

**City of the Village of Douglas
Allegan County, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

City of the Village of Douglas

TABLE OF CONTENTS

June 30, 2008

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii-v
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Fund	9
Statement of Revenues, Expenses, and Change in Fund Net Assets - Proprietary Fund	10
Statement of Cash Flows - Proprietary Fund	11
Notes to Financial Statements	12-24
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	25-26
MAJOR STREET FUND	
Budgetary Comparison Schedule	27
GENERAL HIGHWAY FUND	
Budgetary Comparison Schedule	28
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	29-30
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	31-32
Balance Sheet - Component Unit Fund	33
Statement of Revenues, Expenditures, and Changes in Fund Balance - Component Unit Fund	34

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of the Village of Douglas, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of the Village of Douglas, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 20, 2008

City of the Village of Douglas

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

As management of the City of the Village of Douglas, we offer readers of the City of the Village of Douglas' financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- For the first time in the City's history, the capital assets from the water and sewer mains, pump houses and other assets involving the water and sewer infrastructure are being recognized by the City as capital assets. These assets that were never reported as assets in prior financial statements had a net book value of \$3,061,585 at the beginning of the year which increased total capital assets by almost 50%.
- The Major Street Fund and Local Street Fund both receive ACT 51 funding from the State of Michigan. However, the ACT 51 money only covers about 35% of just the operating expenditures for the Major Street Fund, not counting any road construction, and only counts for 19% of the operating expenditures for the Local Street Fund. In order for these funds to maintain a positive fund balance they both are significantly supported with monies from the Road Millage Fund.
- Property tax revenues increased approximately \$106,838 from the prior year and an increase of \$170,821 in grants and contributions received.
- The City completed the Center St. Project as well as the Center and Water St. intersection repair.
- The Downtown Development Authority for the first time this year is being correctly reported as a discretely presented component unit of the City instead of being reported in with the governmental funds.
- Total fund balances related to the City's governmental funds increased by \$98,231 including an increase of \$71,976 in the General Fund.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of the Village of Douglas as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the City of the Village of Douglas in more detail than the government-wide financial statements by providing information about the City's most significant funds.

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007, respectively.

	Governmental Activities	
	June 30,	
	<u>2008</u>	<u>2007</u>
Assets		
Current & other assets	\$ 2,329,361	\$ 2,235,128
Capital assets	<u>6,118,878</u>	<u>3,078,506</u>
Total assets	8,448,239	5,313,634

City of the Village of Douglas

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The City as a Whole - continued

	Governmental Activities	
	June 30,	
	<u>2008</u>	<u>2007</u>
Liabilities		
Current liabilities	\$ 234,181	\$ 251,037
Long-term liabilities	<u>485,643</u>	<u>522,207</u>
Total liabilities	719,824	773,244
Net Assets		
Invested in capital assets net of related debt	\$ 5,599,009	\$ 2,531,774
Restricted	696,907	532,364
Unrestricted	<u>1,432,499</u>	<u>1,476,252</u>
	<u>\$ 7,728,415</u>	<u>\$ 4,540,390</u>

The City's total net assets were \$7,728,415 at June 30, 2008, representing an increase of \$3,188,025 from the prior year. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$1,432,499 at the end of the fiscal year, representing a decrease of \$43,753 from the prior year. The amount invested in capital assets, net of related debt was \$5,599,009.

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

	Governmental Activities	
	June 30,	
	<u>2008</u>	<u>2007</u>
Revenues		
Program Revenues		
Charges for services	\$ 537,612	\$ 598,492
Operating grants & contributions	226,242	148,090
Capital grants & contributions	137,594	44,925
General Revenues		
Property taxes	1,757,485	1,650,647
State shared revenue	97,336	102,864
Investment earnings	83,815	112,523
Other	<u>15,280</u>	<u>237,063</u>
Total revenue	2,855,364	2,894,604
Program Expenses		
General government	630,302	664,188
Public safety	822,513	792,608
Public works	778,104	521,540
Community & economic development	324,413	189,990
Recreation and cultural	121,550	123,347
Interest on long-term debt	<u>24,079</u>	<u>23,066</u>
Total program expenses	<u>2,700,961</u>	<u>2,314,739</u>
Change in net assets	<u>\$ 154,403</u>	<u>\$ 579,865</u>

City of the Village of Douglas

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Governmental Activities

The City's governmental revenues totaled \$2,855,364 for the year ended June 30, 2008, which represents a decrease of \$39,240 from the prior year, with the greatest revenue source being property taxes. Property taxes make up approximately 62 percent of total governmental revenue. Over the past few years, state shared revenue has declined as well as investment earnings. A significant decrease appears in the other revenue row because of the \$150,000 recorded from the settlement over assets with Saugatuck Township in 2007.

The City incurred governmental expenses of \$2,700,961, which represents an increase of \$386,222 from the prior year. The largest area of governmental expense is associated with the public safety function because of the additional costs of covering two cities. The community and economic development function increased due to the re-writing of the zoning ordinances and increased legal costs.

The net assets of the governmental activities increased by \$154,403 for the year ended June 30, 2008.

The City's Funds - Fund Level Financial Statements

The analysis of the City's major funds begins after the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of the Village of Douglas as a whole. The City of the Village of Douglas creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The City's major funds for the fiscal year ended June 30, 2008 include the General Fund, Major Street Fund, Road Millage Fund and Water & Sewer Revolving Fund.

The General Fund pays for most of the City's governmental services. The most significant services provided during the fiscal year were public safety and general government. General government includes City hall and grounds and other City services and public safety includes the police department for the joint police department of the Cities of Douglas and Saugatuck. Public safety and general government incurred expenditures of \$801,090 and \$622,497, respectively, for the fiscal year ending June 30, 2008.

The Major Street Fund's biggest expenditure of \$241,561 was in the public works function which covers the costs of street repairs and maintenance and snow removal. The Major Street Fund's major revenue is ACT 51 monies and a grant for Wiley Road for approximately \$55,000.

The Road Millage Fund generates revenue from the special millage for roads. The Road Millage Fund has no operating expenditures but transfers money to the Major and Local Street Funds. In the fiscal year ending June 30, 2008 the Road Millage Fund transferred \$176,000 to the Major Street Fund and \$153,000 to the Local Street Fund.

The Water & Sewer Revolving Fund collects revenues from tap-on fees from new developments. Kalamazoo Lake Sewer & Water Authority maintains and collects all such fees received for the City. These funds are set aside for future Water and Sewer projects that will be the responsibility of the City of the Village of Douglas.

General Fund Budgetary Highlights

The City under estimated revenue by \$8,981 and came in \$316,372 under budget for expenditures and other financing uses for the General Fund for the fiscal year ending June 30, 2008. The General Fund's expenditures for general government, public works, and public safety were all under budget by \$90,604, \$77,507 and \$68,956, respectively. The City's General Fund, after budget amendments, was budgeted for a \$253,377 decrease in fund balance and actually increased fund balance by \$71,976.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Capital Asset and Debt Administration

At the end of the fiscal year, the City had approximately \$6,118,878 invested in a broad range of capital assets, including buildings, land, improvements, equipment, and infrastructure net of accumulated depreciation. The City incurred depreciation of \$417,762 for the current fiscal year.

During the current year, the City paid \$42,131 in debt principal and saw a net increase to compensated absences of \$6,934. The City has \$596,587 in debt outstanding as of June 30, 2008, including \$76,718 for compensated absences. Of the \$596,587 of outstanding debt, \$110,944 is debt due within the next fiscal year. No new debt was incurred in the current year.

Current Economic Factors

The State of Michigan is experiencing significant budget problems, and as they look for solutions, revenue sharing continues to be cut for municipalities. The ACT 51 revenue that the City receives from the State for Major and Local Street Funds is insignificant to cover the required costs just to maintain the streets. This requires money from the Road Millage Fund to be transferred to cover the operating costs to maintain the streets in the City. Using monies from the Road Millage Fund to cover the operating costs of the streets diminishes the fund's fund balance and prohibits the ability for the fund balance to grow to be used in the future for major construction or other major street related activities.

Contacting the City's Management

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

BASIC FINANCIAL STATEMENTS

City of the Village of Douglas
STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government Governmental Activities	Component Unit (DDA)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,242,735	\$ 32,225
Investments	615,401	
Receivables	43,191	-
Due from other governmental units	418,452	-
Prepays	9,582	225
Total current assets	2,329,361	32,450
Noncurrent assets		
Capital assets not being depreciated	93,800	-
Capital assets being depreciated, net	6,025,078	-
Total noncurrent assets	6,118,878	-0-
TOTAL ASSETS	8,448,239	32,450
LIABILITIES		
Current liabilities		
Accounts payable	68,420	228
Accrued liabilities	53,120	-
Accrued interest payable	1,697	-
Current portion of compensated absences	49,867	-
Current portion of long-term debt	61,077	-
Total current liabilities	234,181	228
Noncurrent liabilities		
Noncurrent portion of compensated absences	26,851	-
Noncurrent portion of long-term debt	458,792	-
Total noncurrent liabilities	485,643	-0-
TOTAL LIABILITIES	719,824	228
NET ASSETS		
Invested in capital assets, net of related debt	5,599,009	-
Restricted for		
Capital improvement	2,357	-
Street activities	694,550	-
Unrestricted	1,432,499	32,222
TOTAL NET ASSETS	\$ 7,728,415	\$ 32,222

See accompanying notes to financial statements.

City of the Village of Douglas

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit (DDA)
Primary government:						
Governmental activities						
General government	\$ 630,302	\$ 65,081	\$ -	\$ -	\$ (565,221)	\$ -
Public safety	822,513	461,529	17,814	-	(343,170)	-
Public works	778,104	-	208,428	137,594	(432,082)	-
Community and economic development	324,413	-	-	-	(324,413)	-
Recreation and cultural	121,550	11,002	-	-	(110,548)	-
Interest on long-term debt	24,079	-	-	-	(24,079)	-
Total primary government	<u>\$ 2,700,961</u>	<u>\$ 537,612</u>	<u>\$ 226,242</u>	<u>\$ 137,594</u>	(1,799,513)	-0-
Component unit						
Downtown Development Authority	<u>\$ 30,793</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-0-	(30,793)
		General revenues:				
			Property taxes		1,757,485	9,200
			State shared revenue		97,336	-
			Investment earnings		83,815	1,377
			Miscellaneous		15,280	15,200
			Total general revenues		<u>1,953,916</u>	<u>25,777</u>
			Change in net assets		154,403	(5,016)
			Restated net assets, beginning of the year		<u>7,574,012</u>	<u>37,238</u>
			Net assets, end of the year		<u>\$ 7,728,415</u>	<u>\$ 32,222</u>

See accompanying notes to financial statements.

City of the Village of Douglas

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Major Street	Road Millage
ASSETS			
Cash and cash equivalents	\$ 521,498	\$ 14,910	\$ 454,815
Investments	409,574	-	205,827
Receivables			
Accounts	9,242	-	-
Special assessments	-	-	-
Interest	834	-	-
Due from other governmental units	211,701	13,859	-
Due from other funds	-	-	-
Prepays	8,788	397	-
	<u>1,161,637</u>	<u>29,166</u>	<u>660,642</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 62,632	\$ 3,678	\$ -
Accrued liabilities	46,114	3,795	-
Due to other funds	-	-	-
Deferred revenue	150,000	-	-
	<u>258,746</u>	<u>7,473</u>	<u>-0-</u>
TOTAL LIABILITIES			
FUND BALANCES			
Reserved for prepaids	8,788	397	-
Unreserved			
Designated for capital improvements	357,309	-	-
Undesignated, reported in			
General Fund	536,794	-	-
Special Revenue Funds	-	21,296	660,642
Capital Project Funds	-	-	-
	<u>902,891</u>	<u>21,693</u>	<u>660,642</u>
TOTAL FUND BALANCES			
TOTAL LIABILITIES AND FUND BALANCES			
	<u>\$ 1,161,637</u>	<u>\$ 29,166</u>	<u>\$ 660,642</u>

See accompanying notes to financial statements.

Water and Sewer Revolving	Nonmajor Governmental Funds	Total Governmental Funds
\$ 837	\$ 61,162	\$ 1,053,222
-	-	615,401
-	-	9,242
33,115	-	33,115
-	-	834
186,929	5,963	418,452
-	2,357	2,357
-	397	9,582
<u>\$ 220,881</u>	<u>\$ 69,879</u>	<u>\$ 2,142,205</u>
\$ -	\$ 2,110	\$ 68,420
-	3,211	53,120
2,357	-	2,357
<u>33,115</u>	<u>-</u>	<u>183,115</u>
35,472	5,321	307,012
-	397	9,582
-	-	357,309
-	-	536,794
185,409	61,804	929,151
-	2,357	2,357
<u>185,409</u>	<u>64,558</u>	<u>1,835,193</u>
<u>\$ 220,881</u>	<u>\$ 69,879</u>	<u>\$ 2,142,205</u>

City of the Village of Douglas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds \$ 1,835,193

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

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

The cost of capital assets is	\$ 9,161,242	
Accumulated depreciation is	<u>(3,042,364)</u>	
Capital assets, net		6,118,878

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	364,504	
Net capital assets of Internal Service Funds included in total capital assets above	<u>(174,991)</u>	
		189,513

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		183,115
------------------	--	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Long-term debt payable	(519,869)	
Accrued interest payable	(1,697)	
Compensated absences	<u>(76,718)</u>	
		<u>(598,284)</u>

Net assets of governmental activities \$ 7,728,415

See accompanying notes to financial statements.

City of the Village of Douglas

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	General	Major Street	Road Millage
REVENUES			
Taxes	\$ 1,516,304	\$ -	\$ 241,181
Licenses and permits	61,735	-	-
Intergovernmental	556,752	152,022	122,424
Charges for services	15,000	-	-
Fines and forfeits	13,992	-	-
Interest and rents	43,168	1,401	30,297
Other	14,951	-	-
TOTAL REVENUES	2,221,902	153,423	393,902
EXPENDITURES			
Current			
General government	622,497	-	-
Public safety	801,090	-	-
Public works	223,899	241,561	-
Community and economic development	324,413	-	-
Recreation and cultural	109,199	-	-
Capital outlay	-	79,365	-
Debt service	66,078	-	-
TOTAL EXPENDITURES	2,147,176	320,926	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	74,726	(167,503)	393,902
OTHER FINANCING SOURCES (USES)			
Transfers in	-	176,000	1,458
Transfers out	(2,750)	-	(329,000)
TOTAL OTHER FINANCING SOURCES (USES)	(2,750)	176,000	(327,542)
NET CHANGE IN FUND BALANCES	71,976	8,497	66,360
Fund balances, beginning of year	830,915	13,196	594,282
Fund balances, end of year	<u>\$ 902,891</u>	<u>\$ 21,693</u>	<u>\$ 660,642</u>

See accompanying notes to financial statements.

Water and Sewer Revolving	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,757,485
-	-	61,735
34,350	47,840	913,388
-	11,002	26,002
-	-	13,992
6,630	2,649	84,145
2,846	-	17,797
<u>43,826</u>	<u>61,491</u>	<u>2,874,544</u>
-	-	622,497
-	-	801,090
474	194,061	659,995
-	-	324,413
-	1,485	110,684
-	112,191	191,556
-	-	66,078
<u>474</u>	<u>307,737</u>	<u>2,776,313</u>
43,352	(246,246)	98,231
-	155,750	333,208
-	(1,458)	(333,208)
<u>-0-</u>	<u>154,292</u>	<u>-0-</u>
43,352	(91,954)	98,231
<u>142,057</u>	<u>156,512</u>	<u>1,736,962</u>
<u>\$ 185,409</u>	<u>\$ 64,558</u>	<u>\$ 1,835,193</u>

City of the Village of Douglas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds **\$ 98,231**

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 396,549	
Depreciation expense	<u>(417,762)</u>	
Excess of depreciation expense over capital outlay		(21,213)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds	206,063	
Depreciation expense of the Internal Service Fund included in the total above	26,473	
Capital outlay of the Internal Service Fund included in the total above	<u>(171,036)</u>	
		61,500

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(Decrease) in long-term receivables	(524)	
(Decrease) in deferred revenue	<u>(18,656)</u>	
		(19,180)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt principal retirements		42,131
--------------------------------------	--	--------

Some items 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. These activities consist of:

(Increase) in accrued interest payable	(132)	
(Increase) in accrued compensated absences	<u>(6,934)</u>	
		<u>(7,066)</u>

Change in net assets of governmental activities **\$ 154,403**

See accompanying notes to financial statements.

City of the Village of Douglas
Proprietary Fund
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 189,513
Noncurrent assets	
Capital assets being depreciated, net	174,991
TOTAL ASSETS	364,504
LIABILITIES	-
NET ASSETS	
Invested in capital assets	174,991
Unrestricted	189,513
TOTAL NET ASSETS	\$ 364,504

See accompanying notes to financial statements.

City of the Village of Douglas

Proprietary Fund

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS

Year Ended June 30, 2008

	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES	
Charges for services	\$ 229,260
OPERATING EXPENSES	
Operating supplies	1,587
Depreciation	<u>26,473</u>
TOTAL OPERATING EXPENSES	<u>28,060</u>
OPERATING INCOME	201,200
NONOPERATING REVENUES	
Interest earned	<u>4,863</u>
CHANGE IN NET ASSETS	206,063
Net assets, beginning of year	<u>158,441</u>
Net assets, end of year	<u><u>\$ 364,504</u></u>

See accompanying notes to financial statements.

City of the Village of Douglas

Proprietary Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	Governmental Activities
	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from users	\$ 229,260
Cash paid to suppliers	<u>(1,587)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	227,673
CASH FLOWS FROM FINANCING ACTIVITIES	
Purchase of capital assets	(171,036)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	<u>4,863</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	61,500
Cash and cash equivalents, beginning of year	<u>128,013</u>
Cash and cash equivalents, end of year	<u><u>\$ 189,513</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 201,200
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	<u>26,473</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 227,673</u></u>

See accompanying notes to financial statements.

City of the Village of Douglas

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of the Village of Douglas is located in Allegan County, Michigan and has a population of approximately 1,214. The City of the Village of Douglas operates with a Council form of government and provides services to its residents in many areas including general government, law enforcement, highways, and streets.

The City has six (6) City Council members who are elected at large for overlapping four (4) year terms and a Mayor elected at large for a two (2) year term. The Council appoints the Treasurer, Clerk, and City Manager.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to City governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of the Village of Douglas (primary government) and its component unit (Downtown Development Authority).

2. Discretely Presented Component Unit

The component unit is reported in a separate column to emphasize that, while legally separate, the City of the Village of Douglas remains financially accountable for this entity.

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

3. Joint Ventures

The Saugatuck Township Fire District (the "District") is a joint venture between the City of the Village of Douglas, 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 District levies a special millage on all applicable parcels within the District for fire protection that is used to finance the cost of operations and capital expenditures of the District. Complete audited financial statements for the District can be obtained from the Township of Saugatuck's Clerk. As of June 30, 2007 the District had Fund Equity of \$408,115.

The Interurban Transit Authority (the "Authority") is a joint venture between the City of the Village of Douglas, 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. The Authority has the capability and the authority to provide public transportation to the general public. Complete audited financial statements for the Authority can be obtained at the Authority's offices. As of September 30, 2007 the Authority had Net Assets of \$570,710.

The Kalamazoo Lake Sewer and Water Authority (the "Authority") is a joint venture between the City of the Village of Douglas, 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. Any infrastructure constructed or paid for by the participating unit is considered owed by that unit and is recorded as infrastructure on their respective records. Complete audited financial statements for the Authority can be obtained at the Authority's offices. As of February 28, 2008 the Authority had Net Assets of \$4,095,140.

City of the Village of Douglas
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included. Interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is a special revenue fund that is used to account for the financial resources related to street maintenance and enhancements.
- c. The Road Millage Fund is a special revenue fund that is used to account for road tax resources and all non-state funded road construction projects.
- d. The Water and Sewer Revolving Fund is a capital projects fund that is used to account for the financial resources related to water and sewer maintenance and enhancements done to the systems operated by Kalamazoo Lake Sewer and Water Authority.

Additionally, the City reports an internal service fund to account for the management of mobile equipment provided to other departments of the City on cost reimbursement basis.

5. Measurement Focus

The government-wide and proprietary financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

City of the Village of Douglas
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED**

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statement is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services to other funds for equipment usage. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/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.

7. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. At the second council meeting in June, the City Treasurer submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments, the date and time of the hearing will be published in the local paper and disbursed no later than one week prior.
- c. The budget is legally adopted with passage by Council vote no later than the second regular meeting in June.
- d. The budget is legally adopted at the activity level for the General Fund and Special Revenue Funds.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

City of the Village of Douglas
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Cash, Cash Equivalents, and Investments

The City pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing investments and disclosed as part of the City's investments. Cash equivalents consist of certificates of deposit with original maturities of 90 days or less.

Investments include certificates of deposit with original maturities of greater than 90 days from the date of purchase. All certificates of deposit are stated at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

9. Receivables

Receivables consist of amounts due from other governmental units for various financial assistance programs and charges for services, accounts receivable related to charges for services, and other amounts owed to the City at year-end.

10. Property Tax

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

Property taxes are levied by the City of the Village of Douglas on July 1 and are payable without penalty through September 14. The July 1 levy is composed of the City's millages, County's operating millage, school taxes, and State Education Tax. The December 1st 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. Delinquent personal property taxes are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Tax Receiving Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted to levy taxes up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services. For the year ended June 30, 2008, the City levied 11.2004 mills per \$1,000 of assessed valuation for general governmental services and 1.8814 mills for roads. The total Taxable Value for the 2007 levy for property within the City was \$128,343,537.

11. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Compensated Absences

The City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation and sick days. All employees with accumulated unused vacation and sick pay at June 30, 2008 were vested and the total due to them, along with the related payroll taxes, is recorded entirely in the government-wide financial statements.

13. Capital Assets

Capital assets include land, buildings, improvements, infrastructure and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. The City does not have a formal policy in place establishing capitalization thresholds, etc. but in practice, capital assets are those with an initial individual cost of \$3,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	40 years
Buildings improvements	10 - 15 years
Land improvements	10 years
Water and sewer lines - infrastructure	40 years
Roads - infrastructure	20 years
Other infrastructure	10 - 40 years
Machinery and equipment	3 - 10 years

14. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

15. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

16. Deferred Revenue

Deferred revenue consists of amounts related to special assessments and other long-term receivables due in future periods. None of these amounts are deferred in the government-wide financial statements.

17. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Reserved/Designated Fund Balance

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or have been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the City management has set aside for specific purposes.

19. Restrictions of Net Assets

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City utilizes a pooled cash account for all funds. The City's pooled cash account consists of a checking account that is used to disburse all accounts payable. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption on the basic financial statements.

The General Fund and Road Millage Fund each utilize separate investment accounts.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

City of the Village of Douglas
 NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits

As of June 30, 2008, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 989,305	\$ 1,095,715
Certificates of deposit	<u>817,136</u>	<u>817,136</u>
	1,806,441	1,912,851
COMPONENT UNIT		
Checking	<u>31,775</u>	<u>31,775</u>
TOTAL REPORTING ENTITY	<u>\$ 1,838,216</u>	<u>\$ 1,944,626</u>

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the City's deposits was \$1,838,216 and the bank balance was \$1,944,626 of which \$300,000 was covered by federal depository insurance. The balance of \$1,644,626 was uninsured and uncollateralized.

Investments

As of June 30, 2008, the City had the following investments:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
PRIMARY GOVERNMENT		
MBIA - CLASS	\$ <u>51,695</u>	\$ <u>51,695</u>

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, all of the City's investments in MBIA were rated AAA/V1+ by Fitch.

Interest rate risk

The City has not adopted a policy that indicates how the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The City has not adopted a policy that indicates how the City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer.

Custodial credit risk

The City has not adopted a policy that indicates how the City will minimize custodial credit risk, which 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 of collateral securities that are in possession of an outside party.

City of the Village of Douglas
 NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Custodial credit risk - continued

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2008:

	Primary Government	Component Unit	Total
Cash and cash equivalents	\$ 1,242,735	\$ 32,225	\$ 1,274,960
Investments	615,401	-	615,401
TOTAL	\$ 1,858,136	\$ 32,225	\$ 1,890,361

The cash and cash equivalents captions on the component unit financial statements include \$450 in imprest cash.

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2008, are as follows:

Due to nonmajor governmental funds from:	
Water and Sewer Revolving Fund	\$ <u>2,357</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Major Street Fund from:	
General Highway Fund	\$ <u>176,000</u>
Transfer to General Highway Fund from:	
Nonmajor governmental fund	\$ <u>1,458</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 2,750
General Highway Fund	<u>153,000</u>
	<u>\$ 155,750</u>

City of the Village of Douglas
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government

	<u>Restated Balance July 1, 2007</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2008</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 93,800	\$ -	\$ -	\$ 93,800
Construction in progress	<u>16,880</u>	<u>-</u>	<u>(16,880)</u>	<u>-0-</u>
Subtotal of capital assets not being depreciated	110,680	-0-	(16,880)	93,800
Capital assets being depreciated				
Buildings	785,299	3,370	-	788,669
Improvements	538,617	-	-	538,617
Machinery and Equipment	410,775	215,549	(78,186)	548,138
Infrastructure	<u>6,997,508</u>	<u>194,510</u>	<u>-</u>	<u>7,192,018</u>
Subtotal of capital assets being depreciated	8,732,199	413,429	(78,186)	9,067,442
Less accumulated depreciation for				
Buildings	(242,338)	(39,013)	-	(281,351)
Improvements	(94,748)	(28,399)	-	(123,147)
Machinery and Equipment	(314,602)	(64,277)	78,186	(300,693)
Infrastructure	<u>(2,051,100)</u>	<u>(286,073)</u>	<u>-</u>	<u>(2,337,173)</u>
Total accumulated depreciation	<u>(2,702,788)</u>	<u>(417,762)</u>	<u>78,186</u>	<u>(3,042,364)</u>
Net capital assets being depreciated	<u>6,029,411</u>	<u>(4,333)</u>	<u>-0-</u>	<u>6,025,078</u>
Capital assets, net	<u>\$ 6,140,091</u>	<u>\$ (4,333)</u>	<u>\$ (16,880)</u>	<u>\$ 6,118,878</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 62,371
Public safety	21,423
Public works	323,102
Recreation and cultural	<u>10,866</u>
Total depreciation expense	<u>\$ 417,762</u>

City of the Village of Douglas

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
PRIMARY GOVERNMENT					
Governmental Activities					
Installment Purchases					
Dutcher Lodge (second level)	\$ 178,600	\$ -	\$ 9,282	\$ 169,318	\$ 9,644
Dutcher Lodge (first level)	363,565	-	32,849	330,716	31,598
Accrued Legal Fees	19,835	-	-	19,835	19,835
Compensated absences	<u>69,784</u>	<u>51,391</u>	<u>44,457</u>	<u>76,718</u>	<u>49,867</u>
	<u>\$ 631,784</u>	<u>\$ 51,391</u>	<u>\$ 86,588</u>	<u>\$ 596,587</u>	<u>\$ 110,944</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Installment Purchases

\$190,000 Loan agreement dated March 17, 2006, due in monthly installments ranging from \$756 to \$1,509 through March 1, 2021, with interest of 5.14 percent.	\$ 169,318
\$448,403 Loan agreement dated July 10, 2004, due in monthly installments ranging from \$560 to \$3,549 through August 10, 2017, with interest of 3.50 percent.	<u>330,716</u>
	<u>\$ 500,034</u>

The annual requirements to pay the debt principal and interest outstanding for the installment purchases are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 41,242	\$ 19,302
2010	42,881	18,115
2011	44,589	16,407
2012	46,343	14,617
2013	48,213	12,783
2014-2018	232,423	33,948
2019-2021	<u>44,343</u>	<u>3,513</u>
	<u>\$ 500,034</u>	<u>\$ 118,685</u>

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick and vacation time. The dollar amount of these vested rights, including related payroll taxes, which have been accrued on the financial statements in the government-wide financial statements, amounted to approximately \$76,718 at June 30, 2008.

City of the Village of Douglas

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: RETIREMENT PLAN

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the City of the Village of Douglas. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The City is required to contribute at an actuarially determined rate: the rate during the year ended June 30, 2008 ranged from 8.37 - 24.43% of annual covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. 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.

Annual Pension Cost

For year ended June 30, 2008, the City of the Village of Douglas' annual pension cost of \$94,007 for the plan was equal to the City of the Village of Douglas' required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$ 1,113,392	\$ 1,280,631	\$ 1,404,289
Actuarial accrued liability (AAL) (entry age)	1,407,308	1,663,832	1,799,344
Unfunded AAL	293,916	383,201	395,055
Funded ratio	79 %	77 %	78 %
Covered payroll	682,016	738,339	630,356
UAAL as a percentage of covered payroll	43 %	52 %	63 %

	Year Ended June 30,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 113,586	\$ 109,044	\$ 94,007
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

The City also participates in the defined contribution option of the Municipal Employees Retirement System, 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. While the program began in fiscal year ending June 30, 2008 there was no contribution made by the City.

City of the Village of Douglas

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Liability and Property Pool with other municipalities for property, liability, 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 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 workers' 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.

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the City's budgeted expenditures in the General Fund and Major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the Special Revenue Funds.

During the year ended June 30, 2008, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Council	\$ 17,304	\$ 29,126	\$ 11,822
Attorney	65,680	66,477	797
Debt Service			
Principal	41,000	42,131	1,131
Interest	23,740	23,947	207

NOTE J: RESTATED NET ASSETS

The City has retroactively adjusted the accounts receivable and capital assets, net of accumulated depreciation balances of the governmental activities. Also, net assets for the governmental activities and component unit (DDA) sections have been restated to appropriately reflect the activities of the component unit (DDA) in a discretely presented component unit format. Net assets have been restated as follows:

Governmental activities net assets as of June 30, 2007	\$ 4,540,390
Component unit activity	(37,238)
Overstated receivable	9,275
Understated capital assets, net of accumulated depreciation	<u>3,061,585</u>
Restated governmental activities net assets as of June 30, 2007	<u>\$ 7,574,012</u>

City of the Village of Douglas
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE J: RESTATED NET ASSETS - CONTINUED

Component unit net assets as of June 30, 2007	\$ -
Component unit activity	<u>37,238</u>
Restated component unit net assets as of June 30, 2007	<u>\$ 37,238</u>

NOTE K: CONTINGENCIES

There are various potential legal actions pending against the City. Due to the inconclusive nature of many of the actions, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. Those various other legal actions for which a reasonable estimate can be determined of the City's potential liability and that would not be covered by insurance and reserves, if any, are considered by City management and legal counsel to be immaterial.

NOTE L: CODE ENFORCEMENT FINANCIAL INFORMATION

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2008.

Revenues	
Inspection fees	\$ 50,002
Expenditures	
Contractor labor	<u>(59,905)</u>
Excess of expenditures over revenues	(9,903)
Cumulative excess at June 30, 2007	<u>58,269</u>
Cumulative excess at June 30, 2008	<u>\$ 48,366</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of the Village of Douglas

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,499,890	\$ 1,502,906	\$ 1,516,304	\$ 13,398
Licenses and permits	51,940	56,414	61,735	5,321
Intergovernmental				
State	117,252	121,860	120,869	(991)
Local	401,140	401,140	435,883	34,743
Charges for services	15,000	15,000	15,000	-0-
Fines and forfeits	7,700	13,546	13,992	446
Interest and rents	76,700	76,950	43,168	(33,782)
Other	16,700	25,105	14,951	(10,154)
TOTAL REVENUES	2,186,322	2,212,921	2,221,902	8,981
EXPENDITURES				
Current				
General government				
Council	13,885	17,304	29,126	(11,822)
Attorney	55,000	65,680	66,477	(797)
Manager	100,280	110,504	103,240	7,264
Assessing	62,100	64,000	53,905	10,095
Elections	3,850	5,082	3,538	1,544
Building and grounds	130,110	142,820	96,619	46,201
Clerk / Treasurer	222,626	266,376	243,473	22,903
Insurance	22,000	22,000	20,383	1,617
Other	15,530	19,335	5,736	13,599
Total general government	625,381	713,101	622,497	90,604
Public safety				
Police department	826,275	870,046	801,090	68,956
Public works				
Department of public works	265,600	301,406	223,899	77,507
Community and economic development				
Planning and zoning	220,100	333,450	324,413	9,037
Recreation and cultural				
Parks department	125,255	153,555	109,199	44,356

City of the Village of Douglas

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Debt Service				
Principal	\$ 36,000	\$ 41,000	\$ 42,131	\$ (1,131)
Interest	23,740	23,740	23,947	(207)
Total debt service	59,740	64,740	66,078	(1,338)
TOTAL EXPENDITURES	2,122,351	2,436,298	2,147,176	289,122
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	63,971	(223,377)	74,726	298,103
OTHER FINANCING USES				
Transfers out	(30,000)	(30,000)	(2,750)	27,250
NET CHANGE IN FUND BALANCE	33,971	(253,377)	71,976	325,353
Fund balance, beginning of year	830,915	830,915	830,915	-0-
Fund balance, end of year	\$ 864,886	\$ 577,538	\$ 902,891	\$ 325,353

City of the Village of Douglas

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental - State	\$ 135,600	\$ 140,800	\$ 152,022	\$ 11,222
Interest	2,100	2,100	1,401	(699)
TOTAL REVENUES	137,700	142,900	153,423	10,523
EXPENDITURES				
Current				
Public works	146,145	279,072	241,561	37,511
Capital outlay	225,000	225,000	79,365	145,635
TOTAL EXPENDITURES	371,145	504,072	320,926	183,146
EXCESS OF REVENUES (UNDER) EXPENDITURES	(233,445)	(361,172)	(167,503)	193,669
OTHER FINANCING SOURCES				
Transfers in	234,000	234,000	176,000	(58,000)
NET CHANGE IN FUND BALANCE	555	(127,172)	8,497	135,669
Fund balance, beginning of year	13,196	13,196	13,196	-0-
Fund balance, end of year	<u>\$ 13,751</u>	<u>\$ (113,976)</u>	<u>\$ 21,693</u>	<u>\$ 135,669</u>

City of the Village of Douglas

Road Millage Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 240,575	\$ 240,675	\$ 241,181	\$ 506
Intergovernmental	110,000	122,424	122,424	-0-
Interest	20,000	26,250	30,297	4,047
TOTAL REVENUES	370,575	389,349	393,902	4,553
EXPENDITURES	-	-	-	-0-
EXCESS OF REVENUES OVER EXPENDITURES	370,575	389,349	393,902	4,553
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,708	1,458	(250)
Transfers out	(424,000)	(487,000)	(329,000)	158,000
TOTAL OTHER FINANCING SOURCES (USES)	(424,000)	(485,292)	(327,542)	157,750
NET CHANGE IN FUND BALANCE	(53,425)	(95,943)	66,360	162,303
Fund balance, beginning of year	594,282	594,282	594,282	-0-
Fund balance, end of year	\$ 540,857	\$ 498,339	\$ 660,642	\$ 162,303

OTHER SUPPLEMENTARY INFORMATION

City of the Village of Douglas
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 June 30, 2008

	Special Revenue Funds		
	Local Street	Special Events	Schultz Park Launch Ramp
ASSETS			
Cash and cash equivalents	\$ 11,176	\$ 2,750	\$ 47,236
Due from other governmental units	5,963	-	-
Due from other funds	-	-	-
Prepays	397	-	-
	\$ 17,536	\$ 2,750	\$ 47,236
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 2,110	\$ -	\$ -
Accrued liabilities	3,211	-	-
	5,321	-0-	-0-
FUND BALANCES			
Reserved for prepaids	397	-	-
Unreserved			
Undesignated, reported in:			
Special Revenue Funds	11,818	2,750	47,236
Capital Project Funds	-	-	-
	12,215	2,750	47,236
TOTAL FUND BALANCES	\$ 17,536	\$ 2,750	\$ 47,236
TOTAL LIABILITIES AND FUND BALANCES	\$ 17,536	\$ 2,750	\$ 47,236

<u>Capital Project Fund</u>		<u>Total Nonmajor Governmental Funds</u>
Center Street		
\$ -		\$ 61,162
-		5,963
2,357		2,357
-		397
<u>\$ 2,357</u>		<u>\$ 69,879</u>

\$ -		\$ 2,110
-		3,211
-0-		5,321
-		397
-		61,804
<u>2,357</u>		<u>2,357</u>
<u>2,357</u>		<u>64,558</u>
<u>\$ 2,357</u>		<u>\$ 69,879</u>

City of the Village of Douglas

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	<u>Special Revenue Funds</u>		
	<u>Local Street</u>	<u>Special Events</u>	<u>Schultz Park Launch Ramp</u>
REVENUES			
Intergovernmental	\$ 47,840	\$ -	\$ -
Charges for services	-	-	11,002
Interest and rents	108	-	1,574
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	47,948	-0-	12,576
EXPENDITURES			
Current			
Public works	194,061	-	-
Recreation and cultural	-	-	1,485
Capital outlay	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	194,061	-0-	1,485
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(146,113)	-0-	11,091
OTHER FINANCING SOURCES (USES)			
Transfers in	153,000	2,750	-
Transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	153,000	2,750	-0-
NET CHANGE IN FUND BALANCES	6,887	2,750	11,091
Fund balances, beginning of year	<hr/>	<hr/>	<hr/>
	5,328	-	36,145
Fund balances, end of year	<u>\$ 12,215</u>	<u>\$ 2,750</u>	<u>\$ 47,236</u>

<u>Capital Project Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Center Street</u>	
\$ -	\$ 47,840
-	11,002
<u>967</u>	<u>2,649</u>
967	61,491
-	194,061
-	1,485
<u>112,191</u>	<u>112,191</u>
<u>112,191</u>	<u>307,737</u>
(111,224)	(246,246)
-	155,750
<u>(1,458)</u>	<u>(1,458)</u>
<u>(1,458)</u>	<u>154,292</u>
(112,682)	(91,954)
<u>115,039</u>	<u>156,512</u>
<u>\$ 2,357</u>	<u>\$ 64,558</u>

City of the Village of Douglas

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2008

ASSETS	
Cash	\$ 32,225
Prepays	<u>225</u>
TOTAL ASSETS	<u>\$ 32,450</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 228
FUND BALANCE	
Reserved for prepaids	225
Unreserved - undesignated	<u>31,997</u>
TOTAL FUND BALANCE	<u>32,222</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 32,450</u>

Note: Reconciliation of the balance sheet of this component unit's governmental fund to the statement of net assets for the component unit is not required as the fund balance of the component unit governmental fund was equal to the net assets of the component unit for the year ended June 30, 2008.

City of the Village of Douglas

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2008

REVENUES	
Taxes	\$ 9,200
Interest	1,377
Other	<u>15,200</u>
TOTAL REVENUES	25,777
EXPENDITURES	
Current	
Community and economic development	<u>30,793</u>
CHANGE IN FUND BALANCE	(5,016)
Fund balance, beginning of year	<u>37,238</u>
Fund balance, end of year	<u><u>\$ 32,222</u></u>

Note: Reconciliation of the statement of revenues, expenditures and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended June 30, 2008.