City of the Village of Douglas, Michigan

Year Ended June 30, 2015

Financial Statements

Rehmann

Business wisdom delivered.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	22
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual:	
General Fund	23
Major Street Fund	25
Local Street Fund	26
Statement of Net Position - Proprietary Fund	27
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	28
Statement of Cash Flows - Proprietary Fund	29
Statement of Fiduciary Assets and Liabilities	30
Combining Statement of Net Position - Discretely Presented Component Units	31
Combining Statement of Activities - Discretely Presented Component Units	32
Notes to Financial Statements	33

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Table of Contents

	Page
Required Supplementary Information	
MERS Agent Multiple-Employer Defined Benefit Pension Plan:	
Schedule of Changes in City's Net Pension Liability and Related Ratios	56
Schedule of the Net Pension Liability	57
Schedule of Contributions	58
Individual Fund Financial Statements	
Agency Fund:	
Statement of Changes in Fiduciary Assets and Liabilities	60
Internal Control and Compliance	
Independent Auditor's 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*	63
Schedule of Findings and Responses	65

Rehmann

Rehmann Robson

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

INDEPENDENT AUDITORS' REPORT

November 30, 2015

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

Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 68

As described in Note 14, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The individual fund financial statements 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 basic 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 basic financial statements or to the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 30, 2015, 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* in considering the City's internal control over financial reporting and compliance.

Rehmann Lohan LLC

This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of the Village of Douglas, Michigan, 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, 2015. 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, 2015:

- The City implemented GASB Statement No. 68 in the current year. In addition to expanded disclosure requirements, the City is required to report its net pension liability on the statement of net position. At June 30, 2015, the City's net pension liability totaled $553,547.
- 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 48% and 32% of the operating expenditures for the Major Street and Local Street Funds respectively. In order for these funds to maintain a positive fund balance they are both significantly supported with monies from the General Fund.
- Property tax revenues increased $58,192 from the prior year but General Fund revenues decreased $35,533 mostly due to the decrease in revenues from other governments. General Fund expenditures decreased $186,982, most of which is attributable to the decrease in general government activities expenditures.
- Total governmental fund balances increased by $168,794 and the General Fund fund balance increased $26,841.

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 position* presents information on all of the City's assets, deferred outflows of resources, and liabilities, with the difference being reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued interest on long-term debt).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community and economic development, and recreation and culture. The City had no business-type activities as of and for the year ended June 30, 2015.

Management's Discussion and Analysis

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 five 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 all funds, including the Schultz Park Launch Ramp fund, as this is the only nonmajor governmental fund of the City.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein for the General fund and major special revenue 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.

Management's Discussion and Analysis

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 the schedules for the MERS pension plan immediately following the notes to the financial statements.

The City as a Whole

The following table shows, in a condensed format, the net position as of June 30, 2015 and 2014, respectively.

	Governmental Activities	
	2015	2014
Assets		
Current and other assets	$ 4,067,114	$ 4,261,480
Capital assets, net	8,821,453	8,738,326
Total assets	12,888,567	12,999,806
Deferred outflows of resources	88,856	-
Liabilities		
Current and other liabilities	761,645	154,834
Long-term liabilities	410,104	523,828
Total liabilities	1,171,749	678,662
Net position		
Net investment in capital assets	8,501,947	8,311,425
Restricted	513,040	447,859
Unrestricted	2,790,687	3,561,860
Total net position	$ 11,805,674	$ 12,321,144

The City's total net position was $11,805,674 at June 30, 2015, representing a decrease of $515,470 from the prior year, which is attributed to the implementation of GASB statement No. 68. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) was $2,790,687 at the end of the fiscal year, representing a decrease of $771,173 from the prior year.

Management's Discussion and Analysis

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

	Governmental Activities	
	2015	2014
Revenues		
Program revenues:		
Charges for services	$ 561,763	$ 717,812
Operating grants and contributions	305,602	298,490
Capital grants and contributions	433,568	-
General revenues:		
Property taxes	1,775,755	1,717,563
State shared revenue	101,078	94,496
Unrestricted investment income	9,133	7,992
Other	52,475	36,310
Gain on sale of capital assets	14,825	-
Total revenues	3,254,199	2,872,663
Program Expenses		
General government	558,919	533,418
Public safety	989,892	941,602
Public works	1,062,275	974,187
Community and economic development	253,340	181,170
Recreation and culture	106,875	126,468
Interest on long-term debt	12,731	14,135
Total expenses	2,984,032	2,770,980
Change in net position	270,167	101,683
Net position, beginning of year	12,321,144	12,219,461
Restatement for implementation of GASB 68	(785,637)	-
Net position, end of year	$ 11,805,674	$ 12,321,144

Governmental Activities

The City's governmental revenues totaled $3,254,199, which represents an increase of $381,536 from the prior year, primarily due to an increase in capital grant revenue related to the Blue Star Highway project.

The City incurred governmental expenses of $2,984,032, which represents an increase of $213,052 from the prior year. The largest area of governmental expense is the public works function which showed an increase in expenses due to the unnaturally harsh winter and snowfall this past year. The public works function maintains roads and parks including snow removal. The second highest area of governmental expense is the public safety function which provides services to both the City of the Village of Douglas and the City of Saugatuck.

Management's Discussion and Analysis

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, general government, and public works. Public works includes road maintenance and repairs, snow plowing and leaf and brush pickup. 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 $945,260 and $531,611 respectively, for the fiscal year ending June 30, 2015. The General Fund expensed $213,891 for public works and transferred $310,000 to the Major Street and Local Street Funds, which incurred combined expenditures of $380,024 for public works and $42,291 for road repairs. The General Fund expensed $110,488 in capital outlay.

General Fund Budgetary Highlights

The City underestimated budgeted revenue by $107,695 and expended $145,759 less than budgeted expenditures for the General Fund for fiscal year ending June 30, 2015. The General Fund's expenditures for general government, public safety, and public works were under budget by $55,939, $20,860 and $27,709 respectively. The City's General Fund, after budget amendments, was budgeted for an increase in fund balance of $1,952; fund balance actually increased by $26,841.

Capital Asset and Debt Administration

At the end of the fiscal year, the City had $8,821,453 invested in a broad range of capital assets, including buildings, land, equipment, and infrastructure. The City incurred depreciation expense of $653,001 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 $107,395 in principal on installment purchase debt. The City has $410,104 of long-term debt outstanding as of June 30, 2015, including $90,598 of accumulated compensated absences. Of the $410,104 of outstanding long-term debt, $157,613 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 8 of this report.

Current Economic Factors

The City of Village of Douglas property values are beginning to rise again along with new development in the City helped increase the City-wide taxable value around $3 million since last fiscal year. The Kalamazoo Harbor is one of the areas biggest tourist attractions and with higher lake levels this year there was an increase in boater activity in the area. The City of Douglas is working with engineering firms to create a long-term master plan for the City as well as a viable long-term plan for the Harbor.

The ACT 51 revenue that the City receives from the state for Major and Local Street Funds is insufficient to cover the required costs just to maintain the roads. This requires money from the General Fund to be transferred to the Major and Local Street Funds annually just to cover the operating costs of maintaining the streets in the city.

Contacting the City's Management

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

BASIC FINANCIAL STATEMENTS

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Net Position
June 30, 2015

	Primary Government	
	Governmental Activities	Component Units
Assets		
Cash and cash equivalents	$ 204,518	$ 89,817
Investments	3,371,105	-
Receivables	140,375	-
Prepaids	12,388	2,628
Deposits with others	338,728	-
Capital assets:		
Not being depreciated	811,508	-
Being depreciated, net	8,009,945	-
Total assets	12,888,567	92,445
Deferred outflows of resources		
Deferred pension amounts	88,856	-
Liabilities		
Payables and accrued liabilities	207,848	18,309
Unearned revenue	250	-
Long-term liabilities:		
Due within one year	157,613	-
Due in more than one year	252,491	-
Net pension liability	553,547	-
Total liabilities	1,171,749	18,309
Net position		
Net investment in capital assets	8,501,947	-
Restricted for:		
Highways and streets	499,499	-
Capital improvements	13,541	-
Unrestricted	2,790,687	74,136
Total net position	$ 11,805,674	$ 74,136

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, 2015

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues
Governmental activities					
General government	$ 558,919	$ 72,294	$ 700	$ 55,774	$ (430,151)
Public safety	989,892	418,958	7,089	-	(563,845)
Public works	1,062,275	63,500	297,563	377,794	(323,418)
Community and economic development	253,340	-	-	-	(253,340)
Recreation and culture	106,875	7,011	250	-	(99,614)
Interest on long-term debt	12,731	-	-	-	(12,731)
Total governmental activities	$ 2,984,032	$ 561,763	$ 305,602	$ 433,568	$ (1,683,099)
Component units					
Downtown Development Authority	$ 34,190	$ -	$ 12,359	$ -	$ (21,831)
Water Resource Improvement Tax Increment Finance Authority	35,178	-	35,503	-	325
Total component units	$ 69,368	$ -	$ 47,862	$ -	$ (21,506)

continued...

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2015

	Primary Government	
	Governmental Activities	Component Units
Changes in net position		
Net (expenses) revenues	$ (1,683,099)	$ (21,506)
General revenues:		
Property taxes	1,775,755	21,885
State shared revenues	101,078	-
Unrestricted investment income	9,133	250
Other general revenues	52,475	-
Gain on sale of capital assets	14,825	-
Total general revenues	1,953,266	22,135
Change in net position	270,167	629
Net position, beginning of year	12,321,144	73,507
Implementation of GASB 68 (Note 14)	(785,637)	-
Net position, end of year	$ 11,805,674	$ 74,136

concluded

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

This page intentionally left blank.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Balance Sheet

Governmental Funds
June 30, 2015

	General Fund	Major Streets	Local Streets
Assets			
Cash and cash equivalents	$ -	$ 318,024	$ 215,810
Investments	3,371,105	-	-
Accounts receivable	7,101	-	-
Due from other governments	104,987	14,500	9,001
Interest receivable	4,374	-	-
Deposits with others	-	-	-
Prepaids	10,788	877	723
Total assets	$ 3,498,355	$ 333,401	$ 225,534
Liabilities			
Negative equity in pooled cash	$ 627,425	$ -	$ -
Accounts payable	94,507	31,480	24,145
Due to other governments	15,446	-	-
Accrued liabilities	32,125	1,977	1,834
Unearned revenue	250	-	-
Total liabilities	769,753	33,457	25,979
Deferred inflows of resources			
Unavailable revenue - long-term receivable	45,000	-	-
Fund balances			
Nonspendable	10,788	877	723
Restricted	13,541	299,067	198,832
Committed	-	-	-
Assigned	-	-	-
Unassigned	2,659,273	-	-
Total fund balances	2,683,602	299,944	199,555
Total liabilities, deferred inflows of resources and fund balances	$ 3,498,355	$ 333,401	$ 225,534

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

Capital Projects Water and Sewer Revolving	Nonmajor Fund Schultz Park Launch Ramp	Total Governmental Funds
$ 60,900	$ 42,024	$ 636,758
-	-	3,371,105
-	412	7,513
-	-	128,488
-	-	4,374
338,728	-	338,728
-	-	12,388
$ 399,628	$ 42,436	$ 4,499,354
$ -	$ -	$ 627,425
-	243	150,375
-	-	15,446
-	-	35,936
-	-	250
-	243	829,432
-	-	45,000
-	-	12,388
-	-	511,440
-	42,193	42,193
399,628	-	399,628
-	-	2,659,273
399,628	42,193	3,624,922
$ 399,628	$ 42,436	$ 4,499,354

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2015

Fund balances - total governmental funds	$ 3,624,922
Amounts reported for *governmental activities* in the statement of net position 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	811,508
Capital assets being depreciated, net	8,009,945
Capital assets, net accounted for in the internal service fund	(184,293)
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.	
Deferred inflow for long-term receivable	45,000
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 position of governmental activities accounted for in the internal service fund	374,675
Long-term liabilities and related deferred outflows are not due and payable in the current period, and therefore are not reported in the fund statements:	
Long-term debt	(319,506)
Compensated absences	(90,598)
Accrued interest on long-term debt	(1,288)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(553,547)
Deferred outflows related to the net pension liability	88,856
Net position of governmental activities	$ 11,805,674

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

This page intentionally left blank.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Major Streets	Local Streets
Revenues			
Taxes	$ 1,775,755	$ -	$ -
Licenses and permits	71,124	-	-
Intergovernmental	640,775	120,782	56,014
Charges for services	1,170	-	-
Fines and forfeitures	6,901	-	-
Interest	9,133	-	-
Rentals	500	-	-
Contributions	56,474	-	-
Other revenues	51,975	-	-
Total revenues	2,613,807	120,782	56,014
Expenditures			
Current:			
General government	531,611	-	-
Public safety	945,260	-	-
Public works	213,891	235,414	144,610
Community and economic development	253,340	-	-
Recreation and culture	92,826	-	-
Other functions	28,423	-	-
Debt service:			
Principal	107,395	-	-
Interest	13,057	-	-
Capital outlay	110,488	12,965	29,326
Total expenditures	2,296,291	248,379	173,936
Revenues over (under) expenditures	317,516	(127,597)	(117,922)
Other financing sources (uses)			
Proceeds from sale of capital assets	14,825	-	-
Transfers in	4,500	140,000	170,000
Transfers out	(310,000)	-	-
Total other financing sources (uses)	(290,675)	140,000	170,000
Net changes in fund balances	26,841	12,403	52,078
Fund balances, beginning of year	2,656,761	287,541	147,477
Fund balances, end of year	$ 2,683,602	$ 299,944	$ 199,555

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

Capital Projects Water and Sewer Revolving	Nonmajor Fund Schultz Park Launch Ramp	Total Governmental Funds
$ -	$ -	$ 1,775,755
-	-	71,124
-	-	817,571
78,500	7,011	86,681
-	-	6,901
216	250	9,599
-	-	500
-	-	56,474
-	-	51,975
78,716	7,261	2,876,580
-	-	531,611
-	-	945,260
-	-	593,915
-	-	253,340
-	4,005	96,831
-	-	28,423
-	-	107,395
-	-	13,057
-	-	152,779
-	4,005	2,722,611
78,716	3,256	153,969
-	-	14,825
-	-	314,500
-	(4,500)	(314,500)
-	(4,500)	14,825
78,716	(1,244)	168,794
320,912	43,437	3,456,128
$ 399,628	$ 42,193	$ 3,624,922

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2015

Net changes in fund balances - total governmental funds	$	168,794
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.		
Donated capital assets		377,794
Purchases of capital assets		358,334
Purchases of capital assets accounted for in the internal service fund		(158,572)
Depreciation expense		(653,001)
Depreciation expense accounted for in the internal service fund		61,136
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Net 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 position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal payments on long-term liabilities		107,395
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest on bonds		326
Change in accrual for compensated absences		6,329
Change in net pension liability and related deferred amounts		(25,600)
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 income from governmental activities internal service fund		41,232
Interest income from governmental activities internal service fund		1,000
Change in net position of governmental activities	$	270,167

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 Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	$ 1,770,700	$ 1,775,200	$ 1,775,755	$ 555
Licenses and permits	69,750	73,250	71,124	(2,126)
Intergovernmental	785,125	790,625	640,775	(149,850)
Charges for services	1,500	1,500	1,170	(330)
Fines and forfeitures	8,550	8,550	6,901	(1,649)
Interest	6,500	6,500	9,133	2,633
Rentals	500	500	500	-
Contributions	3,000	15,000	56,474	41,474
Other revenues	27,377	50,377	51,975	1,598
Total revenues	2,673,002	2,721,502	2,613,807	(107,695)
Expenditures				
Current:				
General government:				
City council	40,225	15,225	12,691	(2,534)
Attorney	22,500	15,000	4,379	(10,621)
City manager	125,975	125,975	121,866	(4,109)
Assessing	47,875	47,875	42,969	(4,906)
Elections	6,050	6,050	4,590	(1,460)
Buildings and grounds	94,850	87,950	70,198	(17,752)
Clerk / Treasurer	279,075	274,075	263,018	(11,057)
Other	15,400	15,400	11,900	(3,500)
Total general government	631,950	587,550	531,611	(55,939)
Public safety:				
Police department	966,120	966,120	945,260	(20,860)
Public works:				
Department of public works	211,700	241,600	213,891	(27,709)
Community and economic development:				
Planning and zoning	168,900	229,400	218,340	(11,060)
Harbor authority	50,000	50,000	35,000	(15,000)
Total community and economic development	218,900	279,400	253,340	(26,060)
Recreation and culture:				
Parks department	110,225	107,725	92,826	(14,899)
Other:				
Insurance	27,000	27,000	25,197	(1,803)
Other	5,000	5,000	3,226	(1,774)
Total other	32,000	32,000	28,423	(3,577)

continued...

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Debt service:				
Principal	$ 102,100	$ 102,100	$ 107,395	$ 5,295
Interest	12,055	17,055	13,057	(3,998)
Total debt service	114,155	119,155	120,452	1,297
Capital outlay	58,500	108,500	110,488	1,988
Total expenditures	2,343,550	2,442,050	2,296,291	(145,759)
Revenues over expenditures	329,452	279,452	317,516	38,064
Other financing sources (uses)				
Proceeds from sale of capital assets	-	14,500	14,825	325
Transfers in	4,500	4,500	4,500	-
Transfers out	(332,000)	(296,500)	(310,000)	(13,500)
Total other financing sources (uses)	(327,500)	(277,500)	(290,675)	(13,175)
Net change in fund balance	1,952	1,952	26,841	24,889
Fund balance, beginning of year	2,656,761	2,656,761	2,656,761	-
Fund balance, end of year	$ 2,658,713	$ 2,658,713	$ 2,683,602	$ 24,889

concluded

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

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget to Actual - Major Streets Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental	$ 100,600	$ 100,600	$ 120,782	$ 20,182
Expenditures				
Current:				
Public works	199,390	221,545	235,414	13,869
Capital outlay	57,500	20,000	12,965	(7,035)
Total expenditures	256,890	241,545	248,379	6,834
Revenues over (under) expenditures	(156,290)	(140,945)	(127,597)	13,348
Other financing sources				
Transfers in	156,500	141,155	140,000	(1,155)
Net change in fund balances	210	210	12,403	12,193
Fund balances, beginning of year	287,541	287,541	287,541	-
Fund balances, end of year	$ 287,751	$ 287,751	$ 299,944	$ 12,193

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

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget to Actual - Local Streets Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental	$ 45,800	$ 45,800	$ 56,014	$ 10,214
Expenditures				
Current:				
Public works	163,400	153,245	144,610	(8,635)
Capital outlay	57,500	47,500	29,326	(18,174)
Total expenditures	220,900	200,745	173,936	(26,809)
Revenues over (under) expenditures	(175,100)	(154,945)	(117,922)	37,023
Other financing sources				
Transfers in	175,500	155,345	170,000	14,655
Net change in fund balances	400	400	52,078	51,678
Fund balances, beginning of year	147,477	147,477	147,477	-
Fund balances, end of year	$ 147,877	$ 147,877	$ 199,555	$ 51,678

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

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Net Position

Proprietary Fund
June 30, 2015

	Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	$ 195,185
Capital assets:	
Capital assets being depreciated, net	184,293
Total assets	379,478
Liabilities	
Current liabilities:	
Accounts payable	4,803
Net position	
Investment in capital assets	184,293
Unrestricted	190,382
Total net position	$ 374,675

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

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Fund
For the Year Ended June 30, 2015

	Internal Service Fund
Operating revenues	
Charges for services	$ 134,032
Operating expenses	
Operating supplies	31,664
Depreciation	61,136
Total operating expenses	92,800
Operating income	41,232
Nonoperating revenues	
Interest income	1,000
Change in net position	42,232
Net position, beginning of year	332,443
Net position, end of year	$ 374,675

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, 2015

	Internal Service Fund
Cash flows from operating activities	
Receipts from interfund services provided	$ 134,032
Payments to suppliers	(26,917)
Net cash provided by operating activities	107,115
Cash flows from capital and related financing activities	
Purchase of capital assets	(158,572)
Cash flows from investing activities	
Interest received	1,000
Net decrease in cash and cash equivalents	(50,457)
Cash and cash equivalents, beginning of year	245,642
Cash and cash equivalents, end of year	$ 195,185
Cash flows from operating activities	
Operating income	$ 41,232
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	61,136
Changes in operating assets and liabilities which used cash:	
Accounts payable	4,747
Net cash provided by operating activities	$ 107,115

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, 2015

	Tax Collection Fund
Assets	
Cash and cash equivalents	$ 43,632
Liabilities	
Undistributed receipts	$ 43,632

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

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Combining Statement of Net Position

Discretely Presented Component Units
June 30, 2015

	Downtown Development Authority	Water Resource Improvement Authority	Total
Assets			
Cash and cash equivalents	$ 63,886	$ 25,931	$ 89,817
Prepaids	2,628	-	2,628
Total assets	66,514	25,931	92,445
Liabilities			
Payables and accrued liabilities	312	17,997	18,309
Net position			
Unrestricted	$ 66,202	$ 7,934	$ 74,136

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

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Combining Statement of Activities

Discretely Presented Component Units
For the Year Ended June 30, 2015

	Downtown Development Authority	Water Resource Improvement Authority	Total
Expenses			
Downtown Development Authority	$ 34,190	$ -	$ 34,190
Water Resource Improvement Authority	-	35,178	35,178
Total expenses	34,190	35,178	69,368
Program revenues			
Operating grants and contributions	12,359	35,503	47,862
Net revenues (expenses)	(21,831)	325	(21,506)
General revenues			
Property taxes	21,885	-	21,885
Unrestricted interest income	250	-	250
Total general revenues	22,135	-	22,135
Change in net position	304	325	629
Net position, beginning of year	65,898	7,609	73,507
Net position, end of year	$ 66,202	$ 7,934	$ 74,136

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

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of the Village of Douglas, Michigan (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 election, three councilpersons are elected. The Council holds an organizational 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, and its component units, entities for which the City is considered to be financially accountable.

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority is reported in 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.

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, 2015, the City made no contributions to the District. Complete audited financial statements for the District can be obtained from the Township of Saugatuck.

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, 2015, 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, 2015, 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.

The Authority has an agreement with the County of Allegan, Michigan to issue Drinking Water Revolving Bonds on its behalf for the construction of infrastructure. Bond proceeds are drawn down as needed to fund construction, for a total of $4,693,525. As of February 28, 2015, the amount outstanding was $4,500,090. These bonds and the related interest, at 2.5 percent, will be retired through payments made by the Authority and are secured by the full faith and credit pledge of the City of the Village of Douglas (55.38 percent), the Township of Saugatuck (6.27 percent), and the City of Saugatuck (38.35 percent).

The annual scheduled principal and interest requirements are as follows:

Year Ended February 28,	Principal	Interest	Total	City Backed Amount
2016	$ 185,000	$ 110,190	$ 295,190	$ 163,476
2017	190,000	105,502	295,502	163,649
2018	200,000	100,627	300,627	166,487
2019	200,000	95,627	295,627	163,718
2020	205,000	90,565	295,565	163,684
2021-2025	1,125,000	370,949	1,495,949	828,457
2026-2030	1,265,000	221,949	1,486,949	823,472
2031-2034	1,130,090	57,508	1,187,598	657,692
Total	$ 4,500,090	$ 1,152,917	$ 5,653,007	$ 3,130,635

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the 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, 2015.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the internal service fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Notes to Financial Statements

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, or within one year for expenditure-driven grants. 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. 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 *major streets fund* accounts for funds specifically intended for the maintenance and construction of major streets. Financing is provided from Public Act 51 State Shared Gas and Weight Tax and miscellaneous service revenues.

The *local streets fund* accounts for funds specifically intended for the maintenance and construction of local streets. Financing is provided from Public Act 51 State Shared Gas and Weight Tax and miscellaneous service revenues.

The *capital projects water and sewer revolving fund* accounts for and reports financial resources that are assigned for future water and sewer improvements, including the acquisition or construction of capital facilities and other capital assets.

Additionally, the City reports the following fund types:

The *special revenue fund* is 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 *internal service fund* is used to account for motor pool revenues and expenses, which are allocated to other departments.

The *agency fund* accounts 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. 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 proprietary fund are charges for services. Operating expenses for the proprietary fund 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 the General Fund and major special revenue funds. 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, 2015. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

7. Budgeted amounts are as originally adopted, or as amended by the City Council.

Budgets for expenditures are adopted on an activity level.

Cash and Cash Equivalents

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

Investments

Investments consist of a third party pooled investment fund, long-term certificates of deposit, and treasury bonds 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.

Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

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

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City reports deferred outflows of resources for changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan. More detailed information can be found in Note 9.

Compensated Absences

City employees are granted vacation, sick leave, and personal leave in varying amounts. Certain non-salaried, non-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 compensatory time. All employees with accumulated vacation, half of sick leave time, and compensatory time at June 30, 2015, were vested and the total due to the employees, along with the related payroll taxes, is recorded entirely in the government-wide financial statements.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from long-term receivables from the Township of Saugatuck. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. 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 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 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.

Property Taxes

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

Notes to Financial Statements

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

Interfund Transactions

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

The internal service fund records charges for equipment rental to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expense.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. City Council has delegated the authority to assign fund balance to management based on the City's fund balance resolution. Unassigned fund balance is the residual classification for the general fund.

Notes to Financial Statements

The City Council has adopted a minimum fund balance policy in which the total fund balance of the General Fund (excluding any restricted balances) will be equal to at least 25 percent of the current year General Fund expenditures. If the General Fund balance falls below the minimum range, the City will replenish shortages or deficiencies using budget strategies and timeframes as detailed in the policy.

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, 2015, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund			
Debt service:			
Principal	$ 102,100	$ 107,395	$ 5,295
Capital outlay	108,500	110,488	1,988
Transfers out	296,500	310,000	13,500
Major streets fund			
Public works	221,545	235,414	13,869

3. DEPOSITS AND INVESTMENTS

Deposits and investments are recorded in the financial statements at June 30, 2015, as follows:

	Governmental Activities	Agency Fund	Component Units	Total
Cash and cash equivalents	$ 204,518	$ 43,632	$ 89,817	$ 337,967
Investments	3,371,105	-	-	3,371,105
Total	$ 3,575,623	$ 43,632	$ 89,817	$ 3,709,072

Deposits and investments consist of the following at June 30, 2015:

Bank deposits	$ 212,796
Certificates of deposit (due within one year)	1,855,463
Certificates of deposit (due in more than one year)	491,329
Investments	1,149,484
Total	$ 3,709,072

Notes to Financial Statements

Deposits

These deposits and investments are in various 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, $91,937 of the City's bank balance of $2,561,048 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.

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.

Notes to Financial Statements

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

Investment	Maturity	Fair Value	Rating
MBIA Class Fund	No maturity	$ 131,038	S&P / AAAm
US Treasury Bonds	1/30/2018	99,595	S&P / AA+
US Treasury Bonds	8/28/2019	74,512	S&P / AA+
US Treasury Bonds	11/20/2019	99,449	S&P / AA+
US Treasury Bonds	12/30/2019	299,574	S&P / AA+
US Treasury Bonds	4/30/2020	246,550	S&P / AA+
US Treasury Bonds	5/28/2020	99,528	S&P / AA+
US Treasury Bonds	6/25/2020	99,238	S&P / AA+
Total		$ 1,149,484	

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. As of June 30, 2015, none of the City's investments were exposed to custodial credit risk inasmuch as all investments are held in the name of the City.

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.

Notes to Financial Statements

4. RECEIVABLES

At June 30, 2015, the City's receivables were as follows:

	Governmental Activities
Accounts	$ 7,513
Due from other governments	128,488
Interest	4,374
Total	$ 140,375

Of the amounts reported for receivables above, an amount due from other governments of $30,000 is not expected to be collected within one year.

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	$ 290,559	$ -	$ -	$ -	$ 290,559
Construction in progress	-	520,949	-	-	520,949
	290,559	520,949	-	-	811,508
Capital assets, being depreciated:					
Buildings	864,204	-	-	-	864,204
Improvements	639,379	7,240	-	-	646,619
Machinery and equipment	839,624	190,359	(49,672)	-	980,311
Infrastructure	11,736,358	17,580	-	-	11,753,938
	14,079,565	215,179	(49,672)	-	14,245,072
Less accumulated depreciation for:					
Buildings	(506,950)	(39,341)	-	-	(546,291)
Improvements	(294,496)	(28,098)	-	-	(322,594)
Machinery and equipment	(625,602)	(110,305)	49,672	-	(686,235)
Infrastructure	(4,204,750)	(475,257)	-	-	(4,680,007)
	(5,631,798)	(653,001)	49,672	-	(6,235,127)
Total capital assets being depreciated, net	8,447,767	(437,822)	-	-	8,009,945
Governmental activities capital assets, net	$ 8,738,326	$ 83,127	$ -	$ -	$ 8,821,453

Depreciation expense was charged to functions as follows:

General government	$	41,308
Public safety		36,535
Public works		501,132
Recreation and culture		12,890
Internal service fund		61,136
Total	$	653,001

6. PAYABLES AND ACCRUED LIABILITIES

At June 30, 2015, the City's payables and accrued liabilities were as follows:

	Governmental Activities	Component Units
Accounts	$ 155,178	$ 18,309
Accrued liabilities	35,936	-
Due to other governments	15,446	-
Accrued interest on long-term debt	1,288	-
Total	$ 207,848	$ 18,309

7. INTERFUND TRANSFERS

	Transfers In	Transfers out
General Fund	$ 4,500	$ 310,000
Major streets	140,000	-
Local streets	170,000	-
Nonmajor governmental funds	-	4,500
Total	$ 314,500	$ 314,500

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

Notes to Financial Statements

8. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2015:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable	$ 195,000	$ -	$ (45,000)	$ 150,000	$ 50,000
Installment purchase agreements	213,653	-	(58,343)	155,310	57,198
Capital leases	18,248	-	(4,052)	14,196	4,052
Total installment debt	426,901	-	(107,395)	319,506	111,250
Compensated absences	96,927	40,034	(46,363)	90,598	46,363
Total	$ 523,828	$ 40,034	$ (153,758)	$ 410,104	$ 157,613

Installment debt

$325,000 2010 Capital Improvement Bonds, due in annual installments of $40,000 to $50,000 plus interest ranging from 1.90 to 3.65%, payable semi-annually, through October 1, 2017.	$ 150,000
$190,000 Loan agreement dated March 17, 2006, due in monthly installments of $689 to $1,509 plus interest at 5.14%, through March 1, 2021.	87,893
$448,403 Loan agreement dated June 26, 2003, due in monthly installments of $506 to $3,751 plus interest at 1.40%, through January 10, 2017.	67,417
$8,910 Capital lease agreement dated August 8, 2013, due in monthly installments of $149 through July 8, 2018.	5,494
$11,350 Capital lease agreement dated April 28, 2014, due in monthly installments of $189 through April 6, 2019.	8,702
Total	$ 319,506

The annual requirements to amortize all debt outstanding (excluding long-term compensated absences) as of June 30, 2015 are as follows:

Year Ended June 30,	Principal	Interest	Total
2016	$ 111,250	$ 8,954	$ 120,204
2017	91,620	6,421	98,041
2018	69,451	3,778	73,229
2019	18,261	2,043	20,304
2020	17,083	1,181	18,264
2021	11,841	289	12,130
Total	$ 319,506	$ 22,666	$ 342,172

Compensated absences are generally expected to be liquidated by the General Fund and the current portion was estimated based on the current year deletions.

9. PENSION PLAN

General Information About the Plan

Plan Description. The City participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 5 year period) and multipliers ranging from 2.0% to 2.25%. Participants are considered to be fully vested in the plan after 6 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, age 55 with 25 years of service, or age 55 with 15 years of service, depending on division/bargaining unit. The employer may establish contribution rates to be paid by its covered employees. Currently, member contributions range from 0% to 1.8%.

Employees Covered by Benefit Terms. At December 31, 2014, plan membership consisted of the

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	8
Active employees	17
Total membership	38

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions range from 10.18% to 15.71% of annual payroll.

Net Pension Liability. The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Notes to Financial Statements

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3% to 4%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.25%, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.5%	5.02%	2.89%
Global fixed income	20.0%	2.18%	0.44%
Real assets	12.5%	4.23%	0.53%
Diversifying strategies	10.0%	6.56%	0.65%
	100.0%		
Inflation			3.50%
Administrative expenses netted above			0.25%
Investment rate of return			8.25%

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2014. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2013	$ 2,754,053	$ 2,261,554	$ 492,499
Changes for the year:			
Service cost	89,824	-	89,824
Interest	225,872	-	225,872
Employer contributions	-	109,204	(109,204)
Employee contributions	-	7,240	(7,240)
Net investment income	-	143,484	(143,484)
Benefit payments, including refunds of employee contributions	(122,245)	(122,245)	-
Administrative expense	-	(5,280)	5,280
Net changes	193,451	132,403	61,048
Balances at December 31, 2014	$ 2,947,504	$ 2,393,957	$ 553,547

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
$ 914,072	$ 553,547	$ 248,446

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2015, the City recognized pension expense of $136,142. The City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	$ -
Changes in assumptions	-
Net difference between projected and actual earnings on pension plan investments	34,110
	34,110
Contributions subsequent to the measurement date	54,746
Total	$ 88,856

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2016. Other amounts reported as deferred outflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	$ 8,527
2017	8,527
2018	8,528
2019	8,528
Total	$ 34,110

Payable to the Pension Plan. At June 30, 2015, there were no amounts outstanding by the City for contributions to the pension plan required for the year ended June 30, 2015.

Defined Contribution Plans

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, 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 City's contributions for the year ended June 30, 2015 totaled $7,500.

Notes to Financial Statements

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, 2015 totaled $9,526.

10. FUND BALANCES - GOVERNMENTAL FUNDS

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

	General Fund	Major Streets	Local Streets	Capital Projects Water and Sewer Revolving	Nonmajor Fund - Schultz Park Launch	Total
Nonspendable:						
Prepaid items	$ 10,788	$ 877	$ 723	$ -	$ -	$ 12,388
Restricted:						
Major and local streets	-	299,067	198,832	-	-	497,899
Capital projects	13,541	-	-	-	-	13,541
Total restricted	13,541	299,067	198,832	-	-	511,440
Committed:						
Schultz Park launch ramp	-	-	-	-	42,193	42,193
Assigned:						
Capital improvements	-	-	-	399,628	-	399,628
Unassigned	2,659,273	-	-	-	-	2,659,273
Total fund balances	$2,683,602	$ 299,944	$ 199,555	$ 399,628	$ 42,193	$3,624,922

11. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2015, was as follows:

Capital assets:	
Capital assets not being depreciated	$ 811,508
Capital assets being depreciated, net	8,009,945
	8,821,453
Related debt:	
Total bonds and notes payable	319,506
Net investment in capital assets	$8,501,947

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.

14. RESTATEMENT

The City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by $785,637.

■ ■ ■ ■ ■

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in City's Net Pension Liability and Related Ratios

	Year Ended June 30, 2015
Total pension liability	
Service cost	$ 89,824
Interest	225,872
Benefit payments, including refunds of employee contributions	(122,245)
Net change in total pension liability	193,451
Total pension liability, beginning of year	2,754,053
Total pension liability, end of year	2,947,504
Plan fiduciary net position	
Employer contributions	109,204
Employee contributions	7,240
Net investment income	143,484
Benefit payments, including refunds of employee contributions	(122,245)
Administrative expense	(5,280)
Net change in plan fiduciary net position	132,403
Plan fiduciary net position, beginning of year	2,261,554
Plan fiduciary net position, end of year	2,393,957
City's net pension liability	$ 553,547
Plan fiduciary net position as a percentage of total pension liability	81.2%
Covered-employee payroll	$ 853,200
City's net pension liability as a percentage of covered-employee payroll	64.9%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	$ 2,947,504	$ 2,393,957	$ 553,547	81.2%	$ 853,200	64.9%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2015	$ 110,541	$ 110,541	$ -	$ 862,446	12.8%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date	December 31, 2014
Notes	Actuarially determined contribution rates are calculated as of the June 30 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	24 years
Asset valuation method	Open; 10-year smooth market
Inflation	3.0% to 4.0%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.00%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations.
Mortality	1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

AGENCY FUNDS

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Statement of Changes in Fiduciary Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2015

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Assets				
Cash and cash equivalents	$ -	$ 7,335,735	$ (7,328,744)	$ 43,632
Due from other governments	20,374	-	(20,374)	-
Total assets	$ 20,374	$ 7,335,735	$ (7,349,118)	$ 43,632
Liabilities				
Negative equity in pooled cash	$ 20,374	$ -	$ (20,374)	$ -
Undistributed receipts	-	7,335,735	(7,328,744)	43,632
Total liabilities	$ 20,374	$ 7,335,735	$ (7,349,118)	$ 43,632

INTERNAL CONTROL AND COMPLIANCE

This page intentionally left blank.

Rehmann

Rehmann Robson

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

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 30, 2015

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

We have audited, in accordance with the 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2015-001, -002, -003, and -004 to be material weaknesses.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City of the Village of Douglas' Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Lohan LLC

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2015

2015-001 - Material Audit Adjustments (repeat finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances. Material adjustments were made to correct the year-end liability for shared services, to adjust capital assets and related depreciation expense in the internal service fund, to record additional accounts payable in component units, and to adjust certain agency fund assets and liabilities to the appropriate balances.

Cause. This condition is the result of management oversight, due to the staffing constraints typical of smaller governmental units.

Effect. As a result of this condition, the City's accounting records were initially misstated by amounts material to certain opinion units.

Recommendation. We recommend that the City management establish procedures for reviewing year-end liability accruals for errors and omissions. We also recommend the City reconcile the capital asset detail to the balances recorded in the internal service fund to identify any unrecorded adjustments.

View of Responsible Officials. Management has carefully reviewed and approved the proposed journal entries.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2015

2015-002 - Segregation of Incompatible Duties (repeat finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

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

Condition. The City has several transaction cycles that are performed by the same individual or are not subject to independent review and approval, including:

- Manual journal entries are initiated, prepared, and posted by the same individual and not subject to review or approval.
- Bank accounts are not reconciled by individuals independent of cash receipts and disbursement functions, or subject to independent review and approval. This is not in compliance with the City's policy, which requires the reconciliations to be reviewed by the City Manager.
- Cash deposits are made by an individual who is also responsible for preparing deposit slips and posting receipts. Additionally, the individual responsible for initially receiving monies does not maintain a receipt log which can later be compared to the receipt posting and deposit slip.
- Maintenance of the receivable subledger is not independent of general ledger maintenance.
- Responsibilities for payroll accounting are not separated from the general ledger function. After payroll is processed, there is no comparison of approved timesheets to the payroll register for accuracy.
- Cash disbursements made via electronic funds transfer (EFT) are recorded via manual journal entry by the same employee responsible for making the transfer and reconciling the bank statements. There is no independent review performed over the transfer confirmation, journal entry report, or bank reconciliation.
- Spreadsheets used to track and record capital assets, long-term debt, and compensated absences are prepared by one individual and are not subject to independent review and approval.

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.

Schedule of Findings and Responses

For the Year Ended June 30, 2015

2015-002 - Segregation of Incompatible Duties (Concluded)

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.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2015

2015-003 - Internal Controls over Capital Assets

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Timely account reconciliations represent an important control used to detect and prevent material misstatements.

Condition. Capital assets are tracked in a manual spreadsheet, which is prepared by the Treasurer and not subject to independent review and approval. We noted several errors in the capital asset detail originally provided, including beginning balances which did not agree to the prior year audited financial statements, certain disposed of assets that had not been removed from the detail, a disposal listed with the incorrect date, which also did not include the related accumulated depreciation, certain prior year additions that were not included on the current year detail, and certain assets which were donated by the federal government that had not been recorded.

Cause. This condition is the result of management oversight, due to the staffing constraints typical of smaller governmental units.

Effect. As a result of this condition, the City's accounting records were initially misstated by amounts material to the government-wide financial statements. In addition, such unreconciled balances increase the risk that amounts may be materially misstated, whether by error or fraud, and remain undetected by management.

Recommendation. We recommend that the City reconcile the beginning balances from the capital asset detail to the prior year audited financial statements. Additionally, we recommend the completed capital asset detail and rollfoward of activity is subject to independent review and approval to identify any potential errors.

View of Responsible Officials. Management recognizes that there only a few full-time employees and applies its judgement in determining how to best allocate the City's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2015

2015-004 - Internal Controls over Bank Reconciliations (repeat comment)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. The State of Michigan has a requirement that bank reconciliations should be completed within six weeks subsequent to month end.

Condition. 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. Additionally, the reconciliations are not dated and signed or initialed by the preparer as evidence of completion in a timely manner. Additionally, no independent review was noted of bank reconciliations.

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

Effect. As a result of this condition, the City's pooled cash reconciliation initially contained unreconciled variances which were material to the governmental funds.

Recommendation. In order to ensure that all reconciling items are properly identified and resolved, we recommend that the City fully complete its bank reconciliations, eliminating any variances within six weeks of the bank statement date, as required by the State. All reconciliations should be signed or initialed and dated by the preparer upon completion and subjected to documented independent review.

View of Responsible Officials. Management recognizes that there only a few full-time employees and applies its judgement in determining how to best allocate the City's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

■ ■ ■ ■ ■