

CITY OF SAUGATUCK, MICHIGAN

**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2009

CITY OF SAUGATUCK, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

October 20, 2009

Honorable Mayor and Members of
the 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*, (the "City") as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Saugatuck, Michigan. 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 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 as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-7 is not a required part of the basic financial statements but is 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.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Saugatuck, we offer readers of the City of Saugatuck's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The City began construction on the 2009 Road Bond Streetscape project during the year ended June 30, 2009.
- The City was able to add \$15,098 to its General Fund fund balance during the year ended June 30, 2009. This is especially important due to the uncertainty of funding from the State.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Saugatuck's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activities of the City include general government administration, public works including street maintenance, public safety and recreation and cultural activities.

The government-wide financial statements can be found on pages 8-10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for all eight funds. These eight funds are: General Fund, Major Streets, Local Streets, Business Licenses, Water and Sewer Improvement, Streetscape, Parks, and Sewer Debt Service.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the general fund and all major special revenue funds.

The basic governmental fund financial statements can be found on pages 11-20 of this report.

Proprietary funds. The City maintains one type of proprietary fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the internal service fund to account for its fleet of vehicles. Because these services solely benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

The proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resource of those funds are *not* available to the support the City's own programs.

The tax collection fund statements can be found on page 24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-38 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$8,714,365 at the close of the most recent fiscal year.

A significant portion of the City’s net assets reflects unrestricted net assets which are available for future operation while another portion of net assets is invested in capital assets (e.g., land, buildings, vehicles and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Saugatuck’s Net Assets

	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 5,277,276	\$ 2,717,095
Capital assets, net	<u>8,349,565</u>	<u>7,070,819</u>
Total assets	<u>13,626,841</u>	<u>9,787,914</u>
Long-term liabilities outstanding	4,126,646	665,853
Other liabilities	<u>785,830</u>	<u>193,010</u>
Total liabilities	<u>4,912,476</u>	<u>858,863</u>
Net assets:		
Invested in capital assets, net of related debt	4,241,565	6,421,583
Restricted	3,535,148	1,558,782
Unrestricted	<u>937,652</u>	<u>948,646</u>
Total net assets	<u>\$ 8,714,365</u>	<u>\$ 8,929,051</u>

Net assets of the City decreased by \$214,686 primarily due to expenditures increasing and revenues remaining relatively flat.

City of Saugatuck's Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Revenue		
Program revenue:		
Charges for services	\$ 375,656	\$ 344,697
Operating grants and contributions	<u>322,503</u>	<u>332,858</u>
Total program revenue	<u>698,159</u>	<u>677,555</u>
General revenue:		
Property taxes	1,775,528	1,712,451
State shared revenues	96,513	101,252
Interest earnings	<u>59,506</u>	<u>120,809</u>
Total general revenue	<u>1,931,547</u>	<u>1,934,512</u>
Total revenue	<u>2,629,706</u>	<u>2,612,067</u>
Expenses		
Legislative	107,259	38,674
General government	535,112	738,338
Public safety	499,793	461,865
Public works	1,214,800	706,576
Health and welfare	14,992	41,025
Recreation and cultural	420,970	308,203
Interest on long-term debt	<u>51,466</u>	<u>35,827</u>
Total expenses	<u>2,844,392</u>	<u>2,330,508</u>
Change in net assets	(214,686)	281,559
Net assets – beginning of year	<u>8,929,051</u>	<u>8,605,211</u>
Net assets – end of year	<u>\$ 8,714,365</u>	<u>\$ 8,929,051</u>

Governmental activities

During the year, the City invested \$1,214,800 or 43% of governmental activities expenses in public works, a significant increase over the prior year. Most of the increase was due to the start of the 2009 Road Bond Streetscape project. \$499,793 or 18% of governmental activities expenses was invested in public safety, while general government, legislative, public works, health and welfare, recreation and culture, and interest on long-term debt made up the remaining 39% of governmental activities expenses.

Revenues remained relatively flat due to the increase in taxable value of property, which led to an increase in property taxes, while there was a decrease in State revenue and interest revenue.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,452,129, an increase of \$2,008,355 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$895,278.

The fund balance of the City's general fund increased by \$15,098 during the current fiscal year.

General Fund Budgetary Highlights

- Oval Beach Fee revenue was budgeted low due to uncertainties in the State economy.
- Variation between amended budget and final expenditures were relatively insignificant for all other line items.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental activities as of June 30, 2009, amounted to \$8,349,565 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, machinery and equipment, streets, and infrastructure. Significant capital purchases during the year consisted primarily of machinery and equipment.

City of Saugatuck's Capital Assets (net of depreciation)

	<u>2009</u>	<u>2008</u>
Land	\$ 3,160,697	\$ 3,160,697
Construction in progress	1,149,128	-
Land improvements	415,352	447,908
Buildings and improvements	846,690	697,444
Machinery and equipment	255,342	140,851
Streets	634,956	677,569
Infrastructure	<u>1,887,400</u>	<u>1,946,350</u>
Total	<u>\$ 8,349,565</u>	<u>\$ 7,070,819</u>

Additional information on the City capital assets can be found in Note 4 on pages 33 and 34 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$4,126,646 as follows:

City of Saugatuck's Long-term Debt

	<u>2009</u>	<u>2008</u>
Bonds	\$ 3,970,000	\$ 469,236
Notes	138,000	180,000
Compensated absences	<u>18,646</u>	<u>16,617</u>
Total	<u>\$ 4,126,646</u>	<u>\$ 665,853</u>

The City's total debt increased by \$3,460,793 during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 7 on pages 35 and 36 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2009-10 fiscal year:

- Increased property tax revenue due to increased taxable values.
- Slightly declining revenue sharing payments due to state budget issues.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 102 Butler St., P.O. Box 86, Saugatuck, Michigan, 49453.

BASIC FINANCIAL STATEMENTS

CITY OF SAUGATUCK, MICHIGAN

Statement of Net Assets

June 30, 2009

	Governmental Activities
Assets	
Cash, cash equivalents and investments	\$ 5,226,234
Receivables	51,042
Capital assets:	
Not being depreciated	4,309,825
Being depreciated, net	4,039,740
Total assets	13,626,841
Liabilities	
Payables	718,346
Unearned revenue	67,484
Long-term debt:	
Due within one year	160,781
Due in more than one year	3,965,865
Total liabilities	4,912,476
Net assets	
Invested in capital assets, net of related debt	4,241,565
Restricted for:	
Public works	443,662
Debt service	24,214
Recreation and culture	235,856
Highways and streets	2,831,416
Unrestricted	937,652
Total net assets	\$ 8,714,365

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

CITY OF SAUGATUCK, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2009

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities				
Legislative	\$ 107,259	\$ -	\$ -	\$ (107,259)
General government	535,112	69,979	107,515	(357,618)
Public safety	499,793	-	-	(499,793)
Public works	1,214,800	31,256	214,988	(968,556)
Health and welfare	14,992	-	-	(14,992)
Recreation and culture	420,970	274,421	-	(146,549)
Interest on long-term debt	51,466	-	-	(51,466)
Total governmental activities	<u>\$ 2,844,392</u>	<u>\$ 375,656</u>	<u>\$ 322,503</u>	<u>\$ (2,146,233)</u>

(Continued)

CITY OF SAUGATUCK, MICHIGAN

Statement of Activities (Concluded)

For the Year Ended June 30, 2009

	<u>Governmental Activities</u>
Changes in net assets	
Net (expense) revenue	<u>\$ (2,146,233)</u>
General revenues:	
Property taxes	1,775,528
State shared revenues	96,513
Unrestricted investment income	<u>59,506</u>
Total general revenues	<u>1,931,547</u>
Change in net assets	(214,686)
Net assets, beginning of year	<u>8,929,051</u>
Net assets, end of year	<u><u>\$ 8,714,365</u></u>

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

CITY OF SAUGATUCK, MICHIGAN

**Balance Sheet
Governmental Funds**

June 30, 2009

	<u>General Fund</u>	<u>Local Streets</u>	<u>Streetscape</u>
Assets			
Cash and cash equivalents	\$ 1,022,489	\$ 418,696	\$ 2,871,048
Receivables	24,645	14,287	-
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,047,134</u>	<u>\$ 432,983</u>	<u>\$ 2,871,048</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 86,827	\$ 60,433	\$ 449,564
Accrued liabilities	18,049	2,249	-
Deferred revenue	46,980	9,318	-
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>151,856</u>	<u>72,000</u>	<u>449,564</u>
Fund balances			
Unreserved, undesignated, reported in:			
General fund	895,278	-	-
Special revenue funds	-	360,983	-
Debt service funds	-	-	-
Capital projects funds	-	-	2,421,484
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>895,278</u>	<u>360,983</u>	<u>2,421,484</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 1,047,134</u>	<u>\$ 432,983</u>	<u>\$ 2,871,048</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 842,974	\$ 5,155,207
12,110	51,042
<u>\$ 855,084</u>	<u>\$ 5,206,249</u>
\$ 54,042	\$ 650,866
1,221	21,519
25,437	81,735
<u>80,700</u>	<u>754,120</u>
-	895,278
720,439	1,081,422
53,945	53,945
-	2,421,484
<u>774,384</u>	<u>4,452,129</u>
<u>\$ 855,084</u>	<u>\$ 5,206,249</u>

CITY OF SAUGATUCK, MICHIGAN

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2009

Fund balances - total governmental funds \$ 4,452,129

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

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

Add - capital assets not being depreciated	4,309,825
Add - capital assets being depreciated, net	3,814,973

Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred special assessments receivable	14,251
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An internal service fund is used by management to charge the costs of certain activities, such as equipment usage and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	279,564
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:

Deduct - bonds and notes payable	(4,108,000)
Deduct - compensated absences	(18,646)
Deduct - accrued interest on long-term liabilities	(29,731)

Net assets of governmental activities	<u>\$ 8,714,365</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK, MICHIGAN

**Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds**

For the Year Ended June 30, 2009

	<u>General Fund</u>	<u>Local Streets</u>	<u>Streetscape</u>
Revenues			
Taxes	\$ 1,508,592	\$ 213,343	\$ -
Special assessments	-	4,225	-
Licenses and permits	28,109	-	-
Intergovernmental revenue	88,977	95,725	-
Charges for services	262,565	-	-
Interest and rentals	69,597	8,265	612
Other revenue	101,769	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	2,059,609	321,558	612
	<hr/>	<hr/>	<hr/>
Expenditures			
Current:			
Legislative	107,259	-	-
General government	384,813	-	-
Public safety	610,847	-	-
Public works	259,643	464,988	-
Health and welfare	14,992	-	-
Recreation and culture	360,750	-	-
Debt service:			
Principal	-	19,236	-
Interest	-	300	-
Capital outlay	260,124	-	1,149,128
	<hr/>	<hr/>	<hr/>
Total expenditures	1,998,428	484,524	1,149,128
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	61,181	(162,966)	(1,148,516)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(46,083)	(75,000)	-
Issuance of long-term debt	-	-	3,570,000
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(46,083)	(75,000)	3,570,000
	<hr/>	<hr/>	<hr/>
Net changes in fund balances	15,098	(237,966)	2,421,484
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	880,180	598,949	-
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 895,278</u>	<u>\$ 360,983</u>	<u>\$ 2,421,484</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 53,593	\$ 1,775,528
2,734	6,959
47,374	75,483
119,263	303,965
12,000	274,565
18,524	96,998
-	101,769
253,488	2,635,267
-	107,259
-	384,813
433,437	1,044,284
9,444	734,075
-	14,992
-	360,750
92,000	111,236
29,951	30,251
-	1,409,252
564,832	4,196,912
(311,344)	(1,561,645)
121,083	121,083
-	(121,083)
-	3,570,000
121,083	3,570,000
(190,261)	2,008,355
964,645	2,443,774
\$ 774,384	\$ 4,452,129

CITY OF SAUGATUCK, MICHIGAN

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2009

Net changes in fund balances - total governmental funds \$ 2,008,355

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

Capital outlays are reported as expenditures in governmental funds, but are allocated over their useful lives as depreciation expense in the statement of activities.

Add - purchases of capital assets	1,326,807
Deduct - depreciation expense	(167,470)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in deferred long-term receivables	(6,431)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - proceeds from sale of bonds	(3,570,000)
Add - principal payments on long-term liabilities	111,236

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

Deduct - increase in accrued interest on bonds	(21,215)
Deduct - increase in the accrual for compensated absences	(2,029)

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to that fund is reported with governmental activities.

Add - operating income from governmental activities in the internal service fund	105,191
Add - interest income from governmental activities in the internal service fund	870

Change in net assets of governmental activities	<u>\$ (214,686)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF SAUGATUCK, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund**

For the Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Revenues				
Taxes	\$ 1,493,000	\$ 1,508,142	\$ 1,508,592	\$ 450
Licenses and permits:				
Building permits	5,000	3,800	3,748	(52)
Liquor license fees	7,400	7,536	7,536	-
Cable TV franchise fees	10,000	13,000	13,689	689
Other	3,090	3,090	3,136	46
Total licenses and permits	25,490	27,426	28,109	683
Intergovernmental revenues:				
State shared revenues	93,845	89,000	88,977	(23)
Charges for services:				
Tax collection fees	3,900	3,954	3,955	1
Chain ferry fees	25,000	28,000	30,576	2,576
Oval Beach fees	165,000	205,000	222,561	17,561
Recreation fees	7,200	5,200	5,473	273
Total charges for services	201,100	242,154	262,565	20,411
Interest and rentals:				
Interest	27,500	30,000	31,235	1,235
Rental fees	44,100	38,362	38,362	-
Total interest and rentals	71,600	68,362	69,597	1,235
Other revenues:				
Assessments	8,000	8,000	7,943	(57)
Contributions	99,000	11,191	11,191	-
Miscellaneous	52,500	82,600	82,635	35
Total other revenues	159,500	101,791	101,769	(22)
Total revenues	2,044,535	2,036,875	2,059,609	22,734

(Continued)

CITY OF SAUGATUCK, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
General Fund**

For the Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Expenditures				
Current:				
Legislative	\$ 77,850	\$ 112,240	\$ 107,259	\$ (4,981)
General government				
City manager	169,337	150,287	148,689	(1,598)
Elections	6,500	3,700	3,424	(276)
Assessor	59,490	59,751	54,448	(5,303)
Clerk	70,250	69,550	69,064	(486)
Treasurer	81,300	81,000	80,622	(378)
Buildings and grounds	29,100	32,500	28,566	(3,934)
Total general government	415,977	396,788	384,813	(11,975)
Public safety				
Police contract	491,505	500,000	499,793	(207)
Building inspections	62,518	111,900	111,054	(846)
Total public safety	554,023	611,900	610,847	(1,053)
Public works	181,950	264,800	259,643	(5,157)
Health and welfare	-	15,000	14,992	(8)
Recreation and culture:				
Parks	264,300	188,800	184,989	(3,811)
Oval Beach	140,800	130,950	124,806	(6,144)
Chain ferry	32,950	36,375	34,443	(1,932)
Historic district	19,920	17,400	16,512	(888)
Total recreation and culture	457,970	373,525	360,750	(12,775)
Capital outlay	227,045	263,722	260,124	(3,598)
Total expenditures	1,914,815	2,037,975	1,998,428	(39,547)
Revenues over (under) expenditures	129,720	(1,100)	61,181	62,281

(Continued)

CITY OF SAUGATUCK, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Concluded)
General Fund**

For the Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Other financing uses				
Transfers out	\$ (129,720)	\$ (46,083)	\$ (46,083)	\$ -
Net change in fund balance	-	(47,183)	15,098	62,281
Fund balance, beginning of year	880,180	880,180	880,180	-
Fund balance, end of year	\$ 880,180	\$ 832,997	\$ 895,278	\$ 62,281

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

CITY OF SAUGATUCK, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Local Streets Fund

For the Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Revenues				
Taxes	\$ 211,500	\$ 213,278	\$ 213,343	\$ 65
Special assessments	4,000	-	4,225	4,225
Intergovernmental revenue	86,500	90,118	95,725	5,607
Interest	7,500	7,700	8,265	565
Total revenues	309,500	311,096	321,558	10,462
Expenditures				
Current:				
Public works	188,500	470,203	464,988	(5,215)
Debt Service:				
Principal	19,250	19,143	19,236	93
Interest	300	300	300	-
Total expenditures	208,050	489,646	484,524	(5,122)
Revenues over (under) expenditures	101,450	(178,550)	(162,966)	15,584
Other financing sources (uses)				
Transfers in	-	253,550	-	(253,550)
Transfers out	(101,450)	(75,000)	(75,000)	-
Total other financing sources (uses)	(101,450)	178,550	(75,000)	(253,550)
Net change in fund balance	-	-	(237,966)	(237,966)
Fund balance, beginning of year	598,949	598,949	598,949	-
Fund balance, end of year	\$ 598,949	\$ 598,949	\$ 360,983	\$ (237,966)

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

CITY OF SAUGATUCK, MICHIGAN

Statement of Fund Net Assets Proprietary Service Fund

June 30, 2009

	Motor Pool Internal Service Fund
Assets	
Current assets:	
Cash, cash equivalents and investments	\$ 71,027
Capital assets:	
Being depreciated, net	<u>224,767</u>
Total assets	<u>295,794</u>
Liabilities	
Current liabilities:	
Accounts payable	15,946
Accrued liabilities	<u>284</u>
Total liabilities	<u>16,230</u>
Net assets	
Invested in capital assets	224,767
Unrestricted	<u>54,797</u>
Total net assets	<u><u>\$ 279,564</u></u>

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

CITY OF SAUGATUCK, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Fund For the Year Ended June 30, 2009

	Motor Pool Internal Service Fund
Operating revenues	
Charges for services	\$ 244,393
Operating expenses	
Personnel services	32,858
Repairs and maintenance	74,036
Depreciation	32,308
Total operating expenses	139,202
Operating income	105,191
Nonoperating revenues	
Interest income	870
Change in net assets	106,061
Net assets, beginning of year	173,503
Net assets, end of year	\$ 279,564

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

CITY OF SAUGATUCK, MICHIGAN

Statement of Cash Flows Proprietary Fund

For the Year Ended June 30, 2009

	Motor Pool Internal Service Fund
Cash flows from operating activities	
Receipts from interfund services provided	\$ 244,393
Payments to suppliers	(58,750)
Payments to employees	(32,574)
	<hr/>
Net cash provided by operating activities	153,069
Cash flows from capital and related financing activities	
Acquisition of capital assets	(151,717)
Cash flows from investing activities	
Interest earned on investments	870
	<hr/>
Net increase in cash and cash equivalents	2,222
Cash and cash equivalents, beginning of year	68,805
	<hr/>
Cash and cash equivalents, end of year	\$ 71,027
	<hr/> <hr/>
Cash flows from operating activities	
Operating income	\$ 105,191
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	32,308
Changes in operating assets and liabilities which provided cash:	
Accounts payable	15,286
Accrued liabilities	284
	<hr/>
Net cash provided by operating activities	\$ 153,069
	<hr/> <hr/>

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

CITY OF SAUGATUCK, MICHIGAN

**Statement of Fiduciary Assets and Liabilities
Agency Fund**

June 30, 2009

	<u>Tax Collection Fund</u>
Assets	
Cash and cash equivalents	\$ 1,367
Liabilities	
Accounts payable	\$ 1,367

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

NOTES TO FINANCIAL STATEMENTS

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Saugatuck, (the “City”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City, which is incorporated under the Home Rule City Act (P.A. 279 of 1979) and is governed by a seven-member Council. The accompanying financial statements present the entity for which the government is considered to be financially accountable. There are no component units to be included. Criteria for including a component unit include entities for which the City is considered to be financially accountable.

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 cost of operations and capital expenditures of the District. During the year ended June 30, 2009, the City contributed \$134,728 to the District. Complete audited financial statements for the Districts 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. During the year ended June 30, 2009 the City contributed \$51,460 to the Authority.

c) Kalamazoo Lake Sewer and Water Authority

The Kalamazoo Lake Sewer and Water Authority (the “Authority”) is a joint venture of the City, the Township of Saugatuck, and the City of 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. During the year ended June 30, 2009, the City contributed \$8,270 to the Authority. Any infrastructure constructed or paid by the City is recorded as infrastructure on the City’s records.

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The City has no business-type activities for the year ended June 30, 2009.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

The City reports the following major governmental funds:

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

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

The *Streetscape Fund* accounts for the infrastructure improvements in the City. Revenues are derived from the 2009 bond issuance.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for proceeds from specific revenue sources (other than perpetual trusts or capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Agency Funds* account for the collection and disbursements of delinquent taxes and deposits due to other units and individuals.

Amounts reported as program revenue include: (1) charges to customers of applicants for goods services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated to resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operating. The principal operating revenues of the enterprise funds are charges for services. Operation expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and the Major Special Revenue Fund. The City Council adopts a legally enforceable budget for the General Fund and Special Revenue Funds with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the government fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2009. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

Budgets for expenditures are adopted on an activity level basis in the General Fund and by function in the Special Revenue funds.

Cash and Cash Equivalents

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

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Special assessments receivable includes \$14,251 which are not expected to be collected within one year.

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets 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 one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes water and sewer improvements made since 1984, and all other types of infrastructure constructed or acquired since 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	15-50
Furniture, fixtures, and equipment	5-30
Streets	20
Water and sewer improvements	50

Deferred Revenue

The City reports deferred revenue when cash receipts do not meet both the “measurable” and “available” criteria for recognition in the current period.

Compensated Absences

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 for service with the City. Vested compensated absences are accrued when earned in the government- wide financial statements. A liability for these amounts is reports in government funds only for employee terminations as of the end of the year.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14. These summer tax bills include the City's own property taxes and taxes billed on behalf of the school district (State Education Tax) within the City limits. Real property taxes not collected as of March 1 are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

Special Assessments

Special assessments in governmental funds are recorded as revenues when due, not when levied. Estimated annual installments not yet available are reflected as deferred revenue.

Interfund Transactions

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

Subsequent Event

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2009, the most recent statement of net assets presented herein, through the auditors' report date, the date these financial statements were available to be issued. No significant such events or transactions were identified.

2. DEPOSITS AND INVESTMENTS

Deposits and investments consist of the following at June 30, 2009:

	<u>Governmental Activities</u>	<u>Agency Fund</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 5,226,234</u>	<u>\$ 1,367</u>	<u>\$ 5,227,601</u>

Deposits and investments consist of the following at June 30, 2009:

Bank deposits	\$ 805,081
Certificates of deposit (due within one year)	1,133,676
Certificates of deposit (due in more than one year)	2,750,000
Cash held by others	123,147
Investments	414,439
Petty cash	<u>1,258</u>
Total	<u>\$ 5,227,601</u>

Deposits

These deposits and investments are in seven (7) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in the City's records at cost. Interest is recorded when earned.

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year end, \$1,423,463 of the City's bank balance of \$4,698,753 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Statutory Authority

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

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
MBIA Class Fund	Various	\$ 414,439	AAA/VI

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under “statutory authority” below. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City’s specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in “statutory authority” below. The City’s investment policy does not allow investments in banker acceptances or mutual funds. The credit rating on the City’s investments are identified above.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City’s investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year-end are reported above.

3. RECEIVABLES

At June 30, 2009, 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	\$ 1,980	\$ 21,006	\$ 24,645
Local Streets	-	9,318	4,969	14,287
Non-major governmental funds	195	2,953	8,962	12,110
Total	\$ 1,854	\$ 14,251	\$ 34,937	\$ 51,042

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Dispositions	Balance June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 3,160,697	\$ -	\$ -	\$ 3,160,697
Construction in progress	-	1,149,128	-	1,149,128
Total capital assets, not being depreciated	3,160,697	1,149,128	-	4,309,825
Capital assets, being depreciated:				
Land improvements	871,324	-	-	871,324
Buildings and improvements	1,116,206	177,679	-	1,293,885
Machinery and equipment	995,268	151,716	(152,728)	994,256
Streets	849,425	-	-	849,425
Infrastructure	2,942,300	-	-	2,942,300
Total capital assets, being depreciated	6,774,523	329,396	(152,728)	6,951,190
Less accumulated depreciation for:				
Land improvements	423,416	32,556	-	455,972
Buildings and improvements	418,762	28,433	-	447,195
Machinery and equipment	854,417	37,226	(152,728)	738,914
Streets	171,856	42,613	-	214,469
Infrastructure	995,950	58,950	-	1,054,900
Total accumulated depreciation	2,864,401	199,778	(152,728)	2,911,450
Net capital assets, being depreciated	3,910,122	129,618	-	4,039,740
Net governmental activities capital assets	\$ 7,070,819	\$ 1,278,747	\$ -	\$ 8,349,565

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 9,396
Public works	107,298
Recreation and culture	50,776
Internal service fund	<u>32,308</u>
Total depreciation expense – governmental activities	<u>\$ 199,778</u>

5. PAYABLES

At June 30, 2009, the City's payables were as follows:

Fund	Accounts	Payroll	Totals
General Fund	\$ 86,827	\$ 18,049	\$ 104,876
Local Streets	60,433	2,249	62,682
Streetscape	449,564	-	449,564
Nonmajor Governmental Funds	54,042	1,221	55,263
Internal Service Fund	<u>15,946</u>	<u>284</u>	<u>16,230</u>
Total	<u>\$ 666,812</u>	<u>\$ 21,803</u>	688,615
			<u>29,731</u>
			<u>\$ 718,346</u>

6. DEFERRED REVENUE

Governmental funds report deferred revenues in connection with revenues that are not yet 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.

	Unavailable	Unearned	Total
General Fund	\$ 1,980	\$ 45,000	\$ 46,980
Local Streets	9,318	-	9,318
Business Licenses	-	22,484	22,484
Water and Sewer Improvement	<u>2,953</u>	<u>-</u>	<u>2,953</u>
Total	<u>\$ 14,251</u>	<u>\$ 67,484</u>	<u>\$ 81,735</u>

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

7. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2009:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>	<u>Due Within One Year</u>
<i>Governmental activities</i>					
\$925,000 Allegan County Sanitary Sewer System No. 13 general obligation limited tax bonds; due in annual installments of \$50,000 to \$75,000 through October 2014; interest at 5.25% to 5.6%	\$ 450,000	\$ -	\$ 50,000	\$ 400,000	\$ 50,000
\$180,000 Contract payable--State Infrastructure Bank; paid in full September 2008.	19,236	-	19,236	-	-
\$400,000 Note payable--bank; due in annual installments of \$44,000 to \$48,000 plus interest at 4.3% through November 2011	180,000	-	42,000	138,000	44,000
\$3,570,000 City Street and Infrastructure Series (Unlimited Tax General Obligation) bonds; due in annual installments of \$50,000 to \$380,000 through November 2028; interest at 2.0% to 4.60%	-	3,570,000	-	3,570,000	-
Subtotal installment debt	649,236	3,570,000	111,236	4,108,000	94,000
Compensated absences	16,617	29,668	27,639	18,646	16,781
Total governmental activities	<u>\$ 665,853</u>	<u>\$ 3,599,668</u>	<u>\$ 138,875</u>	<u>\$ 4,126,646</u>	<u>\$ 110,781</u>

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

For the governmental activities, long-term compensated absences are generally liquidated by the general fund.

The annual requirements to amortize all debt outstanding (excluding long-term compensated absences) as of June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 94,000	\$ 165,299
2011	146,000	165,049
2012	183,000	158,578
2013	150,000	152,108
2014	160,000	146,194
2015-2019	700,000	652,614
2020-2024	1,045,000	489,750
2025-2029	1,630,000	197,873
Total	\$ 4,108,000	\$ 2,127,463

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2009, the City carried commercial insurance to cover all risks of losses. The City had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

9. PENSION PLAN

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering certain bargaining units. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N Canal, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate, which for the current year was 9.86 percent. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

For the year ended June 30, 2009, the City's annual pension cost of \$13,344 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year, compounded annually based on inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, the date of the latest actuarial valuation, was 30 years.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 16,491	100%	\$ -
2008	15,621	100%	-
2009	13,344	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/06	\$ 1,065,473	\$ 1,136,420	\$ 70,947	94%	\$ 150,494	47%
12/31/07	1,138,637	1,194,037	55,400	95%	157,561	35%
12/31/08	1,170,730	1,242,158	71,428	94%	161,763	44%

10. DEFINED CONTRIBUTION PENSION PLAN

The City provides pension benefits for all its full-time employees hired on or after 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 allocation 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 required contributions of \$12,509 to the plan for the year ended June 30, 2009.

CITY OF SAUGATUCK, MICHIGAN

Notes to Financial Statements

For the Year Ended June 30, 2009

11. INTERFUND TRANSFERS

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 46,083
Local Streets	-	75,000
Nonmajor governmental funds	<u>121,083</u>	<u>-</u>
Total	<u>\$ 121,083</u>	<u>\$ 121,083</u>

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

* * * * *

CITY OF SAUGATUCK, MICHIGAN

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2009

	<u>Special Revenue</u>		
	<u>Major Streets</u>	<u>Business Licenses</u>	<u>Sewer Improvement</u>
Assets			
Cash and cash equivalents	\$ 88,535	\$ 32,533	\$ 429,411
Receivables	8,962	-	2,953
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 97,497</u>	<u>\$ 32,533</u>	<u>\$ 432,364</u>
 Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 47,481	\$ 3,672	\$ -
Accrued liabilities	1,067	154	-
Deferred revenue	-	22,484	2,953
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>48,548</u>	<u>26,310</u>	<u>2,953</u>
 Fund balances			
Unreserved, undesignated, reported in:			
Special revenue funds	48,949	6,223	429,411
Debt service funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>48,949</u>	<u>6,223</u>	<u>429,411</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 97,497</u>	<u>\$ 32,533</u>	<u>\$ 432,364</u>

<u>Special Revenue</u>	<u>Debt Service</u>	
<u>Parks</u>	<u>Sewer Debt</u>	<u>Total</u>
\$ 238,745	\$ 53,750	\$ 842,974
<u>-</u>	<u>195</u>	<u>12,110</u>
<u>\$ 238,745</u>	<u>\$ 53,945</u>	<u>\$ 855,084</u>
\$ 2,889	\$ -	\$ 54,042
-	-	1,221
<u>-</u>	<u>-</u>	<u>25,437</u>
<u>2,889</u>	<u>-</u>	<u>80,700</u>
235,856	-	720,439
<u>-</u>	<u>53,945</u>	<u>53,945</u>
<u>235,856</u>	<u>53,945</u>	<u>774,384</u>
<u>\$ 238,745</u>	<u>\$ 53,945</u>	<u>\$ 855,084</u>

CITY OF SAUGATUCK, MICHIGAN

**Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds**

For the Year Ended June 30, 2009

	Special Revenue		
	Major Streets	Business Licenses	Water and Sewer Improvement
Revenues			
Taxes	\$ -	\$ -	\$ -
Special assessments	-	-	2,734
Charges for services	-	-	12,000
Licenses and permits	-	47,374	-
Intergovernmental	119,263	-	-
Interest	2,512	252	9,688
	<u>121,775</u>	<u>47,626</u>	<u>24,422</u>
Total revenues			
Expenditures			
Current:			
Public works	388,648	43,459	930
Recreation and culture	-	-	-
Debt service:			
Principal	-	42,000	-
Interest	-	6,839	-
	<u>388,648</u>	<u>92,298</u>	<u>930</u>
Total expenditures			
Revenues over (under) expenditures	(266,873)	(44,672)	23,492
Other financing sources			
Transfers in	<u>75,000</u>	<u>46,083</u>	<u>-</u>
Net change in fund balances	(191,873)	1,411	23,492
Fund balances, beginning of year	<u>240,822</u>	<u>4,812</u>	<u>405,919</u>
Fund balances, end of year	<u><u>\$ 48,949</u></u>	<u><u>\$ 6,223</u></u>	<u><u>\$ 429,411</u></u>

<u>Special Revenue</u>	<u>Debt Service</u>	
<u>Parks</u>	<u>Sewer Debt</u>	<u>Total</u>
\$ -	\$ 53,593	\$ 53,593
-	-	2,734
-	-	12,000
-	-	47,374
-	-	119,263
5,291	781	18,524
<u>5,291</u>	<u>781</u>	<u>18,524</u>
<u>5,291</u>	<u>54,374</u>	<u>253,488</u>
-	400	433,437
9,444	-	9,444
-	50,000	92,000
-	23,112	29,951
<u>9,444</u>	<u>73,512</u>	<u>564,832</u>
(4,153)	(19,138)	(311,344)
<u>-</u>	<u>-</u>	<u>121,083</u>
(4,153)	(19,138)	(190,261)
<u>240,009</u>	<u>73,083</u>	<u>964,645</u>
<u>\$ 235,856</u>	<u>\$ 53,945</u>	<u>\$ 774,384</u>

October 20, 2009

To the City of Council of the
City of Saugatuck
Saugatuck, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Saugatuck (the "City") for the year ended June 30, 2009, and have issued our report thereon dated October 20, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 16, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on August 19, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, as noted in Finding 2009-1 below, we proposed various audit adjustments, all of which were recorded by management, and which had a material effect on the County's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated October 20, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City of Saugatuck and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

City of Saugatuck

Comments and Recommendations

For the Year Ended June 30, 2009

In planning and performing our audit of the financial statements of the City of Saugatuck (the “City”) as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. We believe that certain deficiencies, as described below, constitute material weaknesses.

Material Weaknesses

Finding 2009-1 – Material Audit Adjustments

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

Condition: During our audit, we identified and proposed several material adjustments, which were approved and posted by management, to adjust the City’s general ledger to the appropriate balances. These adjustments included correcting the amounts reported for capital assets in the motor pool internal service fund.

City of Saugatuck

Comments and Recommendations

For the Year Ended June 30, 2009

Finding 2009-1 – Material Audit Adjustments (Concluded)

Cause: This condition was caused by a formula error in the City’s depreciation spreadsheets, and by a simple oversight by management in the preparation for the year-end audit that was not initially detected by the City’s internal review process.

Effect: As a result of this condition, the City’s accounting records were initially misstated by amounts material to the financial statements. All necessary adjustments were reviewed and agreed to by management, and the financial statements were appropriately corrected prior to issuance.

Recommendation: We recommend that the City carefully review its year-end account balances and seek to make all necessary adjustments before the annual audit.

View of Responsible Officials: Management recognizes the importance of thoroughly reviewing all information in advance of the audit, and in the future, will apply special care in its review for potential spreadsheet errors.

Finding 2009-2 – Preparation of Financial Statements in Accordance with GAAP

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

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government’s ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government’s internal controls.

City of Saugatuck

Comments and Recommendations

For the Year Ended June 30, 2009

Finding 2009-2 – Preparation of Financial Statements in Accordance with GAAP (Concluded)

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

**View of
Responsible
Officials:**

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2009-3 – Segregation of Incompatible Duties

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

Condition: The City has several transaction cycles that are performed by the same individual or are not subject to independent review and approval, including: (1) responsibilities for payroll accounting are not separated from the general ledger function, (2) after payroll is processed, there is no review of approved timesheets to the payroll register for accuracy, (3) authorized signer on the bank account is the same individual who is responsible for printing checks and performing the monthly bank review and reconciliation, (4) cash deposit is not made by an independent person of the receipts posting and preparation of the deposit slip, (5) there is no overall review of the deposit to the subsidiary detail and to the amount posted to the general ledger by an independent employee.

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

City of Saugatuck

Comments and Recommendations

For the Year Ended June 30, 2009

Finding 2009-3 – Segregation of Incompatible Duties (Concluded)

Effect: As a result of this condition, the City is exposed to the risk that misstatements (whether caused by error or fraud) may not be prevented or detected by management on a timely basis.

**Recom-
mendation:** There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the City to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

**View of
Responsible**

Officials: Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the City's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

Other Matters

Internal Controls over Information Technology

In connection with the implementation of the Audit Risk Suite, we reviewed with management a list of information technology (IT) controls in place at the City. We noted various opportunities to enhance controls over IT as it relates to the timing out of user sessions, and use of complex passwords. We recommend that the City review the suggested controls not currently in place and consider whether it would be cost beneficial to implement such controls in the future. The recommended policies included;

- Formal written procedures for making changes to network;
- Passwords are required to be changed at regular intervals;
- Password policy or procedure requires the use of complex passwords that use multiple characters, such as, upper case, lower case, numbers and symbols
- PC's time out after extended periods of inactivity;
- Implement procedures to detect and prevent use of unauthorized software;

City of Saugatuck

Comments and Recommendations

For the Year Ended June 30, 2009

We would like to express our sincere thanks to the management and staff of the City of Saugatuck for the assistance provided to us during our audit. We would especially like to thank Peter Stanislawski and Kirk Harrier for their hard work and timely responses to our requests.

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City of Saugatuck
Schedule of Adjustments Passed (SOAP)
For the June 30, 2009 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Fund Balance	Revenue	Expenses/ Expenditures
General Fund					
Unrecorded accrued interest on certificate of deposit	\$ (6,479)	\$ -	\$ -	\$ (6,479)	\$ -
Governmental Activities					
Cummulative effect of items noted above	\$ (6,479)	\$ -	\$ -	\$ (6,479)	\$ -