

*City of Saugatuck*  
*Allegan County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended June 30, 2006*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**City of Saugatuck**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Our discussion and analysis of the City of Saugatuck's (the City) financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

**FINANCIAL HIGHLIGHTS**

- The City's total net assets increased by \$465,660 (5 percent) as a result of this year's activities.
- Of the \$8,302,331 total net assets reported, \$1,181,133 (14 percent) is unrestricted, or available to be used at the Council's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$840,290, which represents 44 percent of the actual total General Fund expenditures for the current fiscal year.

**Overview of the financial statements**

The City's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long- and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide financial statements.
  - Governmental fund statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
  - Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**Government-wide financial statements**

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

**City of Saugatuck**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's capital assets.

The government-wide financial statements present the City's governmental activities. The City's basic services are included here, such as police protection, fire protection, parks and recreation, and general government. Property taxes, state grants, and recreation fees finance most of these activities.

**Fund financial statements**

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The City Council establishes other funds to control and manage money for particular purposes (like business licenses) or to show that it is properly using certain taxes and other revenues (like property taxes collected for the Fire Authority and motor fuel taxes collected for the street funds).

The City has two kinds of funds:

1. *Governmental funds.* Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.
2. *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

**City of Saugatuck**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net assets.** Total net assets at the end of the fiscal year were \$8,302,331, an increase of 5 percent compared to the prior year. Of this total, \$6,380,811 is invested in capital assets, net of related debt and \$740,387 is restricted for various purposes. Consequently, unrestricted net assets were \$1,181,133, or 14 percent of the total.

Condensed financial information  
 Net Assets

	<i>Governmental activities</i>	
	<u>2006</u>	<u>2005</u>
Current assets	<b>\$ 2,061,277</b>	\$ 1,889,251
Noncurrent assets	<b>7,318,326</b>	7,224,333
<b>Total assets</b>	<b><u>9,379,603</u></b>	<b><u>9,113,584</u></b>
Other liabilities	<b>164,749</b>	237,693
Long-term debt outstanding	<b>912,523</b>	1,039,220
<b>Total liabilities</b>	<b><u>1,077,272</u></b>	<b><u>1,276,913</u></b>
Net assets:		
Invested in capital assets, net of related debt	<b>6,380,811</b>	6,185,113
Restricted	<b>740,387</b>	592,063
Unrestricted	<b><u>1,181,133</u></b>	<u>1,059,495</u>
<b>Total net assets</b>	<b><u>\$ 8,302,331</u></b>	<b><u>\$ 7,836,671</u></b>

**City of Saugatuck**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE (Continued)**

**Changes in net assets.** The City's total revenues are \$2,650,490. More than 59 percent of the City's revenues come from property taxes and another 21 percent come from charges for services.

The total cost of all the City's programs, covering a wide range of services, totaled \$2,184,830. More than 24 percent of the City's costs relate to public safety, primarily for police and fire protection. Public works, including streets and public utility costs account for 24 percent of the costs and culture and recreation costs account for 19 percent of the City's total costs.

Condensed financial information  
 Changes in Net Assets

	<i>Governmental activities</i>	
	<u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services	\$ 560,851	\$ 521,962
Operating grants and contributions	126,543	112,971
Capital grants and contributions	179,312	125,324
General revenues:		
Property taxes	1,482,826	1,450,068
Public service tax	95,861	91,567
State shared revenue	102,432	99,654
Unrestricted investment return	85,592	33,545
Other	17,073	33,415
<b>Total revenues</b>	<b><u>2,650,490</u></b>	<b><u>2,468,506</u></b>
Expenses:		
Legislative	13,008	20,197
General government	538,613	441,720
Public safety	544,844	507,877
Public works	537,247	492,031
Community and economic development	54,168	95,193
Health and welfare	40,553	40,635
Culture and recreation	417,245	398,783
Interest	39,152	53,786
<b>Total expenses</b>	<b><u>2,184,830</u></b>	<b><u>2,050,222</u></b>
<b>Increase in net assets</b>	<b><u>\$ 465,660</u></b>	<b><u>\$ 418,284</u></b>

**City of Saugatuck**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Governmental activities.** Governmental activities increased the City's net assets by \$465,660, (5%) over the prior year. Revenues increased by \$181,984, (7%) including a \$165,000 capital grant received in 2006, and other smaller increases. Expenses increased by \$134,608 (6%) compared to the prior year, including an increase of \$96,893 in the City's combined general government expenses.

The cost of all governmental activities this year was \$2,184,830. After subtracting the direct charges to those who directly benefited from the programs (\$560,851), and operating and capital grants (\$305,855), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$1,318,124.

### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

**Governmental funds.** As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,908,919, an increase of \$289,863 in comparison with the prior year. Of the total fund balances, 82 percent constitutes unreserved fund balance, which is available for spending for appropriate purposes. The remainder of fund balance is reserved to indicate that it is not available for discretionary spending because it has already been committed (1) for building inspections activities (\$17,533), (2) for future debt service costs (\$92,205), and (3) to generate income to pay for care of a City park (\$230,484).

The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance was \$840,290, which represents 43 percent of the actual total General Fund expenditures for the current fiscal year. Total fund balance increased by \$69,382 because the increase in combined revenues outpaced expenditure increases.

The Major and Local Street funds also experienced increases in their fund balances of \$74,521 and \$96,673, respectively, primarily because the expenditures in those funds were limited to ongoing operations, with no capital outlays.

The Business Licenses Fund fund balance decreased by \$18,187 because a transfer to cover a portion of the General Fund debt payment for a City parking lot exceeded the license fees collected in the fund.

The Water and Sewer Improvements Fund had an increase in fund balance of \$98,843 resulting from charges collected and a \$56,663 transfer to repay monies from a debt service fund. There were minimal expenses in the fund this year.

The Park Endowment Fund fund balance increased by \$1,887 after a transfer from General Fund covered expenditures in excess of investment earnings.

### **General Fund budgetary highlights**

The final amended amounts budgeted for expenditures in the General Fund were \$492,552 greater than the original budgeted expenditures. The budget amendments primarily reflected projected increases in capital outlays.

Actual General Fund expenditures were \$24,483 less than the total amounts budgeted. This difference is the net result of a large favorable variance in capital outlay budgets, compared to higher than expected costs for public safety, public works, and recreation and culture. A significant capital improvement project was not completed as planned during the year.

**City of Saugatuck**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Capital assets and debt administration**

*Capital assets.*

The City's investment in capital assets for its governmental activities as of June 30, 2006, is \$7,293,334 (net of accumulated depreciation). This investment includes a broad range of assets including parks and improvements, equipment, buildings, roads, and sewer and water facilities. The increase in the City's net investment in capital assets for the current fiscal year was \$69,001.

	<u>Governmental activities</u>
Land and improvements	\$ 3,680,603
Infrastructure	2,827,046
Buildings	612,749
Equipment and furnishings	<u>172,936</u>
Totals	<u>\$ 7,293,334</u>

Major capital asset events during the current fiscal year included the following:

- \$78,123 Culver Street parking improvements
- \$176,750 Rain Garden improvements at the Saugatuck Arts Council facility, primarily funded by a State of Michigan grant and local match.
- \$19,462 Department of Public Works vehicle

More detailed information about the City's capital assets is presented in Note 5 of the notes to the basic financial statements.

*Long-term debt:*

At the end of the fiscal year, the City had total long-term bonds and notes outstanding in the amount of \$912,523, which represents a decrease of \$126,697 or 12 percent from the prior balance. Of this amount, \$550,000 comprises debt backed by the full faith and credit of the City.

State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property. The City's total general obligation debt (\$912,523) is significantly lower than the current state-imposed limit of \$14,009,120.

Other long-term debt obligations totaling \$12,525 represent accrued compensated absences.

More detailed information about the City's long-term liabilities is presented in Note 8 of the notes to the basic financial statements.

**Economic condition and outlook**

The City's General Fund budget for the next year projects a 9.3% increase in property tax revenue, the primary component of the General Fund revenue budget, from prior year actual revenue. This is due to an increase of \$7,231,503 in the City's combined taxable value of real and personal property, as well as an increase in the City charter operating millage from 12.35 mills to 12.6039 mills.

**City of Saugatuck**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Economic condition and outlook (continued)**

Charges for services is another major revenue category for the General Fund. This revenue grouping includes revenue from tax collection fees, Oval Beach and Chain Ferry revenues, as well as recreation and parking lot fees. This revenue grouping has historically been budgeted on a conservative basis due to the variable nature of its components, other than tax collection fees. For the coming year, charges for services are budgeted 17.4% less than the current year actual revenue.

State grants are the third major revenue grouping for the General Fund. Revenue sharing from state sales taxes and other state grant monies are the primary funding sources in this area. State revenue sharing, though reduced over the past several years due to the economic climate in the State of Michigan, is expected to remain constant in fiscal year 2006 - 2007 at \$97,789. Other state grants are budgeted significantly less due to the completion of several grants. Overall, this revenue category is budgeted 52.2% less than the prior year's actual revenue.

The overall fiscal year 2006 - 2007 General Fund revenue budget is \$1,819,720, which represents a 7.8% decrease from the prior year's actual revenues, due primarily to the decrease in state grants.

The total fiscal year 2006 - 2007 General Fund expenditure budget is \$1,917,681, which is a decrease of \$12,455 from the prior year's actual expenditures.

The budgeted excess of expenditures over revenues results in a budgeted reduction of General Fund unreserved fund balance by \$97,961 for fiscal year 2006 - 2007.

With a healthy unreserved and undesignated fund balance in the General Fund, and relatively little debt, the City of Saugatuck is positioned to meet the near term financial challenges such as the need for street and infrastructure improvements and capital equipment replacement.

**Contacting the City's financial management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Kirk Harrier, City Manager  
City of Saugatuck  
102 Butler Street  
Saugatuck, MI 49453-0086

Phone: (269) 857-2603

## INDEPENDENT AUDITORS' REPORT

**City Council  
City of Saugatuck, Michigan**

**We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Saugatuck, Michigan, as of June 30, 2006, and for the year then ended, which collectively comprise the City's basic financial statements, as listed in the 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.**

**In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Saugatuck, Michigan, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.**

**As described in note 16 to the financial statements, the City restated its beginning net assets and fund balances to correct its methods of accounting for capital assets, revenue recognition and accrued liabilities.**

**The management's discussion and analysis, budgetary comparison schedules, and the schedule of funding progress of the employee retirement system, as listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.**

City Council  
City of Saugatuck, Michigan  
Page 2

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise City of Saugatuck, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Sigfried Crandall P.C.*

September 29, 2006

## **BASIC FINANCIAL STATEMENTS**

**City of Saugatuck**  
**STATEMENT OF NET ASSETS**  
*June 30, 2006*

	<u>Governmental activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 1,779,159
Receivables, net	271,285
Prepaid expenses	<u>10,833</u>
Total current assets	<u>2,061,277</u>
Noncurrent assets:	
Receivables, net	24,992
Capital assets, net of accumulated depreciation	<u>7,293,334</u>
Total noncurrent assets	<u>7,318,326</u>
Total assets	<u>9,379,603</u>
<b>LIABILITIES</b>	
Current liabilities:	
Payables	126,305
Deferred revenue	25,919
Current portion of long-term obligations	<u>129,984</u>
Total current liabilities	282,208
Noncurrent liabilities - long-term obligations	<u>795,064</u>
Total liabilities	<u>1,077,272</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,380,811
Restricted for:	
Public safety	17,533
Public works	407,565
Recreation and culture	230,484
Debt service	84,805
Unrestricted	<u>1,181,133</u>
Total net assets	<u>\$ 8,302,331</u>

*See notes to the financial statements*

**City of Saugatuck**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2006

<b>Functions/Programs</b>	<b><u>Expenses</u></b>	<b><u>Program revenues</u></b>		
		<b><u>Charges for services</u></b>	<b><u>Operating grants and contributions</u></b>	<b><u>Capital grants and contributions</u></b>
Governmental activities:				
Legislative	\$ 13,008	\$ -	\$ -	\$ -
General government	538,613	65,234	-	-
Public safety	544,844	156,836	6,772	-
Public works	537,247	106,173	114,383	-
Community and economic development	54,168	7,020	-	-
Health and welfare	40,553	-	-	-
Culture and recreation	417,245	222,291	6,200	178,500
Interest on long-term debt	39,152	3,297	-	-
	<u>39,152</u>	<u>3,297</u>	<u>-</u>	<u>-</u>
 Total governmental activities	 <u>\$ 2,184,830</u>	 <u>\$ 560,851</u>	 <u>\$ 127,355</u>	 <u>\$ 178,500</u>

General revenues:  
Property taxes  
Public service tax  
State grants  
Investment income  
Other

Total general revenues

Changes in net assets

Net assets - beginning

Net assets - ending

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**Net (expenses)  
revenues and  
changes in  
net assets**

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**Governmental  
activities**

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\$ (13,008)  
(473,379)  
(381,236)  
(316,691)

(47,148)  
(40,553)  
(10,254)  
(35,855)

(1,318,124)

1,482,826  
95,861  
102,432  
85,592  
17,073

1,783,784

465,660

7,836,671

\$ 8,302,331

See notes to the financial statements

**City of Saugatuck**  
**BALANCE SHEET - governmental funds**  
 June 30, 2006

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Business Licenses</u>
<b>ASSETS</b>				
Cash	\$ 770,065	\$ 225,750	\$ 139,584	\$ 53,007
Receivables, net	184,129	9,773	24,230	-
Prepaid expenses	10,833	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 965,027</u>	<u>\$ 235,523</u>	<u>\$ 163,814</u>	<u>\$ 53,007</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Payables	\$ 102,204	\$ 1,020	\$ 7,242	\$ 2,441
Deferred revenue	5,000	-	18,636	25,919
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>107,204</u>	<u>1,020</u>	<u>25,878</u>	<u>28,360</u>
Fund balances:				
Reserved:				
Public safety	17,533	-	-	-
Debt service	-	-	-	-
Endowment	-	-	-	-
Unreserved:				
Designated for capital improvements	113,173	-	-	-
Undesignated	727,117	234,503	137,936	24,647
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>857,823</u>	<u>234,503</u>	<u>137,936</u>	<u>24,647</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 965,027</u>	<u>\$ 235,523</u>	<u>\$ 163,814</u>	<u>\$ 53,007</u>

Total fund balances - total *governmental activities* (above)

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

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

Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Special assessments receivable are not available to pay for the current period's expenditures and, therefore, are deferred in the funds.

Interest related to long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds.

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.

Net assets of *governmental activities*

<u>Water &amp; Sewer Improvement</u>	<u>Park Endowment</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
\$ 264,860	\$ 233,882	\$ 92,011	\$ 1,779,159
77,951	-	194	296,277
-	-	-	10,833
<u>\$ 342,811</u>	<u>\$ 233,882</u>	<u>\$ 92,205</u>	<u>\$ 2,086,269</u>
\$ -	\$ 3,398	\$ -	\$ 116,305
11,490	-	-	61,045
<u>11,490</u>	<u>3,398</u>	<u>-</u>	<u>177,350</u>
-	-	-	17,533
-	-	92,205	92,205
-	230,484	-	230,484
-	-	-	113,173
<u>331,321</u>	<u>-</u>	<u>-</u>	<u>1,455,524</u>
<u>331,321</u>	<u>230,484</u>	<u>92,205</u>	<u>1,908,919</u>
<u>\$ 342,811</u>	<u>\$ 233,882</u>	<u>\$ 92,205</u>	<u>\$ 2,086,269</u>
			\$ 1,908,919
			7,293,334
			(912,523)
			35,126
			(10,000)
			<u>(12,525)</u>
			<u>\$ 8,302,331</u>

See notes to the financial statements

*City of Saugatuck*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - governmental funds**

*Year ended June 30, 2006*

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>
<b>REVENUES</b>			
Taxes	\$ 1,204,637	\$ -	\$ 180,475
Licenses and permits	40,326	-	-
State grants	310,687	70,304	39,075
Intergovernmental	-	50,661	45,200
Charges for services	311,151	-	-
Fines and forfeitures	4,293	-	-
Interest and rentals	81,911	5,873	7,656
Other	21,513	-	3,106
	<u>1,974,518</u>	<u>126,838</u>	<u>275,512</u>
Total revenues			
<b>EXPENDITURES</b>			
Legislative	13,008	-	-
General government	534,325	-	-
Public safety	420,866	-	-
Public works	160,807	52,317	139,803
Community and economic development	54,168	-	-
Health and welfare	40,553	-	-
Culture and recreation	364,405	-	-
Debt service:			
Principal	41,263	-	35,434
Interest	12,647	-	3,602
Capital outlay	288,094	-	-
	<u>1,930,136</u>	<u>52,317</u>	<u>178,839</u>
Total expenditures			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>44,382</u>	<u>74,521</u>	<u>96,673</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in from other funds	30,000	-	-
Transfers out to other funds	(5,000)	-	-
	<u>25,000</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)			
<b>NET CHANGES IN FUND BALANCES</b>	69,382	74,521	96,673
<b>FUND BALANCES - BEGINNING</b>	<u>788,441</u>	<u>159,982</u>	<u>41,263</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 857,823</u>	<u>\$ 234,503</u>	<u>\$ 137,936</u>

<u>Business Licenses</u>	<u>Water and Sewer Improvement</u>	<u>Park Endowment</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
\$ -	\$ -	\$ -	\$ 97,714	\$ 1,482,826
28,240	-	-	-	68,566
-	-	-	-	420,066
-	-	-	-	95,861
-	24,330	-	3,000	338,481
-	-	-	-	4,293
1,710	12,313	6,062	3,785	119,310
-	5,942	-	123,978	154,539
<u>29,950</u>	<u>42,585</u>	<u>6,062</u>	<u>228,477</u>	<u>2,683,942</u>
-	-	-	-	13,008
-	-	-	-	534,325
-	-	-	123,978	544,844
18,137	405	-	479	371,948
-	-	-	-	54,168
-	-	-	-	40,553
-	-	9,175	-	373,580
-	-	-	50,000	126,697
-	-	-	30,613	46,862
-	-	-	-	288,094
<u>18,137</u>	<u>405</u>	<u>9,175</u>	<u>205,070</u>	<u>2,394,079</u>
<u>11,813</u>	<u>42,180</u>	<u>(3,113)</u>	<u>23,407</u>	<u>289,863</u>
-	56,663	5,000	-	91,663
<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>(56,663)</u>	<u>(91,663)</u>
<u>(30,000)</u>	<u>56,663</u>	<u>5,000</u>	<u>(56,663)</u>	<u>-</u>
(18,187)	98,843	1,887	(33,256)	289,863
<u>42,834</u>	<u>232,478</u>	<u>228,597</u>	<u>125,461</u>	<u>1,619,056</u>
<u>\$ 24,647</u>	<u>\$ 331,321</u>	<u>\$ 230,484</u>	<u>\$ 92,205</u>	<u>\$ 1,908,919</u>

See notes to the financial statements

*City of Saugatuck*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - *governmental funds* (Continued)**

*Year ended June 30, 2006*

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	<u><i>Total governmental funds</i></u>
Net change in fund balances - total governmental funds (Page 8)	\$ 289,863
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:	
Capital outlays are reported as expenditures in governmental funds, but are allocated over their estimated useful lives as depreciation expense in the statement of activities. Capital outlays (\$278,343) exceeded depreciation \$(209,342) in the current period.	69,001
Revenues considered unavailable in the funds is accrued in the statement of activities.	(21,216)
Compensated absences are recorded when incurred in the statement of activities.	2,841
Interest expense is recorded when incurred in the statement of activities.	7,710
The creation of special assessments does not provide current financial resources to the funds. Collections on special assessments receivable reduce long-term receivables in the statement of net assets.	(9,236)
Repayment of bond principal is an expenditure in the funds, but reduces long-term liabilities in the statement of net assets.	<u>126,697</u>
Change in net assets of <i>governmental activities</i>	<u>\$ 465,660</u>

*See notes to the financial statements*

*City of Saugatuck*

**STATEMENT OF FIDUCIARY NET ASSETS - *fiduciary funds***

*June 30, 2006*

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**ASSETS**

Cash	<u>\$ 5,820</u>
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**LIABILITIES**

Due to other governmental units	<u>\$ 5,820</u>
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*See notes to the financial statements*

**City of Saugatuck**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the City of Saugatuck, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

*a) Reporting entity:*

The City is incorporated under the Home Rule City Act (Michigan Public Act 279 of 1909) and is governed by an elected seven-member Council. The accompanying financial statements present the government entity for which the government is considered to be financially accountable.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. The effect of all interfund activity has been removed from these statements.

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 revenue.

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

*c) 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**City of Saugatuck**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for City and County tax levies and for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The Local Street Fund accounts for a City tax levy, and state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's local streets.

The Business Licenses Fund accounts for local business license revenues that are used for expenditures related to services to local businesses.

The Sewer and Water Improvement Fund accounts for the financial resources used for the expansion, repairs, and maintenance of sewer and water lines in the City. Revenues are primarily derived from connection fees and assessments.

The Park Endowment Fund accounts for financial resources endowed for the purposes of maintaining a City park.

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 or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits and investments* - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

**City of Saugatuck**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*d) Assets, liabilities, and net assets or equity (Continued):*

*ii) Receivables and payables* - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds. All trade and property tax receivables are considered to be fully collectible.

*iii) Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

*iv) Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 50 years
Furniture, fixtures, and equipment	5 30 years
Streets	20 years
Sewer and Water systems	50 years

*v) Compensated absences (vacation leave)* - It is the government's policy to permit employees to accumulate earned but unused vacation pay benefits. A liability for unpaid accumulated vacation has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

*vi) Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

**City of Saugatuck**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued):

The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	City Manager	\$ 96,000	\$ 116,030	\$ 20,030
		Treasurer	76,000	90,732	14,732
	Public safety	Police contract	380,000	394,816	14,816
		Building inspections	-	26,050	26,050
	Public works	Highways and streets	128,000	160,807	32,807
	Health and welfare	Recycling	30,000	40,553	10,553
	Culture and recreation	Oval Beach	114,000	146,618	32,618
		Chain ferry	34,500	42,264	7,764
	Debt service	Principal	38,000	41,263	3,263

The City budgets for the Major Streets and Local Streets funds included budgeted deficits in the amounts of \$(40,018) and \$(127,774), respectively for the year ended June 30, 2006.

NOTE 3 - CASH:

Cash as presented in the accompanying financial statements, consists of the following:

	<u>Governmental activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Deposits	\$ 1,776,584	\$ 5,820	\$ 1,782,404
Cash on hand	<u>2,575</u>	<u>-</u>	<u>2,575</u>
Total cash	<u>\$ 1,779,159</u>	<u>\$ 5,820</u>	<u>\$ 1,784,979</u>

*Deposits with financial institutions:*

State statutes and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The City's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At June 30, 2006, \$1,327,691 of the City's bank balances of \$1,827,691 were exposed to custodial credit risk because they were uninsured and uncollateralized.

The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**City of Saugatuck**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - RECEIVABLES:**

At June 30, 2006, the City's receivables were as follows:

<u>Fund</u>	<u>Property taxes</u>	<u>Special Assessments</u>	<u>Inter-governmental</u>	<u>Totals</u>
General	\$ 1,659	\$ 5,000	\$ 177,470	\$ 184,129
Major Streets	-	-	9,773	9,773
Local Streets	184	18,636	5,410	24,230
Water and Sewer Improvement	-	11,490	66,461	77,951
Nonmajor - Sewer Debt Service	194	-	-	194
Total governmental activities	<u>\$ 2,037</u>	<u>\$ 35,126</u>	<u>\$ 259,114</u>	<u>\$ 296,277</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 24,992</u>	<u>\$ -</u>	<u>\$ 24,992</u>

All receivables are due within one year and are considered fully collectible.

**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 3,160,697	\$ -	\$ -	\$ 3,160,697
Capital assets being depreciated:				
Land improvements	\$ 614,326	\$ 256,998	\$ -	\$ 871,324
Buildings	982,386	-	-	982,386
Equipment and furnishings	902,034	21,345	-	923,379
Streets	849,425	-	-	849,425
Water and sewer infrastructure	2,942,300	-	-	2,942,300
Subtotal	<u>6,290,471</u>	<u>278,343</u>	<u>-</u>	<u>6,568,814</u>
Less accumulated depreciation for:				
Land improvements	326,925	24,493	-	351,418
Buildings	348,517	21,120	-	369,637
Equipment and furnishings	692,456	57,987	-	750,443
Streets	44,187	42,442	-	86,629
Water and sewer infrastructure	814,750	63,300	-	878,050
Subtotal	<u>2,226,835</u>	<u>209,342</u>	<u>-</u>	<u>2,436,177</u>
Total capital assets being depreciated, net	<u>4,063,636</u>	<u>69,001</u>	<u>-</u>	<u>4,132,637</u>
Governmental activities capital assets, net	<u>\$ 7,224,333</u>	<u>\$ 69,001</u>	<u>\$ -</u>	<u>\$ 7,293,334</u>

**City of Saugatuck**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to governmental activities as follows:

General government	\$ 10,401
Public works	164,847
Culture and recreation	<u>34,094</u>
Total governmental activities	<u>\$ 209,342</u>

NOTE 6 - PAYABLES:

At June 30, 2006, the City's payables were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Inter- governmental</u>	<u>Totals</u>
General	\$ 64,562	\$ 17,300	\$ 20,342	\$ 102,204
Major Streets	1,020	-	-	1,020
Local Streets	7,242	-	-	7,242
Business Licenses	-	-	2,441	2,441
Park Endowment	<u>3,398</u>	<u>-</u>	<u>-</u>	<u>3,398</u>
Totals	<u>\$ 76,222</u>	<u>\$ 17,300</u>	<u>\$ 22,783</u>	<u>\$ 116,305</u>

NOTE 7 - DEFERRED REVENUE:

Governmental funds report deferred revenues in connection with revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenues are as follows:

<u>Fund</u>	<u>Unavailable</u>	<u>Unearned</u>
General	\$ 5,000	\$ -
Local Streets	18,636	-
Business Licenses	-	25,919
Water and Sewer Improvement	<u>11,490</u>	<u>-</u>
Totals	<u>\$ 35,126</u>	<u>\$ 25,919</u>

**City of Saugatuck**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 8 - LONG-TERM OBLIGATIONS:**

At June 30, 2006, long-term liabilities are comprised of the following individual issues:

Governmental activities:

\$925,000 Allegan County Sanitary Sewer System No. 13 general obligation limited tax bonds; due in annual installments of \$50,000 to \$75,000 plus interest at 5.1% to 5.6% through October 2014.	\$ 550,000
\$180,000 Contract payable - State Infrastructure Bank; due in semi-annual installments of \$19,518 including interest at 3.0% through September 2008.	93,347
\$400,000 Note payable- bank; due in annual installments of \$39,000 to \$48,000 plus interest at 4.3% through November 2011.	260,000
\$17,500 Note payable - individual, secured by mortgage; due in annual installments of \$4,935, including interest at 5.0% through August 2007	9,176
Compensated absences - accrued vacation	<u>12,525</u>
Total governmental activities long-term obligations	<u>\$ 925,048</u>

Long-term obligation activity for the year ended June 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Allegan County Sewer System	\$ 600,000	\$ -	\$ 50,000	\$ 550,000
State Infrastructure Bank	128,781	-	35,434	93,347
Note payable - bank	297,000	-	37,000	260,000
Note payable - individual	13,439	-	4,263	9,176
Compensated absences	<u>15,365</u>	<u>17,248</u>	<u>20,088</u>	<u>12,525</u>
Total governmental activities long-term obligations	<u>\$ 1,054,585</u>	<u>\$ 17,248</u>	<u>\$ 146,785</u>	<u>\$ 925,048</u>

Debt service requirements at June 30, 2006, were as follows:

2007	\$ 129,984	\$ 41,616
2008	133,311	359,943
2009	111,228	30,239
2010	94,000	25,488

**City of Saugatuck**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 9 - PROPERTY TAXES:**

The City property tax is levied on each July 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31<sup>st</sup>.

The 2005 taxable valuation of the City totaled \$97,382,943, on which ad valorem taxes consisted of 12.35 mills for the City's operating purposes, 1.85 mills for roads, and 1.00 mills for debt service, raising \$1,204,637 for operating, \$180,475 for roads, and \$ 97,714 for debt service. These amounts are recognized in the General, Local Street and Sewer Debt Service funds as tax revenue.

**NOTE 10 - CONSTRUCTION CODE ACT:**

A summary of construction code enforcement transactions for the year ended June 30, 2006, is as follows:

Revenues	\$ 28,565
Expenses	<u>26,050</u>
Excess of revenues over expenses	<u>\$ 2,515</u>
Cumulative excess, included in fund balance reservation of General Fund	<u>\$ 17,533</u>

**NOTE 11 - EMPLOYEE RETIREMENT SYSTEM:**

*Plan description and provisions:*

All full-time and regular part-time employees of the City hired before May 1, 2004 are eligible to participate in the Michigan Municipal Employees' Retirement System (the System), a multi-employer public retirement system. The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

There are currently four retired beneficiaries receiving benefits from the System in the form of monthly payments. There are four terminated employees who are entitled to benefits but are not yet receiving benefits. In addition, there are currently six active participants, some of whom are fully vested. Employees who retire at or after age 60 with 10 years of credited service, age 55 with 15 years of credited service, or age 50 with 25 years of credited service, are entitled to a retirement benefit based on final average compensation, payable for life. Final average compensation is the employee's average salary over the last five years of credited service. Benefits fully vest upon reaching ten years of service.

The City is required by state statute to contribute actuarially determined amounts necessary to pay benefits when due. The System issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

**City of Saugatuck**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 11 - EMPLOYEE RETIREMENT SYSTEM (Continued):**

*Funding policy:*

Contribution rates for each participating employer and its covered employees are established, and may be amended, by each participating unit. The contribution rates are determined based on the benefit structure established by each employer. Covered employees are not required to contribute to the System. Participating employers are required to contribute amounts necessary to finance the coverage of their employees through periodic contributions at actuarially-determined rates. Administrative costs of the System are financed through investment earnings.

*Annual pension cost:*

For the year ended June 30, 2006, the City's annual pension cost was \$23,534, for its defined benefit pension plan. The required contribution was determined as part of the December 31, 2003, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included a) an 8% investment rate of return, net of administrative expenses, b) projected salary increases of 4.5% per year, and c) an added percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. The actuarial value of the System's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a period of 30 years as a level percentage of payroll. Three-year trend information is as follows:

<u>Year ended June 30</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
2004	\$ 21,828	100%	-
2005	21,980	100%	-
2006	23,534	100%	-

Certain other accounting policies and plan asset matters are discussed in greater detail in the System's actuarial valuation.

**NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN:**

The City provides pension benefits for all of its full-time employees hired from May 1, 2004, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate at the date of employment. The City contributes an amount equal to 6% of the employee's base salary each month. The City's contributions for each employee and interest allocated to the employee's account are fully vested after 7 years of continuous service (50% vested after completion of 5 years of service). The City is not a trustee of the plan, nor is the City responsible for investment management of plan assets. The City made the required contributions of \$6,723 to the plan for the year ended June 30, 2006.

City of Saugatuck  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 13 - INTERFUND TRANSFERS:**

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
General	\$ 30,000	Business Licenses	\$ 30,000
Water and Sewer Improvement	56,663	Nonmajor - Debt Service	56,663
Park Endowment	<u>5,000</u>	General	<u>5,000</u>
Totals	<u>\$ 91,663</u>		<u>\$ 91,663</u>

The transfer to the General Fund represents the use of fees collected in the Business Licenses Fund to pay for parking lot debt service costs accounted for in the General Fund.

The transfer to the Water and Sewer Improvement Fund from the Sewer Debt Service Fund is to replace funds transferred in the prior year in accordance with a City Council resolution.

The transfer to the Parks Endowment represents a budgeted contribution from the General Fund to offset expenditures in excess of endowment earnings.

**NOTE 14 - RISK MANAGEMENT:**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The City has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 15 - 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 the Village of Douglas. 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 costs of operations and capital expenditures of the District. During the year ended June 30, 2006, the City contributed \$123,978 to the District. Complete audited financial statements for the District can be obtained from the Township of Saugatuck's Clerk.

*b) Interurban Transit Authority:*

The Interurban Transit Authority (the Authority) is a joint venture of the City, the Township of Saugatuck, and the City of the Village of Douglas. The Authority's Administrative Board consists of six members, two members appointed by each of the three participating units. The City did not make contributions to the Authority during the year ended June 30, 2006.

City of Saugatuck  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 15 - JOINT VENTURES (Continued):

*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 the Village of Douglas. 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. The City did not make contributions to the Authority during the year ended June 30, 2006.

NOTE 16 - RECLASSIFICATIONS:

The net assets of the business type activities as of July 1, 2005 have been reclassified with the net assets of the governmental activities. This reclassification was based on the determination that the activities did not meet the criteria for reporting as business type activities.

	<u>Governmental activities</u>	<u>Business-type activities</u>
Net assets, as previously reported	\$ 5,469,676	\$ 972,234
Reclassification of activities	<u>972,234</u>	<u>(972,234)</u>
Net assets, after reclassification	<u>\$ 6,441,910</u>	<u>\$ -</u>

The fund balances of the City's governmental funds, and the net assets of the City's proprietary funds, as of July 1, 2005, have also been adjusted to reflect the reclassification of the Water and Sewer Improvement Fund discussed above, and of the Internal Service Fund, as follows:

	<u>Fund balances governmental funds</u>	<u>Net assets Proprietary funds</u>
Amounts, as previously reported	\$ 1,287,461	\$ 1,223,042
Reclassification of capital assets	-	(850,593)
Unavailable assessment revenue	-	(16,620)
Reclassification of fund activity	<u>355,829</u>	<u>(355,829)</u>
Fund balances, reclassified	<u>\$ 1,643,290</u>	<u>\$ -</u>

City of Saugatuck  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 17 - PRIOR PERIOD ADJUSTMENTS:

The governmental activities net assets and related fund balances as of July 1, 2005, after reclassification have been restated for the effect of the following prior period adjustments:

	<i>Net assets governmental activities</i>	<i>Fund balances governmental funds</i>
	<u>                    </u>	<u>                    </u>
Balances, after reclassification	\$ 6,441,910	\$ 1,643,290
Unrecorded capital assets	1,404,414	-
Unearned revenue	(24,234)	(24,234)
Liability overstatement	<u>14,581</u>	<u>-</u>
Balances, as restated	<u>\$ 7,836,671</u>	<u>\$ 1,619,056</u>

NOTE 18 - CONTINGENCY:

The City has received additional billings for retroactive adjustments to the amounts due under its contract with the City of the Village of Douglas for police services. The City has not yet determined that these adjustments are allowable under the contract, and has not yet received sufficient documentation regarding the additional charges to determine if a liability is to be recorded. The amounts in question total approximately \$26,000.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Saugatuck**  
**BUDGETARY COMPARISON SCHEDULE - General Fund**  
Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 1,052,000	\$ 1,052,000	\$ 1,204,637	\$ 152,637
Licenses and permits:				
Building permits	3,000	3,000	28,565	25,565
Cable TV franchise fees	-	-	9,511	9,511
Other	2,000	2,000	2,250	250
Total licenses and permits	<u>5,000</u>	<u>5,000</u>	<u>40,326</u>	<u>35,326</u>
State grants:				
State shared revenues	80,000	80,000	115,023	35,023
Other state grants	-	228,150	184,701	(43,449)
Liquor license fees	7,000	7,000	6,772	(228)
Right of way fees	-	-	4,191	4,191
Total state grants	<u>87,000</u>	<u>315,150</u>	<u>310,687</u>	<u>(4,463)</u>
Charges for services:				
Tax collection fees	55,000	55,000	65,234	10,234
Planning and zoning fees	8,000	8,000	7,020	(980)
Parking lot fees	25,000	25,000	28,406	3,406
Chain ferry fees	22,000	22,000	25,013	3,013
Oval Beach fees	120,000	120,000	178,675	58,675
Recreation fees	12,000	12,000	6,803	(5,197)
Total charges for services	<u>242,000</u>	<u>242,000</u>	<u>311,151</u>	<u>69,151</u>
Fines and forfeitures:				
Parking tickets	1,000	1,000	900	(100)
Ordinance fines	6,000	6,000	3,393	(2,607)
Total fines and forfeitures	<u>7,000</u>	<u>7,000</u>	<u>4,293</u>	<u>(2,707)</u>
Interest and rentals:				
Interest	20,000	20,000	51,490	31,490
Rental fees	26,000	26,000	30,421	4,421
Total interest and rentals	<u>46,000</u>	<u>46,000</u>	<u>81,911</u>	<u>35,911</u>

**City of Saugatuck**

**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES (Continued)</b>				
Other revenues:				
Assessments	\$ 8,000	\$ 8,000	\$ 2,326	\$ (5,674)
Contributions	-	16,000	8,625	(7,375)
Miscellaneous	-	-	10,562	10,562
Total other revenues	<u>8,000</u>	<u>24,000</u>	<u>21,513</u>	<u>(2,487)</u>
Total revenues	<u>1,447,000</u>	<u>1,691,150</u>	<u>1,974,518</u>	<u>283,368</u>
<b>EXPENDITURES</b>				
Legislative - City Council	<u>12,000</u>	<u>12,000</u>	<u>13,008</u>	<u>(1,008)</u>
General government:				
City Manager	96,000	96,000	116,030	(20,030)
Elections	14,000	14,000	5,666	8,334
Assessor	36,000	36,000	31,675	4,325
Clerk	84,000	84,000	82,427	1,573
Treasurer	76,000	76,000	90,732	(14,732)
Building and grounds	91,200	85,500	94,903	(9,403)
Cemetery	40,000	42,500	21,217	21,283
Other general government	<u>117,500</u>	<u>112,000</u>	<u>91,675</u>	<u>20,325</u>
Total general government	<u>554,700</u>	<u>546,000</u>	<u>534,325</u>	<u>11,675</u>
Public safety:				
Police contract	380,000	380,000	394,816	(14,816)
Building inspections	<u>-</u>	<u>-</u>	<u>26,050</u>	<u>(26,050)</u>
Total public safety	<u>380,000</u>	<u>380,000</u>	<u>420,866</u>	<u>(40,866)</u>
Public works - highways and streets	<u>108,000</u>	<u>128,000</u>	<u>160,807</u>	<u>(32,807)</u>
Community and economic development - planning and zoning	<u>68,000</u>	<u>58,000</u>	<u>54,168</u>	<u>3,832</u>
Health and welfare - recycling	<u>-</u>	<u>30,000</u>	<u>40,553</u>	<u>(10,553)</u>

*City of Saugatuck*

**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
Culture and recreation				
Parks and recreation	\$ 144,000	\$ 182,000	\$ 175,523	\$ 6,477
Oval Beach	102,000	114,000	146,618	(32,618)
Chain ferry	35,000	34,500	42,264	(7,764)
Total culture and recreation	<u>281,000</u>	<u>330,500</u>	<u>364,405</u>	<u>(33,905)</u>
Debt service:				
Principal	-	38,000	41,263	(3,263)
Interest	-	12,000	12,647	(647)
Capital outlay	<u>58,367</u>	<u>420,119</u>	<u>288,094</u>	<u>132,025</u>
Total expenditures	<u>1,462,067</u>	<u>1,954,619</u>	<u>1,930,136</u>	<u>24,483</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (15,067)</u>	<u>\$ (263,469)</u>	<u>\$ 44,382</u>	<u>\$ 307,851</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from Business Licenses Fund	-	30,000	30,000	-
Transfer to Parks Endowment Fund	(5,000)	(5,000)	(5,000)	-
Total other financing sources (uses)	<u>(5,000)</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	(20,067)	(238,469)	69,382	307,851
<b>FUND BALANCES - BEGINNING</b>	<u>788,441</u>	<u>788,441</u>	<u>788,441</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 768,374</u>	<u>\$ 549,972</u>	<u>\$ 857,823</u>	<u>\$ 307,851</u>

**City of Saugatuck**  
**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**  
Year ended June 30, 2006

	<u>Original/ amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>			
Property taxes	\$ 75,000	\$ -	\$ (75,000)
State grants	258,000	70,304	(187,696)
Intergovernmental	45,000	50,661	5,661
Interest	<u>2,000</u>	<u>5,873</u>	<u>3,873</u>
Total revenues	380,000	126,838	(253,162)
<b>EXPENDITURES</b>			
Public works	<u>580,000</u>	<u>52,317</u>	<u>527,683</u>
<b>NET CHANGES IN FUND BALANCES</b>			
	(200,000)	74,521	274,521
<b>FUND BALANCES - BEGINNING</b>			
	<u>159,982</u>	<u>159,982</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>			
	<u>\$ (40,018)</u>	<u>\$ 234,503</u>	<u>\$ 274,521</u>

**City of Saugatuck**

**BUDGETARY COMPARISON SCHEDULE - Local Street Fund**

Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 75,000	\$ 75,000	\$ 180,475	\$ 105,475
State grants	37,000	37,000	39,075	2,075
Intergovernmental	45,000	45,000	45,200	200
Interest	-	-	7,656	7,656
Other - special assessments	-	-	3,106	3,106
	<u>157,000</u>	<u>157,000</u>	<u>275,512</u>	<u>118,512</u>
<b>EXPENDITURES</b>				
Public works	287,000	287,000	139,803	147,197
Debt service:				
Principal	-	35,435	35,434	1
Interest	-	3,602	3,602	-
	<u>287,000</u>	<u>326,037</u>	<u>178,839</u>	<u>147,198</u>
<b>NET CHANGES IN FUND BALANCES</b>	(130,000)	(169,037)	96,673	265,710
<b>FUND BALANCES - BEGINNING</b>	<u>41,263</u>	<u>41,263</u>	<u>41,263</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ (88,737)</u>	<u>\$ (127,774)</u>	<u>\$ 137,936</u>	<u>\$ 265,710</u>

*City of Saugatuck*

**BUDGETARY COMPARISON SCHEDULE - *Business Licenses Fund***

*Year ended June 30, 2006*

	<u>Original/ amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>			
Licenses and permits	\$ 30,000	\$ 28,240	\$ (1,760)
Interest	-	1,710	1,710
	<u>30,000</u>	<u>29,950</u>	<u>(50)</u>
<b>EXPENDITURES</b>			
Public works	<u>19,000</u>	<u>18,137</u>	<u>863</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>			
	11,000	11,813	813
<b>OTHER FINANCING USE</b>			
Transfer to General Fund	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>			
	(19,000)	(18,187)	813
<b>FUND BALANCES - BEGINNING</b>			
	<u>42,834</u>	<u>42,834</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>			
	<u>\$ 23,834</u>	<u>\$ 24,647</u>	<u>\$ 813</u>

*City of Saugatuck*

**BUDGETARY COMPARISON SCHEDULE - *Water and Sewer Improvement Fund***

*Year ended June 30, 2006*

	<u>Original/ amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>			
Charges for services	\$ 10,000	\$ 24,330	\$ 14,330
Interest	-	12,313	12,313
Other - special assessments	-	5,942	5,942
Total revenues	10,000	42,585	32,585
<b>EXPENDITURES</b>			
Public works:	130,000	405	5,942
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>			
	(120,000)	42,180	38,527
<b>OTHER FINANCING SOURCE</b>			
Transfer from Sewer Debt Service Fund	-	56,663	56,663
<b>NET CHANGES IN FUND BALANCES</b>			
	(120,000)	98,843	95,190
<b>FUND BALANCES - BEGINNING</b>			
	232,478	232,478	-
<b>FUND BALANCES - ENDING</b>			
	\$ 112,478	\$ 331,321	\$ 95,190

**City of Saugatuck**  
**SCHEDULE OF FUNDING PROGRESS - Employee Retirement System**  
**(Municipal Employees' Retirement System of Michigan)**

<i>Actuarial valuation date</i> <u>December 31,</u>	<i>Actuarial value of assets</i> <u>(a)</u>	<i>Actuarial accrued liability (AAL) entry age</i> <u>(b)</u>	<i>Unfunded AAL (UAAL)</i> <u>(b-a)</u>	<i>Funded ratio</i> <u>(a/b)</u>	<i>Covered payroll</i> <u>(c)</u>	<i>UAAL as a percentage of covered payroll</i> <u>((b-a)/c)</u>
1996	\$ 418,207	\$ 538,993	\$ 120,786	78%	\$ 273,212	44%
1997	480,451	609,147	128,696	79%	276,611	47%
1998	545,550	613,052	67,502	89%	172,249	39%
1999	634,584	644,868	10,284	98%	212,986	5%
2000	699,698	759,168	59,470	92%	217,278	27%
2001	754,821	829,971	75,150	91%	228,156	33%
2002	783,243	894,781	111,538	88%	236,349	47%
2003	850,769	961,819	111,050	88%	243,181	46%
2004	914,954	1,038,301	123,347	88%	221,224	56%
2005	981,597	1,062,816	81,219	92%	221,971	37%

**SUPPLEMENTARY INFORMATION**

**City of Saugatuck**  
**COMBINING BALANCE SHEET - non-major governmental funds**  
*June 30, 2006*

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total non-major governmental funds</u>
	<u>Fire assessments</u>	<u>Sewer debt</u>	
<b>ASSETS</b>			
Cash	\$ -	\$ 92,011	\$ 92,011
Receivables, net	-	194	194
Total assets	<u>\$ -</u>	<u>\$ 92,205</u>	<u>\$ 92,205</u>
 <b>FUND BALANCE</b>			
Reserved	<u>\$ -</u>	<u>\$ 92,205</u>	<u>\$ 92,205</u>

*City of Saugatuck*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - *non-major governmental funds***

*Year ended June 30, 2006*

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total non-major governmental funds</u>
	<u>Fire assessments</u>	<u>Sewer debt</u>	
<b>REVENUES</b>			
Taxes	\$ -	\$ 97,714	\$ 97,714
Charges for services	-	3,000	3,000
Interest	-	3,785	3,785
Other	<u>123,978</u>	<u>-</u>	<u>123,978</u>
Total revenues	<u>123,978</u>	<u>104,499</u>	<u>228,477</u>
<b>EXPENDITURES</b>			
Public safety	123,978	-	123,978
Public works	-	479	479
Debt service:			
Principal	-	50,000	50,000
Interest	<u>-</u>	<u>30,613</u>	<u>30,613</u>
Total expenditures	<u>123,978</u>	<u>81,092</u>	<u>205,070</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	23,407	23,407
<b>OTHER FINANCING SOURCES</b>			
Transfer to Water and Sewer Improvement Fund	<u>-</u>	<u>(56,663)</u>	<u>(56,663)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	(33,256)	(33,256)
<b>FUND BALANCES - BEGINNING</b>	<u>-</u>	<u>125,461</u>	<u>125,461</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ -</u>	<u>\$ 92,205</u>	<u>\$ 92,205</u>

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September 29, 2006

City Council  
City of Saugatuck, Michigan  
P.O. Box 188  
Saugatuck, MI 49453

In planning and performing our audit of the financial statements of the City of Saugatuck, Michigan for the year ended June 30, 2006, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated September 29, 2006, contains our report on reportable conditions in the City's internal control. This letter does not affect our report dated September 29, 2006, on the financial statements of the City of Saugatuck, Michigan.

We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience.

*Siegfried Crandall P.C.*

## **Comments and recommendations**

### **Documentation and recordkeeping**

- All accounting documents submitted to another agency or unit of government, and all documents upon which a further computation or transaction is to be based should be reviewed, and include documentation of the review. Examples of these documents would include: bank reconciliations, tax levies, time sheets, vendor invoices, journal entries, and payroll returns. Management should assign responsibilities for reviews to specific positions through job descriptions, and consider using Council members for certain reviews to augment the segregation of duties. The City's payroll processes, which require daily, pay period, monthly, quarterly, and annual reporting, need to be completely documented, including payment and recordkeeping for taxes and benefits.
- The City should immediately take steps to improve and organize records retention. Management should compare currently available records to the adopted records retention schedule and make needed additions and corrections to its files.

### **Budgeting**

- The Council should use a budget format that includes an accurate estimate of available fund surpluses to prevent budgeted deficits from occurring. The State of Michigan budget manual contains sample budget formats, and an appropriations act, which may be useful.

### **Police contract**

- The City should review and revise the contract with the City of the Village of Douglas for police services to eliminate the need for unexpected and retroactive adjustments.

### **Technology**

- Passwords and software access need to be revised and updated, and conform to an established written policy. Management needs to monitor the policy implementation and ongoing application.
- The City needs to establish a viable electronic data backup program.
- Management should identify training needs and opportunities in order to use the City's investment in accounting software more completely and efficiently.
- The available cash receipts software program should be used to computerize the receipting process, make more detail readily available, and allow more frequent receipt postings to the general ledger.

### **Payroll and tax compliance**

- The City should send W-9 forms to all vendors to verify that it is in compliance with federal regulations, and to document the basis of its annual reporting to the IRS. This process needs to be completed before December 31<sup>st</sup>.
- The City Manager should perform a review of all personnel files, and compare the file contents to requirements and a standardized listing. All files need to include updated pay rate authorizations, tax forms, and benefit program elections. Unnecessary information should be destroyed. The files should be immediately removed from the common office area and stored in a locked fireproof file in the Manager's office. Medical information should be securely stored separately from other personnel information.

## **Payroll and tax compliance (Continued)**

- The City Manager needs to obtain the information required to determine the amount remaining due, if any, on an employee note payable to the City. The amount due would equal any portion of the debt that is determined to not have been previously reported as income to the employee plus any applicable interest due. If it is determined that the City's intention was to continue to forgo all payments on the note, the employee's final compensation reported to the Internal Revenue Service must be amended to include the forgiveness as additional compensation.
- Management needs to ensure that all overtime pay is computed in accordance with applicable federal regulations. The responsibility for all payroll related decisions should be centralized with the City Manager, with review by a Council member of any unusual decisions, or any decisions related to the Manager.

## **Other**

- The City should adopt and follow a more specific investment policy vs. a "boiler plate" document.
- The City needs to address the staff security at the Oval Beach office, making structural and procedural changes as necessary. Management should also document the currently established internal controls over the Oval Beach cash receipting process.
- The City needs to create a fire assessment fund to reflect the assessment collected by the City and the related payments to the fire authority.
- Internal service fund charges to major and local streets need to be based on realistic allocations matched with actual costs and approved usage rates. The internal service fund is not necessary to record the labor and equipment charges to the street funds, and should be eliminated.
- All of the City's capital assets, including water and sewer infrastructure, should be included when reviewing the City's future capital maintenance needs and its current insurance coverage.