

City of the Village  
of Douglas,  
Michigan



Year Ended  
June 30, 2012

Financial  
Statements

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT**

November 12, 2012

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 aggregate discretely presented component units, 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, 2012, 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 aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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 and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of the Village of Douglas  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

As management of the City of the Village of Douglas, we offer readers of the City of the Village of Douglas' financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2012. 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, 2012:

- Additional emphasis placed on investing in certificate of deposits covered by FDIC Insurance; however interest rates declined due to the Federal Reserve keeping interest rates at historic lows.
- 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 47% and 27% 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 decreased approximately \$35,000 from the prior year and General Fund expenditures increased approximately \$360,000, \$285,000 of which is attributable to pension payments to reduce the City's unfunded liability.
- Total governmental fund balances decreased by \$18,970 including a \$97,260 increase 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.

City of the Village of Douglas  
MANGAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

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 units are the Downtown Development Authority and the Water Resource Improvement Tax Increment Finance Authority. Financial information for the component units are reported separately from the financial information presented for the primary government itself.

**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 seven 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 Blue Star Bridge Fund, each of which are considered to be major funds. Data from the other five 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.

**Proprietary funds.** 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.

**Fiduciary funds.** 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.

**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.

City of the Village of Douglas  
MANGAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and schedules of funding progress and employer contributions for the City's pension plan.

**The City as a Whole**

The following table shows, in a condensed format, the net assets as of June 30, 2012 and 2011, respectively.

|   | <u>Governmental Activities</u> |                     |
|---|--------------------------------|---------------------|
|   | <u>2012</u>                    | <u>2011</u>         |
| <b>Assets</b>                                   |                                |                     |
| Current and other assets                        | \$ 4,073,823                   | \$ 3,657,821        |
| Capital assets, net                             | 8,580,081                      | 5,567,057           |
| <b>Total assets</b>                             | <u>12,653,904</u>              | <u>9,224,878</u>    |
| <b>Liabilities</b>                              |                                |                     |
| Current liabilities                             | 198,414                        | 88,437              |
| Long-term liabilities                           | 954,651                        | 981,484             |
| <b>Total liabilities</b>                        | <u>1,153,065</u>               | <u>1,069,921</u>    |
| <b>Net assets</b>                               |                                |                     |
| Invested in capital assets, net of related debt | 7,958,138                      | 4,867,939           |
| Restricted                                      | 641,846                        | 754,300             |
| Unrestricted                                    | 2,900,855                      | 2,532,718           |
| <b>Total net assets</b>                         | <u>\$ 11,500,839</u>           | <u>\$ 8,154,957</u> |

The City's total net assets were \$11,500,839 at June 30, 2012, representing an increase of \$3,345,882 from the prior year, primarily due to the grant funding for the rehabilitation of Blue Star Highway Bridge. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$2,900,855 at the end of the fiscal year, representing an increase of \$368,137 from the prior year.

City of the Village of Douglas  
MANGAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

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

|                                    | <b>Governmental Activities</b> |                     |
|------------------------------------|--------------------------------|---------------------|
|                                    | <b>2012</b>                    | <b>2011</b>         |
| <b>Revenue</b>                     |                                |                     |
| Program revenues:                  |                                |                     |
| Charges for services               | \$ 587,084                     | \$ 626,107          |
| Operating grants and contributions | 278,337                        | 152,139             |
| Capital grants and contributions   | 3,088,349                      | 122,586             |
| General revenues:                  |                                |                     |
| Property taxes                     | 1,788,389                      | 1,823,754           |
| State shared revenue               | 90,866                         | 83,116              |
| Investment earnings                | 10,558                         | 15,140              |
| Other                              | 47,639                         | 31,426              |
| <b>Total revenues</b>              | <b>5,891,222</b>               | <b>2,854,268</b>    |
| <b>Program Expenses:</b>           |                                |                     |
| General government                 | 599,114                        | 749,854             |
| Public safety                      | 899,738                        | 843,915             |
| Public works                       | 748,865                        | 810,775             |
| Community and economic development | 160,923                        | 164,215             |
| Cultural and recreation            | 106,906                        | 124,156             |
| Interest on long-term debt         | 29,794                         | 27,236              |
| <b>Total expenses</b>              | <b>2,545,340</b>               | <b>2,720,151</b>    |
| Increase (decrease) in net assets  | 3,345,882                      | 134,117             |
| Net assets, beginning of year      | 8,154,957                      | 8,020,840           |
| <b>Net assets, end of year</b>     | <b>\$ 11,500,839</b>           | <b>\$ 8,154,957</b> |

**Governmental Activities**

The City's governmental revenues totaled \$5,891,222, which represents an increase of \$3,036,954 from the prior year, due to grant funding received for the rehabilitation of the Blue Star Highway Bridge. Excluding that one time grant, the greatest revenue source is property taxes. Over the past several years, property tax income 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 \$2,545,340, which represents an increase of \$174,811 from the prior year. The largest area of governmental expense is the public safety function which showed an increase 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.

City of the Village of Douglas  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

The net assets of the governmental activities increased by \$3,345,882, of which, the significant portion of change in net assets is from the grant received for the rehabilitation of the Blue Star Bridge. The project is almost entirely completed at the end of the fiscal year, so next year's change in assets will be significantly lower.

**Fund Level Financial Statements of the City's Funds**

The General Fund pays for most of the City's governmental services. The most significant services provided 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 \$940,606 and \$612,377 respectively, for the fiscal year ending June 30th, 2012.

The other Major Fund is the Blue Star Bridge Fund which records the expenditures incurred related to the rehabilitation of Blue Star Bridge.

**General Fund Budgetary Highlights**

The city underestimated budgeted revenue by \$64,310 and expended \$235,054 less than budgeted expenditures for the General Fund for fiscal year ending June 30, 2012. The General Fund's expenditures for general government, public safety, and public works were under budget by \$63,913, \$54,294 and \$60,978 respectively. The City's General Fund, after budget amendments, was budgeted for a decrease in fund balance of \$201,180 fund balance actually increased by \$97,260. The General Fund had budgeted monies for some projects that were not completed in the fiscal year ending June 30, 2012 creating the large budget variances and the increase to fund balance.

**Capital Asset and Debt Administration**

At the end of the fiscal year, the City had \$8,580,081 invested in a broad range of capital assets, including buildings, land, equipment, and infrastructure. The city incurred depreciation expense of \$420,204 for the current fiscal year. Additional information on the City's capital assets can be found in Note 5 of this report.

During the current year the City paid \$77,175 in principal on installment purchase debt. The City has \$954,651 of long-term debt outstanding as of June 30, 2012, including \$109,197 of accumulated compensated absences. Of the \$954,651 of outstanding long-term debt \$425,921 is expected to be paid within the next fiscal year. Additional information on the City's long-term debt can be found in the Note 7 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 Millage 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, 2012

|   | Primary Government      | Component Units                |                                      |
|---|-------------------------|--------------------------------|--------------------------------------|
|   | Governmental Activities | Downtown Development Authority | Water Resource Improvement Authority |
| <b>Assets</b>                                   |                         |                                |                                      |
| Cash and cash equivalents                       | \$ 1,782,718            | \$ 63,498                      | \$ -                                 |
| Investments                                     | 1,552,420               | -                              | -                                    |
| Receivables                                     | 433,459                 | -                              | 34,683                               |
| Prepays and other assets                        | 20,226                  | 2,088                          | -                                    |
| Net pension asset                               | 285,000                 | -                              | -                                    |
| Capital assets:                                 |                         |                                |                                      |
| Not being depreciated                           | 3,462,848               | -                              | -                                    |
| Being depreciated, net                          | 5,117,233               | -                              | -                                    |
| <b>Total assets</b>                             | <b>12,653,904</b>       | <b>65,586</b>                  | <b>34,683</b>                        |
| <b>Liabilities</b>                              |                         |                                |                                      |
| Negative equity in pooled cash                  | -                       | -                              | 25,803                               |
| Payables and accrued liabilities                | 123,843                 | 949                            | -                                    |
| Due to other governments                        | 74,571                  | 1,092                          | 6,527                                |
| Unearned revenue                                | -                       | 3,525                          | -                                    |
| Long-term debt:                                 |                         |                                |                                      |
| Due within one year                             | 425,921                 | -                              | -                                    |
| Due in more than one year                       | 528,730                 | -                              | -                                    |
| <b>Total liabilities</b>                        | <b>1,153,065</b>        | <b>5,566</b>                   | <b>32,330</b>                        |
| <b>Net assets</b>                               |                         |                                |                                      |
| Invested in capital assets, net of related debt | 7,958,138               | -                              | -                                    |
| Restricted for:                                 |                         |                                |                                      |
| Highways and streets                            | 405,585                 | -                              | -                                    |
| Capital improvements                            | 236,261                 | -                              | -                                    |
| Unrestricted                                    | 2,900,855               | 60,020                         | 2,353                                |
| <b>Total net assets</b>                         | <b>\$ 11,500,839</b>    | <b>\$ 60,020</b>               | <b>\$ 2,353</b>                      |

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, 2012

| Functions / Programs                                       | Expenses            | Program Revenues     |                                    | Capital Grants and Contributions | Net (Expense) Revenue |
|--|---------------------|----------------------|------------------------------------|----------------------------------|-----------------------|
|  |                     | Charges for Services | Operating Grants and Contributions |                                  |                       |
| <b>Governmental activities</b>                             |                     |                      |                                    |                                  |                       |
| General government   | \$ 599,114          | \$ 42,059            | \$ 1,425                           | \$ -                             | \$ (555,630)          |
| Public safety  | 899,738             | 530,697              | 7,364                              | -                                | (361,677)             |
| Public works   | 748,865             | 621                  | 269,548                            | 3,088,349                        | 2,609,653             |
| Community and economic development                         | 160,923             | 4,250                | -                                  | -                                | (156,673)             |
| Recreation and culture                                     | 106,906             | 9,457                | -                                  | -                                | (97,449)              |
| Interest on long-term debt                                 | 29,794              | -                    | -                                  | -                                | (29,794)              |
| <b>Total governmental activities</b>                       | <b>\$ 2,545,340</b> | <b>\$ 587,084</b>    | <b>\$ 278,337</b>                  | <b>\$ 3,088,349</b>              | <b>\$ 1,408,430</b>   |
| <b>Component unit</b>                                      |                     |                      |                                    |                                  |                       |
| Downtown Development Authority                             | \$ 40,363           | \$ -                 | \$ 19,556                          | \$ -                             | \$ (20,807)           |
| Water Resource Improvement Tax Increment Finance Authority | 25,803              | 28,156               | -                                  | -                                | 2,353                 |
| <b>Total component units</b>                               | <b>\$ 66,166</b>    | <b>\$ 28,156</b>     | <b>\$ 19,556</b>                   | <b>\$ -</b>                      | <b>\$ (18,454)</b>    |

continued...

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Statement of Activities For the Year Ended June 30, 2012

|                                | Primary Government      | Component Units                |                                      |
|--------------------------------|-------------------------|--------------------------------|--------------------------------------|
|                                | Governmental Activities | Downtown Development Authority | Water Resource Improvement Authority |
| Changes in net assets          |                         |                                |                                      |
| Net (expense) revenue          | \$ 1,408,430            | \$ (20,807)                    | \$ 2,353                             |
| General revenues:              |                         |                                |                                      |
| Property taxes                 | 1,788,389               | 17,508                         | -                                    |
| State shared revenues          | 90,866                  | -                              | -                                    |
| Unrestricted investment income | 10,558                  | 250                            | -                                    |
| Other general revenue          | 47,639                  | -                              | -                                    |
| Total general revenues         | 1,937,452               | 17,758                         | -                                    |
| Change in net assets           | 3,345,882               | (3,049)                        | 2,353                                |
| Net assets, beginning of year  | 8,154,957               | 63,069                         | -                                    |
| Net assets, end of year        | \$ 11,500,839           | \$ 60,020                      | \$ 2,353                             |

concluded

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

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# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Balance Sheet

Governmental Funds

June 30, 2012

|  | General Fund        | Blue Star Bridge Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------|-----------------------------|--------------------------|
| <b>Assets</b>                              |                     |                       |                             |                          |
| Cash and cash equivalents                  | \$ 996,983          | \$ 132,200            | \$ 507,105                  | \$ 1,636,288             |
| Investments                                | 1,552,420           | -                     | -                           | 1,552,420                |
| Accounts receivable                        | 5,780               | -                     | -                           | 5,780                    |
| Due from other governments                 | 246,134             | -                     | 20,070                      | 266,204                  |
| Interest receivable                        | 1,015               | -                     | -                           | 1,015                    |
| Deposits with others                       | -                   | -                     | 160,460                     | 160,460                  |
| Prepays                                    | 7,494               | -                     | 1,594                       | 9,088                    |
| <b>Total assets</b>                        | <b>\$ 2,809,826</b> | <b>\$ 132,200</b>     | <b>\$ 689,229</b>           | <b>\$ 3,631,255</b>      |
| <b>Liabilities</b>                         |                     |                       |                             |                          |
| Accounts payable                           | \$ 43,115           | \$ 47,015             | \$ 3,307                    | \$ 93,437                |
| Due to other governments                   | 1,849               | 71,504                | 1,218                       | 74,571                   |
| Accrued liabilities                        | 27,530              | -                     | 475                         | 28,005                   |
| Deferred revenue                           | 90,000              | -                     | -                           | 90,000                   |
| <b>Total liabilities</b>                   | <b>162,494</b>      | <b>118,519</b>        | <b>5,000</b>                | <b>286,013</b>           |
| <b>Fund balances (Note 10)</b>             |                     |                       |                             |                          |
| Nonspendable                               | 7,494               | -                     | 1,594                       | 9,088                    |
| Restricted                                 | -                   | 13,681                | 626,571                     | 640,252                  |
| Committed                                  | 935,230             | -                     | 56,064                      | 991,294                  |
| Assigned                                   | 472,141             | -                     | -                           | 472,141                  |
| Unassigned                                 | 1,232,467           | -                     | -                           | 1,232,467                |
| <b>Total fund balances</b>                 | <b>2,647,332</b>    | <b>13,681</b>         | <b>684,229</b>              | <b>3,345,242</b>         |
| <b>Total liabilities and fund balances</b> | <b>\$ 2,809,826</b> | <b>\$ 132,200</b>     | <b>\$ 689,229</b>           | <b>\$ 3,631,255</b>      |

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

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Reconciliation

Fund Balances for Governmental Funds  
to Net Assets of Governmental Activities  
June 30, 2012

Fund balances - total governmental funds \$ 3,345,242

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                      | 3,462,848 |
| Capital assets being depreciated, net                     | 5,117,233 |
| Capital assets accounted for in the internal service fund | (106,160) |

Some items are recorded as revenues and expenditures in the fund statements when paid or when received. These items are recorded on the government-wide statements when incurred in the case of expenditures and when revenues are earned.

|                     |         |
|---------------------|---------|
| Net pension asset   | 285,000 |
| Deferred receivable | 90,000  |

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 | 252,331 |
|--|---------|

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                           | (621,943) |
| Litigation settlement                    | (223,511) |
| Unamortized deferred bond issuance costs | 11,138    |
| Compensated absences                     | (109,197) |
| Accrued interest on long-term debt       | (2,142)   |

Net assets of governmental activities \$ 11,500,839

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, 2012

|   | General Fund     | Blue Star Bridge Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|------------------|-----------------------|-----------------------------|--------------------------|
| <b>Revenues</b>                             |                  |                       |                             |                          |
| Taxes                                       | \$ 1,788,389     | \$ -                  | \$ -                        | \$ 1,788,389             |
| Licenses and permits                        | 45,544           | -                     | -                           | 45,544                   |
| Intergovernmental                           | 709,964          | -                     | 171,490                     | 881,454                  |
| Charges for services                        | 42,144           | -                     | 9,457                       | 51,601                   |
| Fines and forfeitures                       | 5,763            | -                     | -                           | 5,763                    |
| Interest revenue                            | 9,729            | -                     | 829                         | 10,558                   |
| Rentals                                     | 500              | -                     | -                           | 500                      |
| Other revenue                               | 40,077           | -                     | 8,487                       | 48,564                   |
| <b>Total revenues</b>                       | <b>2,642,110</b> | <b>-</b>              | <b>190,263</b>              | <b>2,832,373</b>         |
| <b>Expenditures</b>                         |                  |                       |                             |                          |
| Current:                                    |                  |                       |                             |                          |
| General government                          | 612,377          | -                     | -                           | 612,377                  |
| Public safety                               | 940,606          | -                     | -                           | 940,606                  |
| Public works                                | 191,922          | -                     | 308,803                     | 500,725                  |
| Community and economic development          | 209,373          | -                     | -                           | 209,373                  |
| Recreation and culture                      | 89,627           | -                     | 8,542                       | 98,169                   |
| Other functions                             | 25,664           | -                     | -                           | 25,664                   |
| Debt service:                               |                  |                       |                             |                          |
| Principal                                   | 77,175           | -                     | -                           | 77,175                   |
| Interest                                    | 30,180           | 185                   | -                           | 30,365                   |
| Capital outlay                              | 58,854           | 239,979               | 58,056                      | 356,889                  |
| <b>Total expenditures</b>                   | <b>2,235,778</b> | <b>240,164</b>        | <b>375,401</b>              | <b>2,851,343</b>         |
| Revenues over (under) expenditures          | 406,332          | (240,164)             | (185,138)                   | (18,970)                 |
| <b>Other financing sources (uses)</b>       |                  |                       |                             |                          |
| Transfers in                                | 13,428           | -                     | 322,500                     | 335,928                  |
| Transfers out                               | (322,500)        | -                     | (13,428)                    | (335,928)                |
| <b>Total other financing sources (uses)</b> | <b>(309,072)</b> | <b>-</b>              | <b>309,072</b>              | <b>-</b>                 |
| Net changes in fund balances                | 97,260           | (240,164)             | 123,934                     | (18,970)                 |
| Fund balances, beginning of year            | 2,550,072        | 253,845               | 560,295                     | 3,364,212                |
| Fund balances, end of year                  | \$ 2,647,332     | \$ 13,681             | \$ 684,229                  | \$ 3,345,242             |

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

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Assets of Governmental Activities  
For the Year Ended June 30, 2012

Net changes in fund balances - total governmental funds \$ (18,970)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

|   |           |
|---|-----------|
| Purchases of capital assets                                     | 359,379   |
| Donated capital assets  | 3,073,849 |
| Depreciation expense  | (420,204) |
| Depreciation expense accounted for in the internal service fund | 58,811    |

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) |
|--|----------|

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 | 77,175 |
|---|--------|

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

|   |          |
|---|----------|
| Net pension asset                       | 285,000  |
| Accrued interest on bonds               | 1,921    |
| Accrual for compensated absences        | (30,769) |
| Amortization of deferred issuance costs | (1,350)  |
| Accrual for litigation settlement       | (19,573) |

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  | (5,387) |
| Interest income from governmental activities in the internal service fund | 1,000   |

|   |                     |
|---|---------------------|
| Change in net assets of governmental activities | <u>\$ 3,345,882</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 - General Fund

For the Year Ended June 30, 2012

|                                    | Original<br>Budget | Final<br>Budget  | Actual           | Actual Over<br>(Under) Final<br>Budget |
|------------------------------------|--------------------|------------------|------------------|--|
| <b>Revenue</b>                     |                    |                  |                  |  |
| Taxes                              | \$ 1,776,100       | \$ 1,778,100     | \$ 1,788,389     | \$ 10,289                              |
| Licenses and permits               | 22,800             | 31,300           | 45,544           | 14,244                                 |
| Intergovernmental revenue          | 672,843            | 672,843          | 709,964          | 37,121                                 |
| Charges for services               | 42,057             | 42,057           | 42,144           | 87                                     |
| Fines and forfeitures              | 5,000              | 5,000            | 5,763            | 763                                    |
| Interest revenue                   | 12,000             | 12,000           | 9,729            | (2,271)                                |
| Rentals                            | 500                | 500              | 500              | -                                      |
| Other revenue                      | 26,000             | 36,000           | 40,077           | 4,077                                  |
| <b>Total revenues</b>              | <b>2,557,300</b>   | <b>2,577,800</b> | <b>2,642,110</b> | <b>64,310</b>                          |
| <b>Expenditures</b>                |                    |                  |                  |  |
| Current:                           |                    |                  |                  |  |
| General government                 |                    |                  |                  |  |
| City Council                       | 14,430             | 14,430           | 12,153           | (2,277)                                |
| Attorney                           | 45,000             | 45,000           | 20,333           | (24,667)                               |
| City manager                       | 116,050            | 116,050          | 111,562          | (4,488)                                |
| Assessing                          | 45,700             | 45,700           | 44,344           | (1,356)                                |
| Elections                          | 3,600              | 3,600            | 3,564            | (36)                                   |
| Buildings and grounds              | 73,950             | 75,510           | 51,419           | (24,091)                               |
| Clerk / Treasurer                  | 251,500            | 365,500          | 358,502          | (6,998)                                |
| Other                              | 10,500             | 10,500           | 10,500           | -                                      |
| <b>Total general government</b>    | <b>560,730</b>     | <b>676,290</b>   | <b>612,377</b>   | <b>(63,913)</b>                        |
| Public safety                      |                    |                  |                  |  |
| Police department                  | 937,900            | 994,900          | 940,606          | (54,294)                               |
| Public works                       |                    |                  |                  |  |
| Department of public works         | 227,000            | 252,900          | 191,922          | (60,978)                               |
| Community and economic development |                    |                  |                  |  |
| Planning and zoning                | 169,850            | 223,550          | 209,373          | (14,177)                               |
| Recreation and culture             |                    |                  |                  |  |
| Parks department                   | 126,500            | 124,340          | 89,627           | (34,713)                               |
| Other                              |                    |                  |                  |  |
| Insurance                          | 27,500             | 27,500           | 23,933           | (3,567)                                |
| Other                              | 2,000              | 2,000            | 1,731            | (269)                                  |
| <b>Total other</b>                 | <b>29,500</b>      | <b>29,500</b>    | <b>25,664</b>    | <b>(3,836)</b>                         |

continued...

# 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, 2012

|                                      | Original Budget     | Final Budget        | Actual              | Actual Over (Under) Final Budget |
|--------------------------------------|---------------------|---------------------|---------------------|----------------------------------|
| Expenditures (concluded)             |                     |                     |                     |                                  |
| Debt service                         |                     |                     |                     |                                  |
| Principal                            | \$ 85,000           | \$ 87,000           | \$ 77,175           | \$ (9,825)                       |
| Interest                             | 25,000              | 23,000              | 30,180              | 7,180                            |
| Total debt service                   | <u>110,000</u>      | <u>110,000</u>      | <u>107,355</u>      | <u>(2,645)</u>                   |
| Capital outlay                       | <u>36,500</u>       | <u>59,352</u>       | <u>58,854</u>       | <u>(498)</u>                     |
| Total expenditures                   | <u>2,197,980</u>    | <u>2,470,832</u>    | <u>2,235,778</u>    | <u>(235,054)</u>                 |
| Revenues over (under) expenditures   | <u>359,320</u>      | <u>106,968</u>      | <u>406,332</u>      | <u>299,364</u>                   |
| Other financing sources (uses)       |                     |                     |                     |                                  |
| Transfers in                         | 4,500               | 14,352              | 13,428              | (924)                            |
| Transfers out                        | <u>(322,500)</u>    | <u>(322,500)</u>    | <u>(322,500)</u>    | <u>-</u>                         |
| Total other financing sources (uses) | <u>(318,000)</u>    | <u>(308,148)</u>    | <u>(309,072)</u>    | <u>(924)</u>                     |
| Net change in fund balance           | 41,320              | (201,180)           | 97,260              | 298,440                          |
| Fund balance, beginning of year      | <u>2,550,072</u>    | <u>2,550,072</u>    | <u>2,550,072</u>    | <u>-</u>                         |
| Fund balance, end of year            | <u>\$ 2,591,392</u> | <u>\$ 2,348,892</u> | <u>\$ 2,647,332</u> | <u>\$ 298,440</u>                |

concluded

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, 2012

|                                       | Internal<br>Service<br>Fund |
|---------------------------------------|-----------------------------|
| <b>Assets</b>                         |                             |
| Current assets:                       |                             |
| Cash and cash equivalents             | \$ 146,430                  |
| Capital assets:                       |                             |
| Capital assets being depreciated, net | <u>106,160</u>              |
| <b>Total assets</b>                   | <u>252,590</u>              |
| <b>Liabilities</b>                    |                             |
| Current liabilities:                  |                             |
| Accounts payable                      | <u>259</u>                  |
| <b>Net assets</b>                     |                             |
| Invested in capital assets            | 106,160                     |
| Unrestricted                          | <u>146,171</u>              |
| <b>Total net assets</b>               | <u><u>\$ 252,331</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, 2012

|                               | Internal<br>Service<br>Fund |
|-------------------------------|-----------------------------|
| Operating revenue             |                             |
| Charges for services          | \$ 72,500                   |
| Operating expenses            |                             |
| Operating supplies            | 19,076                      |
| Depreciation                  | 58,811                      |
| Total operating expenses      | <u>77,887</u>               |
| Operating loss                | (5,387)                     |
| Nonoperating revenue          |                             |
| Interest income               | <u>1,000</u>                |
| Change in net assets          | (4,387)                     |
| Net assets, beginning of year | <u>256,718</u>              |
| Net assets, end of year       | <u><u>\$ 252,331</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, 2012

|  | Internal<br>Service<br>Fund |
|--|-----------------------------|
| Cash flows from operating activities   |                             |
| Receipts from interfund services provided  | \$ 72,500                   |
| Payments to suppliers  | <u>(19,570)</u>             |
| Net cash provided by operating activities  | 52,930                      |
| Cash flows from investing activities   |                             |
| Interest earned on investments   | <u>1,000</u>                |
| Net increase in cash and cash equivalents  | 53,930                      |
| Cash and cash equivalents, beginning of year   | <u>92,500</u>               |
| Cash and cash equivalents, end of year   | <u><u>\$ 146,430</u></u>    |
| Cash flows from operating activities   |                             |
| Operating loss   | \$ (5,387)                  |
| Adjustments to reconcile operating loss<br>to net cash provided by operating activities: |                             |
| Depreciation   | 58,811                      |
| Changes in operating assets and liabilities<br>which provided cash:                      |                             |
| Accounts payable   | <u>(494)</u>                |
| Net cash provided by operating activities  | <u><u>\$ 52,930</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, 2012

|                           | Tax<br>Collection<br>Fund |
|---------------------------|---------------------------|
| Assets                    |                           |
| Cash and cash equivalents | \$ 1,467                  |
| Liabilities               |                           |
| Undistributed receipts    | \$ 1,467                  |

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

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## NOTES TO FINANCIAL STATEMENTS

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of the Village of Douglas (the "City") 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 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. The accompanying financial statements present the entity for which the government is considered to be financially accountable. Criteria for including a component unit include entities for which the City is considered to be financially accountable.

#### *Discretely Presented Component Units*

*Downtown Development Authority* - 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.

*Water Resource Improvement Tax Increment Finance Authority* - The Water Resource Improvement Tax Increment Finance Authority was created to obtain funding to maintain the Kalamazoo River harbor. The governing body of the 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### *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, 2012, the City made no contributions to the District. Complete audited financial statements for the District can be obtained from the Township of Saugatuck’s Clerk.

#### 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, 2012, the City made no contributions to the Authority.

#### 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, 2012, the City made no contributions 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, 2012.

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*.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

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. 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 accounted for and reported in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The *Blue Star Bridge Fund* accounts for the construction activities related to the rehabilitation of the Blue Star Bridge.

Additionally, the City reports the following fund types:

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *capital project funds* account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *internal service fund* is used to account for motor pool revenues and expenditures, which are used by other departments.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

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.

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. Operating 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 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, 2012. 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### 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.

### Investments

Investments consist of a pooled investment fund and are recorded in the City's records at fair value.

### Receivables

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

### Deposits with Others

The City has deposits held with the Kalamazoo Lake Sewer and Water Authority for sewer and water connections.

### 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:

|                         | Years |
|-------------------------|-------|
| Buildings               | 40    |
| Improvements            | 10-15 |
| Infrastructure          | 10-40 |
| Machinery and equipment | 3-10  |

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### 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, 2012, 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.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### 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.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

## 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2012, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

|              | Total<br>Appropriations | Amount of<br>Expenditures | Budget<br>Variance |
|--------------|-------------------------|---------------------------|--------------------|
| General Fund |                         |                           |                    |
| Interest     | \$ 23,000               | \$ 30,180                 | \$ 7,180           |

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### 3. DEPOSITS AND INVESTMENTS

Deposits and investments are recorded in the financial statements at June 30, 2012, as follows:

|                                | Governmental<br>Activities | Agency<br>Fund  | Component<br>Units | Total               |
|--------------------------------|----------------------------|-----------------|--------------------|---------------------|
| Cash and cash equivalents      | \$ 1,782,718               | \$ 1,467        | \$ 63,498          | \$ 1,847,683        |
| Investments                    | 1,552,420                  | -               | -                  | 1,552,420           |
| Negative equity in pooled cash | -                          | -               | (25,803)           | (25,803)            |
| <b>Total</b>                   | <b>\$ 3,335,138</b>        | <b>\$ 1,467</b> | <b>\$ 37,695</b>   | <b>\$ 3,374,300</b> |

Deposits and investments consist of the following at June 30, 2012:

|   |                     |
|---|---------------------|
| Bank deposits                                 | \$ 386,637          |
| Certificates of deposit (due within one year) | 1,552,948           |
| Investments                                   | 1,434,715           |
| <b>Total</b>                                  | <b>\$ 3,374,300</b> |

#### Deposits

These deposits and investments are in eleven (11) 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, \$293,665 of the City's bank balance of \$1,946,084 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

- 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:

|                    | Maturity | Fair Value          | Rating    |
|--------------------|----------|---------------------|-----------|
| Investment         |          |                     |           |
| MBIA Class Fund    | Various  | \$ 1,080,071        | S&P / AAA |
| Money Market Funds | Various  | <u>354,644</u>      | Unrated   |
| Total              |          | <u>\$ 1,434,715</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

### 4. RECEIVABLES AND DEFERRED REVENUE

At June 30, 2012, the City's receivables were as follows:

|                            | General Fund      | Nonmajor Governmental Funds | Totals            |
|----------------------------|-------------------|-----------------------------|-------------------|
| Accounts                   | \$ 5,780          | \$ -                        | \$ 5,780          |
| Due from other governments | 246,134           | 20,070                      | 266,204           |
| Interest                   | 1,015             | -                           | 1,015             |
| Deposits with others       | -                 | 160,460                     | 160,460           |
| <b>Total</b>               | <b>\$ 252,929</b> | <b>\$ 180,530</b>           | <b>\$ 433,459</b> |

Of the amounts reported for receivables above, an amount due from other governments of \$75,000 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 \$90,000.

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

|  | Beginning Balance   | Additions           | Disposals       | Ending Balance      |
|--|---------------------|---------------------|-----------------|---------------------|
| <b>Governmental Activities</b>                     |                     |                     |                 |                     |
| Capital assets, not being depreciated:             |                     |                     |                 |                     |
| Land   | \$ 93,800           | \$ -                | \$ -            | \$ 93,800           |
| Construction in progress                           | 73,556              | 3,295,492           | -               | 3,369,048           |
|  | <u>167,356</u>      | <u>3,295,492</u>    | <u>-</u>        | <u>3,462,848</u>    |
| Capital assets, being depreciated:                 |                     |                     |                 |                     |
| Buildings  | 804,362             | -                   | -               | 804,362             |
| Improvements                                       | 538,617             | 41,182              | -               | 579,799             |
| Machinery and equipment                            | 737,913             | 27,773              | (24,520)        | 741,166             |
| Infrastructure                                     | 7,601,590           | 68,781              | -               | 7,670,371           |
|  | <u>9,682,482</u>    | <u>137,736</u>      | <u>(24,520)</u> | <u>9,795,698</u>    |
| Less accumulated depreciation for:                 |                     |                     |                 |                     |
| Buildings  | (392,224)           | (36,619)            | -               | (428,843)           |
| Improvements                                       | (208,344)           | (27,599)            | -               | (235,943)           |
| Machinery and equipment                            | (502,611)           | (83,274)            | 24,520          | (561,365)           |
| Infrastructure                                     | (3,179,602)         | (272,712)           | -               | (3,452,314)         |
|  | <u>(4,282,781)</u>  | <u>(420,204)</u>    | <u>24,520</u>   | <u>(4,678,465)</u>  |
| Total capital assets being depreciated, net        | 5,399,701           | (282,468)           | -               | 5,117,233           |
| <b>Governmental activities capital assets, net</b> | <b>\$ 5,567,057</b> | <b>\$ 3,013,024</b> | <b>\$ -</b>     | <b>\$ 8,580,081</b> |

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

Depreciation expense was charged to functions/programs as follows:

|   |                   |
|---|-------------------|
| Depreciation of governmental activities by function |                   |
| General government                                  | \$ 34,767         |
| Public safety                                       | 16,218            |
| Public works  | 297,110           |
| Recreation and culture                              | 13,298            |
| Internal service fund                               | 58,811            |
|   | <u>58,811</u>     |
|   | <u>\$ 420,204</u> |

At June 30, 2012, the City had construction commitments in governmental activities to complete the rehabilitation of Blue Star Highway Bridge. The total outstanding construction commitments for the project totaled \$33,377.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At June 30, 2012, the City's payables and accrued liabilities were as follows:

|                                    | General Fund     | Blue Star Bridge Fund | Nonmajor Governmental Funds | Internal Service Fund | Totals            |
|------------------------------------|------------------|-----------------------|-----------------------------|-----------------------|-------------------|
| Accounts                           | \$ 43,115        | \$ 47,015             | \$ 3,307                    | \$ 259                | \$ 93,696         |
| Accrued liabilities                | <u>27,530</u>    | <u>-</u>              | <u>475</u>                  | <u>-</u>              | <u>28,005</u>     |
| Subtotal                           | <u>\$ 70,645</u> | <u>\$ 47,015</u>      | <u>\$ 3,782</u>             | <u>\$ 259</u>         | 121,701           |
| Accrued interest on long-term debt |                  |                       |                             |                       | <u>2,142</u>      |
| Total                              |                  |                       |                             |                       | <u>\$ 123,843</u> |

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### 7. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2012:

|   | Beginning Balance | Additions         | Deductions          | Ending Balance    | Due Within One Year |
|---|-------------------|-------------------|---------------------|-------------------|---------------------|
| \$190,000 Loan agreement dated March 17, 2006 due in installments ranging from monthly \$689 to \$1,509 through March 1, 2021 with interest of 5.14%  | \$ 138,390        | \$ -              | \$ (10,380)         | \$ 128,010        | \$ 11,874           |
| \$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 1.24%   | 235,728           | -                 | (26,795)            | 208,933           | 36,339              |
| \$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 3.15% | 325,000           | -                 | (40,000)            | 285,000           | 45,000              |
| Subtotal installment debt   | 699,118           | -                 | (77,175)            | 621,943           | 93,213              |
| Litigation settlement   | 203,938           | 19,573            | -                   | 223,511           | 223,511             |
| Compensated absences  | 78,428            | 138,468           | (107,699)           | 109,197           | 109,197             |
| <b>Total</b>  | <b>\$ 981,484</b> | <b>\$ 158,041</b> | <b>\$ (184,874)</b> | <b>\$ 954,651</b> | <b>\$ 425,921</b>   |

The annual requirements to amortize all debt outstanding (excluding long-term compensated absences and litigation settlements) as of June 30, 2012 are as follows:

| Year Ended June 30, | Principal         | Interest         | Total             |
|---------------------|-------------------|------------------|-------------------|
| 2013                | \$ 93,213         | \$ 20,858        | \$ 114,071        |
| 2014                | 95,139            | 17,874           | 113,013           |
| 2015                | 97,144            | 15,654           | 112,798           |
| 2016                | 104,223           | 12,123           | 116,346           |
| 2017                | 106,409           | 7,275            | 113,684           |
| 2018-2021           | 125,815           | 7,305            | 133,120           |
|                     | <b>\$ 621,943</b> | <b>\$ 81,089</b> | <b>\$ 703,032</b> |

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### 8. PENSION PLAN

#### 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 \$115,927. 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, 2012, the City's annual pension cost of \$115,927 for MERS was equal to the City's required contributions. The City voluntarily contributed an additional \$285,000 during the year. The required contribution was determined as part of the December 31, 2009 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.

| Three-Year Trend Information |                              |                           |                           |
|------------------------------|------------------------------|---------------------------|---------------------------|
| Years Ended<br>June 30,      | Annual Pension<br>Cost (APC) | Percentage<br>Contributed | Net Pension<br>Obligation |
| 2010                         | \$ 112,786                   | 100%                      | \$ -                      |
| 2011                         | 123,669                      | 100%                      | -                         |
| 2012                         | 115,927                      | 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.

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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### 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, 2012 totaled \$7,168.

## 9. TRANSFERS

For the year ended June 30, 2012, interfund transfers consisted of the following:

|                             | Transfers In      | Transfers out     |
|-----------------------------|-------------------|-------------------|
| General Fund                | \$ 13,428         | \$ 322,500        |
| Nonmajor governmental funds | 322,500           | 13,428            |
| Total                       | <u>\$ 335,928</u> | <u>\$ 335,928</u> |

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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes To Financial Statements

### 10. FUND BALANCES - GOVERNMENTAL FUNDS

Detailed information on fund balances of governmental funds is as follows:

|                        | General Fund | Blue Star Bridge Fund | Nonmajor Governmental Funds | Total        |
|------------------------|--------------|-----------------------|-----------------------------|--------------|
| Nonspendable:          |              |                       |                             |              |
| Prepaid items          | \$ 7,494     | \$ -                  | \$ 1,594                    | \$ 9,088     |
| Restricted:            |              |                       |                             |              |
| Highways               | -            | -                     | 403,991                     | 403,991      |
| Capital improvements   | -            | 13,681                | 222,580                     | 236,261      |
| Total restricted       | -            | 13,681                | 626,571                     | 640,252      |
| Committed:             |              |                       |                             |              |
| Highways and streets   | 935,230      | -                     | -                           | 935,230      |
| Recreation and culture | -            | -                     | 56,064                      | 56,064       |
| Total committed        | 935,230      | -                     | 56,064                      | 991,294      |
| Assigned :             |              |                       |                             |              |
| Litigation settlement  | 223,511      | -                     | -                           | 223,511      |
| Land acquisition       | 200,000      | -                     | -                           | 200,000      |
| Pension contribution   | 48,630       | -                     | -                           | 48,630       |
| Total assigned         | 472,141      | -                     | -                           | 472,141      |
| Unassigned             | 1,232,467    | -                     | -                           | 1,232,467    |
| Total fund balances    | \$ 2,647,332 | \$ 13,681             | \$ 684,229                  | \$ 3,345,242 |

### 11. 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, 2012, was as follows:

|   |                     |
|---|---------------------|
| Capital assets:   |                     |
| Capital assets not being depreciated                      | \$ 3,462,848        |
| Capital assets being depreciated, net                     | 5,117,233           |
|   | <u>8,580,081</u>    |
| Related debt:   |                     |
| Total bonds and notes payable                             | <u>621,943</u>      |
| Invested in capital assets, net of capital - related debt | <u>\$ 7,958,138</u> |

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## ■ Notes To Financial Statements

### 12. 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.

### 13. CONTINGENCIES

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 prior fiscal year that resulted in an expected liability of \$223,511 as of June 30, 2012. This liability had not been paid as of year end and therefore has been recorded in the governmental-wide financial statements.



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## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

**Required Supplementary Information**  
Employee's Retirement Plan

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 (a / b) | 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%   |

Schedule of Employer Contributions

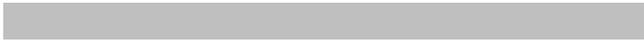
| Year Ended June 30, | Annual Required Contributions | Percentage Contributed |
|---------------------|-------------------------------|------------------------|
| 2007                | \$ 109,044                    | 100%                   |
| 2008                | 94,007                        | 100%                   |
| 2009                | 96,663                        | 100%                   |
| 2010                | 112,786                       | 100%                   |
| 2011                | 123,669                       | 100%                   |
| 2012                | 115,927                       | 100%                   |

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2012

|  | Special Revenue   |                   |                |
|--|-------------------|-------------------|----------------|
|  | Major Streets     | Local Streets     | Special Events |
| <b>Assets</b>                              |                   |                   |                |
| Cash and cash equivalents                  | \$ 266,254        | \$ 122,556        | \$ -           |
| Due from other governments                 | 14,086            | 5,984             | -              |
| Deposits with others                       | -                 | -                 | -              |
| Prepays                                    | 884               | 710               | -              |
| <b>Total assets</b>                        | <b>\$ 281,224</b> | <b>\$ 129,250</b> | <b>\$ -</b>    |
| <b>Liabilities</b>                         |                   |                   |                |
| Accounts payable                           | \$ 1,571          | \$ 1,671          | \$ -           |
| Due to other governments                   | 618               | 600               | -              |
| Accrued liabilities                        | 188               | 241               | -              |
| <b>Total liabilities</b>                   | <b>2,377</b>      | <b>2,512</b>      | <b>-</b>       |
| <b>Fund balances</b>                       |                   |                   |                |
| Nonspendable                               | 884               | 710               | -              |
| Restricted                                 | 277,963           | 126,028           | -              |
| Committed                                  | -                 | -                 | -              |
| <b>Total fund balances</b>                 | <b>278,847</b>    | <b>126,738</b>    | <b>-</b>       |
| <b>Total liabilities and fund balances</b> | <b>\$ 281,224</b> | <b>\$ 129,250</b> | <b>\$ -</b>    |



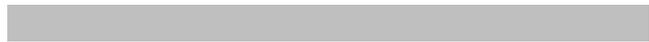
| Special Revenue          | Capital Projects          |                   |
|--------------------------|---------------------------|-------------------|
| Schultz Park Launch Ramp | Water and Sewer Revolving | Total             |
| \$ 56,175                | \$ 62,120                 | \$ 507,105        |
| -                        | -                         | 20,070            |
| -                        | 160,460                   | 160,460           |
| -                        | -                         | 1,594             |
| <u>\$ 56,175</u>         | <u>\$ 222,580</u>         | <u>\$ 689,229</u> |
| \$ 65                    | \$ -                      | \$ 3,307          |
| -                        | -                         | 1,218             |
| 46                       | -                         | 475               |
| <u>111</u>               | <u>-</u>                  | <u>5,000</u>      |
| -                        | -                         | 1,594             |
| -                        | 222,580                   | 626,571           |
| 56,064                   | -                         | 56,064            |
| <u>56,064</u>            | <u>222,580</u>            | <u>684,229</u>    |
| <u>\$ 56,175</u>         | <u>\$ 222,580</u>         | <u>\$ 689,229</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, 2012

|   | Special Revenue |                |                |
|---|-----------------|----------------|----------------|
|   | Major Streets   | Local Streets  | Special Events |
| <b>Revenues</b>                             |                 |                |                |
| Intergovernmental                           | \$ 98,312       | \$ 43,678      | \$ -           |
| Charges for services                        | -               | -              | -              |
| Interest revenue                            | -               | -              | -              |
| Other revenue                               | -               | -              | 8,487          |
| <b>Total revenues</b>                       | <b>98,312</b>   | <b>43,678</b>  | <b>8,487</b>   |
| <b>Expenditures</b>                         |                 |                |                |
| Current:                                    |                 |                |                |
| Public works                                | 170,794         | 138,009        | -              |
| Recreation and culture                      | -               | -              | 6,986          |
| Debt service:                               |                 |                |                |
| Interest expense                            | -               | -              | -              |
| Capital outlay                              | 35,495          | 22,561         | -              |
| <b>Total expenditures</b>                   | <b>206,289</b>  | <b>160,570</b> | <b>6,986</b>   |
| Revenue over (under) expenditures           | (107,977)       | (116,892)      | 1,501          |
| <b>Other financing sources (uses)</b>       |                 |                |                |
| Transfers in                                | 157,500         | 165,000        | -              |
| Transfers out                               | -               | -              | (8,928)        |
| <b>Total other financing sources (uses)</b> | <b>157,500</b>  | <b>165,000</b> | <b>(8,928)</b> |
| Net change in fund balances                 | 49,523          | 48,108         | (7,427)        |
| Fund balances, beginning of year            | 229,324         | 78,630         | 7,427          |
| Fund balances, end of year                  | \$ 278,847      | \$ 126,738     | \$ -           |



| Special Revenue             | Capital Projects                |            |
|-----------------------------|---------------------------------|------------|
| Schultz Park<br>Launch Ramp | Water and<br>Sewer<br>Revolving | Total      |
| \$ -                        | \$ 29,500                       | \$ 171,490 |
| 9,457                       | -                               | 9,457      |
| 250                         | 579                             | 829        |
| -                           | -                               | 8,487      |
| <hr/>                       | <hr/>                           | <hr/>      |
| 9,707                       | 30,079                          | 190,263    |
| <hr/>                       | <hr/>                           | <hr/>      |
| -                           | -                               | 308,803    |
| 1,556                       | -                               | 8,542      |
| -                           | -                               | -          |
| -                           | -                               | -          |
| -                           | -                               | 58,056     |
| <hr/>                       | <hr/>                           | <hr/>      |
| 1,556                       | -                               | 375,401    |
| <hr/>                       | <hr/>                           | <hr/>      |
| 8,151                       | 30,079                          | (185,138)  |
| <hr/>                       | <hr/>                           | <hr/>      |
| -                           | -                               | 322,500    |
| (4,500)                     | -                               | (13,428)   |
| <hr/>                       | <hr/>                           | <hr/>      |
| (4,500)                     | -                               | 309,072    |
| <hr/>                       | <hr/>                           | <hr/>      |
| 3,651                       | 30,079                          | 123,934    |
| <hr/>                       | <hr/>                           | <hr/>      |
| 52,413                      | 192,501                         | 560,295    |
| <hr/>                       | <hr/>                           | <hr/>      |
| \$ 56,064                   | \$ 222,580                      | \$ 684,229 |
| <hr/>                       | <hr/>                           | <hr/>      |

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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*

November 12, 2012

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 aggregate discretely presented component units, 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, 2012, which collectively comprise the City's financial statements, and have issued our report thereon dated November 12, 2012. 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

Management of the City is responsible for establishing and maintaining effective 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 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.

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 described below as 2012-FS-1 to be a significant deficiency.

#### 2012-FS-1 - Segregation of Incompatible Duties

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

We noted certain other matters that we reported to management of the City of the Village of Douglas, Michigan in a separate letter dated November 12, 2012.

The City of the Village of Douglas, Michigan's response to the finding identified in our audit is described above. We did not audit the City of the Village of Douglas, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the organization, and 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.

A handwritten signature in cursive script that reads "Lehmann Johnson".

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
UNDER SAS NO. 114**

November 12, 2012

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 aggregate discretely presented component units, the major fund, and the aggregate remaining fund information of the *City of the Village of Douglas, Michigan* (the "City") for the year ended June 30, 2012, and have issued our report thereon dated November 12, 2012. 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 and Government Auditing Standards**

As stated in our engagement letter dated July 17, 2012, 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.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**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 our meeting about planning matters on September 6, 2012.

## 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. No new 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.
- The assumptions used in the actuarial valuations of the pension plans are based on historical trends and industry standards.

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*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Attachment B to this letter summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Upcoming Changes in Accounting Standards*

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment C to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

*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 November 12, 2012.

*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, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

# City of the Village of Douglas, Michigan

## Attachment A - Consideration of Internal Control Over Financial Reporting

For the June 30, 2012 Audit

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, the major fund, and the aggregate remaining fund information of the *City of the Village of Douglas, Michigan* (the “City”) for the year ended June 30, 2012, and have issued our report thereon dated November 12, 2012.

In planning and performing our audit 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 a certain deficiency in internal control that we consider to be a significant deficiency.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The deficiency we noted that we consider to be a significant deficiency is described in our report on internal control over financial reporting issued in accordance with *Government Auditing Standards*.

### Other Matters

#### Downtown Development Authority Receipt Collections

Cash collections are routinely made at events held by the Downtown Development Authority for sales of food and beverages. We noted that cash is typically collected by one individual and is not always deposited promptly. We recommend improving controls around these collections by having more than one individual collect cash and by depositing receipts promptly in a drop box. Additionally, the City should consider reconciling cash collected with the amount of food or number of tickets sold in order to ensure all receipts are turned in to the City after each event.

# City of the Village of Douglas, Michigan

## ■ Attachment A - Consideration of Internal Control Over Financial Reporting For the June 30, 2012 Audit

### Bank Reconciliations

The State of Michigan has set a requirement that bank reconciliations should be completed within six weeks of each month and year end. While the reconciliation process begins within a few days of receiving the bank statement, the process of reconciling the general pooled checking account (which includes substantially all disbursements of the City, across all funds), does not appear to consistently identify and clear all reconciling items each month. In order to ensure that all related accounting transactions are recorded on a timely basis and that all reconciling items are properly identified and resolved, we recommend that the City fully complete its bank reconciliations within six weeks of the bank statement date, as required by the State.

■ ■ ■ ■ ■

City of the Village of Douglas

**Attachment B - Schedule of Adjustments Passed (SOAP)**  
 For the June 30, 2012 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 those charged with governance 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 |
| <b>General fund</b>   |  |             |                  |             |                        |
| Unreconciled cash variance                                  | \$ (660)   | \$ -        | \$ -             | \$ -        | \$ 660                 |
| Prior year variance in accounts payable (corrected in 2012) | -  | -           | 1,067            | -           | 1,067                  |
| <b>Total general fund</b>                                   | <u>\$ (660)</u>                                    | <u>\$ -</u> | <u>\$ 1,067</u>  | <u>\$ -</u> | <u>\$ 1,727</u>        |
| <b>Misstatement as a percentage of total assets</b>         | -0.02%   | 0.00%       | 0.04%            | 0.00%       | 0.06%                  |
| <b>Governmental activities</b>                              |  |             |                  |             |                        |
| Cumulative effect of items noted above                      | <u>\$ (660)</u>                                    | <u>\$ -</u> | <u>\$ 1,067</u>  | <u>\$ -</u> | <u>\$ 1,727</u>        |
| <b>Misstatement as a percentage of total assets</b>         | -0.01%   | 0.00%       | 0.01%            | 0.00%       | 0.02%                  |

# CITY OF THE VILLAGE OF DOUGLAS

## Attachment C - Upcoming Changes in Accounting Standards

For the June 30, 2012 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the “pronouncements” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

### **GASB 63 ■ Deferred Inflows, Outflows, and Net Position**

*Effective 12/15/2012 (your FY 2013)*

This standard will introduce new terminology to the balance sheet by creating a category of quasi-assets called “deferred outflows”, and a category of quasi-liabilities called “deferred inflows”. As a result, the term “net assets” will no longer be used, and is replaced by the more generic term “net position”. Essentially, deferred inflows and outflows will be used to report transactions that occurred prior to year end that relate to revenues and expenses (inflows and outflows) of future periods. The format of the new “statement of net position” will be presented as  $assets + deferred\ outflows - liabilities - deferred\ inflows = net\ position$ . Net position will be further categorized into *net investment in capital assets*, *restricted*, and *unrestricted* amounts. Fund balance of governmental funds will be unaffected, and governmental funds will continue to report a traditional balance sheet ( $assets = liabilities + fund\ balance$ ).

### **GASB 64 ■ Derivative Instruments (an Amendment of GASB 53)**

*Effective 06/15/2011 (your FY 2011)*

Under certain circumstances, a government is permitted to enter into swap agreements to “hedge” or protect against the risk of loss. The government is required to recognize the income statement impact of a hedge upon its termination. This standard addresses whether amending an existing swap agreement or entering into a new swap agreement qualifies as a termination for accounting purposes.

Statement No. 64 is already in effect. However, since the City does not hold any derivative instruments, this standard had no impact on its financial reporting.

### **GASB 65 ■ Items Previously Reported as Assets and Liabilities**

*Effective 12/15/2013 (your FY 2014)*

This standard builds on the new terminology introduced in GASB 63. Certain items previously reported as assets and liabilities will now be classified as deferred inflows and outflows, while other items will no longer be carried on the balance sheet. As such, a restatement of beginning equity may be required to write off balances from previous years that no longer meet the definition for presentation on the balance sheet. The term “deferred revenue” will no longer be used by governments for any purpose. While GASB 65 is not required to be implemented until one year after GASB 63, we recommend that they be adopted together, as the standards complement one another.

# CITY OF THE VILLAGE OF DOUGLAS

## Attachment C - Upcoming Changes in Accounting Standards For the June 30, 2012 Audit

The following table provides examples of balances affected by this standard:

| Item   | Pre-GASB 65   | Post-GASB 65   |
|--|---|--|
| Loss/gain on refunding of bonds payable  | Liability/asset ("deferred loss/gain on refunding")                           | Deferred outflow/inflow                                  |
| Property taxes levied prior to the year they are intended to finance                                     | Liability ("deferred revenue")  | Deferred inflow  |
| Grant funds received but all grant requirements not met  | Provider: asset ("advance to...")<br>Recipient: liability ("advance from...") | No change  |
| Grant funds received and all grant requirements met, but advance is for the following program year       | Provider: asset ("advance to...")<br>Recipient: liability ("advance from...") | Provider: deferred outflow<br>Recipient: deferred inflow |
| Bond issuance costs  | Asset ("deferred bond issuance costs" or "deferred bond charges")             | Expense in year incurred                                 |
| Initial direct costs of operating leases   | Asset ("prepaid")   | Expense in year incurred                                 |
| Unexpended proceeds of expenditure-driven grants; charges for services collected in advance              | Liability ("deferred revenue")  | Liability ("unearned revenue")                           |
| Revenues not "available" in governmental funds because they are not collected soon enough after year-end | Liability ("deferred revenue")  | Deferred inflow  |

### GASB 66 ■ 2012 Technical Corrections (an Amendment to GASB 10 and GASB 62) *Effective 12/15/2013 (your FY 2014)*

This standard was issued to eliminate conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees.

We do not expect GASB 66 to have any significant impact on the City at this time.

### GASB 67 ■ Financial Reporting for Pension Plans *Effective 06/15/2014 (your FY 2014)*

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government's fiscal year, or be rolled forward to that date by the actuary.

Because the City does not maintain its own pension trust fund, we do not expect GASB 67 to have any significant impact on the City at this time.

# CITY OF THE VILLAGE OF DOUGLAS

## ■ Attachment C - Upcoming Changes in Accounting Standards

For the June 30, 2012 Audit

### GASB 68 ■ Accounting and Financial Reporting for Pensions

*Effective 06/15/2015 (your FY 2015)*

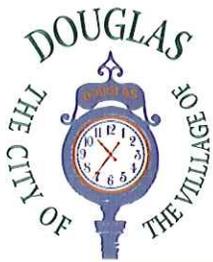
This standard establishes new requirements for governments to report a “net pension liability” for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their “proportionate share” of the net pension liability of the entire system.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government’s proportionate share of plan.

GASB 67 and 68 are only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.





11/12/12

Rehmann Robson  
2330 East Paris Avenue SE  
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, Michigan* as of June 30, 2012 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 units, each major fund, and the aggregate remaining fund information City of the Village of Douglas, Michigan 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 over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of 11/12/12, the following representations made to you during your audit.

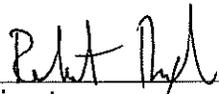
1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally 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. 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 audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
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.
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 generally accepted accounting principles.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
16. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience 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. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
20. 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.
21. The financial statements properly classify all funds and activities.
22. 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.
23. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
24. Investments, derivative transactions, and land and other real estate held by endowments are properly valued.
25. Provisions for uncollectible receivables have been properly identified and recorded.
26. 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.
27. 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.

- 28. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 29. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
- 30. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 31. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- 32. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 33. We acknowledge our responsibility for the required supplementary information (RSI). The required supplementary information is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 34. With respect to the supplementary information, we acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the , including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- 35. We have evaluated the City's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.
- 36. Expenditures of federal awards were below the \$500,000 threshold in the audit period and we were not required to have an audit in accordance with OMB Circular A-133.
- 37. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. 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.

  
\_\_\_\_\_  
Signature

Treasurer  
\_\_\_\_\_  
Title

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title