

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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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	<u>9,224,878</u>	<u>8,739,565</u>
Liabilities		
Current liabilities	88,437	318,417
Long-term liabilities	981,484	400,308
Total liabilities	<u>1,069,921</u>	<u>718,725</u>
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
	<u>\$ 8,154,957</u>	<u>\$ 8,020,840</u>

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	<u>2,854,268</u>	<u>2,882,022</u>

	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

	<u>Governmental Activities</u>	<u>Component Unit Downtown Development Authority</u>
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

	Governmental Activities	Component Unit Downtown Development Authority
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	1,953,436	36,632
Change in net assets	134,117	5,638
Net assets, beginning of year	8,020,840	57,431
Net assets, end of year	\$ 8,154,957	\$ 63,069

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

	General Fund	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
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
Total assets	\$ 2,730,641	\$ 231,111	\$ 591,081	\$ 3,552,833
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
Total liabilities	180,569	1,787	6,265	188,621
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
Total fund balances	2,550,072	229,324	584,816	3,364,212
Total liabilities and fund balances	\$ 2,730,641	\$ 231,111	\$ 591,081	\$ 3,552,833

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 *governmental activities* 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
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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
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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)
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Net assets of governmental activities	<u>\$ 8,154,957</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 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 \$ 134,117

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>	<u>-</u>
Total other financing sources (uses)	<u>(260,500)</u>	<u>(260,500)</u>	<u>(260,500)</u>	<u>-</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>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,980,239</u></u>	<u><u>\$ 1,980,239</u></u>	<u><u>\$ 2,550,072</u></u>	<u><u>\$ 569,833</u></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 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><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 Revenue, Expenses and Changes in Fund Net Assets Proprietary Fund For the Year Ended June 30, 2011

	Internal Service Fund
	<u>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>\$ 256,718</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 <hr/> Motor Pool
Cash flows from operating activities	
Receipts from interfund services provided	\$ 26,000
Payments to suppliers	(22,467)
	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	500
	(1,553)
Cash and cash equivalents, beginning of year	94,053
	\$ 92,500
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	143
	3,533
Net cash provided by operating activities	\$ 3,533

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	<u>\$ 144,360</u>	<u>\$ 14,733</u>	<u>\$ 136,018</u>	<u>\$ 295,111</u>

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	<u>281,414</u>	<u>64,082</u>	<u>(178,140)</u>	<u>167,356</u>
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	<u>9,368,677</u>	<u>337,617</u>	<u>23,812</u>	<u>9,682,482</u>
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	<u>(3,873,824)</u>	<u>(432,769)</u>	<u>23,812</u>	<u>(4,282,781)</u>
Net capital assets, being depreciated	<u>5,494,853</u>	<u>(95,152)</u>	<u>-</u>	<u>5,399,701</u>
Net governmental activities capital assets	<u>\$ 5,776,267</u>	<u>\$ (31,070)</u>	<u>\$ (178,140)</u>	<u>\$ 5,567,057</u>

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	58,320
Total depreciation expense	\$ 432,769

5. PAYABLES, AND ACCRUED LIABILITIES

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

Fund	Accounts	Payroll	Totals
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	753	-	753
Subtotal	\$ 59,216	\$ 23,448	82,664
Accrued interest on long-term debt			4,063
Total			\$ 86,727

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:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
<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:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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.

Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
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:			
	General Fund	Major Streets	Nonmajor governmental funds	Total
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
	5,567,057
Related debt:	
Total bonds and notes payable	699,118
Invested in capital assets, net of capital-related debt	\$ 4,867,939

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 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
<u>-</u>	<u>4,610</u>	<u>6,265</u>
-	-	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.

