax 269-349-1344

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Township of Saugatuck, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Saugatuck, Michigan, as of June 30, 2011, and for the year then ended, which collectively comprise the Township of Saugatuck, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township of Saugatuck, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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, each major fund, and the aggregate remaining fund information of the Township of Saugatuck, Michigan, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 15 to the financial statements, the Township adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The management's discussion and analysis, budgetary comparison information, and the schedule of funding progress of the employee retirement system, as listed in the contents, are not required parts of the basic financial statements but are supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Township of Saugatuck, Michigan
Page 2

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Township of Saugatuck, Michigan's basic financial statements. The accompanying supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Township of Saugatuck, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

October 25, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Township of Saugatuck
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Saugatuck's (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net assets decreased by \$217,649 (3 percent) as a result of this year's operations.
- Total net assets at the end of the fiscal year were \$6,930,838. However, \$4,777,954 of this total is invested in capital assets, net of related debt, and \$2,025,648 is restricted for various purposes. Consequently, the Township has unrestricted net assets of \$108,236.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$213,236, which represents 43 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the financial statements

The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. 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 general government services, like public works and public safety, were financed in the short term, as well as what remains for future spending.

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 sections of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

A comparative analysis of the basic financial statements for 2011 and 2010 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 Assets 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.

Township of Saugatuck
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The two government-wide statements report the Township's net assets and how they have changed. Net assets (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 assets 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. All of the Township's basic services are included here, such as general government, public works, parks, etc. Property taxes and intergovernmental revenues 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.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has one kind of fund:

- *Governmental funds.* The Township's basic services are included in 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.

Township of Saugatuck
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$6,905,838, a decrease of \$217,649 over the prior year. However, \$4,777,954 of this total is invested in capital assets, net of related debt, and \$2,044,648 is restricted for various purposes. Consequently, the Township has unrestricted net assets of \$108,236.

Condensed financial information
Net assets

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 2,472,307	\$ 3,125,741
Capital assets	<u>6,152,954</u>	<u>5,933,074</u>
Total assets	<u>8,625,261</u>	<u>9,058,815</u>
Current and other liabilities	214,423	265,328
Long-term debt outstanding	<u>1,480,000</u>	<u>1,645,000</u>
Total liabilities	<u>1,694,423</u>	<u>1,910,328</u>
Net assets:		
Invested in capital assets, net of related debt	4,777,954	4,408,074
Restricted	2,044,648	2,749,847
Unrestricted (deficit)	<u>108,236</u>	<u>(9,434)</u>
Total net assets	<u>\$ 6,930,838</u>	<u>\$ 7,148,487</u>

Changes in net assets. The Township's total revenues are \$1,341,819. Approximately 57 percent of the Township's revenues come from property taxes, while 18 percent comes from charges for services. State shared revenue represents only 15 percent of the Township's total revenues.

Township of Saugatuck
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed financial information
Changes in net assets

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services	\$ 246,289	\$ 255,729
Operating grants and contributions	7,138	11,391
Capital grants and contributions	87,503	80,240
General revenues:		
Property taxes	766,784	716,375
State shared revenue	198,617	150,925
Franchise fees	26,202	26,597
Investment income	9,286	23,073
	<u>1,341,819</u>	<u>1,264,330</u>
Expenses:		
Legislative	1,470	1,610
General government	705,291	667,685
Public safety	50,392	49,051
Public works	297,721	282,951
Health and welfare	6,394	5,964
Community and economic development	45,078	47,156
Recreation and culture	20,805	21,949
Interest on long-term debt	46,520	50,666
	<u>1,173,671</u>	<u>1,127,032</u>
Special items:		
Sale of perpetual easement	147,518	-
Special assessment refunds	<u>(533,315)</u>	<u>-</u>
	<u>(385,797)</u>	<u>-</u>
Changes in net assets	<u>\$ (217,649)</u>	<u>\$ 137,298</u>

Governmental activities. Governmental activities decreased the Township's net assets by \$217,649 in the current year compared to a \$137,298 increase in the prior year. Total revenues increased by \$77,489, primarily due to increases in both property taxes (\$50,409) and state shared revenue (\$47,692). However, refunds of special assessments, in the amount of \$533,315, a special item, caused a decrease in net assets in the current year.

The cost of all governmental activities this year was \$1,173,671. After subtracting the direct charges to those who directly benefited from the programs (\$246,289) and operating and capital grants (\$94,641), the "public benefit" portion covered by property taxes, state shared revenue, and other general revenues was \$832,741.

Township of Saugatuck
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 \$1,485,202, a decrease of \$527,419 in comparison with the prior year. The decrease is primarily due to special assessment refunds, in the amount of \$533,315.

The General Fund is the primary operating fund of the Township. At the end of the fiscal year, unassigned fund balance was \$213,236, which represents 43 percent of the actual total General Fund expenditures for the current fiscal year. The fund balance increased by \$77,983 during the current fiscal year, primarily due to proceeds from the sale of a perpetual easement, in the amount of \$147,518, which is reported as a special item.

The Road Fund experienced a decrease in fund balance of \$49,520. Road improvement costs exceeded property tax revenue in the current year as substantial road improvement expenditures (\$539,458) were incurred in the current year. The fund now holds \$443,485 that is restricted for future road projects.

The Water Debt Fund experienced a decrease in fund balance of \$2,098 because current year revenues were less than current year expenditures. Assessments and debt service charges, collected on behalf of the Township, are being used to pay ongoing debt service costs on two bond issues, with payments due through the year 2017.

The Sewer Debt Fund experienced a decrease in fund balance of \$547,369, primarily because of a special item, in the amount of \$533,315, for special assessment refunds. Assessments and debt service charges, collected on behalf of the Township, are being used to pay ongoing debt service costs on a single bond issue, with payments due through the year 2022.

General Fund budgetary highlights

The difference between the original budget and the final amended budget for expenditures was a net increase of \$44,857 in response to increased costs in the general government function.

Revenues were \$69,016 higher than budgeted because property taxes, permits, state shared revenue, and other revenues were all higher than anticipated. General Fund expenditures were \$9,657 lower than the amounts appropriated because general government expenditures were \$17,528 less than expected.

These variances resulted in a \$77,983 positive budget variance, with a \$77,983 increase in fund balance after other financing uses and special items.

Township of Saugatuck
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital asset and debt administration

Capital assets

The Township's investment in capital assets as of June 30, 2011, amounts to \$6,152,954 (net of accumulated depreciation). This investment includes a broad range of assets, including land, buildings, equipment, sewer and water systems, and shared road costs. The increase in the Township's net investment in capital assets for the current fiscal year was \$219,880.

Road improvement costs, considered intangible assets, were the major capital asset event during the current fiscal year. The Township's share of road improvement costs was \$512,510.

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

Debt

At year end, the Township's long-term debt totaled \$1,480,000. Outstanding bonds payable totaled \$1,375,000. Three separate bond issues are all secured by special assessments on benefited properties or utility system revenues. A contract payable, with a balance of \$105,000, relates to an agreement between the City of the Village of Douglas and the Township.

More detailed information about the Township's long-term debt is presented in Note 8 of the notes to the basic financial statements.

Economic condition and outlook

General Fund

The Township continues to maintain a fund balance in the General Fund, which is sufficient for unforeseen or emergency expenditures. The fund balance of the General Fund at June 30, 2011, was \$213,236, which represents 43% of the actual General Fund expenditures for the current fiscal year.

The Township's economic outlook mirrors the State of Michigan and the economy as a whole in projecting revenues and expenditures. Because the economy is flat and construction activity is minimal, it is recognized that many desirable projects, which would enhance the quality of life, such as park or other recreational improvements, are not feasible because of limited funds after mandatory and standard operational needs are met.

Cemetery Fund

The fund balance of the Cemetery Fund is sufficient to fund operations for at least two years without additional revenue which will accrue through cemetery millage and the sale of burial rights.

The Township has been negotiating with the City of Saugatuck and the City of the Village of Douglas in order to obtain fair and equitable funding for cemetery maintenance for deceased city burials. Negotiations have not been conclusive.

**Township of Saugatuck
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

Road Fund

New construction and heavy maintenance projects are dependent on extra voted millages. The Township voters have continually renewed these millages, which have allowed the Township Board to resurface and reconstruct 27 miles of roadway over the years. The Township was fortunate to have made extensive road improvements during the years when construction costs were moderate.

Projects are undertaken on a pay as you go basis. Recent major increases in fuel and asphalt prices indicate that fewer and less extensive projects will be possible if current oil prices prevail.

The current road capital improvement plan provides for resurfacing of 19.47 miles of Township roads through 2017. All resurface projects will include 2-inch asphalt overlays, with additional 3-foot paved shoulders for surface edge projection and non-motorized users.

Debt retirement funds

During the fiscal year ending June 30, 2011, the Township partially refunded to property owners in the sewer special assessment district a total amount of \$533,315. The charge to connect to the Sewer/Collection system remains \$7,069.57 per residential equivalency. Remaining bonds, in the principal amount of \$825,000, are still to be paid through 2022. The Sewer Debt Fund has equity of \$377,621, after the partial refunds, with taxing authority and connection charges still in effect and ongoing.

The Water Debt Fund is committed to the retirement of bonds, in a total amount of \$550,000, through 2017. The Water Debt Fund has equity of \$303,343, with all funding mechanisms intact.

Contacting the Township's financial management

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors and creditors 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:

Township of Saugatuck
Phil Quade, Township Manager
3461 Blue Star Highway
Saugatuck, MI 49453

Phone: (269) 857-7721

BASIC FINANCIAL STATEMENTS

Township of Saugatuck
STATEMENT OF NET ASSETS
June 30, 2011

	<u>Governmental activities</u>
ASSETS	
Current assets:	
Cash	\$ 1,282,261
Investments	282,244
Receivables	<u>237,720</u>
Total current assets	<u>1,802,225</u>
Noncurrent assets:	
Receivables	670,082
Capital assets not being depreciated - land	215,057
Capital assets, net of accumulated depreciation	<u>5,937,897</u>
Total noncurrent assets	<u>6,823,036</u>
Total assets	<u>8,625,261</u>
LIABILITIES	
Current liabilities:	
Payables	177,240
Contract	15,000
Bonds payable	<u>160,000</u>
Total current liabilities	<u>352,240</u>
Noncurrent liabilities:	
Deferred revenue	37,183
Contract	90,000
Bonds payable	<u>1,215,000</u>
Total noncurrent liabilities	<u>1,342,183</u>
Total liabilities	<u>1,694,423</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,777,954
Restricted for:	
General government	143,714
Public works	443,485
Health and welfare	3,803
Debt service	1,453,646
Unrestricted	<u>108,236</u>
Total net assets	<u>\$ 6,930,838</u>

See notes to financial statements

Township of Saugatuck
STATEMENT OF ACTIVITIES
 Year ended June 30, 2011

Functions/Programs	Expenses	Program revenues		Net (expenses) revenues and change in net assets
		Charges for services	Operating grants and contributions	
Governmental activities:				\$ (1,470)
Legislative	\$ 1,470	\$ -	\$ -	\$ (550,268)
General government	705,291	152,216	2,807	(17,128)
Public safety	50,392	33,264	-	(197,974)
Public works	297,721	8,216	4,028	(6,394)
Health and welfare	6,394	-	-	-
Community and economic development	45,078	4,328	-	(40,750)
Recreation and culture	20,805	-	303	(20,502)
Interest on long-term debt	46,520	48,265	-	1,745
Total governmental activities	\$ 1,173,671	\$ 246,289	\$ 7,138	\$ 87,503
				(832,741)
				General revenues:
				Property taxes
				State shared revenue
				Franchise fees
				Investment income
				Special items:
				Sale of perpetual easement
				Special assessment refunds
				Total general revenues and special items
				615,092
				(217,649)
				Change in net assets
				7,148,487
				Net assets - beginning
				Net assets - ending
				<u>\$ 6,930,838</u>

See notes to financial statements

Township of Saugatuck
BALANCE SHEET - governmental funds
 June 30, 2011

ASSETS	<u>General</u>	<u>Road</u>	<u>Water Debt</u>	<u>Sewer Debt</u>
Cash				
Investments	\$ 82,940	\$ 430,371	\$ 279,466	\$ 377,621
Receivables	103,554	110,462	-	-
	<u>100,843</u>	<u>-</u>	<u>180,801</u>	<u>601,158</u>
Total assets	<u>\$ 287,337</u>	<u>\$ 540,833</u>	<u>\$ 460,267</u>	<u>\$ 978,779</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 36,918	\$ 97,348	\$ -	\$ -
Deferred revenue	<u>37,183</u>	<u>-</u>	<u>156,924</u>	<u>601,158</u>
Total liabilities	<u>74,101</u>	<u>97,348</u>	<u>156,924</u>	<u>601,158</u>
 Fund balances:				
Restricted for:				
General government	-	-	-	-
Public works	-	443,485	-	-
Health and welfare	-	-	-	-
Debt service	-	-	-	-
Unassigned	<u>213,236</u>	<u>-</u>	<u>303,343</u>	<u>377,621</u>
Total fund balances	<u>213,236</u>	<u>443,485</u>	<u>303,343</u>	<u>377,621</u>
Total liabilities and fund balances	<u>\$ 287,337</u>	<u>\$ 540,833</u>	<u>\$ 460,267</u>	<u>\$ 978,779</u>

Total fund balance - total governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 12) are different because:

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

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Interest payable is not due and payable in the current period and, therefore, is not reported in the funds.

Long-term liabilities, including bonds and contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Net assets of *governmental activities*

<u>Nonmajor funds</u>	<u>Total governmental funds</u>
\$ 111,863	\$ 1,282,261
68,228	282,244
-	882,802
\$ 180,091	\$ 2,447,307
\$ 32,574	\$ 166,840
-	795,265
32,574	962,105
143,714	143,714
-	443,485
3,803	3,803
-	680,964
-	213,236
147,517	1,485,202
\$ 180,091	\$ 2,447,307
	\$ 1,485,202
	6,152,954
	758,082
	(10,400)
	(1,480,000)
	\$ 6,905,838

Township of Saugatuck
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds
Year ended June 30, 2011

	<u>General</u>	<u>Road</u>	<u>Water Debt</u>	<u>Sewer Debt</u>
REVENUES				
Property taxes	\$ 195,192	\$ 489,506	\$ -	\$ -
Licenses and permits	60,825	-	-	-
State grants	202,645	-	-	-
Contributions from local units	-	-	-	-
Charges for services	30,260	-	64,191	23,312
Interest and rentals	137	432	14,096	47,713
Other	22,367	-	31,127	64,887
Total revenues	<u>511,426</u>	<u>489,938</u>	<u>109,414</u>	<u>135,912</u>
EXPENDITURES				
Legislative	1,470	-	-	-
General government	382,885	-	24,960	30,584
Public safety	50,392	-	-	-
Public works	19,527	539,458	-	7,814
Health and welfare	-	-	-	-
Community and economic development	33,709	-	-	-
Recreation and culture	4,946	-	-	-
Capital outlay	7,071	-	-	-
Debt service:				
Principal	-	-	80,000	70,000
Interest	-	-	6,552	41,568
Total expenditures	<u>500,000</u>	<u>539,458</u>	<u>111,512</u>	<u>149,966</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>11,426</u>	<u>(49,520)</u>	<u>(2,098)</u>	<u>(14,054)</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	-
Transfer out	<u>(80,961)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>(80,961)</u>	<u>-</u>	<u>-</u>	<u>-</u>
SPECIAL ITEMS				
Proceeds from sale of perpetual easement	147,518	-	-	-
Refund of special assessments	-	-	-	<u>(533,315)</u>
Total special items	<u>147,518</u>	<u>-</u>	<u>-</u>	<u>(533,315)</u>
NET CHANGES IN FUND BALANCES	77,983	(49,520)	(2,098)	(547,369)
FUND BALANCES - BEGINNING	<u>135,253</u>	<u>493,005</u>	<u>305,441</u>	<u>924,990</u>
FUND BALANCES - ENDING	<u>\$ 213,236</u>	<u>\$ 443,485</u>	<u>\$ 303,343</u>	<u>\$ 377,621</u>

<u>Nonmajor funds</u>	<u>Total governmental funds</u>
\$ 168,339	\$ 853,037
-	60,825
-	202,645
19,894	19,894
8,120	125,883
173	62,551
-	118,381
<u>196,526</u>	<u>1,443,216</u>
-	1,470
266,139	704,568
-	50,392
-	566,799
6,394	6,394
11,369	45,078
-	4,946
-	7,071
-	150,000
-	48,120
<u>283,902</u>	<u>1,584,838</u>
<u>(87,376)</u>	<u>(141,622)</u>
80,961	80,961
-	(80,961)
<u>80,961</u>	<u>-</u>
-	147,518
-	(533,315)
-	(385,797)
(6,415)	(527,419)
<u>153,932</u>	<u>2,012,621</u>
<u>\$ 147,517</u>	<u>\$ 1,485,202</u>

See notes to financial statements

Township of Saugatuck
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - governmental funds (Continued)**
Year ended June 30, 2011

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 15) \$ (527,419)

Amounts reported for *governmental activities* in the statement of activities (page 13) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense.

Add - asset acquisitions	512,501
Deduct - depreciation provision	(292,621)

Because some special assessments will not be collected until subsequent periods, they are not considered available revenues and are deferred in the governmental funds. Deferred special assessment revenues decreased by this amount this year. (96,397)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 165,000

Changes in other assets/liabilities:

Decrease in accrued interest expense	1,600
Decrease in judgment payable	24,687
	24,687

Change in net assets - *governmental activities* \$ (212,649)

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Saugatuck, Michigan (the Township), conform to U.S. generally accepted accounting principles (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 Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Township has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a blended or discretely presented component unit in the Township'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 Township. 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.

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 proprietary funds. Major individual governmental funds are reported in 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.

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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 property tax 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the Township.

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.

The Road Fund accounts for financial resources used for the construction and maintenance of roads. Revenues are primarily derived from property taxes.

The Water Debt Fund accounts for issuance and payment of debt related to water improvements.

The Sewer Debt Fund accounts for issuance and payment of debt related to sewer improvements.

Private-sector standards of accounting and financial reporting 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 (GASB). Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

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.

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

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

Assets, liabilities, and net assets or equity:

Bank deposits and investments - Cash is considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value. Pooled investment income is proportionately allocated to all funds.

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 includes property, 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 \$2,000 (\$10,000 for infrastructure assets) 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 July 1, 2003. The Township includes shared road costs in its infrastructure assets. These costs represent the Township's portion of public road improvements for roads within the Township, which are owned by the County of Allegan.

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

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Sewer and water systems	50 years
Shared road costs	20 years

Deferred revenue - In the fund financial statements, governmental funds report deferred revenue in connection with resources that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

Fund equity - Governmental funds report restricted fund balances as externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. 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 the restricted funds balance first, then unassigned fund balance.

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

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

Assets, liabilities, and net assets or equity (continued):

Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, at which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

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, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level.

Excess of expenditures over appropriations - The following schedule sets forth budget variances for the current fiscal year:

<u>Fund</u>	<u>Function</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	\$ 365,357	\$ 382,885	\$ (17,528)
Nonmajor	General government	184,000	191,965	(7,965)

NOTE 3 - DEPOSITS AND INVESTMENTS:

At June 30, 2011, cash and investments were classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash	\$ 1,282,261
Investments	<u>282,244</u>
Total cash and investments	<u>\$ 1,564,505</u>

At June 30, 2011, cash and investments consist of the following:

Deposits with financial institutions	\$ 1,282,161
Investments	282,244
Cash on hand	<u>100</u>
Total cash and investments	<u>\$ 1,564,505</u>

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued):

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 of deposits is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance or are uncollateralized. The Township's investment policy does not specifically address custodial credit risk for deposits. At June 30, 2011, \$74,230 of the Township's bank balances of \$1,289,760 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments:

State statutes and the Township's investment policy authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) qualified investment pools. The Township's investments are held in the Cooperative Liquid Assets Securities System - Michigan (CLASS), a local investment pool established under Michigan state statutes for participating Michigan municipalities. The pool's investments are reported at fair value. The fund is rated AAAM by Standard and Poors.

NOTE 4 - RECEIVABLES:

Receivables as of June 30, 2011, for the Township's major funds and nonmajor funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Special assessments</u>	<u>Interest</u>	<u>Intergovernmental</u>	<u>Totals</u>
General	\$ 6,665	\$ -	\$ -	\$ 94,178	\$ 100,843
Water Debt	23,877	156,924	-	-	180,801
Sewer Debt	-	601,158	-	-	601,158
Totals	<u>\$ 30,542</u>	<u>\$ 758,082</u>	<u>\$ -</u>	<u>\$ 94,178</u>	<u>\$ 882,802</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 670,082</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 670,082</u>

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2011, 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	\$ 215,057	\$ -	\$ -	\$ 215,057
Capital assets being depreciated:				
Land improvements	628,077	-	-	628,077
Buildings	192,832	-	-	192,832
Equipment	81,932	-	-	81,932
Sewer and water system	3,627,899	-	-	3,627,899
Shared road costs	<u>2,607,057</u>	<u>512,501</u>	<u>-</u>	<u>3,119,558</u>
Subtotal	<u>7,137,797</u>	<u>512,501</u>	<u>-</u>	<u>7,650,298</u>
Less accumulated depreciation for:				
Land improvements	(180,095)	(21,084)	-	(201,179)
Buildings	(69,499)	(4,389)	-	(73,888)
Equipment	(51,520)	(7,993)	-	(59,513)
Sewer and water system	(527,148)	(61,312)	-	(588,460)
Shared road costs	<u>(591,518)</u>	<u>(197,843)</u>	<u>-</u>	<u>(789,361)</u>
Subtotal	<u>(1,419,780)</u>	<u>(292,621)</u>	<u>-</u>	<u>(1,712,401)</u>
Total capital assets being depreciated, net	<u>5,718,017</u>	<u>219,880</u>	<u>-</u>	<u>5,937,897</u>
Governmental activities capital assets, net	<u>\$ 5,933,074</u>	<u>\$ 219,880</u>	<u>\$ -</u>	<u>\$ 6,152,954</u>

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

Governmental activities:	
General government	\$ 17,606
Public works	259,156
Recreation and culture	<u>15,859</u>
Total governmental activities	<u>\$ 292,621</u>

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - PAYABLES:

Payables as of June 30, 2011, for the Township's major funds and nonmajor funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Totals</u>
General	\$ 19,991	\$ 16,927	\$ 36,918
Road	97,348	-	97,348
Nonmajor governmental	32,574	-	32,574
Totals	\$ 149,913	\$ 16,927	\$ 166,840

NOTE 7 - DEFERRED REVENUE:

As of June 30, 2011, the various components of deferred revenue were as follows:

	<u>Unearned</u>	<u>Unavailable</u>	<u>Totals</u>
Tower lease	\$ 37,183	\$ -	\$ 37,183
Water debt special assessments	-	156,924	156,924
Sewer debt special assessments	-	601,158	601,158
Total deferred revenue	\$ 37,183	\$ 758,082	\$ 795,265

NOTE 8 - LONG-TERM DEBT:

At June 30, 2011, long-term debt was comprised of the following individual issues:

Governmental activities:

Bonds payable:

\$755,000 1998 Special assessment limited tax bonds - payable in annual installments ranging from \$35,000 to \$50,000, plus interest at 5.10%; final payment due April 2017, secured by assessments and full faith and credit of the Township	\$ 300,000
\$520,000 1998 Water supply system revenue bonds - payable in annual installments ranging from \$25,000 to \$50,000, plus interest at 5.10%; final payment due April 2017, secured by assessments	250,000
\$1,385,000 2002 Special assessment limited tax bonds - payable in annual installments ranging from \$70,000 to \$75,000, plus interest at 5.50%; final payment due April 2022, secured by assessments and full faith and credit of the Township	825,000

Contract payable:

Settlement agreement with another municipality relating to the division of assets and liabilities pursuant to Michigan Compiled Law 117.14; payable in annual installments of \$15,000 through 2018	105,000
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Total long-term debt

\$ 1,480,000

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM DEBT (Continued):

Long-term debt activity for the year ended June 30, 2011, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Bonds payable:					
1998 Limited tax bonds	\$ 350,000	\$ -	\$ (50,000)	\$ 300,000	\$ 50,000
1998 Revenue bonds	280,000	-	(30,000)	250,000	35,000
2002 Limited tax bonds	<u>895,000</u>	<u>-</u>	<u>(70,000)</u>	<u>825,000</u>	<u>75,000</u>
	1,525,000	-	(150,000)	1,375,000	160,000
Contract payable - 2007					
Contract payable	<u>120,000</u>	<u>-</u>	<u>(15,000)</u>	<u>105,000</u>	<u>15,000</u>
Totals	<u>\$ 1,645,000</u>	<u>\$ -</u>	<u>\$ (165,000)</u>	<u>\$ 1,480,000</u>	<u>\$ 175,000</u>

At June 30, 2011, debt service requirements were as follows:

<u>Year ended June 30:</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 175,000	\$ 41,632
2013	175,000	37,988
2014	180,000	34,264
2015	180,000	30,404
2016	180,000	26,506
2017 - 2021	515,000	74,490
2022	<u>75,000</u>	<u>3,750</u>
Totals	<u>\$ 1,480,000</u>	<u>\$ 249,034</u>

NOTE 9 - JOINTLY-GOVERNED ORGANIZATIONS:

Saugatuck Township Fire District:

The Township, in conjunction with the City of Saugatuck and the City of the Village of Douglas, created the Saugatuck Township Fire District. The District's administrative board consists of five members, two at-large members and one member from each of the three participating units. The budget of the District is approved at a joint meeting of the participating units. The Township of Saugatuck did not provide support to the District in fiscal year 2011. The Township does not retain an ongoing financial interest or responsibility in the District.

Interurban Transit Authority:

The Township, in conjunction with the City of Saugatuck and the City of the Village of Douglas, created the Interurban Transit Authority. The Authority's administrative board consists of six members, two members appointed by each of the three participating units. The Township of Saugatuck did not provide support to the Authority in fiscal year 2011. The Township does not retain an ongoing financial interest or responsibility in the Authority.

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM:

Plan description and provisions:

All of the Township's full-time employees participate in the Michigan Municipal Employees' Retirement System (the System), a multi-employer public retirement system.

All full-time employees of the Township are eligible to participate in the System. There are currently two retired beneficiaries receiving benefits from the System in the form of monthly payments. There is one terminated employee who is entitled to benefits but is not yet receiving benefits. In addition, there are currently three active participants, some of whom are fully vested. Employees who retire at or after age sixty with ten years of credited service are entitled to a retirement benefit, payable monthly for life equal to 2.25% of final average compensation, with a maximum benefit of 80% of final average compensation. Final average compensation is the employee's average salary over the last five years of credited service. Benefits fully vest upon reaching ten years of service. Vested employees may retire at or after age fifty with specified years of credited service and receive reduced retirement benefits. The System also provides death and total disability benefits and certain post-retirement adjustments to the amount of retirement benefits.

The Township is required by state statute to contribute actuarially determined amounts necessary to pay benefits when due. The System issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Funding policy:

Contribution rates for each participating employer and its covered employees are established, and may be amended, by each participating unit. The contribution rates are determined based on the benefit structure established by each employer. Covered employees are not required to contribute to the System. Participating employers are required to contribute amounts necessary to finance the coverage of their employees through periodic contributions at actuarially-determined rates. Administrative costs of the System are financed through investment earnings.

Annual pension cost:

For the year ended June 30, 2011, the Township's annual pension cost was \$41,429 for its defined benefit pension plan. The required contribution was determined as part of the December 31, 2008, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included a) an 8% investment rate of return, net of administrative expenses, b) projected salary increases of 4.5% per year, and c) an added percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. The actuarial value of the System's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a closed period of 28 years as a level percentage of payroll.

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM (Continued):

Three-year trend information is as follows:

<u>Year ended June 30:</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
2009	\$ 40,144	100%	\$ -
2010	44,847	100%	-
2011	41,429	100%	-

Funded status and funding progress:

The funded status of the plan as of December 31, 2010, the most recent actuarial date, was as follows:

<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
\$ 310,865	\$ 739,306	\$ 428,441	42%	\$ 195,256	219%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Certain other accounting policies and plan asset matters are discussed in greater detail in the Township's actuarial valuation.

NOTE 11 - 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 12 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2011, is as follows:

Revenues	\$ 30,864
Expenses	<u>(95,118)</u>
Deficiency of revenues over expenses	<u>\$ (64,254)</u>

Township of Saugatuck
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 13 - INTERFUND TRANSFER:

The General Fund transferred \$80,961 to a nonmajor governmental fund to help pay for legal and planning expenditures accounted for in the nonmajor governmental fund.

NOTE 14 - SPECIAL ITEMS:

During the year ended June 30, 2011, the Township granted a perpetual access and utility easement to specific property to cellular phone provider in exchange for \$147,518. The Township also approved a partial vacation of sewer special assessments resulting in a refund of previously paid assessments to the property owners in the amount of \$533,315.

The perpetual easement sale and refund of special assessments are presented in the accompanying financial statements as special items because they are significant transactions, within the control of the Township's management, and are unusual in nature. The transactions are considered unusual as they are not typical or ordinary activities of the Township.

NOTE 15 - ADOPTION OF NEW ACCOUNTING POLICY:

Effective July 1, 2010, the Township adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and 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. The adoption of this standard had no effect on the total fund balance. The beginning fund balance of the Water Debt Fund was increased by \$32,897, which was comprised of equity previously reported in the Water Project Fund, and the Sewer Debt Fund was increased by \$8,440, which was comprised of equity previously reported in the Sewer Project Fund.

NOTE 16 - PRIOR PERIOD ADJUSTMENT:

A prior period adjustment has been recorded in 2011 to correct the balance of accrued interest receivable of the governmental activities at the end of the prior year. Equity as of July 1, 2010, included in the accompanying financial statements, represents a restated balance as presented below. The following schedule identifies the nature and amount of the adjustment recorded.

	<u>Net assets</u> <u>Governmental</u> <u>activities</u>
Beginning of year, as previously reported	\$ 7,118,487
Prior period adjustment:	
Understatement of interest receivable	<u>30,000</u>
Beginning of year, as restated	<u>\$ 7,148,487</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Saugatuck
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2011

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 195,400	\$ 185,290	\$ 195,192	\$ 9,902
Licenses and permits	58,900	50,900	60,825	9,925
State grants	146,000	165,310	202,645	37,335
Charges for services	25,000	30,710	30,260	(450)
Interest and rentals	1,000	-	137	137
Other	<u>10,600</u>	<u>10,200</u>	<u>22,367</u>	<u>12,167</u>
Total revenues	<u>436,900</u>	<u>442,410</u>	<u>511,426</u>	<u>69,016</u>
EXPENDITURES				
Legislative	1,000	1,200	1,470	(270)
General government	332,232	365,357	382,885	(17,528)
Public safety	45,792	49,900	50,392	(492)
Public works	22,100	23,100	19,527	3,573
Community and economic development	33,576	40,000	33,709	6,291
Recreation and culture	8,100	8,100	4,946	3,154
Capital outlay	<u>22,000</u>	<u>22,000</u>	<u>7,071</u>	<u>14,929</u>
Total expenditures	<u>464,800</u>	<u>509,657</u>	<u>500,000</u>	<u>9,657</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(27,900)	(67,247)	11,426	78,673
OTHER FINANCING USES				
Transfer out - Legal and Planning Fund	-	(80,753)	(80,961)	(208)
SPECIAL ITEM				
Proceeds from sale of perpetual easement	<u>-</u>	<u>148,000</u>	<u>147,518</u>	<u>(482)</u>
NET CHANGES IN FUND BALANCES	(27,900)	-	77,983	77,983
FUND BALANCES - BEGINNING	<u>135,253</u>	<u>135,253</u>	<u>135,253</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 107,353</u>	<u>\$ 135,253</u>	<u>\$ 213,236</u>	<u>\$ 77,983</u>

Township of Saugatuck
BUDGETARY COMPARISON SCHEDULE - Road Fund
Year ended June 30, 2011

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Property taxes	\$ 520,000	\$ 520,000	\$ 489,506	\$ (30,494)
Interest	<u>1,000</u>	<u>1,000</u>	<u>432</u>	<u>(568)</u>
Total revenues	521,000	521,000	489,938	(31,062)
EXPENDITURES				
Public works	<u>642,000</u>	<u>642,000</u>	<u>539,458</u>	<u>102,542</u>
NET CHANGES IN FUND BALANCES	(121,000)	(121,000)	(49,520)	71,480
FUND BALANCES - BEGINNING	<u>493,005</u>	<u>493,005</u>	<u>493,005</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 372,005</u>	<u>\$ 372,005</u>	<u>\$ 443,485</u>	<u>\$ 71,480</u>

Township of Saugatuck
SCHEDULE OF FUNDING PROGRESS - Employee Retirement System
(Municipal Employees' Retirement System of Michigan)

<u>Actuarial valuation date</u> <i>December 31,</i>	<u>Actuarial value of assets</u> <i>(a)</i>	<u>Actuarial accrued liability (AAL) entry age</u> <i>(b)</i>	<u>Unfunded AAL (UAAL)</u> <i>(b-a)</i>	<u>Funded ratio</u> <i>(a/b)</i>	<u>Covered payroll</u> <i>(c)</i>	<u>UAAL as a percentage of covered payroll</u> <i>((b-a)/c)</i>
2008	\$ 308,823	\$ 707,972	\$ 399,149	44%	\$ 187,106	213%
2009	307,604	718,386	410,782	43%	189,563	217%
2010	310,865	739,306	428,441	42%	195,256	219%

Note to schedule:

- The 2010 valuation reflects the following changes in the actuarial assumptions:
- Temporary lower wage inflation assumption of 1.00% for the years 2011 through 2014, instead of 4.50%
 - Final average compensation assumption increase is now 0.00%.

SUPPLEMENTARY INFORMATION

Township of Saugatuck
COMBINING BALANCE SHEET - nonmajor governmental funds
 June 30, 2011

	<u>Special revenue funds</u>			<u>Totals</u>
	<u>Cemetery</u>	<u>Ambulance</u>	<u>Legal and Planning</u>	
ASSETS				
Cash	\$ 77,330	\$ 3,848	\$ 30,685	\$ 111,863
Investments	68,228	-	-	68,228
Total assets	<u>\$ 145,558</u>	<u>\$ 3,848</u>	<u>\$ 30,685</u>	<u>\$ 180,091</u>
LIABILITIES AND FUND BALANCES				
Payables	\$ 1,844	\$ 45	\$ 30,685	\$ 32,574
Fund balances:				
Restricted:				
General government	143,714	-	-	143,714
Health and welfare	-	3,803	-	3,803
Total fund balances	<u>143,714</u>	<u>3,803</u>	<u>-</u>	<u>147,517</u>
Total liabilities and fund balances	<u>\$ 145,558</u>	<u>\$ 3,848</u>	<u>\$ 30,685</u>	<u>\$ 180,091</u>

Township of Saugatuck

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - nonmajor governmental funds

Year ended June 30, 2011

	<u>Special revenue funds</u>			<u>Totals</u>
	<u>Cemetery</u>	<u>Ambulance</u>	<u>Legal and Planning</u>	
REVENUES				
Property taxes	\$ 36,701	\$ 9,269	\$ 122,369	\$ 168,339
Contributions from local units	19,894	-	-	19,894
Charges for services	8,120	-	-	8,120
Interest	169	-	4	173
	<u>64,884</u>	<u>9,269</u>	<u>122,373</u>	<u>196,526</u>
Total revenues				
EXPENDITURES				
General government	74,174	-	191,965	266,139
Health and welfare	-	6,394	-	6,394
Community and economic development	-	-	11,369	11,369
	<u>74,174</u>	<u>6,394</u>	<u>203,334</u>	<u>283,902</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,290)	2,875	(80,961)	(87,376)
OTHER FINANCING SOURCES				
Transfer in - General Fund	-	-	80,961	80,961
	<u>-</u>	<u>-</u>	<u>80,961</u>	<u>80,961</u>
NET CHANGES IN FUND BALANCES	(9,290)	2,875	-	(6,415)
FUND BALANCES - BEGINNING	<u>153,004</u>	<u>928</u>	<u>-</u>	<u>153,932</u>
FUND BALANCES - ENDING	<u>\$ 143,714</u>	<u>\$ 3,803</u>	<u>\$ -</u>	<u>\$ 147,517</u>

Township of Saugatuck
SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$755,000 1998 SPECIAL ASSESSMENT LIMITED TAX BONDS
June 30, 2011

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>October 1</u>	<u>April 1</u>			
2012	\$ 810	\$ 810	4/01/12	\$ 50,000	\$ 51,620
2013	675	675	4/01/13	50,000	51,350
2014	540	540	4/01/14	50,000	51,080
2015	405	405	4/01/15	50,000	50,810
2016	270	270	4/01/16	50,000	50,540
2017	135	135	4/01/17	50,000	50,270
	<u>\$ 2,835</u>	<u>\$ 2,835</u>		<u>\$ 300,000</u>	<u>\$ 305,670</u>

Township of Saugatuck
SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$520,000 1998 WATER SUPPLY SYSTEM REVENUE BONDS
June 30, 2011

<i>Fiscal period</i>	<i>Interest requirements</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
	<i>October 1</i>	<i>April 1</i>			
2012	\$ 675	\$ 675	4/01/12	\$ 35,000	\$ 36,350
2013	581	581	4/01/13	35,000	36,162
2014	486	486	4/01/14	40,000	40,972
2015	378	378	4/01/15	40,000	40,756
2016	270	270	4/01/16	50,000	50,540
2017	135	135	4/01/17	50,000	50,270
	<u>\$ 2,525</u>	<u>\$ 2,525</u>		<u>\$ 250,000</u>	<u>\$ 255,050</u>

Township of Saugatuck
SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$1,385,000 2002 SPECIAL ASSESSMENT LIMITED TAX BONDS
June 30, 2011

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>October 1</u>	<u>April 1</u>			
2012	\$ 19,331	\$ 19,331	4/01/12	\$ 75,000	\$ 113,662
2013	17,738	17,738	4/01/13	75,000	110,476
2014	16,106	16,106	4/01/14	75,000	107,212
2015	14,419	14,419	4/01/15	75,000	103,838
2016	12,713	12,713	4/01/16	75,000	100,426
2017	10,969	10,969	4/01/17	75,000	96,938
2018	9,206	9,206	4/01/18	75,000	93,412
2019	7,425	7,425	4/01/19	75,000	89,850
2020	5,625	5,625	4/01/20	75,000	86,250
2021	3,750	3,750	4/01/21	75,000	82,500
2022	1,875	1,875	4/01/22	75,000	78,750
	<u>\$ 119,157</u>	<u>\$ 119,157</u>		<u>\$ 825,000</u>	<u>\$ 1,063,314</u>