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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Southwestern Michigan Tourist Council

We have audited the accompanying statements of assets, liabilities, and net assets – modified cash basis of Southwestern Michigan Tourist Council (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of support, revenue, and expenses – modified cash basis for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provides a reasonable basis for our opinions.

As described in note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Southwestern Michigan Tourist Council as of December 31, 2010 and 2009, and its support, revenue, and expenses for the years then ended, on the basis of accounting described in note 2.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses- modified cash basis on page 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher
St. Joseph, Michigan
February 14, 2011

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

SOUTH WESTERN MICHIGAN TOURIST COUNCIL**STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS – MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010 AND 2009**

Assets	2010	2009
Current Assets		
Cash and cash equivalents	\$ 269,733	\$ 280,113
Non-Current Assets		
Property, equipment and improvements, net	131,541	130,101
Total Assets	\$ 401,274	\$ 410,214
Liabilities and Net Assets		
Current Liabilities		
Payroll liabilities	\$ 3,129	\$ 2,245
Net Assets		
<i>Unrestricted:</i>		
Undesignated	\$ 397,859	\$ 406,490
Designated	286	1,479
Total Net Assets	\$ 398,145	\$ 407,969
Total Liabilities and Net Assets	\$ 401,274	\$ 410,214

See accompanying notes to financial statements.

SOUTHWESTERN MICHIGAN TOURIST COUNCIL**STATEMENTS OF SUPPORT, REVENUE, AND EXPENSES –MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Public Support and Revenue:		
Public Support		
Shoreline Association assessment fees	\$ 380,938	\$ 351,123
Business dues	18,810	20,955
Nonprofit dues	6,050	5,610
Other programs	2,402	1,824
Total Support	<u>\$ 408,200</u>	<u>\$ 379,512</u>
Revenues		
Investment income	560	719
Total Support and Revenue	<u>\$ 408,760</u>	<u>\$ 380,231</u>
Expenditures		
Program Services		
Shoreline Assessment	\$ 319,125	\$ 261,174
Tourist Center	54,508	54,991
Pick Michigan	2,993	3,311
Total Program Services	<u>\$ 376,626</u>	<u>\$ 319,476</u>
Supporting Services		
Management and general	41,958	33,402
Total Expenditures	<u>\$ 418,584</u>	<u>\$ 352,878</u>
Change in Net Assets	\$ (9,824)	\$ 27,353
Net Assets - Beginning of Year	407,969	380,616
Net Assets - End of Year	<u>\$ 398,145</u>	<u>\$ 407,969</u>

See accompanying notes to financial statements.

SOUTHWESTERN MICHIGAN TOURIST COUNCIL

NOTES TO THE FINANCIAL STATEMENTS – MODIFIED CASH BASIS
For the Years Ended December 31, 2010 and 2009

NOTE 1. NATURE OF BUSINESS

Southwestern Michigan Tourist Council (the “Council”) is a tax-exempt, nonprofit Michigan Corporation organized to promote tourism in Southwestern Michigan. The Council’s primary funding is from an assessment on local hotels and motels in the Benton Harbor/St. Joseph “Shoreline” district.

NOTE 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The financial statements of the Council have been prepared utilizing the modified cash basis of accounting which is not in compliance with generally accepted accounting principles in the United States of America. Consequently, certain revenues are recognized when received rather than when earned and certain expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred.

Property, Equipment, and Improvements:

Property, equipment, and improvements are carried at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. The Council follows the practice of capitalizing all expenditures for building, vehicles, and equipment in excess of \$500. Repairs and maintenance over \$500 are reviewed by the Board for possible capitalization.

Revenues:

The Council collects a 2% assessment fee from members of the Shoreline Hotel/Motel Assessment Association (see Note 8). Non-association members are charged business or nonprofit dues for being a member of the Council. Business memberships are \$165 per year while nonprofit memberships are \$110 per year.

Estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amount of support and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

The Council considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Advertising Costs:

The Council elects to expense all advertising costs when incurred.

Subsequent Events:

Subsequent events have been evaluated through February 14, 2011, which is the date the financial statements were ready to be issued.

SOUTHWESTERN MICHIGAN TOURIST COUNCIL**NOTES TO THE FINANCIAL STATEMENTS – MODIFIED CASH BASIS
For the Years Ended December 31, 2010 and 2009****NOTE 3. CREDIT RISK**

The Council maintains its cash balances in one financial institution located in St. Joseph, Michigan. The accounts are held under the bank's Federal Deposit Insurance Corporation's Transaction Account Guarantee Program. Under that program, through December 31, 2012, all noninterest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to separate coverage available under the FDIC's general deposit insurance rules, which is \$250,000.

NOTE 4. INCOME TAXES

The Council is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (6) of the Internal Revenue Code.

Management has elected to apply the provisions of FASB Accounting Standards Codification FASB ASC 740-10-25-5 formally known as FAS Interpretation No. 48 (FIN 48) *Accounting for Uncertainty in Income Taxes*. Under ASC 740-10-25-5 an entity must determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any appeals or litigation processes, based on technical merits of the positions. As of December 31, 2010 the Council had no known liability due to the uncertainty of income taxes. The Council is no longer subject to U.S. federal income tax examinations by tax authorities for years before the year ended December 31, 2007.

NOTE 5. PROPERTY, EQUIPMENT, AND IMPROVEMENTS

As of December 31, 2010 and 2009 the net book values of such assets were as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 50,000	\$ 50,000
Buildings	304,858	294,158
Furniture and equipment	17,944	17,944
Less: accumulated depreciation	<u>(241,261)</u>	<u>(232,001)</u>
	<u>\$ 131,541</u>	<u>\$ 130,101</u>

NOTE 6. DESIGNATED NET ASSETS

The Council's Board had designated \$20,000 for building maintenance and improvements for the Council's building. As of December 31, 2010, \$286 was still designated for this purpose.

NOTE 7. DEFINED CONTRIBUTION PLAN

Plan Description – The Council participates in a Fidelity Investments administrated 403 (b) Workplace Retirement Savings Program. The full-time employees of the Council can participate in the plan.

Funding Policy - The Council contributes \$136 a month per employee. An employee opting out of insurance is entitled to an additional contribution to their retirement plan equal to the amount of the insurance plan payment. The monthly insurance payment may vary during the year, and was \$704 at December 31, 2010. The Council's contribution to the retirement plan totaled \$10,738 in 2010 and \$11,714 in 2009.

SOUTHWESTERN MICHIGAN TOURIST COUNCIL

**NOTES TO THE FINANCIAL STATEMENTS – MODIFIED CASH BASIS
For the Years Ended December 31, 2010 and 2009**

NOTE 8. SHORELINE HOTEL/MOTEL ASSESSMENT ASSOCIATION

The Council has created a separate convention and visitor's bureau named Shoreline Hotel/Motel Assessment Association (the "Association") to help promote the travel industry through the assessment of fees under Act No. 59 Public Acts of 1984. The assessment fee is 2% to customers of the owners of transient facilities of 10 or more units to support tourism or convention marketing programs. The Association assesses fees on member facilities in the Cities of Benton Harbor and St. Joseph, and the Townships of Benton, Lincoln, Royalton and St. Joseph, Michigan.

The Association is made up of a separate 7 member board, with 4 members selected from member facilities and 3 members appointed by the Council's board.

Any member facility that is more than 30 days delinquent with payment of assessment fees within the Association is ineligible. The total amount of assessment fees collected for 2010 were \$380,938 and represents 93% of the Council's support and revenue. The 2009 total amount was \$351,123 which represented 92% of the Council's support and revenue.

NOTE 9. MICHIGAN'S BEACHTOWNS, INC.

The Council is a member of the Michigan's Beachtowns, Inc. (the "Beachtown"). The purpose of this Beachtown is the promotion of tourism in the following Michigan communities along Lake Michigan: Ludington, Silver Lake/Hart, Muskegon, Grand Haven, Holland, Saugatuck/Douglas, South Haven, St. Joseph and the communities served by Harbor Country. Membership consists of the head of each of the following organizations: Ludington Area Convention & Visitors Bureau, Silver Lake Sand Dune-Hart Visitors Bureau, Muskegon County Convention and Visitors Bureau, Grand Haven Area Convention & Visitors Bureau, Holland Area Convention & Visitors Bureau, Saugatuck/Douglas Convention & Visitors Bureau, South Haven Visitors Bureau, Southwestern Michigan Tourist Council, and Harbor Country Lodging Association. Each member is required to pay Beachtown annual dues. The annual dues that were paid in 2010 and 2009 were \$10,000. Another \$3,000 was paid each year to Beachtown for an annual advertising assessment.

SUPPLEMENTARY INFORMATION

SOUTHWESTERN MICHIGAN TOURIST COUNCIL

SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNCTIONAL EXPENSES – MODIFIED CASH BASIS
 For the Year Ended December 31, 2010 and 2009

	Program Services				2010 Total	Management and		2010 Total	Program Services			2009 Total
	Shoreline Assessment	Tourist Center	Pick Michigan	General		Shoreline Assessment	Tourist Center		Pick Michigan	General		
Salaries	\$ 80,813	\$ 24,865	\$ 2,487	\$ 16,162	\$ 124,327	\$ 78,011	\$ 27,874	\$ 2,825	\$ 12,078	\$ 120,788		
Payroll taxes	6,529	2,310	201	1,004	10,044	6,111	2,132	234	942	9,419		
Health insurance	9,545	3,277	-	1,425	14,247	8,939	3,083	-	1,336	13,358		
Pension expense	7,194	2,470	-	1,074	10,738	7,839	2,703	-	1,172	11,714		
Insurance	-	-	-	5,404	5,404	-	-	-	5,175	5,175		
Shoreline promotional	169,559	-	-	-	169,559	132,140	-	-	-	119,140		
Beachtowns, Inc. dues	13,000	-	-	-	13,000	13,000	-	-	-	13,000		
Conferences	3,154	-	-	-	3,154	2,590	-	-	-	2,590		
Travel	9,870	-	305	-	10,175	7,684	-	252	-	7,936		
Professional fees	-	-	-	12,715	12,715	-	-	-	8,902	8,902		
Depreciation	-	8,334	-	926	9,260	-	7,920	-	880	8,800		
Repairs and maintenance	-	444	-	49	493	-	679	-	75	754		
Utilities	-	5,662	-	629	6,291	-	4,682	-	520	5,202		
Telephone	-	1,892	-	210	2,102	-	1,869	-	208	2,077		
Postage	8,842	-	-	982	9,824	8,836	-	-	982	9,818		
Supplies	7,149	-	-	794	7,943	6,142	-	-	682	6,824		
Office supplies	-	5,254	-	584	5,838	-	4,049	-	450	4,499		
Subscriptions and dues	2,275	-	-	-	2,275	1,765	-	-	-	1,765		
Miscellaneous	1,195	-	-	-	1,195	1,117	-	-	-	1,117		
	\$ 319,125	\$ 54,508	\$ 2,993	\$ 41,958	\$ 418,584	\$ 274,174	\$ 54,991	\$ 3,311	\$ 33,402	\$ 352,878		