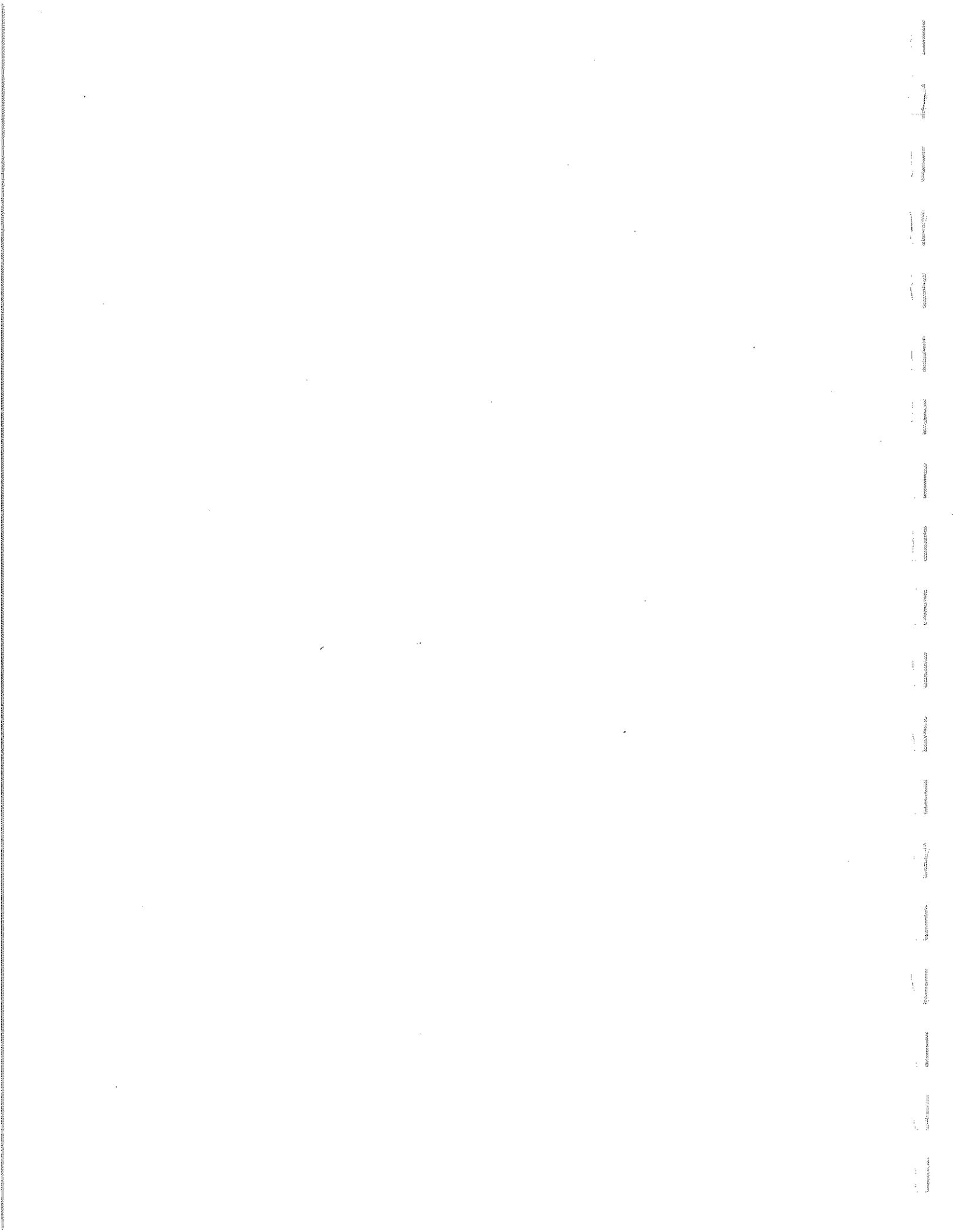


City of the Village  
of Douglas,  
Michigan



Year Ended  
June 30, 2016

Financial  
Statements



# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

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# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT**

October 27, 2016

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, 2016, 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 of the Village of Douglas as of June 30, 2016, 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.

### ***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 combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 October 27, 2016, 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 Lobson LLC*

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## 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 combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the schedules for the MERS pension plan.

### The City as a Whole

The following table shows, in a condensed format, the net position as of June 30, 2016 and 2015, respectively.

	Governmental Activities	
	2016	2015
<b>Assets</b>		
Current and other assets	\$ 4,368,699	\$ 4,067,114
Capital assets, net	8,234,204	8,821,453
<b>Total assets</b>	<u>12,602,903</u>	<u>12,888,567</u>
<b>Deferred outflows of resources</b>	<u>596,880</u>	<u>88,856</u>
<b>Liabilities</b>		
Current and other liabilities	1,041,302	761,645
Long-term liabilities	312,691	410,104
<b>Total liabilities</b>	<u>1,353,993</u>	<u>1,171,749</u>
<b>Deferred inflows of resources</b>	<u>41,581</u>	<u>-</u>
<b>Net position</b>		
Net investment in capital assets	8,027,145	8,501,947
Restricted	700,474	513,040
Unrestricted	3,076,590	2,790,687
<b>Total net position</b>	<u>\$ 11,804,209</u>	<u>\$ 11,805,674</u>

The City's total net position was \$11,804,209 at June 30, 2016, representing a decrease of \$1,465 from the prior year.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Management's Discussion and Analysis

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

	Governmental Activities	
	2016	2015
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 669,378	\$ 561,763
Operating grants and contributions	342,710	305,602
Capital grants and contributions	1,459	433,568
General revenues:		
Property taxes	1,861,290	1,775,755
State shared revenue	140,657	101,078
Unrestricted investment income	4,110	9,133
Other	49,321	52,475
Gain on sale of capital assets	-	14,825
<b>Total revenues</b>	<b>3,068,925</b>	<b>3,254,199</b>
<b>Program expenses</b>		
General government	664,674	558,919
Public safety	957,818	989,892
Public works	1,069,039	1,062,275
Community and economic development	232,676	253,340
Recreation and culture	136,929	106,875
Interest on long-term debt	9,254	12,731
<b>Total expenses</b>	<b>3,070,390</b>	<b>2,984,032</b>
<b>Change in net position</b>	<b>(1,465)</b>	<b>270,167</b>
Net position, beginning of year	11,805,674	11,535,507
<b>Net position, end of year</b>	<b>\$ 11,804,209</b>	<b>\$ 11,805,674</b>

### Governmental Activities

The City's governmental revenues totaled \$3,068,925, which represents a decrease of \$185,274 from the prior year, primarily due to a decrease in capital grants and contributions which was attributed to completed projects.

The City incurred governmental expenses of \$3,070,390, which represents an increase of \$86,358 from the prior year. The largest area of governmental expense is the public works function. 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Statement of Net Position

June 30, 2016

	Primary Government	
	Governmental Activities	Component Units
<b>Assets</b>		
Cash and cash equivalents	\$ 580,090	\$ 81,852
Investments	3,270,428	-
Receivables	106,296	-
Prepays	9,964	-
Deposits with others	401,921	-
Capital assets:		
Not being depreciated	290,559	-
Being depreciated, net	7,943,645	-
<b>Total assets</b>	<b>12,602,903</b>	<b>81,852</b>
<b>Deferred outflows of resources</b>		
Deferred pension amounts	596,880	-
<b>Liabilities</b>		
Payables and accrued liabilities	122,039	6,980
Unearned revenue	250	1,500
Long-term liabilities:		
Due within one year	162,537	-
Due in more than one year	150,154	-
Net pension liability	919,013	-
<b>Total liabilities</b>	<b>1,353,993</b>	<b>8,480</b>
<b>Deferred inflows of resources</b>		
Deferred pension amounts	41,581	-
<b>Net position</b>		
Net investment in capital assets	8,027,145	-
Restricted for:		
Highways and streets	686,783	-
Capital improvements	13,691	-
Unrestricted	3,076,590	73,372
<b>Total net position</b>	<b>\$ 11,804,209</b>	<b>\$ 73,372</b>

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

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
General government	\$ 664,674	\$ 77,789	\$ 150	\$ 1,459	\$ (585,276)
Public safety	957,818	532,178	11,713	-	(413,927)
Public works	1,069,039	47,616	330,847	-	(690,576)
Community and economic development	232,676	-	-	-	(232,676)
Recreation and culture	136,929	11,795	-	-	(125,134)
Interest on long-term debt	9,254	-	-	-	(9,254)
<b>Total governmental activities</b>	<b>\$ 3,070,390</b>	<b>\$ 669,378</b>	<b>\$ 342,710</b>	<b>\$ 1,459</b>	<b>\$ (2,056,843)</b>
<b>Component units</b>					
Downtown Development Authority	\$ 40,881	\$ -	\$ 23,329	\$ -	\$ (17,552)
Water Resource Improvement Tax Increment Finance Authority	41,202	-	37,500	-	(3,702)
<b>Total component units</b>	<b>\$ 82,083</b>	<b>\$ -</b>	<b>\$ 60,829</b>	<b>\$ -</b>	<b>\$ (21,254)</b>

continued...

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Statement of Activities For the Year Ended June 30, 2016

	<b>Primary Government</b>	
	<b>Governmental Activities</b>	<b>Component Units</b>
<b>Changes in net position</b>		
Net (expenses) revenues	\$ (2,056,843)	\$ (21,254)
General revenues:		
Property taxes	1,861,290	20,240
State shared revenues	140,657	-
Unrestricted investment income	4,110	250
Other general revenues	49,321	-
Total general revenues	<u>2,055,378</u>	<u>20,490</u>
<b>Change in net position</b>	<b>(1,465)</b>	<b>(764)</b>
Net position, beginning of year	<u>11,805,674</u>	<u>74,136</u>
<b>Net position, end of year</b>	<b><u>\$ 11,804,209</u></b>	<b><u>\$ 73,372</u></b>
		concluded

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

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# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Balance Sheet

Governmental Funds

June 30, 2016

	General Fund	Major Streets	Capital Projects Water and Sewer Revolving
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 395,552	\$ 56,995
Investments	3,270,428	-	-
Accounts receivable	12,260	-	-
Due from other governments	71,319	15,666	-
Interest receivable	375	-	-
Deposits with others	-	-	401,921
Prepays	6,799	1,736	-
<b>Total assets</b>	<b>\$ 3,361,181</b>	<b>\$ 412,954</b>	<b>\$ 458,916</b>
<b>Liabilities</b>			
Negative equity in pooled cash	\$ 433,445	\$ -	\$ -
Accounts payable	30,584	2,662	-
Due to other governments	40,358	-	-
Accrued liabilities	39,718	3,880	-
Unearned revenue	250	-	-
<b>Total liabilities</b>	<b>544,355</b>	<b>6,542</b>	<b>-</b>
<b>Deferred inflows of resources</b>			
Unavailable revenue - long-term receivable	30,000	-	-
<b>Fund balances</b>			
Nonspendable	6,799	1,736	-
Restricted	13,691	404,676	-
Committed	-	-	-
Assigned	-	-	458,916
Unassigned	2,766,336	-	-
<b>Total fund balances</b>	<b>2,786,826</b>	<b>406,412</b>	<b>458,916</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 3,361,181</b>	<b>\$ 412,954</b>	<b>\$ 458,916</b>

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



<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 322,631	\$ 775,178
-	3,270,428
-	12,260
6,676	93,661
-	375
-	401,921
1,429	9,964
<u>\$ 330,736</u>	<u>\$ 4,563,787</u>
\$ -	\$ 433,445
236	33,482
-	40,358
2,182	45,780
-	250
<u>2,418</u>	<u>553,315</u>
-	30,000
1,429	9,964
278,942	697,309
47,947	47,947
-	458,916
-	2,766,336
<u>328,318</u>	<u>3,980,472</u>
<u>\$ 330,736</u>	<u>\$ 4,563,787</u>

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2016

	General Fund	Major Streets	Capital Projects Water and Sewer Revolving
<b>Revenues</b>			
Taxes	\$ 1,861,290	\$ -	\$ -
Licenses and permits	76,304	-	-
Intergovernmental	818,238	130,485	-
Charges for services	1,485	-	62,616
Fines and forfeitures	9,727	-	-
Interest	4,111	-	192
Rentals	1,250	-	-
Contributions	1,609	-	-
Other revenues	48,071	-	-
<b>Total revenues</b>	<b>2,822,085</b>	<b>130,485</b>	<b>62,808</b>
<b>Expenditures</b>			
Current:			
General government	611,471	-	-
Public safety	932,119	-	-
Public works	255,546	187,497	3,520
Community and economic development	234,549	-	-
Recreation and culture	128,577	-	-
Other functions	27,851	-	-
Debt service:			
Principal	112,447	-	-
Interest	9,654	-	-
Capital outlay	53,647	4,020	-
<b>Total expenditures</b>	<b>2,365,861</b>	<b>191,517</b>	<b>3,520</b>
Revenues over (under) expenditures	456,224	(61,032)	59,288
<b>Other financing sources (uses)</b>			
Transfers in	4,500	167,500	-
Transfers out	(357,500)	-	-
<b>Total other financing sources (uses)</b>	<b>(353,000)</b>	<b>167,500</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>103,224</b>	<b>106,468</b>	<b>59,288</b>
Fund balances, beginning of year	2,683,602	299,944	399,628
<b>Fund balances, end of year</b>	<b>\$ 2,786,826</b>	<b>\$ 406,412</b>	<b>\$ 458,916</b>

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



<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 1,861,290
-	76,304
56,752	1,005,475
11,795	75,896
-	9,727
-	4,303
-	1,250
-	1,609
-	48,071
<hr/>	<hr/>
68,547	3,083,925
<hr/>	<hr/>
-	611,471
-	932,119
165,936	612,499
-	234,549
1,541	130,118
-	27,851
-	112,447
-	9,654
-	57,667
<hr/>	<hr/>
167,477	2,728,375
<hr/>	<hr/>
(98,930)	355,550
<hr/>	<hr/>
190,000	362,000
(4,500)	(362,000)
<hr/>	<hr/>
185,500	-
<hr/>	<hr/>
86,570	355,550
<hr/>	<hr/>
241,748	3,624,922
<hr/>	<hr/>
\$ 328,318	\$ 3,980,472
<hr/>	<hr/>

# 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, 2016

Net changes in fund balances - total governmental funds \$ 355,550

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

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

Purchases of capital assets	100,005
Purchases of capital assets accounted for in the internal service fund	(49,470)
Depreciation expense	(687,254)
Depreciation expense accounted for in the internal service fund	61,974

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	112,447
---	---------

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	400
Change in accrual for compensated absences	(15,034)
Change in net pension liability and related deferred amounts	100,977

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	32,940
Interest income from governmental activities internal service fund	1,000

Change in net position of governmental activities \$ (1,465)

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, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 1,851,500	\$ 1,860,000	\$ 1,861,290	\$ 1,290
Licenses and permits	77,100	77,900	76,304	(1,596)
Intergovernmental	791,625	822,825	818,238	(4,587)
Charges for services	1,250	1,250	1,485	235
Fines and forfeitures	5,250	7,050	9,727	2,677
Interest	8,000	8,000	4,111	(3,889)
Rentals	500	500	1,250	750
Contributions	11,000	11,000	1,609	(9,391)
Other revenues	27,045	31,545	48,071	16,526
<b>Total revenues</b>	<b>2,773,270</b>	<b>2,820,070</b>	<b>2,822,085</b>	<b>2,015</b>
<b>Expenditures</b>				
<b>Current:</b>				
<b>General government:</b>				
City council	15,725	15,725	12,352	(3,373)
Attorney	25,000	25,000	22,446	(2,554)
City manager	130,200	130,200	124,275	(5,925)
Assessing	49,140	49,140	48,177	(963)
Elections	13,150	13,150	3,964	(9,186)
Buildings and grounds	84,600	101,850	76,525	(25,325)
Clerk / Treasurer	294,480	327,980	308,432	(19,548)
Other	14,000	16,300	15,300	(1,000)
<b>Total general government</b>	<b>626,295</b>	<b>679,345</b>	<b>611,471</b>	<b>(67,874)</b>
<b>Public safety:</b>				
Police department	970,625	1,004,125	932,119	(72,006)
<b>Public works:</b>				
Department of public works	223,900	288,400	255,546	(32,854)
<b>Community and economic development:</b>				
Planning and zoning	211,200	226,200	197,049	(29,151)
Harbor authority	30,000	37,500	37,500	-
<b>Total community and economic development</b>	<b>241,200</b>	<b>263,700</b>	<b>234,549</b>	<b>(29,151)</b>
<b>Recreation and culture:</b>				
Parks department	102,250	132,000	128,577	(3,423)
<b>Other:</b>				
Insurance	27,500	27,500	24,851	(2,649)
Other	5,000	5,000	3,000	(2,000)
<b>Total other</b>	<b>32,500</b>	<b>32,500</b>	<b>27,851</b>	<b>(4,649)</b>

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, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Expenditures (concluded)</b>				
Debt service:				
Principal	\$ 110,000	\$ 110,000	\$ 112,447	\$ 2,447
Interest	12,500	12,500	9,654	(2,846)
Total debt service	122,500	122,500	122,101	(399)
Capital outlay	93,500	93,500	53,647	(39,853)
<b>Total expenditures</b>	<b>2,412,770</b>	<b>2,616,070</b>	<b>2,365,861</b>	<b>(250,209)</b>
Revenues over expenditures	360,500	204,000	456,224	252,224
<b>Other financing sources (uses)</b>				
Transfers in	4,500	4,500	4,500	-
Transfers out	(365,000)	(357,500)	(357,500)	-
<b>Total other financing sources (uses)</b>	<b>(360,500)</b>	<b>(353,000)</b>	<b>(353,000)</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>(149,000)</b>	<b>103,224</b>	<b>252,224</b>
Fund balance, beginning of year	2,683,602	2,683,602	2,683,602	-
<b>Fund balance, end of year</b>	<b>\$ 2,683,602</b>	<b>\$ 2,534,602</b>	<b>\$ 2,786,826</b>	<b>\$ 252,224</b>

concluded

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

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Major Streets Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Intergovernmental	\$ 107,500	\$ 107,500	\$ 130,485	\$ 22,985
<b>Expenditures</b>				
Current:				
Public works	218,450	243,850	187,497	(56,353)
Capital outlay	62,500	62,500	4,020	(58,480)
<b>Total expenditures</b>	<u>280,950</u>	<u>306,350</u>	<u>191,517</u>	<u>(114,833)</u>
Revenues over (under) expenditures	(173,450)	(198,850)	(61,032)	137,818
<b>Other financing sources</b>				
Transfers in	175,000	175,000	167,500	(7,500)
<b>Net change in fund balances</b>	1,550	(23,850)	106,468	130,318
Fund balances, beginning of year	299,944	299,944	299,944	-
<b>Fund balances, end of year</b>	<u>\$ 301,494</u>	<u>\$ 276,094</u>	<u>\$ 406,412</u>	<u>\$ 130,318</u>

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, 2016

	<b>Internal Service Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 238,357
Capital assets:	
Capital assets being depreciated, net	<u>171,789</u>
<b>Total assets</b>	<u>410,146</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	<u>1,531</u>
<b>Net position</b>	
Investment in capital assets	171,789
Unrestricted	<u>236,826</u>
<b>Total net position</b>	<u><u>\$ 408,615</u></u>

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, 2016

	<b>Internal Service Fund</b>
<b>Operating revenues</b>	
Charges for services	\$ 123,962
<b>Operating expenses</b>	
Operating supplies	29,048
Depreciation	61,974
<b>Total operating expenses</b>	91,022
Operating income	32,940
<b>Nonoperating revenues</b>	
Interest income	1,000
<b>Change in net position</b>	33,940
Net position, beginning of year	374,675
<b>Net position, end of year</b>	\$ 408,615

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, 2016

	<b>Internal Service Fund</b>
<b>Cash flows from operating activities</b>	
Receipts from interfund services provided	\$ 123,962
Payments to suppliers	(32,320)
<b>Net cash provided by operating activities</b>	<u>91,642</u>
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	(49,470)
<b>Cash flows from investing activities</b>	
Interest received	1,000
<b>Net increase in cash and cash equivalents</b>	<u>43,172</u>
Cash and cash equivalents, beginning of year	<u>195,185</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 238,357</u></u>
<b>Cash flows from operating activities</b>	
Operating income	\$ 32,940
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	61,974
Changes in operating assets and liabilities which used cash:	
Accounts payable	(3,272)
<b>Net cash provided by operating activities</b>	<u><u>\$ 91,642</u></u>

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

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Statement of Fiduciary Assets and Liabilities

Agency Fund  
June 30, 2016

	Tax Collection Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 11,245
<b>Liabilities</b>	
Undistributed receipts	\$ 11,245

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, 2016

	Downtown Development Authority	Water Resource Improvement Authority	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 72,095	\$ 9,757	\$ 81,852
<b>Liabilities</b>			
Payables and accrued liabilities	1,455	5,525	6,980
Unearned revenue	1,500	-	1,500
<b>Total liabilities</b>	<b>2,955</b>	<b>5,525</b>	<b>8,480</b>
<b>Net position</b>			
Unrestricted	\$ 69,140	\$ 4,232	\$ 73,372

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, 2016

	Downtown Development Authority	Water Resource Improvement Authority	Total
<b>Expenses</b>			
Downtown Development Authority	\$ 40,881	\$ -	\$ 40,881
Water Resource Improvement Authority	-	41,202	41,202
<b>Total expenses</b>	<b>40,881</b>	<b>41,202</b>	<b>82,083</b>
<b>Program revenues</b>			
Operating grants and contributions	23,329	37,500	60,829
<b>Net expenses</b>	<b>(17,552)</b>	<b>(3,702)</b>	<b>(21,254)</b>
<b>General revenues</b>			
Property taxes	20,240	-	20,240
Unrestricted interest income	250	-	250
<b>Total general revenues</b>	<b>20,490</b>	<b>-</b>	<b>20,490</b>
<b>Change in net position</b>	<b>2,938</b>	<b>(3,702)</b>	<b>(764)</b>
Net position, beginning of year	66,202	7,934	74,136
<b>Net position, end of year</b>	<b>\$ 69,140</b>	<b>\$ 4,232</b>	<b>\$ 73,372</b>

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

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## NOTES TO FINANCIAL STATEMENTS

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

***Water Resource Improvement Tax Increment Finance Authority*** - The Water Resource Improvement Tax Increment Finance Authority was created to obtain funding to maintain the Kalamazoo River harbor. The governing body of the Authority is appointed by the City Council, the Authority's budget is subject to the approval of the City Council and the City temporarily relinquishes part of its tax base to the Authority (tax increment revenues). A separate report is not issued for the Authority.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### *Joint Ventures*

#### a. Township of Saugatuck Fire District:

The Township of Saugatuck Fire District (the "District") is a joint venture of the City, the Township of Saugatuck and the City of Saugatuck. The administrative Board of the District consists of five members, two at-large members and one member from each of the three participating units. The budget of the District is approved at a joint meeting of the participating units. The participating units levy special millages for fire protection that are used to finance the cost of operations and capital expenditures of the District. During the year ended June 30, 2016, the City made no contributions to the District. The City does not have an equity interest in 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, 2016, the City made no contributions to the Authority. The City does not have an equity interest in 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, 2016, 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. The City does not have an equity interest in the Authority. Complete audited financial statements for the Authority can be obtained from their offices or the City of the Village of Douglas' City Hall.

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 \$4,693,615. As of February 29, 2016, the amount outstanding was \$4,315,090. 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).

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

The annual scheduled principal and interest requirements are as follows:

Year Ended February 28,	Principal	Interest	Total	City-backed Amount
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	215,000	85,315	300,315	166,314
2022-2026	1,150,000	342,511	1,492,511	826,553
2027-2031	1,295,000	189,949	1,484,949	822,365
2032-2034	860,090	32,631	892,721	494,389
<b>Total</b>	<b>\$ 4,315,090</b>	<b>\$ 1,042,727</b>	<b>\$ 5,357,817</b>	<b>\$ 2,967,159</b>

### 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, 2016.

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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

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

The *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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

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, 2016. 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 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.

### Prepays

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

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 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, 2016, 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. The City also reports deferred inflows of resources related to the net pension liability, related to changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan. More detailed information can be found in Note 9.

### 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 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.

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 Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 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.

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, assigned, and finally unassigned fund balance.

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

During the year ended June 30, 2016, 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
<b>General Fund</b>			
Debt service:			
Principal	\$ 110,000	\$ 112,447	\$ 2,447

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 3. DEPOSITS AND INVESTMENTS

Deposits and investments are recorded in the financial statements at June 30, 2016, as follows:

	Governmental Activities	Agency Fund	Component Units	Total
Cash and cash equivalents	\$ 580,090	\$ 11,245	\$ 81,852	\$ 673,187
Investments	3,270,428	-	-	3,270,428
<b>Total</b>	<b>\$ 3,850,518</b>	<b>\$ 11,245</b>	<b>\$ 81,852</b>	<b>\$ 3,943,615</b>

Deposits and investments consist of the following at June 30, 2016:

Bank deposits	\$ 588,115
Certificates of deposit (due within one year)	1,355,644
Certificates of deposit (due in one to five years)	602,934
Investments	1,396,922
<b>Total</b>	<b>\$ 3,943,615</b>

#### 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, \$319,914 of the City's bank balance of \$2,565,135 was exposed to custodial credit risk because it was uninsured and uncollateralized.

#### Statutory Authority

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

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

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

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

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

Investment	Maturity	Fair Value	Rating
MBIA Class Fund	No maturity	\$ 131,454	S&P / AA+M
US Treasury Bonds	11/27/2017	50,002	S&P / AA+
US Treasury Bonds	12/13/2017	50,001	S&P / AA+
US Treasury Bonds	02/26/2019	150,045	S&P / AA+
US Treasury Bonds	09/30/2019	50,003	S&P / AA+
US Treasury Bonds	10/24/2019	100,003	S&P / AA+
US Treasury Bonds	04/30/2020	250,178	S&P / AA+
US Treasury Bonds	02/26/2021	174,946	S&P / AA+
US Treasury Bonds	03/30/2021	150,021	S&P / AA+
US Treasury Bonds	05/25/2021	200,009	S&P / AA+
US Treasury Bonds	06/30/2021	90,260	S&P / AA+
<b>Total</b>		<b>\$ 1,396,922</b>	

### 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

*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, 2016, 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.

### Fair Value Measurement

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2016:

- U.S. Treasury securities, with a balance of \$1,265,468 at June 30, 2016, are valued using quoted market prices (Level 1 inputs).
- MBIA Class fund, with a balance of \$131,454 at June 30, 2016, are valued using significant other observable inputs (Level 2 inputs).

## 4. RECEIVABLES

At June 30, 2016, the City's receivables were as follows:

	<b>Governmental Activities</b>
Accounts	\$ 12,260
Due from other governments	93,661
Interest	375
<b>Total</b>	<b>\$ 106,296</b>

Of the amounts reported for receivables above, an amount due from other governments of \$15,000 is not expected to be collected within one year.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental activities</b>					
Capital assets, not being depreciated:					
Land	\$ 290,559	\$ -	\$ -	\$ -	\$ 290,559
Construction in progress	520,949	10,183	-	(531,132)	-
	<u>811,508</u>	<u>10,183</u>	<u>-</u>	<u>(531,132)</u>	<u>290,559</u>
Capital assets, being depreciated:					
Buildings	864,204	5,855	-	-	870,059
Improvements	646,619	-	-	90,152	736,771
Machinery and equipment	980,311	83,967	-	-	1,064,278
Infrastructure	11,753,938	-	-	440,980	12,194,918
	<u>14,245,072</u>	<u>89,822</u>	<u>-</u>	<u>531,132</u>	<u>14,866,026</u>
Less accumulated depreciation for:					
Buildings	(546,291)	(39,143)	-	-	(585,434)
Improvements	(322,594)	(33,238)	-	-	(355,832)
Machinery and equipment	(686,235)	(116,761)	-	-	(802,996)
Infrastructure	(4,680,007)	(498,112)	-	-	(5,178,119)
	<u>(6,235,127)</u>	<u>(687,254)</u>	<u>-</u>	<u>-</u>	<u>(6,922,381)</u>
Total capital assets being depreciated, net	<u>8,009,945</u>	<u>(597,432)</u>	<u>-</u>	<u>531,132</u>	<u>7,943,645</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,821,453</u>	<u>\$ (587,249)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,234,204</u>

Depreciation expense was charged to functions as follows:

General government	\$ 39,765
Public safety	44,233
Public works	523,851
Recreation and culture	17,431
Internal service fund	61,974
<b>Total</b>	<u>\$ 687,254</u>

Of the amounts reported above, \$20,260 was acquired through capital lease agreements. Accumulated depreciation on these assets at June 30, 2016 was \$10,038.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 6. PAYABLES AND ACCRUED LIABILITIES

At June 30, 2016, the City's payables and accrued liabilities were as follows:

	Governmental Activities	Component Units
Accounts	\$ 35,013	\$ 6,980
Due to other governments	40,358	-
Accrued liabilities	45,780	-
Accrued interest on long-term debt	888	-
<b>Total</b>	<b>\$ 122,039</b>	<b>\$ 6,980</b>

### 7. INTERFUND TRANSFERS

	Transfers In	Transfers out
General Fund	\$ 4,500	\$ 357,500
Major Streets Fund	167,500	-
Nonmajor governmental funds	190,000	4,500
<b>Total</b>	<b>\$ 362,000</b>	<b>\$ 362,000</b>

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.

### 8. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2016:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 150,000	\$ -	\$ (50,000)	\$ 100,000	\$ 50,000
Installment purchase agreements	155,310	-	(58,395)	96,915	37,735
Capital leases	14,196	-	(4,052)	10,144	4,052
Total installment debt	319,506	-	(112,447)	207,059	91,787
Compensated absences	90,598	85,784	(70,750)	105,632	70,750
<b>Total</b>	<b>\$ 410,104</b>	<b>\$ 85,784</b>	<b>\$ (183,197)</b>	<b>\$ 312,691</b>	<b>\$ 162,537</b>

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 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.	\$ 100,000
\$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.	73,797
\$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.	23,118
\$8,910 Capital lease agreement dated August 8, 2013, due in monthly installments of \$149 through July 8, 2018.	3,712
\$11,350 Capital lease agreement dated April 28, 2014, due in monthly installments of \$189 through April 6, 2019.	<u>6,432</u>
<b>Total</b>	<b><u>\$ 207,059</u></b>

The annual requirements to amortize all debt outstanding (excluding long-term compensated absences) as of June 30, 2016 are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 91,787	\$ 6,421	\$ 98,208
2018	69,451	3,778	73,229
2019	18,261	2,043	20,304
2020	17,083	1,181	18,264
2021	10,477	289	10,766
<b>Total</b>	<b><u>\$ 207,059</u></b>	<b><u>\$ 13,712</u></b>	<b><u>\$ 220,771</u></b>

Compensated absences are generally expected to be liquidated by the general fund and the current portion was estimated based on the current year deductions.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 9. PENSION PLAN

#### *General Information About the Plan*

*Plan Description.* The City's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System (MERS) of Michigan. 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. 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](http://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.

*Employees Covered by Benefit Terms.* At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>18</u>
<b>Total membership</b>	<u><u>40</u></u>

*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. For the year ended June 30, 2016, employer contributions ranged from 11.71% to 16.49% of annual payroll. In addition, the employer may establish contribution rates to be paid by its covered employees. Currently, member contributions range from 0% to 1.8%.

*Net Pension Liability.* The City's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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%	0.51%
Diversifying strategies	10.0%	6.56%	0.66%
	<u>100.0%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.50%</u>
<b>Investment rate of return</b>			<u><b>8.25%</b></u>

*Discount Rate.* The discount rate used to measure the total pension liability is 8.25% for 2015. 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 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, 2014	\$ 2,947,504	\$ 2,393,957	\$ 553,547
Changes for the year:			
Service cost	97,912	-	97,912
Interest	242,044	-	242,044
Differences between expected and actual experience	(55,441)	-	(55,441)
Changes in assumptions	158,592	-	158,592
Employer contributions	-	112,267	(112,267)
Employee contributions	-	7,093	(7,093)
Net investment income (loss)	-	(36,439)	36,439
Benefit payments, including refunds of employee contributions	(125,185)	(125,185)	-
Administrative expense	-	(5,280)	5,280
Net changes	317,922	(47,544)	365,466
Balances at December 31, 2015	\$ 3,265,426	\$ 2,346,413	\$ 919,013

*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%)
\$ 1,322,771	\$ 919,013	\$ 578,720

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

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### *Pension Expense and Deferred Outflows of Resources Related to Pensions*

For the year ended June 30, 2016, the City recognized pension expense of \$222,111. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 41,581	\$ (41,581)
Changes in assumptions	118,944	-	118,944
Net difference between projected and actual earnings on pension plan investments	212,369	-	212,369
	<u>331,313</u>	<u>41,581</u>	<u>289,732</u>
Contributions subsequent to the measurement date	265,567	-	265,567
<b>Total</b>	<u>\$ 596,880</u>	<u>\$ 41,581</u>	<u>\$ 555,299</u>

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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 81,011
2018	81,011
2019	81,012
2020	<u>46,698</u>
<b>Total</b>	<u>\$ 289,732</u>

*Payable to the Pension Plan.* At June 30, 2016, there were no amounts outstanding by the City for contributions to the pension plan required for the year ended June 30, 2016.

### **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, 2016 totaled \$6,923.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## 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, 2016 totaled \$9,440.

### 10. FUND BALANCES - GOVERNMENTAL FUNDS

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

	General Fund	Major Streets	Capital Projects Water and Sewer Revolving	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepaid items	\$ 6,799	\$ 1,736	\$ -	\$ 1,429	\$ 9,964
Restricted:					
Major and local streets	-	404,676	-	278,942	683,618
Capital projects	13,691	-	-	-	13,691
Total restricted	13,691	404,676	-	278,942	697,309
Committed:					
Schultz Park launch ramp	-	-	-	47,947	47,947
Assigned:					
Capital improvements	-	-	458,916	-	458,916
Unassigned	2,766,336	-	-	-	2,766,336
<b>Total fund balances</b>	<b>\$2,786,826</b>	<b>\$ 406,412</b>	<b>\$ 458,916</b>	<b>\$ 328,318</b>	<b>\$3,980,472</b>

### 11. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2016, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 290,559
Capital assets being depreciated, net	7,943,645
	<u>8,234,204</u>
Related debt:	
Total bonds and notes payable	<u>207,059</u>
<b>Net investment in capital assets</b>	<b><u>\$ 8,027,145</u></b>

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Notes to Financial Statements

### 12. RISK MANAGEMENT

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

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

### 13. CONTINGENCIES

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



## 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	
	2016	2015
<b>Total pension liability</b>		
Service cost	\$ 97,912	\$ 89,824
Interest	242,044	225,872
Differences between expected and actual experience	(55,441)	-
Changes of assumptions	158,592	-
Benefit payments, including refunds of employee contributions	(125,185)	(122,245)
<b>Net change in total pension liability</b>	<u>317,922</u>	<u>193,451</u>
Total pension liability, beginning of year	<u>2,947,504</u>	<u>2,754,053</u>
<b>Total pension liability, end of year</b>	<u>3,265,426</u>	<u>2,947,504</u>
<b>Plan fiduciary net position</b>		
Employer contributions	112,267	109,204
Employee contributions	7,093	7,240
Net investment income (loss)	(36,439)	143,484
Benefit payments, including refunds of employee contributions	(125,185)	(122,245)
Administrative expense	(5,280)	(5,280)
<b>Net change in plan fiduciary net position</b>	<u>(47,544)</u>	<u>132,403</u>
Plan fiduciary net position, beginning of year	<u>2,393,957</u>	<u>2,261,554</u>
<b>Plan fiduciary net position, end of year</b>	<u>2,346,413</u>	<u>2,393,957</u>
<b>City's net pension liability</b>	<u>\$ 919,013</u>	<u>\$ 553,547</u>
Plan fiduciary net position as a percentage of total pension liability	71.9%	81.2%
Covered-employee payroll	\$ 906,913	\$ 853,200
City's net pension liability as a percentage of covered-employee payroll	101.3%	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
2016	\$ 3,265,426	\$ 2,346,413	\$ 919,013	71.9%	\$ 906,913	101.3%
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
2016	\$ 119,838	\$ 323,088	\$ 203,250	\$ 903,709	35.8%
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** Actuarially determined contribution rates are calculated as of the December 31 that is 18 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	23 years
Asset valuation method	10 year smoothed
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
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, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

**COMBINING AND INDIVIDUAL FUND FINANCIAL  
STATEMENTS AND SCHEDULES**

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue Funds		
	Local Streets	Schultz Park Launch Ramp	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 274,563	\$ 48,068	\$ 322,631
Due from other governments	6,676	-	6,676
Prepays	1,429	-	1,429
<b>Total assets</b>	<b>\$ 282,668</b>	<b>\$ 48,068</b>	<b>\$ 330,736</b>
<b>Liabilities</b>			
Accounts payable	\$ 152	\$ 84	\$ 236
Accrued liabilities	2,145	37	2,182
<b>Total liabilities</b>	<b>2,297</b>	<b>121</b>	<b>2,418</b>
<b>Fund balances</b>			
Nonspendable	1,429	-	1,429
Restricted	278,942	-	278,942
Committed	-	47,947	47,947
<b>Total fund balances</b>	<b>280,371</b>	<b>47,947</b>	<b>328,318</b>
<b>Total liabilities and fund balances</b>	<b>\$ 282,668</b>	<b>\$ 48,068</b>	<b>\$ 330,736</b>

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds  
For the Year Ended June 30, 2016

	Special Revenue Funds		
	Local Streets	Schultz Park Launch Ramp	Total
<b>Revenues</b>			
Intergovernmental	\$ 56,752	\$ -	\$ 56,752
Charges for services	-	11,795	11,795
<b>Total revenues</b>	<u>56,752</u>	<u>11,795</u>	<u>68,547</u>
<b>Expenditures</b>			
Current:			
Public works	165,936	-	165,936
Recreation and culture	-	1,541	1,541
<b>Total expenditures</b>	<u>165,936</u>	<u>1,541</u>	<u>167,477</u>
Revenues over (under) expenditures	<u>(109,184)</u>	<u>10,254</u>	<u>(98,930)</u>
<b>Other financing sources (uses)</b>			
Transfers in	190,000	-	190,000
Transfers out	-	(4,500)	(4,500)
<b>Total other financing sources (uses)</b>	<u>190,000</u>	<u>(4,500)</u>	<u>185,500</u>
<b>Net change in fund balances</b>	<u>80,816</u>	<u>5,754</u>	<u>86,570</u>
Fund balances, beginning of year	<u>199,555</u>	<u>42,193</u>	<u>241,748</u>
<b>Fund balances, end of year</b>	<u>\$ 280,371</u>	<u>\$ 47,947</u>	<u>\$ 328,318</u>

# 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, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Intergovernmental	\$ 48,300	\$ 48,300	\$ 56,752	\$ 8,452
<b>Expenditures</b>				
Current:				
Public works	175,460	206,060	165,936	(40,124)
Capital outlay	62,500	62,500	-	(62,500)
<b>Total expenditures</b>	<b>237,960</b>	<b>268,560</b>	<b>165,936</b>	<b>(102,624)</b>
Revenues over (under) expenditures	(189,660)	(220,260)	(109,184)	111,076
<b>Other financing sources</b>				
Transfers in	190,000	190,000	190,000	-
<b>Net change in fund balances</b>	<b>340</b>	<b>(30,260)</b>	<b>80,816</b>	<b>111,076</b>
Fund balances, beginning of year	199,555	199,555	199,555	-
<b>Fund balances, end of year</b>	<b>\$ 199,895</b>	<b>\$ 169,295</b>	<b>\$ 280,371</b>	<b>\$ 111,076</b>

## CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

### Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget to Actual - Schultz Park Launch Ramp Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Charges for services	\$ 9,500	\$ 9,500	\$ 11,795	\$ 2,295
Interest	500	500	-	(500)
<b>Total revenues</b>	<b>10,000</b>	<b>10,000</b>	<b>11,795</b>	<b>1,795</b>
<b>Expenditures</b>				
Current:				
Recreation and culture	5,200	3,450	1,541	(1,909)
Revenues over expenditures	4,800	6,550	10,254	3,704
<b>Other financing uses</b>				
Transfers out	(4,500)	(4,500)	(4,500)	-
<b>Net change in fund balances</b>	<b>300</b>	<b>2,050</b>	<b>5,754</b>	<b>3,704</b>
Fund balances, beginning of year	42,193	42,193	42,193	-
<b>Fund balances, end of year</b>	<b>\$ 42,493</b>	<b>\$ 44,243</b>	<b>\$ 47,947</b>	<b>\$ 3,704</b>

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# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Statement of Changes in Fiduciary Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<b>Assets</b>				
Cash and cash equivalents	\$ 43,632	\$ 6,605,766	\$ (6,638,153)	\$ 11,245
<b>Liabilities</b>				
Undistributed receipts	\$ 43,632	\$ 6,605,766	\$ (6,638,153)	\$ 11,245

# INTERNAL CONTROL AND COMPLIANCE

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 27, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 27, 2016.

**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 2016-001, -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' Responses 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 Johnson LLC*

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended June 30, 2016

### 2016-001 - Material Audit Adjustments and Preparation of Financial Statements in Accordance with GAAP (repeat finding)

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

**Criteria.** All Michigan governments are required to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This is a responsibility of the County's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

**Condition.** 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. In addition to several other audit adjustments made, material adjustments were made to correct the year-end liability for shared services and to adjust capital assets and related depreciation expense in the internal service fund. In addition, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

**Cause.** This condition was caused by various oversights in recording adjustments for those areas noted above. This condition was also caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

**Effect.** As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements. Also as a result of this condition, the City lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**Recommendation.** We recommend that the City management establish procedures for reviewing year-end balances 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 reviews and approves journal entries made, however with a limited number of full-time staff it creates challenges in handling day to day operations against the required staff and review of all journal entries made. Management is continually training other staff members to handle new roles in the preparation of financial statements.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended June 30, 2016

### 2016-002 - 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.

# CITY OF THE VILLAGE OF DOUGLAS, MICHIGAN

## Schedule of Findings and Responses

For the Year Ended June 30, 2016

### 2016-002 - 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, 2016

### 2016-003 - Internal Controls over Capital Assets (repeat finding)

**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, and certain disposed of assets that had not been removed from the detail.

**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 rollforward 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, 2016

### 2016-004 - 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, there is the risk that all related accounting transactions are not recorded on a timely basis, and as a result the bank reconciliations can become increasingly difficult and time-consuming to prepare and review. In addition, this condition also increases the risk that misstatements (whether the result of fraud or error) may exist and not be identified on a timely basis.

**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.

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