

**VILLAGE OF MACKINAW CITY**  
**MACKINAW CITY, MICHIGAN**



**FINANCIAL STATEMENTS**

**FEBRUARY 28, 2009**

# VILLAGE OF MACKINAW CITY

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## INDEPENDENT AUDITORS' REPORT

August, 28 2009

Village Council  
Village of Mackinaw City  
Mackinaw City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *Village of Mackinaw City*, (the "Village"), as of and for the year ended February 28, 2009, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2009, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 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 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 Village's basic financial statements. The supplementary information listed in the table of contents 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 audit of the 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.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

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

## Management's Discussion and Analysis

As management of the **Village of Mackinaw City**, (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2009.

### Financial Highlights

- The total assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$15,295,754 (*net assets*). Of this amount, \$2,600,493 (*unrestricted net assets*) may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by \$498,936.
- The Village repaid \$293,698 of long-term debt during the current fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was 859,929, or 61% of total General Fund expenditures and transfers.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of 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 Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village'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 Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village'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 (e.g., compensated absences).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges for services (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, highways and streets, health and welfare, and recreation and culture. The business-type activities of the Village include water and sewer and marina.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also the Downtown Development Authority component unit, which is a legally separate entity for which the Village is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12-14 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 Village, 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 Village 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains 28 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Ambulance Fund, and 2000 and 2007 Special Assessment Bonds Funds which are considered to be major funds. Data from the other 21 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 53-59 in this report.

The Village adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and all major special revenue funds budgets.

The basic governmental funds financial statements can be found on pages 15-23 of this report.

**Proprietary funds.** The Village maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its water and sewer and marina operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its equipment operations. Because these services predominantly benefit governmental

rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Marina Fund, both of which are considered to be major funds of the Village.

The basic proprietary fund financial statements can be found on pages 24-27 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 statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 28-29 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 30-50 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 51-59 of this report.

### **Government-wide Financial Analysis - Primary Government**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$15,295,754 at the close of fiscal 2009.

A large portion of the Village's net assets (82%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, water and sewer systems, marina, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's 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.

An additional portion of the Village's net assets (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (17%) may be used to meet the government's ongoing obligations to citizens and creditors.

**Village of Mackinaw City - Primary Government  
Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Assets</b>						
Cash and other assets	\$ 2,072,816	\$ 2,023,450	\$ 1,130,688	\$ 1,073,751	\$ 3,203,504	\$ 3,097,201
Capital assets, net of accumulated depreciation, where applicable	<u>6,577,862</u>	<u>6,449,445</u>	<u>7,253,267</u>	<u>7,394,831</u>	<u>13,831,129</u>	<u>13,844,276</u>
<b>Total assets</b>	<b><u>8,650,678</u></b>	<b><u>8,472,895</u></b>	<b><u>8,383,955</u></b>	<b><u>8,468,582</u></b>	<b><u>17,034,633</u></b>	<b><u>16,941,477</u></b>
<b>Liabilities</b>						
Current and other liabilities	260,404	368,971	90,660	95,995	351,064	464,966
Long-term debt, net of current portion	<u>1,157,815</u>	<u>1,362,069</u>	<u>230,000</u>	<u>245,000</u>	<u>1,387,815</u>	<u>1,607,069</u>
<b>Total liabilities</b>	<b><u>1,418,219</u></b>	<b><u>1,731,040</u></b>	<b><u>320,660</u></b>	<b><u>340,995</u></b>	<b><u>1,738,879</u></b>	<b><u>2,072,035</u></b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	5,476,557	5,069,442	7,008,267	7,134,831	12,484,824	12,204,273
Restricted	77,088	121,601	133,349	129,893	210,437	251,494
Unrestricted	<u>1,678,814</u>	<u>1,550,812</u>	<u>921,679</u>	<u>862,863</u>	<u>2,600,493</u>	<u>2,413,675</u>
<b>Total net assets</b>	<b><u>\$ 7,232,459</u></b>	<b><u>\$ 6,741,855</u></b>	<b><u>\$ 8,063,295</u></b>	<b><u>\$ 8,127,587</u></b>	<b><u>\$ 15,295,754</u></b>	<b><u>\$ 14,869,442</u></b>

At the end of fiscal 2009, the Village is able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

The Village's net assets increased by \$498,936 during fiscal 2009. This increase is mainly attributable to increased State grants related to road projects and the Village's goal of retaining net assets for future infrastructure projects.

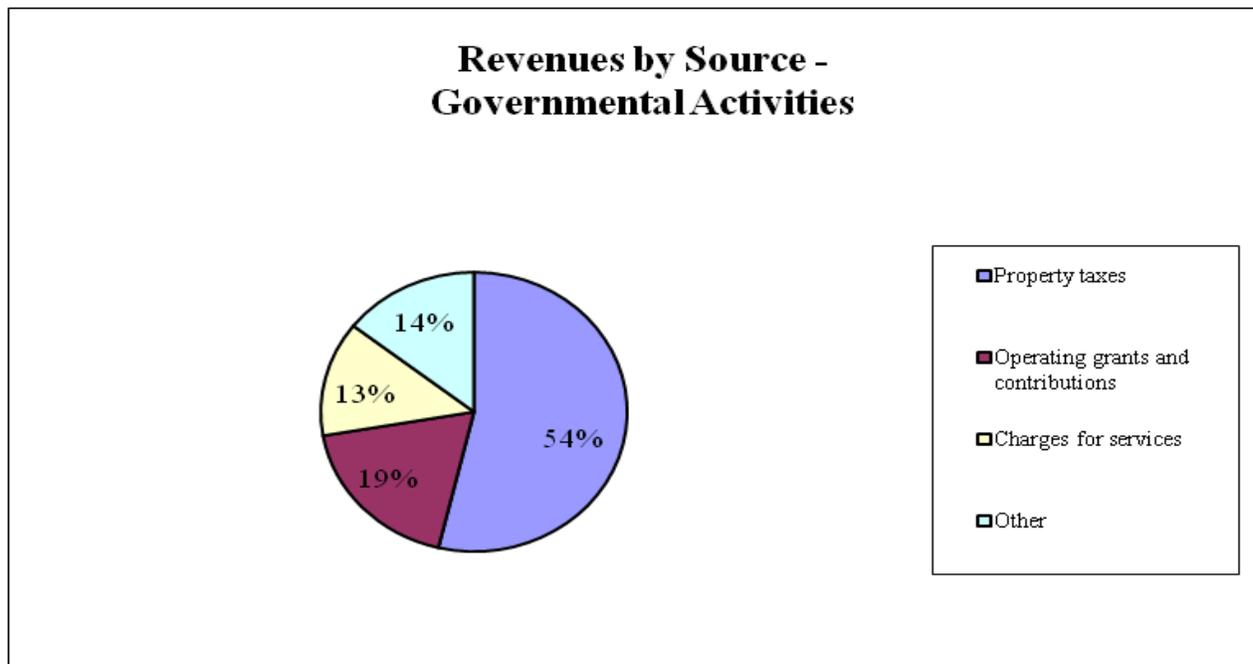
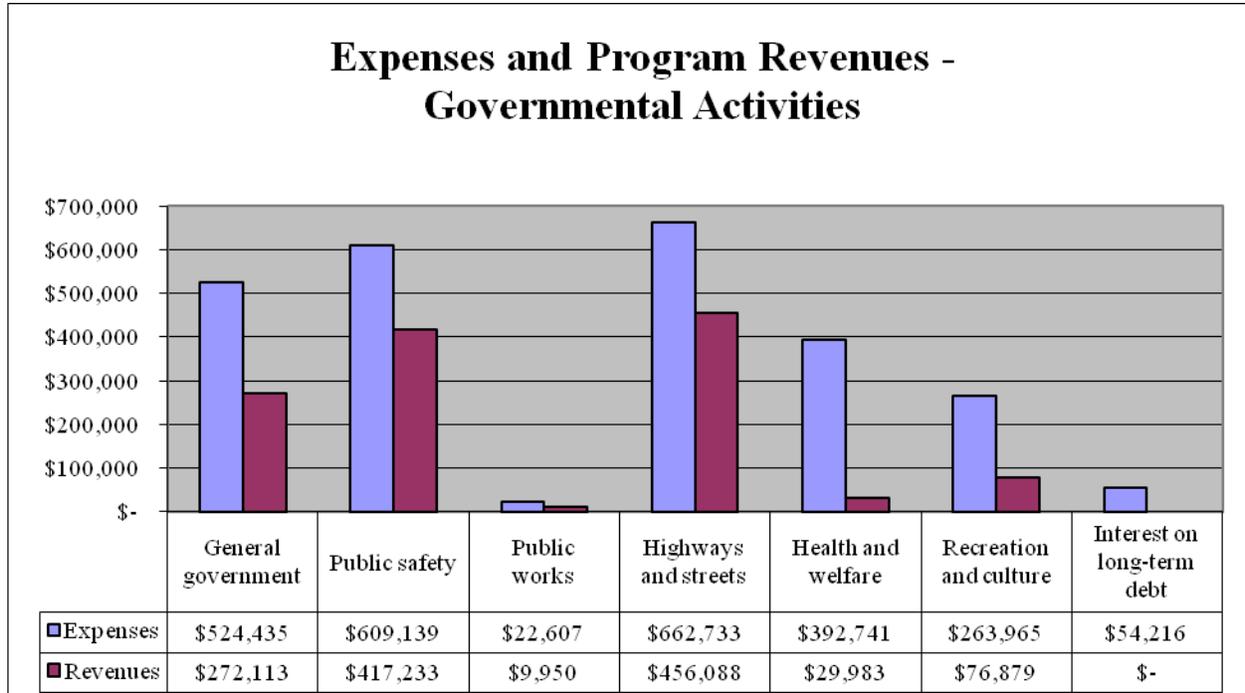
**Village of Mackinaw City - Primary Government**  
**Condensed Statement of Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 413,008	\$ 481,008	\$ 1,255,317	\$ 1,136,555	\$ 1,668,325	\$1,617,563
Operating grants and contributions	573,400	559,334	11,188	18,477	584,588	577,811
Capital grants and contributions	275,838	6,495	-	-	275,838	6,495
General revenues						
Property taxes	1,661,591	1,700,835	-	-	1,661,591	1,700,835
Grants and contributions not restricted to specific programs	58,291	20,874	-	-	58,291	20,874
Unrestricted interest income	60,542	42,567	-	-	60,542	42,567
<b>Total revenues</b>	<b><u>3,042,670</u></b>	<b><u>2,811,113</u></b>	<b><u>1,266,505</u></b>	<b><u>1,155,032</u></b>	<b><u>4,309,175</u></b>	<b><u>3,966,145</u></b>
<b>Expenses</b>						
General government	524,435	434,346	-	-	524,435	434,346
Public safety	609,139	515,427	-	-	609,139	515,427
Public works	22,607	14,667	-	-	22,607	14,667
Highways and streets	662,733	753,245	-	-	662,733	753,245
Health and welfare	392,741	374,714	-	-	392,741	374,714
Recreation and culture	263,965	258,960	-	-	263,965	258,960
Interest on long-term debt	54,216	50,153	-	-	54,216	50,153
Water and sewer	-	-	883,081	813,457	883,081	813,457
Marina	-	-	397,322	484,057	397,322	484,057
<b>Total expenses</b>	<b><u>2,529,836</u></b>	<b><u>2,401,512</u></b>	<b><u>1,280,403</u></b>	<b><u>1,297,514</u></b>	<b><u>3,810,239</u></b>	<b><u>3,699,026</u></b>
Increase (decrease) in net assets before transfers	512,834	409,601	(13,898)	(142,482)	498,936	267,119
Transfers	50,394	(336,968)	(50,394)	336,968	-	-
<b>Changes in net assets</b>	<b>563,228</b>	<b>72,633</b>	<b>(64,292)</b>	<b>194,486</b>	<b>498,936</b>	<b>267,119</b>
Net assets – beginning of year as restated	6,669,231	6,669,222	8,127,587	7,933,101	14,796,818	14,602,323
<b>Net assets – end of year</b>	<b><u>\$ 7,232,459</u></b>	<b><u>\$ 6,741,855</u></b>	<b><u>\$ 8,063,295</u></b>	<b><u>\$ 8,127,587</u></b>	<b><u>\$ 15,295,754</u></b>	<b><u>\$ 14,869,442</u></b>

**Governmental activities.** Governmental activities increased the Village’s net assets by \$563,228.

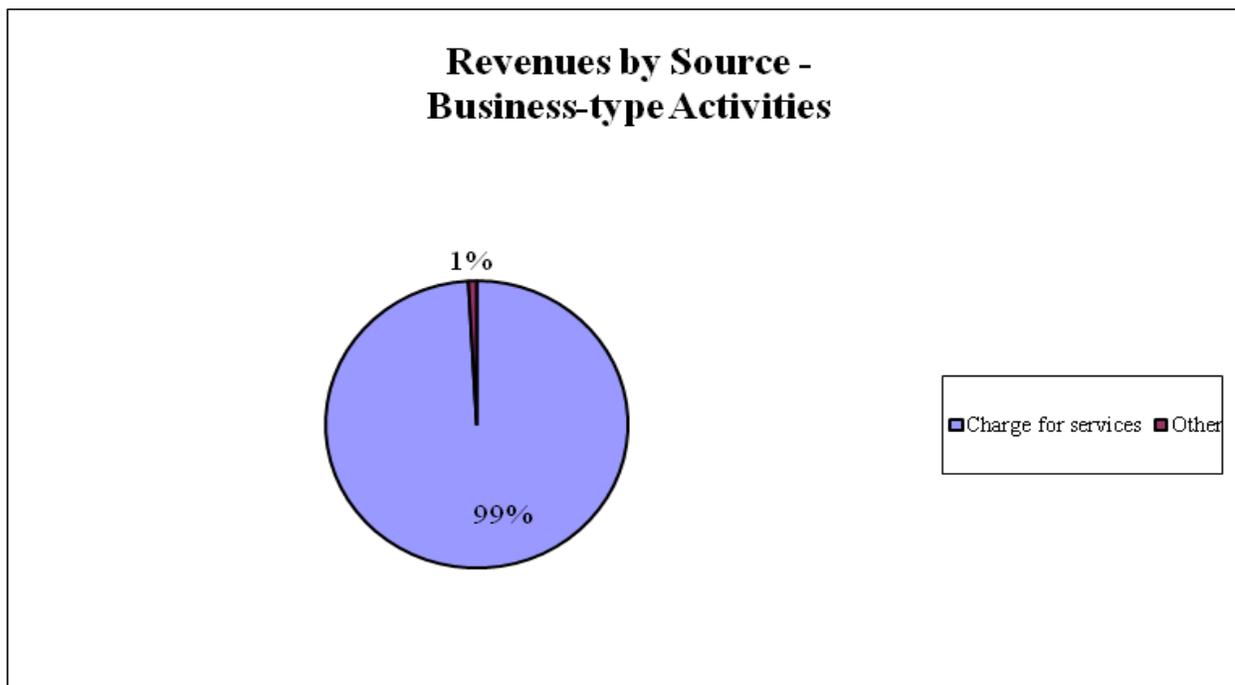
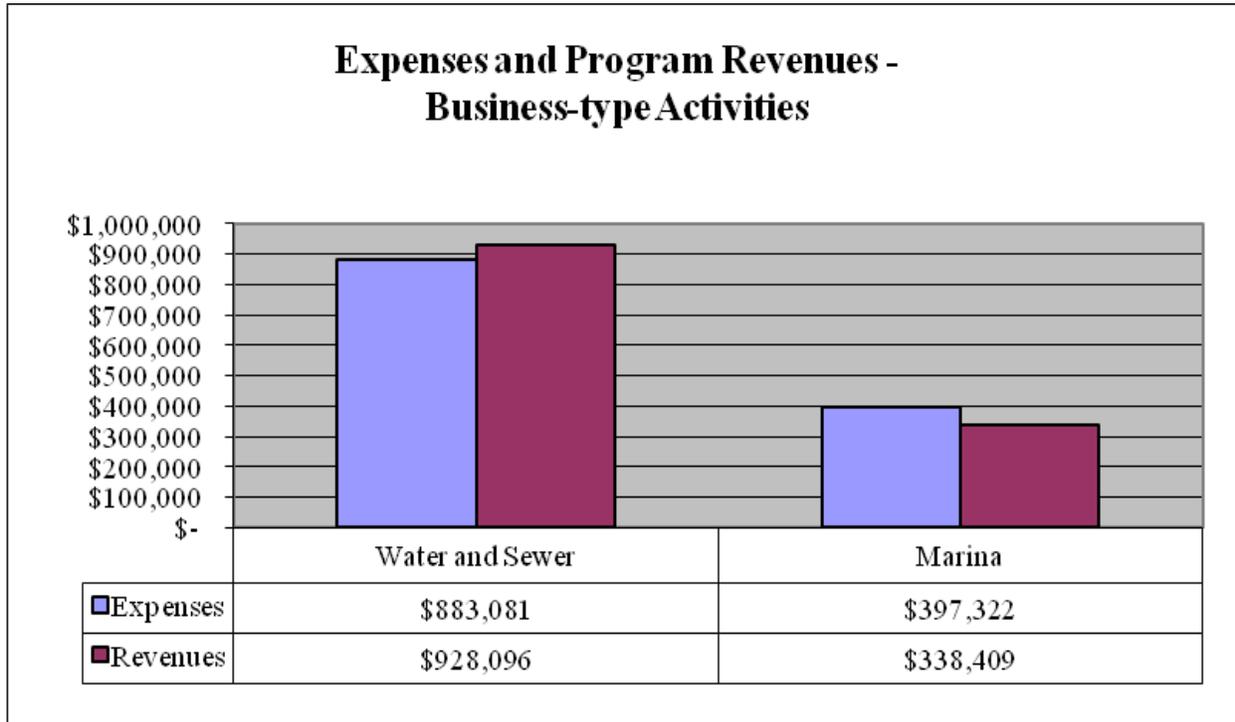
Key elements of this increase are as follows:

- Increase in State grants related to road projects.
- Decrease in the amount of transfers to the business-type activities.
- Retention of net assets for future infrastructure projects.



**Business-type activities.** Business-type activities decreased the Village’s net assets by \$64,292.

Key elements of the current year decrease was the net loss at the Marina (which was consistent with the prior year) and transfers out of the Water and Sewer Fund.



Substantially all revenues for the business-type activities resulted from charges for services.

## Financial Analysis of the Government's Funds

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

**Governmental funds.** The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village'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 fiscal year 2009, the Village's governmental funds reported combined ending fund balances of \$1,679,173, an increase of \$217,559. *Unreserved fund balance* of \$1,594,113 is available for spending at the Village's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

The fund balance of the Village's General Fund increased by \$219,259 during the current fiscal year, which was mainly attributable to management of expenditures, mainly within the general government function.

The fund balance of the Village's Municipal Street special revenue fund decreased by \$98,884 during the current fiscal year, which was mainly attributable to the increase in transfers to the Major and Local Street special revenue funds that were used to fund street projects.

There were no other significant changes to the fund balance of the other major governmental funds.

**Proprietary funds.** The Village's *proprietary funds* provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$841,164. The Water and Sewer Fund had a decrease in net assets for the year of \$5,379. Factors concerning the finances of this fund have already been addressed in the discussion of the Village's business-type activities.

Unrestricted net assets of the Marina Fund at the end of the year amounted to \$80,515. The Marina Fund had a decrease in net assets for the year of \$58,913. Revenues decreased from fiscal 2008 by \$80,724 and expenses in fiscal 2009 were \$86,735 less than in fiscal 2008.

## Budgetary Highlights

**General Fund Revenues and Expenditures.** General Fund revenues and expenditures were higher than the original budget. There were no changes from the original to final budget. The largest variance of expenditures over budget was in the general government function which was related to increased costs for the fireworks and Village attorney.

## Capital Asset and Debt Administration

**Capital assets.** The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2009, amounted to \$13,831,129 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, marina, vehicles and equipment.

Additional information on the Village's capital assets can be found in note 3C on pages 40-42 of this report.

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

- East Central Avenue electrical improvement
- Louvigny Street project
- Wenniway phase II sewer project
- Huron Street sewer expansion
- Replacement of finger piers at the Marina

**Long-term debt.** At February 28, 2009, the Village had total debt outstanding of approximately \$1,612,797. Of this amount, approximately \$995,000 is comprised of debt backed by the full faith and credit of the Village. The remainder of the Village's bonded debt represents bonds secured solely by specified revenue sources.

Additional information on the Village's long-term debt can be found in Note 3F on pages 44-46 of this report.

### **Economic Factors and Fiscal 2009-2010 Budgets and Rates**

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

- Economic factors.
- Estimated revenues.
- Planned capital improvements.
- Operating expenditures.

### **Requests for Information**

This financial report is designed to provide a general overview of the Village'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 Village Manager, PO Box 580, Mackinaw City, Michigan 49701.

## **BASIC FINANCIAL STATEMENTS**

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**VILLAGE OF MACKINAW CITY**

**STATEMENT OF NET ASSETS**

**FEBRUARY 28, 2009**

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
<b>Assets</b>				
Cash and cash equivalents	\$ 768,615	\$ 317,996	\$ 1,086,611	\$ 7,528
Investments	575,509	280,406	855,915	6,644
Receivables, net	685,476	387,842	1,073,318	13,853
Internal balances	20,216	(20,216)	-	-
Inventories	-	31,311	31,311	-
Restricted investments	23,000	133,349	156,349	-
Capital assets not being depreciated	856,079	74,087	930,166	-
Capital assets being depreciated, net	5,721,783	7,179,180	12,900,963	-
<b>Total assets</b>	<b>8,650,678</b>	<b>8,383,955</b>	<b>17,034,633</b>	<b>28,025</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	33,009	8,243	41,252	4,894
Unearned revenue	17,413	67,417	84,830	-
Long-term liabilities				
Due within one year	209,982	15,000	224,982	-
Due in more than one year	1,157,815	230,000	1,387,815	-
<b>Total liabilities</b>	<b>1,418,219</b>	<b>320,660</b>	<b>1,738,879</b>	<b>4,894</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	5,476,557	7,008,267	12,484,824	-
Restricted for debt service	77,088	133,349	210,437	-
Unrestricted	1,678,814	921,679	2,600,493	23,131
<b>Total net assets</b>	<b>\$ 7,232,459</b>	<b>\$ 8,063,295</b>	<b>\$ 15,295,754</b>	<b>\$ 23,131</b>

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

**VILLAGE OF MACKINAW CITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED FEBRUARY 28, 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>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities					
General government	\$ 524,435	\$ 167,693	\$ 104,420	\$ -	\$ (252,322)
Public safety	609,139	233,748	182,042	1,443	(191,906)
Public works	22,607	-	9,950	-	(12,657)
Highways and streets	662,733	-	181,693	274,395	(206,645)
Health and welfare	392,741	7,755	22,228	-	(362,758)
Recreation and culture	263,965	3,812	73,067	-	(187,086)
Interest on long-term debt	54,216	-	-	-	(54,216)
Total governmental activities	<u>2,529,836</u>	<u>413,008</u>	<u>573,400</u>	<u>275,838</u>	<u>(1,267,590)</u>
Business-type activities					
Water and sewer	883,081	916,908	11,188	-	45,015
Marina	397,322	338,409	-	-	(58,913)
Total business-type activities	<u>1,280,403</u>	<u>1,255,317</u>	<u>11,188</u>	<u>-</u>	<u>(13,898)</u>
<b>Total primary government</b>	<b><u>\$ 3,810,239</u></b>	<b><u>\$ 1,668,325</u></b>	<b><u>\$ 584,588</u></b>	<b><u>\$ 275,838</u></b>	<b><u>\$ (1,281,488)</u></b>
<b>Discretely presented component unit</b>					
Downtown development	<u>\$ 52,675</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (52,675)</u>

**VILLAGE OF MACKINAW CITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

<u>Functions/Programs</u>	<u>Primary Government</u>			<u>Discretely Presented Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (1,267,590)	\$ (13,898)	\$ (1,281,488)	\$ (52,675)
General revenues				
Property taxes	1,661,591	-	1,661,591	40,235
Grants and contributions not restricted to specific programs	58,291	-	58,291	-
Unrestricted interest income	60,542	-	60,542	-
Transfers - internal activities	50,394	(50,394)	-	-
Total general revenues and transfers	<u>1,830,818</u>	<u>(50,394)</u>	<u>1,780,424</u>	<u>40,235</u>
<b>Changes in net assets</b>	<b><u>563,228</u></b>	<b><u>(64,292)</u></b>	<b><u>498,936</u></b>	<b><u>(12,440)</u></b>
Net assets, beginning of year, as previously stated	6,741,855	8,127,587	14,869,442	35,571
Prior period adjustment	(72,624)	-	(72,624)	-
Net assets, beginning of year, as restated	<u>6,669,231</u>	<u>8,127,587</u>	<u>14,796,818</u>	<u>35,571</u>
<b>Net assets, end of year</b>	<b><u>\$ 7,232,459</u></b>	<b><u>\$ 8,063,295</u></b>	<b><u>\$ 15,295,754</u></b>	<b><u>\$ 23,131</u></b>

Concluded

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

## **FUND FINANCIAL STATEMENTS**

**VILLAGE OF MACKINAW CITY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**FEBRUARY 28, 2009**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 289,928	\$ 29,612	\$ 26,479	\$ 92,902
Investments	239,466	26,135	23,371	81,996
Accounts receivable, net	11,221	-	-	-
Taxes receivable	242,670	-	-	75,205
Special assessments receivable	-	-	-	168,862
Due from other funds	171,003	-	-	-
Due from other governmental units	-	7,480	3,788	-
Restricted investments	-	-	-	-
<b>Total assets</b>	<b><u>\$ 954,288</u></b>	<b><u>\$ 63,227</u></b>	<b><u>\$ 53,638</u></b>	<b><u>\$ 418,965</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 15,182	\$ -	\$ -	\$ -
Due to other funds	61,764	19,986	7,567	-
Deferred revenue	17,413	-	-	168,862
<b>Total liabilities</b>	<b><u>94,359</u></b>	<b><u>19,986</u></b>	<b><u>7,567</u></b>	<b><u>168,862</u></b>
<b>Fund balances</b>				
Reserved for				
Recreation facilities	-	-	-	-
Debt service	-	-	-	-
Unreserved				
Designated - Special Revenue Funds				
Subsequent years' expenditures	-	-	-	70,000
Accrued sick and vacation	-	-	-	-
Undesignated	859,929	43,241	46,071	180,103
Undesignated, reported in nonmajor				
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	-
<b>Total fund balances</b>	<b><u>859,929</u></b>	<b><u>43,241</u></b>	<b><u>46,071</u></b>	<b><u>250,103</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 954,288</u></b>	<b><u>\$ 63,227</u></b>	<b><u>\$ 53,638</u></b>	<b><u>\$ 418,965</u></b>

<b>Ambulance</b>	<b>2000 Special Assessment Bonds</b>	<b>2007 Special Assessment Bonds</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 68,035	\$ 16,140	\$ 118	\$ 196,149	\$ 719,363
60,005	-	-	101,066	532,039
37,134	-	-	23,000	71,355
-	-	-	6,058	323,933
-	32,642	71,748	5,668	278,920
-	3,115	-	-	174,118
-	-	-	-	11,268
-	-	-	23,000	23,000
<b>\$ 165,174</b>	<b>\$ 51,897</b>	<b>\$ 71,866</b>	<b>\$ 354,941</b>	<b>\$ 2,133,996</b>

\$ -	\$ -	\$ -	\$ 2,217	\$ 17,399
20,887	19,255	-	11,632	141,091
-	32,642	71,748	5,668	296,333
<b>20,887</b>	<b>51,897</b>	<b>71,748</b>	<b>19,517</b>	<b>454,823</b>

-	-	-	7,972	7,972
-	-	118	76,970	77,088
60,500	-	-	-	130,500
-	-	-	75,261	75,261
83,787	-	-	-	1,213,131
-	-	-	174,074	174,074
-	-	-	1,147	1,147
<b>144,287</b>	<b>-</b>	<b>118</b>	<b>335,424</b>	<b>1,679,173</b>
<b>\$ 165,174</b>	<b>\$ 51,897</b>	<b>\$ 71,866</b>	<b>\$ 354,941</b>	<b>\$ 2,133,996</b>

Continued...

VILLAGE OF MACKINAW CITY

BALANCE SHEET  
GOVERNMENTAL FUNDS

FEBRUARY 28, 2009

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**Reconciliation of fund balances on the balance sheet for governmental activities  
to the statement of net assets**

Fund balances - total governmental funds \$ 1,679,173

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, not reported in the funds.

Add: capital assets 9,317,089  
Deduct: accumulated depreciation (3,032,138)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessment revenues and other deferred revenues 278,920

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in an internal service fund 372,822

Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Deduct: bonds and notes payable (1,101,305)  
Deduct compensated absences (266,492)  
Deduct: accrued interest on long-term liabilities (15,610)

**Net assets of governmental activities** \$ 7,232,459

Concluded

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>
<b>Revenues</b>				
Property taxes	\$ 1,218,896	\$ -	\$ -	\$ 409,630
State revenue	90,269	375,306	65,510	5,408
Special assessments	-	-	-	30,309
Licenses and permits	6,647	-	-	-
Contributions	70,706	-	-	-
Charges for services	5,577	-	-	-
Fines and forfeits	2,219	-	-	-
Interest	59,688	-	-	9,864
Rents	143,962	-	-	-
Local contribution	-	-	-	-
Miscellaneous	19,731	-	-	-
<b>Total revenues</b>	<b><u>1,617,695</u></b>	<b><u>375,306</u></b>	<b><u>65,510</u></b>	<b><u>455,211</u></b>
<b>Expenditures</b>				
Current				
Legislative	24,459	-	-	-
General government	551,497	-	-	-
Public safety	561,630	-	-	-
Highways and streets	-	677,912	199,846	32,667
Health and welfare	-	-	-	-
Recreation and culture	59,218	-	-	-
Other functions	7,093	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and paying agent fees	-	-	-	-
<b>Total expenditures</b>	<b><u>1,203,897</u></b>	<b><u>677,912</u></b>	<b><u>199,846</u></b>	<b><u>32,667</u></b>
<b>Revenues over (under) expenditures</b>	<b><u>413,798</u></b>	<b><u>(302,606)</u></b>	<b><u>(134,336)</u></b>	<b><u>422,544</u></b>
<b>Other financial sources (uses)</b>				
Transfers in	-	330,000	165,000	-
Transfers out	(194,539)	-	-	(521,428)
<b>Total other financing sources (uses)</b>	<b><u>(194,539)</u></b>	<b><u>330,000</u></b>	<b><u>165,000</u></b>	<b><u>(521,428)</u></b>
<b>Net change in fund balances</b>	<b><u>219,259</u></b>	<b><u>27,394</u></b>	<b><u>30,664</u></b>	<b><u>(98,884)</u></b>
Fund balances, beginning of year, as previously stated	666,954	15,847	15,407	395,327
Prior period adjustment	(26,284)	-	-	(46,340)
Fund balances beginning of year, as restated	640,670	15,847	15,407	348,987
<b>Fund balances, end of year</b>	<b><u>\$ 859,929</u></b>	<b><u>\$ 43,241</u></b>	<b><u>\$ 46,071</u></b>	<b><u>\$ 250,103</u></b>

<b>Ambulance</b>	<b>2000 Special Assessment Bonds</b>	<b>2007 Special Assessment Bonds</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 33,065	\$ 1,661,591
-	-	-	-	536,493
-	15,153	11,871	15,152	72,485
-	-	-	-	6,647
176,550	-	-	25,927	273,183
219,382	-	-	12,372	237,331
-	-	-	-	2,219
-	1,564	5,579	2,810	79,505
-	-	-	55,680	199,642
-	-	-	25,802	25,802
1,592	-	-	12,080	33,403
<b>397,524</b>	<b>16,717</b>	<b>17,450</b>	<b>182,888</b>	<b>3,128,301</b>
-	-	-	-	24,459
-	-	-	38,101	589,598
-	-	-	-	561,630
-	-	-	-	910,425
333,913	-	-	8,130	342,043
-	-	-	121,728	180,946
-	-	-	12,003	19,096
410	-	-	15,755	16,165
-	30,000	45,000	203,698	278,698
-	1,970	26,135	27,353	55,458
<b>334,323</b>	<b>31,970</b>	<b>71,135</b>	<b>426,768</b>	<b>2,978,518</b>
<b>63,201</b>	<b>(15,253)</b>	<b>(53,685)</b>	<b>(243,880)</b>	<b>149,783</b>
-	3,115	34,000	254,743	786,858
-	-	-	(3,115)	(719,082)
-	<b>3,115</b>	<b>34,000</b>	<b>251,628</b>	<b>67,776</b>
<b>63,201</b>	<b>(12,138)</b>	<b>(19,685)</b>	<b>7,748</b>	<b>217,559</b>
81,086	12,138	19,803	327,676	1,534,238
-	-	-	-	(72,624)
81,086	12,138	19,803	327,676	1,461,614
<b>\$ 144,287</b>	<b>\$ -</b>	<b>\$ 118</b>	<b>\$ 335,424</b>	<b>\$ 1,679,173</b>

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2009**

**Reconciliation of the statement of revenues, expenditures and changes in fund balances  
of governmental funds to the statement of activities**

Net change in fund balances - total governmental funds \$ 217,559

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

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

Add: capital outlay capitalized during current year	551,788
Deduct: depreciation expense	(361,802)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: current year collections on special assessments	(72,485)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt 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.

Add: principal payments on long-term liabilities	278,698
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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.

Add: current year decrease in accrued interest on bonds	1,241
Deduct: increase in the accrual of compensated absences	(5,728)

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Deduct: change in net assets from governmental activities accounted for in internal service fund	(46,043)
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<b>Change in net assets of governmental activities</b>	<b>\$ 563,228</b>
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Concluded

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 1,227,200	\$ 1,227,200	\$ 1,218,896	\$ (8,304)
State revenue	87,300	87,300	90,269	2,969
Licenses and permits	11,500	11,500	6,647	(4,853)
Contributions	17,900	17,900	70,706	52,806
Charges for services	1,380	1,380	5,577	4,197
Fines and forfeits	1,150	1,150	2,219	1,069
Interest	23,000	23,000	59,688	36,688
Rents	138,900	138,900	143,962	5,062
Miscellaneous	1,500	1,500	19,731	18,231
<b>Total revenues</b>	<b>1,509,830</b>	<b>1,509,830</b>	<b>1,617,695</b>	<b>107,865</b>
<b>Expenditures</b>				
Legislative	32,650	32,650	24,459	8,191
General government	513,600	513,600	551,497	(37,897)
Public safety	583,400	583,400	561,630	21,770
Recreation and culture	62,030	62,030	59,218	2,812
Other functions	8,200	8,200	7,093	1,107
<b>Total expenditures</b>	<b>1,199,880</b>	<b>1,199,880</b>	<b>1,203,897</b>	<b>(4,017)</b>
<b>Revenues over expenditures</b>	<b>309,950</b>	<b>309,950</b>	<b>413,798</b>	<b>103,848</b>
<b>Other financing sources (uses)</b>				
Transfers out	(309,950)	(309,950)	(194,539)	115,411
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>219,259</b>	<b>219,259</b>
Fund balance beginning of year, as previously stated	666,954	666,954	666,954	-
Prior period adjustment	-	-	(26,284)	(26,284)
Fund balance beginning of year, as restated	666,954	666,954	640,670	(26,284)
<b>Fund balance, end of year</b>	<b>\$ 666,954</b>	<b>\$ 666,954</b>	<b>\$ 859,929</b>	<b>\$ 192,975</b>

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**MAJOR STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
State revenue				
Winter maintenance	\$ -	\$ -	\$ 32,425	\$ 32,425
Gas and weight tax distribution	69,000	69,000	73,894	4,894
Other	-	-	268,987	268,987
Interest	200	200	-	(200)
<b>Total revenues</b>	<b>69,200</b>	<b>69,200</b>	<b>375,306</b>	<b>306,106</b>
<b>Expenditures</b>				
Highways and streets				
Administration	30,100	30,100	24,885	5,215
Routine maintenance	119,400	119,400	111,283	8,117
Winter maintenance	42,300	42,300	78,207	(35,907)
Traffic services	18,500	18,500	6,785	11,715
Construction	205,000	205,000	456,752	(251,752)
<b>Total expenditures</b>	<b>415,300</b>	<b>415,300</b>	<b>677,912</b>	<b>(262,612)</b>
<b>Revenues under expenditures</b>	<b>(346,100)</b>	<b>(346,100)</b>	<b>(302,606)</b>	<b>43,494</b>
<b>Other financing sources</b>				
Transfers in	346,100	346,100	330,000	(16,100)
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>27,394</b>	<b>27,394</b>
Fund balance, beginning of year	15,847	15,847	15,847	-
<b>Fund balance, end of year</b>	<b>\$ 15,847</b>	<b>\$ 15,847</b>	<b>\$ 43,241</b>	<b>\$ 27,394</b>

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**LOCAL STREET FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
<b>Revenues</b>				
State revenue	\$ 33,000	\$ 33,000	\$ 65,510	\$ 32,510
Charge for services	500	500	-	(500)
Interest	70	70	-	(70)
<b>Total revenues</b>	<b>33,570</b>	<b>33,570</b>	<b>65,510</b>	<b>31,940</b>
<b>Expenditures</b>				
Highways and street				
Administration	28,950	28,950	24,893	4,057
Routine maintenance	80,150	80,150	84,202	(4,052)
Winter maintenance	44,412	44,412	69,691	(25,279)
Traffic services	12,350	12,350	14,606	(2,256)
Construction	11,000	11,000	6,454	4,546
<b>Total expenditures</b>	<b>176,862</b>	<b>176,862</b>	<b>199,846</b>	<b>(22,984)</b>
<b>Revenues under expenditures</b>	<b>(143,292)</b>	<b>(143,292)</b>	<b>(134,336)</b>	<b>8,956</b>
<b>Other financing sources</b>				
Transfers in	143,292	143,292	165,000	21,708
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>30,664</b>	<b>30,664</b>
Fund balance, beginning of year	15,407	15,407	15,407	-
<b>Fund balance, end of year</b>	<b>\$ 15,407</b>	<b>\$ 15,407</b>	<b>\$ 46,071</b>	<b>\$ 30,664</b>

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**MUNICIPAL STREET FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Amended Budget Positive (Negative)</u>
<b>Revenues</b>				
Property taxes	\$ 420,000	\$ 420,000	\$ 409,630	\$ (10,370)
State revenue	5,346	5,346	5,408	62
Special assessments	19,800	19,800	30,309	10,509
Interest	4,600	4,600	9,864	5,264
<b>Total revenues</b>	<b><u>449,746</u></b>	<b><u>449,746</u></b>	<b><u>455,211</u></b>	<b><u>5,465</u></b>
<b>Expenditures</b>				
Highways and streets				
Routine maintenance	38,000	38,000	32,667	5,333
<b>Revenues over expenditures</b>	<b><u>411,746</u></b>	<b><u>411,746</u></b>	<b><u>422,544</u></b>	<b><u>10,798</u></b>
<b>Other financing sources (uses)</b>				
Transfers out	<u>(503,832)</u>	<u>(503,832)</u>	<u>(521,428)</u>	<u>(17,596)</u>
<b>Net change in fund balance</b>	<b><u>(92,086)</u></b>	<b><u>(92,086)</u></b>	<b><u>(98,884)</u></b>	<b><u>(6,798)</u></b>
Fund balance, beginning of year as previously stated	395,327	395,327	395,327	-
Prior period adjustment	-	-	(46,340)	(46,340)
Fund balance, beginning of year as restated	<u>395,327</u>	<u>395,327</u>	<u>348,987</u>	<u>(46,340)</u>
<b>Fund balance, end of year</b>	<b><u>\$ 303,241</u></b>	<b><u>\$ 303,241</u></b>	<b><u>\$ 250,103</u></b>	<b><u>\$ (53,138)</u></b>

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**AMBULANCE FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Contributions from other governmental units	\$ 106,700	\$ 106,700	\$ 176,550	\$ 69,850
Charges for services	154,000	154,000	219,382	65,382
Interest	500	500	-	(500)
Miscellaneous	500	500	1,592	1,092
<b>Total revenues</b>	<b><u>261,700</u></b>	<b><u>261,700</u></b>	<b><u>397,524</u></b>	<b><u>135,824</u></b>
<b>Expenditures</b>				
Health and welfare	298,970	298,970	333,913	(34,943)
Capital outlay	5,500	5,500	410	5,090
<b>Total expenditures</b>	<b><u>304,470</u></b>	<b><u>304,470</u></b>	<b><u>334,323</u></b>	<b><u>(29,853)</u></b>
<b>Net change in fund balance</b>	<b>(42,770)</b>	<b>(42,770)</b>	<b>63,201</b>	<b>105,971</b>
Fund balance, beginning of year	81,086	81,086	81,086	-
<b>Fund balance, end of year</b>	<b><u>\$ 81,086</u></b>	<b><u>\$ 38,316</u></b>	<b><u>\$ 144,287</u></b>	<b><u>\$ 105,971</u></b>

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

VILLAGE OF MACKINAW CITY

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

FEBRUARY 28, 2009

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 265,725	\$ 52,271	\$ 317,996	\$ 49,252
Investments	234,532	45,874	280,406	43,470
Due from other funds	61,764	-	61,764	-
Accounts receivable	351,431	36,411	387,842	-
Inventory	-	31,311	31,311	-
<b>Total current assets</b>	<b>913,452</b>	<b>165,867</b>	<b>1,079,319</b>	<b>92,722</b>
<b>Property and equipment</b>				
Land	52,587	21,500	74,087	-
Land improvements	-	113,358	113,358	-
Buildings	150,182	-	150,182	-
Water and sewer system	8,716,750	-	8,716,750	-
Machinery and equipment	356,625	79,275	435,900	900,947
Marina	-	1,673,739	1,673,739	-
Less accumulated depreciation	(2,790,136)	(1,120,613)	(3,910,749)	(608,036)
<b>Net property and equipment</b>	<b>6,486,008</b>	<b>767,259</b>	<b>7,253,267</b>	<b>292,911</b>
<b>Other assets</b>				
Restricted investments	133,349	-	133,349	-
<b>Total assets</b>	<b>7,532,809</b>	<b>933,126</b>	<b>8,465,935</b>	<b>385,633</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	8,243	-	8,243	-
Due to other funds	64,045	17,935	81,980	12,811
Unearned revenue	-	67,417	67,417	-
Bonds payable	15,000	-	15,000	-
<b>Total current liabilities</b>	<b>87,288</b>	<b>85,352</b>	<b>172,640</b>	<b>12,811</b>
<b>Long-term debt</b>				
Bonds payable (net of current portion)	230,000	-	230,000	-
<b>Total liabilities</b>	<b>317,288</b>	<b>85,352</b>	<b>402,640</b>	<b>12,811</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	6,241,008	767,259	7,008,267	292,911
Restricted	133,349	-	133,349	-
Unrestricted	841,164	80,515	921,679	79,911
<b>Total net assets</b>	<b>\$ 7,215,521</b>	<b>\$ 847,774</b>	<b>\$ 8,063,295</b>	<b>\$ 372,822</b>

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
<b>Operating revenues</b>				
Sales and charges for services	\$ -	\$ 338,407	\$ 338,407	\$ 216,491
Sales and charges for services pledged as security for revenue bonds	916,908	-	916,908	-
<b>Total operating revenues</b>	<b>916,908</b>	<b>338,407</b>	<b>1,255,315</b>	<b>216,491</b>
<b>Operating expenses</b>				
Salaries and wages	236,229	108,776	345,005	42,430
Fringe benefits	122,200	44,128	166,328	22,511
Supplies	127,070	15,740	142,810	14,996
Gasoline and oil	6,365	96,460	102,825	35,288
Repairs and maintenance	11,305	563	11,868	42,710
Contracted services	54,492	22,147	76,639	7,203
Communications	4,744	2,762	7,506	1,061
Conferences and workshops	1,776	-	1,776	140
Travel	87	61	148	-
Insurance	10,681	9,450	20,131	9,791
Utilities	100,198	25,424	125,622	8,252
Equipment rental	13,082	136	13,218	-
Depreciation	178,453	52,124	230,577	61,569
Miscellaneous	3,399	19,551	22,950	55
<b>Total operating expenses</b>	<b>870,081</b>	<b>397,322</b>	<b>1,267,403</b>	<b>246,006</b>
<b>Operating income (loss)</b>	<b>46,827</b>	<b>(58,915)</b>	<b>(12,088)</b>	<b>(29,515)</b>
<b>Nonoperating revenues (expenses)</b>				
Interest earnings	11,188	2	11,190	854
Interest and fiscal charges	(13,000)	-	(13,000)	-
<b>Total nonoperating revenues (expenses)</b>	<b>(1,812)</b>	<b>2</b>	<b>(1,810)</b>	<b>854</b>
<b>Income (loss) before transfers</b>	<b>45,015</b>	<b>(58,913)</b>	<b>(13,898)</b>	<b>(28,661)</b>
Transfers out	(50,394)	-	(50,394)	(17,382)
<b>Change in net assets</b>	<b>(5,379)</b>	<b>(58,913)</b>	<b>(64,292)</b>	<b>(46,043)</b>
Net assets, beginning of year	7,220,900	906,687	8,127,587	418,865
<b>Net assets, end of year</b>	<b>\$ 7,215,521</b>	<b>\$ 847,774</b>	<b>\$ 8,063,295</b>	<b>\$ 372,822</b>

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

**VILLAGE OF MACKINAW CITY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<b>Enterprise Funds</b>			<b>Governmental Activities - Internal Service Fund</b>
	<b>Water and Sewer</b>	<b>Marina</b>	<b>Total</b>	
<b>Cash flows from operating activities</b>				
Cash collected from customers	\$ 783,382	\$ 331,589	\$ 1,114,971	\$ 216,491
Cash paid for employee wages and benefits	(331,889)	(150,624)	(482,513)	(58,004)
Cash paid for other operating and administrative expenses	(395,248)	(208,794)	(604,042)	(119,496)
<b>Net cash provided by (used in) operating activities</b>	<b>56,245</b>	<b>(27,829)</b>	<b>28,416</b>	<b>38,991</b>
<b>Cash flows from capital and related financing activities</b>				
Interest payments	(13,000)	-	(13,000)	-
Principal payments	(15,000)	-	(15,000)	-
Purchase of property and equipment	(73,043)	(16,068)	(89,111)	-
Transfer out	(50,394)	-	(50,394)	(17,382)
<b>Net cash used in capital and related financing activities</b>	<b>(151,437)</b>	<b>(16,068)</b>	<b>(167,505)</b>	<b>(17,382)</b>
<b>Cash flows from investing activities</b>				
Interest earnings	11,188	2	11,190	854
Repayment of advance to other fund	54,908	-	54,908	-
Sale (purchase) of investments	(951)	17,186	16,235	(12,213)
<b>Cash provided by (used in) investing activities</b>	<b>65,145</b>	<b>17,188</b>	<b>82,333</b>	<b>(11,359)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(30,047)</b>	<b>(26,709)</b>	<b>(56,756)</b>	<b>10,250</b>
Cash and cash equivalents, beginning of year	295,772	78,980	374,752	39,002
<b>Cash and cash equivalents, end of year</b>	<b>\$ 265,725</b>	<b>\$ 52,271</b>	<b>\$ 317,996</b>	<b>\$ 49,252</b>

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

**VILLAGE OF MACKINAW CITY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<u>Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Water and Sewer</u>	<u>Marina</u>	<u>Total</u>	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
<b>Cash flows from operating activities</b>				
Operating income (loss)	\$ 46,827	\$ (58,915)	\$ (12,088)	\$ (29,515)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	178,453	52,124	230,577	61,569
Loss on disposal of capital assets	98	-	98	-
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(133,526)	(6,818)	(140,344)	-
Due from other funds	(61,764)	-	(61,764)	-
Inventory	-	(11,548)	(11,548)	-
Accounts payable	(383)	(370)	(753)	-
Due to other funds	26,540	2,280	28,820	6,937
Unearned revenue	-	(4,582)	(4,582)	-
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ 56,245</u></b>	<b><u>\$ (27,829)</u></b>	<b><u>\$ 28,416</u></b>	<b><u>\$ 38,991</u></b>

Concluded

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**

**FEBRUARY 28, 2009**

	<b>Pension Trust Fund</b>	
	<b>Employees' Retirement System</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ 5,414
Investments - mutual funds	1,028,491	-
<b>Total assets</b>	<b>1,028,491</b>	<b>\$ 5,414</b>
<b>Liabilities</b>		
Accounts payable	-	<b>\$ 5,414</b>
<b>Net assets</b>		
Held in trust for pension benefits	<b>\$ 1,028,491</b>	

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION TRUST FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

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<b>Additions</b>	
Contributions	\$ 80,928
Investment loss	<u>(105,643)</u>
<b>Total additions</b>	(24,715)
<b>Deductions</b>	
Benefit payments	<u>188,695</u>
<b>Change in net assets</b>	<b>(213,410)</b>
Net assets held in trust for pension benefits, beginning of year	<u>1,241,901</u>
<b>Net assets held in trust for pension benefits, end of year</b>	<b><u><u>\$ 1,028,491</u></u></b>

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

## **NOTES TO FINANCIAL STATEMENTS**

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *Village of Mackinaw City*, (the “Village”) and its component unit. The component unit discussed below is included in the Village’s reporting entity because of the significance of its operational or financial relationship with the Village.

*Discretely presented component unit.* The amounts reported as the “discretely presented component unit” in the basic financial statements include the financial data of the Village’s Downtown Development Authority (“DDA”) to emphasize that it is legally separate from the Village. The members of the governing Board of the DDA are appointed by the Village Council. The budgets and expenditures of the DDA must be approved by the Village Council. The Village also has the ability to significantly influence operations of the DDA. Separate financial statements of the DDA have not been prepared.

#### B. 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 and its component unit. For the most part, the effect of interfund activity has been removed from these financial 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. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

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*.

*Fund Financial Statements.* The fund financial statements provide information about the Village’s funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by state statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by state statute for local street purposes.

The *Municipal Street Fund* accounts for the use of a tax levy which is used to supplement the Major and Local Street Funds.

The *Ambulance Fund* accounts for the operations of the Village-operated ambulance service.

The *2000 Special Assessment Bonds Fund* accounts for the 2000 special assessment revenues and the payments on the bonds issued for street improvements.

The *2007 Special Assessment Bonds Fund* accounts for the 2007 special assessment revenues and the payments on the bonds issued for street improvements.

The Village reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the activities of the Village's water distribution, water treatment, sewage disposal, and sewage treatment systems.

The *Marina Fund* accounts for the operations of the Village-owned marina.

Additionally, the Village reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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The *Capital Projects Funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *Internal Service Fund* accounts for operations that provide machinery and equipment to other departments of the Village on a cost-reimbursement basis.

The *Pension Trust Fund* accounts for the activities of the Village's employee retirement system, which accumulates resources for retirement benefit payments to qualified employees.

The *Agency Funds* account for assets held for other governments and employees in an agency capacity.

### **C. Measurement focus, basis of accounting, and financial statement presentation**

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the Village gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

*Governmental Fund Financial Statements.* Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when both measurable and available. The Village considers all revenues reported in the governmental funds to be available if they are collected within sixty (60) days of the end of the current fiscal period. Property taxes, state shared revenue and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Village.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the Village follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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 operations. The principal operating revenues of the Village's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### **D. Assets, liabilities and net assets or equity**

#### ***1. Deposits and investments***

The Village maintains an investment pool for all Village funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents" and "Investments." The debt service and trust and agency funds cash resources are invested separately as required by law.

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The Village's investments during the year consisted of certificate of deposits with original maturities of more than three months and pension trust investments held with a life insurance company.

#### ***2. Receivables and payables***

All receivables are reported at their gross value, except the Ambulance Fund accounts receivable, which is shown net of an estimated allowance for uncollectible accounts of \$35,000.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### 3. *Property taxes*

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan and Emmet Counties. Assessed values, as established annually by the government and subject to acceptance by the counties, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Village for the 2008 levy was approximately \$110,100,000. The Village's general operating tax rate for fiscal 2008-09 was 11.0756 mills with an additional 3.8319 mills for streets and .3087 mills for the cemetery.

Property taxes for the DDA are derived from a 1.8056 mill tax levied on the properties located within the DDA district under the authority of Public Act 197 of 1975.

Property taxes are recognized in the fiscal year in which they are levied.

Beginning fund balances in the General Fund and Municipal Street Fund were decreased by \$26,284 and \$46,340, respectively with a corresponding decrease in beginning net assets of \$72,624 to reflect the correction of an error in recording property taxes receivable in the prior year.

### 4. *Inventories*

All inventories are valued at cost using the first-in/first-out (FIFO) method of accounting.

### 5. *Restricted assets*

Certain resources are set aside for repayment of the Village's Water and Sewer and Recreation revenue bonds and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

### 6. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, water and wastewater system and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Village defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-15
Buildings and building improvements	15-40
Water and wastewater system infrastructure	20-75
Machinery and equipment	5-25
Marina	7-40
Infrastructure	20

### 7. *Compensated absences*

It is the Village's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### 8. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

### 9. *Fund equity*

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and special revenue funds. All annual appropriations lapse at fiscal year-end.

On or before the third Thursday in February of each year, the Village Manager must present the proposed budget to the Village Council for review. The Council holds public hearings and a final budget must be prepared and adopted by resolution no later than the first day in March.

The budget document presents information by fund, function, department, and line item. The legal level of budgetary control adopted by the Village Council is the function level which is the level at which expenditures may not exceed appropriations. The Village Manager may make transfers of appropriations within a function. Transfers of appropriations between functions require the approval of the Village Council.

Expenditures in excess of budget are as follows:

	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
<b><u>General Fund</u></b>			
General Government	\$ 513,600	\$ 551,497	\$ 37,897
<b><u>Special Revenue Funds</u></b>			
Major Street Fund			
Highways and streets	415,300	677,912	262,612
Local Street Fund			
Highways and streets	176,862	199,846	22,984
Municipal Street Fund			
Transfers out	503,832	521,428	17,596
Ambulance Fund			
Health and welfare	298,970	333,913	34,943

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### 3. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

*Summary of deposit and investment balances.* Following is a reconciliation of deposit and investment balances as of February 28, 2009:

	<b>Primary Government</b>	<b>Component Unit</b>	<b>Total</b>
<b>Statement of Net Assets</b>			
Cash and cash equivalents	\$ 1,086,611	\$ 7,528	\$ 1,094,139
Investments	855,915	6,644	862,559
Restricted investments	156,349	-	156,349
<b>Total Statement of Net Assets</b>	<b>\$ 2,098,875</b>	<b>\$ 14,172</b>	2,113,047
<b>Statement of Fiduciary Net Assets</b>			
Cash and cash equivalents			5,414
Investments			1,028,491
<b>Total</b>			<b>\$ 3,146,952</b>

The composition of deposits and investments for footnote disclosure is as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,118,461
Investments in securities, mutual funds and similar vehicles	1,028,491
<b>Total</b>	<b>\$ 3,146,952</b>

#### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Village'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 investments included in the Statement of Fiduciary Net Assets do not have specific maturity dates.

*Credit Risk.* The Village's investment policy does not have specific limits in excess of state law on investment credit risk. The Village has no investments for which ratings are required.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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*Custodial Credit Risk Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year-end, \$1,191,904 of the Village's bank balance of \$2,134,027 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Village is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations, and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- 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 2 highest classifications established by not less than 2 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, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Village Council is authorized to designate depositories for Village funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority. The Village's deposits are in accordance with statutory authority.

*Custodial Credit Risk Investments.* The Village's Pension Trust Fund holds securities of \$1,028,491 in a trust fund of a life insurance company, which are not in the Village's name. The carrying amount of the Pension Trust Fund investments is stated at fair value.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### B. Receivables

The composition of receivables is as follows as of February 28, 2009:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Component Unit</b>
Accounts receivable	\$ 106,355	\$ 387,842	\$ -
Taxes receivable	323,933	-	13,853
Special assessment receivable, due in one year	63,792	-	-
Special assessment receivable, due in more than one year	215,128	-	-
Due from other governmental units	11,268	-	-
Total receivables	720,476	387,842	13,853
Less: allowance for doubtful accounts	35,000	-	-
<b>Total receivables, net</b>	<b><u>\$ 685,476</u></b>	<b><u>\$ 387,842</u></b>	<b><u>\$ 13,853</u></b>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$296,333.

### C. Capital assets

Capital assets activity was as follows for the year ended February 28, 2009:

#### Primary Government

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 856,079	\$ -	\$ -	\$ 856,079
Capital assets being depreciated				
Buildings	2,221,771	42,142	-	2,263,913
Land improvements	925,830	14,000	-	939,830
Equipment	2,354,208	17,239	(19,089)	2,352,358
Infrastructure	3,327,449	478,407	-	3,805,856
Total capital assets being depreciated	<u>8,829,258</u>	<u>551,788</u>	<u>(19,089)</u>	<u>9,361,957</u>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation on				
Buildings	\$ (502,199)	\$ (62,222)	\$ -	\$ (564,421)
Land improvements	(552,737)	(37,608)	-	(590,345)
Equipment	(1,278,627)	(148,429)	19,089	(1,407,967)
Infrastructure	<u>(902,329)</u>	<u>(175,112)</u>	<u>-</u>	<u>(1,077,441)</u>
Total accumulated depreciation	<u>(3,235,892)</u>	<u>(423,371)</u>	<u>19,089</u>	<u>(3,640,174)</u>
Total capital assets being depreciated, net	<u>5,593,366</u>	<u>128,417</u>	<u>-</u>	<u>5,721,783</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$6,449,445</u></b>	<b><u>\$ 128,417</u></b>	<b><u>\$ -</u></b>	<b><u>\$6,577,862</u></b>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	<u>\$ 74,087</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,087</u>
Capital assets being depreciated				
Buildings	150,182	-	-	150,182
Improvements other than buildings	8,765,265	64,843	-	8,830,108
Machinery and equipment	442,818	8,200	(15,118)	435,900
Marina	<u>1,657,671</u>	<u>16,068</u>	<u>-</u>	<u>1,673,739</u>
Total capital assets being depreciated	<u>11,015,936</u>	<u>89,111</u>	<u>(15,118)</u>	<u>11,089,929</u>
Less accumulated depreciation for				
Buildings	(31,004)	(4,538)	-	(35,542)
Improvements other than buildings	(2,451,539)	(149,412)	-	(2,600,951)
Machinery and equipment	(296,023)	(29,797)	15,020	(310,800)
Marina	<u>(916,626)</u>	<u>(46,830)</u>	<u>-</u>	<u>(963,456)</u>
Total accumulated depreciation	<u>(3,695,192)</u>	<u>(230,577)</u>	<u>15,020</u>	<u>(3,910,749)</u>
Total capital assets being depreciated, net	<u>7,320,744</u>	<u>(141,466)</u>	<u>(98)</u>	<u>7,179,180</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$7,394,831</u></b>	<b><u>\$ (141,466)</u></b>	<b><u>\$ (98)</u></b>	<b><u>\$7,253,267</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities**

General government	\$ 18,107
Public safety	55,166
Public works	8,593
Highways and streets	174,942
Health and welfare	10,672
Recreation and culture	94,322
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	61,569

**Total depreciation expense – governmental activities** **\$ 423,371**

**Business-type activities**

Water and Sewer	\$ 178,453
Marina	52,124

**Total depreciation expense – business-type activities** **\$ 230,577**

**D. Accounts payable and accrued expenses**

The composition of accounts payable and accrued expenses is as follows at February 28, 2009:

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>Component Unit</u></b>
Accounts payable	\$ 17,399	\$ 8,243	\$ 4,894
Accrued expenses	15,610	-	-
<b>Total accounts payable and accrued expenses</b>	<b><u>\$ 33,009</u></b>	<b><u>\$ 8,243</u></b>	<b><u>\$ 4,894</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### E. Interfund receivables, payables and transfers

The composition of interfund balances is as follows:

<u>Due to</u>	<u>Due from</u>			<u>Total</u>
	<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>2000 Special Assessment Bond Fund</u>	
General Fund	\$ -	\$ 61,764	\$ -	\$ 61,764
Major Street Fund	19,986	-	-	19,986
Local Street Fund	7,567	-	-	7,567
Ambulance Fund	20,887	-	-	20,887
2000 Special Assessment Bonds	19,255	-	-	19,255
Nonmajor governmental funds	8,517	-	3,115	11,632
Water and Sewer Fund	64,045	-	-	64,045
Marina Fund	17,935	-	-	17,935
Internal service fund	12,811	-	-	12,811
<b>Total</b>	<b><u>\$ 171,003</u></b>	<b><u>\$ 61,764</u></b>	<b><u>\$ 3,115</u></b>	<b><u>\$235,882</u></b>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers consisted of the following for the year ended February 28, 2009:

<u>Transfers Out</u>	<u>Transfers In</u>		
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>2000 Special Assessment Bonds</u>
General Fund	\$ -	\$ -	\$ -
Municipal Street Fund	330,000	165,000	-
Water and Sewer Fund	-	-	-
Internal Service Fund	-	-	-
Nonmajor governmental funds	-	-	3,115
<b>Total transfers</b>	<b><u>\$ 330,000</u></b>	<b><u>\$ 165,000</u></b>	<b><u>\$ 3,115</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

<u>Transfers Out</u>	<b>Transfers In</b>		
	<b>2007 Special Assessment Bonds</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Transfers</b>
General Fund	\$ -	\$ 194,539	\$ 194,539
Municipal Street Fund	-	26,428	521,428
Water and Sewer Fund	34,000	16,394	50,394
Internal Service Fund	-	17,382	17,382
Nonmajor governmental funds	-	-	3,115
<b>Total transfers</b>	<b><u>\$ 34,000</u></b>	<b><u>\$ 254,743</u></b>	<b><u>\$ 786,858</u></b>

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

### F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended February 28, 2009:

	<b>Balance March 1, 2008</b>	<b>Additions</b>	<b>(Reductions)</b>	<b>Balance February 28, 2009</b>	<b>Due Within 1 Year</b>
<b>Governmental activities</b>					
2007 Capital Improvement Bonds maturing serially through 2018 in annual payments ranging from \$45,000 to \$75,000 and bearing interest ranging from 4.30% to 4.60%.	\$ 585,000	\$ -	\$ (45,000)	\$ 540,000	\$ 50,000
2004 Capital Improvement Bonds maturing serially through fiscal 2015 in annual payments ranging from \$35,000 to \$40,000 and bearing interest at 3.38%.	260,000	-	(35,000)	225,000	35,000

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2008</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 28, 2009</u>	<u>Due Within 1 Year</u>
2002 Capital Improvement Bonds maturing serially through fiscal 2013 in annual payments ranging from \$30,000 to \$35,000 and bearing interest from 3.60% to 4.10%.	\$ 165,000	\$ -	\$ (30,000)	\$ 135,000	\$ 30,000
2005 Act 99 installment contract maturing in fiscal 2016 in semi-annual payments of \$8,382 including interest at 4.25%.	106,466	-	(12,297)	94,169	12,846
2000 Revenue Bonds maturing serially through fiscal 2011 in annual payments of \$20,000 to \$25,000 and bearing interest from 5.65% to 5.75%.	75,000	-	(25,000)	50,000	25,000
2000 General Obligation Limited Tax Bonds maturing serially through fiscal 2010 in annual payments of \$25,000 and bearing interest from 5.60% to 5.65%.	50,000	-	(25,000)	25,000	25,000
2000 Special Assessment Limited Tax Bonds maturing serially through fiscal 2010 in annual payments ranging from \$20,000 to \$30,000 and bearing interest from 5.60% to 5.65%.	50,000	-	(30,000)	20,000	20,000
1999 Act 99 installment contract maturing in fiscal 2010 in semi-annual payments of \$12,136 including interest at 4.28%.	35,653	-	(23,517)	12,136	12,136
1999 Special Assessment Limited Tax Bonds, repaid during fiscal 2009.	25,000	-	(25,000)	-	-
1998 Act 99 installment contract, repaid during fiscal 2009.	27,884	-	(27,884)	-	-
Liability for accrued compensated absences	<u>260,764</u>	<u>5,728</u>	<u>-</u>	<u>266,492</u>	<u>-</u>
<b>Total governmental activities long-term debt</b>	<b><u>1,640,767</u></b>	<b><u>5,728</u></b>	<b><u>(278,698)</u></b>	<b><u>1,367,797</u></b>	<b><u>209,982</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<b>Balance March 1, 2008</b>	<b>Additions</b>	<b>(Reductions)</b>	<b>Balance February 28, 2009</b>	<b>Due Within 1 Year</b>
<b>Business-type activities</b>					
<b>Enterprise Funds</b>					
Water Revenue Bonds maturing serially through fiscal 2020 in annual payments ranging from \$15,000 to \$30,000 and bearing interest at 5%.	\$ 260,000	\$ -	\$ (15,000)	\$ 245,000	\$ 15,000
<b>Total long-term debt</b>	<b><u>\$ 1,900,767</u></b>	<b><u>\$ 5,728</u></b>	<b><u>\$ (293,698)</u></b>	<b><u>\$ 1,612,797</u></b>	<b><u>\$ 224,982</u></b>

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

The Village's Water and Sewer Enterprise Fund 1980 Water Revenue Bond requires the Village to maintain cash reserves of approximately \$50,000. The Water and Sewer Enterprise Fund had excess reserves of approximately \$10,000 at February 28, 2009.

The Village's 2000 Revenue Bond for the Recreation Center in the debt service funds requires the Village to maintain a cash reserve of approximately \$18,000. This fund had excess reserves of approximately \$5,000.

On July 9, 2009 the Village issued the 2009 Capital Improvement Bonds for \$650,000. The bond proceeds will provide funding for several capital projects during the Village's fiscal year ended February 28, 2010.

Annual debt service requirements to maturity for the above obligations except for the liability for accrued compensated absences is as follows:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2010	\$ 209,982	\$ 44,042	\$ 15,000	\$ 12,250
2011	158,405	36,116	20,000	11,500
2012	138,989	30,152	20,000	10,500
2013	144,592	24,463	20,000	9,500
2014	115,234	18,616	20,000	8,500
2015-2019	334,103	33,858	120,000	26,000
2020	-	-	30,000	1,500
	<b><u>\$1,101,305</u></b>	<b><u>\$ 187,247</u></b>	<b><u>\$ 245,000</u></b>	<b><u>\$ 79,750</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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Total interest expense for the Village for the year was \$68,458.

### G. Lease disclosures

#### Lessor – operating leases

The Village entered into lease agreements with two communication companies to lease a water tower as a site for the companies' telecommunications equipment. The initial term of the lease agreement with one company was for five years with the right to extend the lease for four additional five year terms. The initial term of the lease agreement with the other company was for five years with the right to extend the lease for three additional five year terms.

Rental income from the lease of the water tower reported in the Recreation Center Special Revenue Fund amounted to \$19,680 for the year ended February 28, 2009. Future minimum rentals related to these leases are as follows:

<u>Years ending February 28</u>	<u>Amount</u>
2010	\$ 14,400
2011	12,420
2012	<u>4,140</u>
<b>Total</b>	<b><u>\$ 30,960</u></b>

The Village has a lease/operation agreement with a local skating association. This agreement is for the use and operation of the Recreation Center for ice skating activities. The agreement is renewable annually. Rental income related to this agreement reported in the Recreation Center Special Revenue Fund amounted to \$36,000 for the year ended February 28, 2009.

The Village entered into a lease agreement with a company for use of the Village pier. Rental income from the lease reported in the General Fund amounted to \$133,327 for the year ended February 28, 2009. The Village renewed this lease for a period from January 1, 2007 through December 30, 2016. The annual lease amount begins at \$126,978, with increases based on the performance of the franchise fee revenues as reported by all boat lines to Mackinac Island each year as follows:

- 1.5% increase or less equals 1.5% increase in pier lease.
- 1.6% - 5% increase equals increase in pier lease equal to reported increase.
- Greater than 5% increase equals pier lease capped at 5% increase.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### 4. OTHER INFORMATION

#### A. Retirement plans

##### **Defined benefit pension plan**

##### **Plan description**

The Village established a defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The police officers at the Village are the only employees eligible to participate in this plan. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan 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. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling (800) 767-6377.

##### **Funding policy**

The Village is required to contribute at an actuarially determined rate; the current rate is 11.42% of annual covered payroll. Per the Village's contract with the Police Officers Labor Council, the Village's costs and contributions to this plan shall be limited to 10% of gross wages per year, with the employee responsible for any remainder. Employees are currently required to contribute 2.25%. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

##### **Annual pension cost**

For the year ended February 28, 2009, the Village's annual pension cost of \$24,742 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2004 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 8.0%, (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. 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 Village's unfunded actuarial accrued liability is being amortized as

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 30 years.

### Trend information

#### Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/28/06	\$ 20,621	100%	\$ -
2/28/07	24,388	100%	-
2/29/08	27,486	100%	-
2/28/09	24,742	100%	-

#### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Over-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$ 261,493	\$ 325,387	\$ (63,894)	80%	\$ 232,553	(27)%
12/31/05	316,221	375,899	(59,678)	84%	238,190	(25)%
12/31/06	372,623	393,638	(21,015)	95%	228,445	(9)%
12/31/07	434,949	458,888	(23,939)	95%	239,318	(10)%

### Defined contribution pension plan

#### Plan description

The Village provides pension benefits for all of its full-time employees through a defined contribution plan, the Village of Mackinaw City Pension Plan and Trust, which is administered and maintained through a life insurance company. Benefits depend solely on amounts contributed to the Plan, plus investment earnings. Each individual employee has a flexible retirement annuity. Employees are eligible to participate after one year of continuous employment and having attained the age of 19. The contribution to the Plan is made by the Village based upon 10% of employee's base pay, excluding overtime.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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Plan provisions and contribution requirements are established and may be amended by the Village Council. Normal retirement age is the employee's 55th birthday or the 10th anniversary of the participation commencement date. Participants are 100% vested upon entry date into the Plan. The Village made the required 10% contribution in the amount of \$80,928 for the plan year ended February 28, 2009.

### **B. Risk management and litigation**

The Village is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

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## **SUPPLEMENTARY INFORMATION**

**VILLAGE OF MACKINAW CITY**

**DETAIL SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Property taxes</b>				
Current property taxes	\$ 1,205,200	\$ 1,205,200	\$ 1,176,314	\$ (28,886)
Property tax administration fees	22,000	22,000	42,582	20,582
<b>Total property taxes</b>	<b>1,227,200</b>	<b>1,227,200</b>	<b>1,218,896</b>	<b>(8,304)</b>
<b>State revenue</b>				
Liquor licenses	9,200	9,200	8,513	(687)
Other state revenue	78,100	78,100	81,756	3,656
<b>Total state revenue</b>	<b>87,300</b>	<b>87,300</b>	<b>90,269</b>	<b>2,969</b>
<b>Licenses and permits</b>				
Business licenses and permits	5,000	5,000	5,145	145
Non-business licenses and permits	6,500	6,500	1,502	(4,998)
<b>Total licenses and permits</b>	<b>11,500</b>	<b>11,500</b>	<b>6,647</b>	<b>(4,853)</b>
<b>Contributions</b>				
Other governmental units	15,400	15,400	41,561	26,161
Contribution from component unit	-	-	14,000	14,000
Other	2,500	2,500	15,145	12,645
<b>Total contributions</b>	<b>17,900</b>	<b>17,900</b>	<b>70,706</b>	<b>52,806</b>
<b>Charges for services</b>	<b>1,380</b>	<b>1,380</b>	<b>5,577</b>	<b>4,197</b>
<b>Fines and forfeits</b>	<b>1,150</b>	<b>1,150</b>	<b>2,219</b>	<b>1,069</b>
<b>Interest earnings</b>	<b>23,000</b>	<b>23,000</b>	<b>59,688</b>	<b>36,688</b>
<b>Rents</b>	<b>138,900</b>	<b>138,900</b>	<b>143,962</b>	<b>5,062</b>
<b>Miscellaneous</b>	<b>1,500</b>	<b>1,500</b>	<b>19,731</b>	<b>18,231</b>
<b>Total revenues</b>	<b>\$ 1,509,830</b>	<b>\$ 1,509,830</b>	<b>\$ 1,617,695</b>	<b>\$ 107,865</b>

**VILLAGE OF MACKINAW CITY**

**DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Amended Budget Positive (Negative)</u>
<b>Legislative</b>				
<b>Village council</b>	<b>\$ 32,650</b>	<b>\$ 32,650</b>	<b>\$ 24,459</b>	<b>\$ 8,191</b>
<b>General government</b>				
Village manager	97,230	97,230	109,131	(11,901)
Clerk - elections	1,440	1,440	-	1,440
Professional services	29,000	29,000	43,707	(14,707)
Clerk	40,400	40,400	29,901	10,499
Treasurer	42,350	42,350	36,182	6,168
Community development director	12,850	12,850	623	12,227
Village hall and grounds	141,250	141,250	143,708	(2,458)
Village property - other	91,600	91,600	113,748	(22,148)
Promotional	57,480	57,480	74,497	(17,017)
<b>Total general government</b>	<b>513,600</b>	<b>513,600</b>	<b>551,497</b>	<b>(37,897)</b>
<b>Public safety</b>				
Police department	469,050	469,050	486,223	(17,173)
Fire department	114,350	114,350	75,407	38,943
<b>Total public safety</b>	<b>583,400</b>	<b>583,400</b>	<b>561,630</b>	<b>21,770</b>
<b>Recreation and culture</b>	<b>62,030</b>	<b>62,030</b>	<b>59,218</b>	<b>2,812</b>
<b>Other functions</b>	<b>8,200</b>	<b>8,200</b>	<b>7,093</b>	<b>1,107</b>
<b>Total expenditures</b>	<b>1,199,880</b>	<b>1,199,880</b>	<b>1,203,897</b>	<b>(4,017)</b>
<b>Other financing uses</b>				
<b>Transfers out</b>	<b>309,950</b>	<b>309,950</b>	<b>194,539</b>	<b>115,411</b>
<b>Total expenditures and other financing uses</b>	<b>\$ 1,509,830</b>	<b>\$ 1,509,830</b>	<b>\$ 1,398,436</b>	<b>\$ 111,394</b>

**VILLAGE OF MACKINAW CITY**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

**FEBRUARY 28, 2009**

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Waterfront Development Capital Project Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 138,455	\$ 57,085	\$ 609	\$ 196,149
Investments	100,528	-	538	101,066
Accounts receivable	23,000	-	-	23,000
Taxes receivable	6,058	-	-	6,058
Special assessments receivable	-	5,668	-	5,668
Restricted assets	-	23,000	-	23,000
<b>Total assets</b>	<b>\$ 268,041</b>	<b>\$ 85,753</b>	<b>\$ 1,147</b>	<b>\$ 354,941</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,217	\$ -	\$ -	\$ 2,217
Due to other funds	8,517	3,115	-	11,632
Deferred revenue	-	5,668	-	5,668
<b>Total liabilities</b>	<b>10,734</b>	<b>8,783</b>	<b>-</b>	<b>19,517</b>
<b>Fund balances</b>				
Reserved				
Recreation facilities	7,972	-	-	7,972
Debt service	-	76,970	-	76,970
Unreserved				
Designated				
Accrued sick and vacation	75,261	-	-	75,261
Undesignated	174,074	-	1,147	175,221
<b>Total fund balances</b>	<b>257,307</b>	<b>76,970</b>	<b>1,147</b>	<b>335,424</b>
<b>Total liabilities and fund balances</b>	<b>\$ 268,041</b>	<b>\$ 85,753</b>	<b>\$ 1,147</b>	<b>\$ 354,941</b>

**VILLAGE OF MACKINAW CITY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Waterfront Development Capital Project Fund</b>	<b>Total</b>
<b>Revenues</b>				
Property taxes	\$ 33,065	\$ -	\$ -	\$ 33,065
Special assessments	-	15,152	-	15,152
Contributions	25,927	-	-	25,927
Charges for services	12,372	-	-	12,372
Local contribution	-	25,802	-	25,802
Interest	1	2,809	-	2,810
Rents	55,680	-	-	55,680
Miscellaneous	11,886	-	194	12,080
<b>Total revenues</b>	<b>138,931</b>	<b>43,763</b>	<b>194</b>	<b>182,888</b>
<b>Expenditures</b>				
Current				
General government	38,101	-	-	38,101
Health and welfare	8,130	-	-	8,130
Recreation	121,728	-	-	121,728
Other	12,003	-	-	12,003
Capital outlay	15,755	-	-	15,755
Debt service				
Principal payments	-	203,698	-	203,698
Interest and paying agent fees	-	27,353	-	27,353
<b>Total expenditures</b>	<b>195,717</b>	<b>231,051</b>	<b>-</b>	<b>426,768</b>
<b>Revenues (under) over expenditures</b>	<b>(56,786)</b>	<b>(187,288)</b>	<b>194</b>	<b>(243,880)</b>
<b>Other financing sources (uses)</b>				
Transfers in	77,030	177,713	-	254,743
Transfers out	-	(3,115)	-	(3,115)
<b>Total other financing sources (uses)</b>	<b>77,030</b>	<b>174,598</b>	<b>-</b>	<b>251,628</b>
<b>Net change in fund balances</b>	<b>20,244</b>	<b>(12,690)</b>	<b>194</b>	<b>7,748</b>
Fund balances, beginning of year	237,063	89,660	953	327,676
<b>Fund balances, end of year</b>	<b>\$ 257,307</b>	<b>\$ 76,970</b>	<b>\$ 1,147</b>	<b>\$ 335,424</b>

**VILLAGE OF MACKINAW CITY**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**

**FEBRUARY 28, 2009**

	<u>Cemetery</u>	<u>Recreation Complex</u>	<u>Recreation Center</u>	<u>Performance Shell</u>	<u>Planning Commission</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 47,232	\$ 12,873	\$ 3,457	\$ 2,144	\$ 1,502
Investments	41,687	11,362	3,052	1,893	1,325
Accounts receivable	-	-	23,000	-	-
Taxes receivable	6,058	-	-	-	-
<b>Total assets</b>	<b><u>\$ 94,977</u></b>	<b><u>\$ 24,235</u></b>	<b><u>\$ 29,509</u></b>	<b><u>\$ 4,037</u></b>	<b><u>\$ 2,827</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	2,743	3,879	1,472	-	423
<b>Total liabilities</b>	<b><u>2,743</u></b>	<b><u>3,879</u></b>	<b><u>1,472</u></b>	<b><u>-</u></b>	<b><u>423</u></b>
<b>Fund balances</b>					
Reserved - recreation facilities	-	7,972	-	-	-
Unreserved					
Designated					
Subsequent years' expenditures	6,115	-	-	-	-
Accrued sick and vacation	-	-	-	-	-
Undesignated	86,119	12,384	28,037	4,037	2,404
<b>Total fund balances</b>	<b><u>92,234</u></b>	<b><u>20,356</u></b>	<b><u>28,037</u></b>	<b><u>4,037</u></b>	<b><u>2,404</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 94,977</u></b>	<b><u>\$ 24,235</u></b>	<b><u>\$ 29,509</u></b>	<b><u>\$ 4,037</u></b>	<b><u>\$ 2,827</u></b>

<b>Economic Development Commission</b>	<b>WaWatom Area Seniors</b>	<b>Iron Workers Walk Foundation</b>	<b>Employee Sick and Vacation</b>	<b>Total</b>
\$ 5,536	\$ 14,097	\$ 10,459	\$ 41,155	\$ 138,455
4,886	-	-	36,323	100,528
-	-	-	-	23,000
-	-	-	-	6,058
<b>\$ 10,422</b>	<b>\$ 14,097</b>	<b>\$ 10,459</b>	<b>\$ 77,478</b>	<b>\$ 268,041</b>
\$ -	\$ -	\$ -	\$ 2,217	\$ 2,217
-	-	-	-	8,517
-	-	-	<b>2,217</b>	<b>10,734</b>
-	-	-	-	7,972
-	-	-	-	6,115
-	-	-	75,261	75,261
10,422	14,097	10,459	-	167,959
<b>10,422</b>	<b>14,097</b>	<b>10,459</b>	<b>75,261</b>	<b>257,307</b>
<b>\$ 10,422</b>	<b>\$ 14,097</b>	<b>\$ 10,459</b>	<b>\$ 77,478</b>	<b>\$ 268,041</b>

**VILLAGE OF MACKINAW CITY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<u>Cemetery</u>	<u>Recreation Complex</u>	<u>Recreation Center</u>	<u>Performance Shell</u>	<u>Planning Commission</u>
<b>Revenues</b>					
Taxes	\$ 33,065	\$ -	\$ -	\$ -	\$ -
Contributions from other governmental units	-	1,000	2,700	-	-
Charges for services	7,755	2,010	1,832	-	775
Interest	1	-	-	-	-
Rents	-	-	55,680	-	-
Miscellaneous	-	166	120	-	-
<b>Total revenues</b>	<b>40,821</b>	<b>3,176</b>	<b>60,332</b>	<b>-</b>	<b>775</b>
<b>Expenditures</b>					
Current					
General government	38,101	-	-	-	-
Health and welfare	-	-	-	-	-
Recreation	-	33,668	84,151	3,278	-
Other	-	-	-	-	12,246
Capital outlay	1,500	-	13,745	-	-
<b>Total expenditures</b>	<b>39,601</b>	<b>33,668</b>	<b>97,896</b>	<b>3,278</b>	<b>12,246</b>
Revenues over (under) expenditures	1,220	(30,492)	(37,564)	(3,278)	(11,471)
<b>Other financing sources</b>					
<b>Transfers in</b>	<b>-</b>	<b>25,985</b>	<b>25,525</b>	<b>5,820</b>	<b>9,700</b>
<b>Net change in fund balances</b>	<b>1,220</b>	<b>(4,507)</b>	<b>(12,039)</b>	<b>2,542</b>	<b>(1,771)</b>
Fund balances, beginning of year	91,014	24,863	40,076	1,495	4,175
<b>Fund balances, end of year</b>	<b>\$ 92,234</b>	<b>\$ 20,356</b>	<b>\$ 28,037</b>	<b>\$ 4,037</b>	<b>\$ 2,404</b>

<b>Economic Development Commission</b>	<b>WaWatom Area Seniors</b>	<b>Iron Workers Walk Foundation</b>	<b>Employee Sick and Vacation</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ -	\$ 33,065
-	22,227	-	-	25,927
-	-	-	-	12,372
-	-	-	-	1
-	-	-	-	55,680
-	-	11,600	-	11,886
-	<b>22,227</b>	<b>11,600</b>	-	<b>138,931</b>
-	-	-	-	38,101
-	8,130	-	-	8,130
-	-	631	-	121,728
(243)	-	-	-	12,003
-	-	510	-	15,755
<b>(243)</b>	<b>8,130</b>	<b>1,141</b>	-	<b>195,717</b>
243	14,097	10,459	-	(56,786)
<b>10,000</b>	-	-	-	<b>77,030</b>
<b>10,243</b>	<b>14,097</b>	<b>10,459</b>	-	<b>20,244</b>
179	-	-	75,261	237,063
<b>\$ 10,422</b>	<b>\$ 14,097</b>	<b>\$ 10,459</b>	<b>\$ 75,261</b>	<b>\$ 257,307</b>

VILLAGE OF MACKINAW CITY

COMBINING BALANCE SHEET  
NONMAJOR DEBT SERVICE FUNDS

FEBRUARY 28, 2009

	1998 Act 99 Installment Contract Ice System	2000 General Obligation Bonds	2000 Revenue Bond Recreation Center	1997 Special Assessment Bonds	1998 Act 99 Installment Contract
<b>ASSETS</b>					
Cash and cash equivalents	\$ 49	\$ 238	\$ 84	\$ 50,739	\$ -
Special assessments receivable	-	-	-	-	-
Restricted assets	-	-	23,000	-	-
<b>Total assets</b>	<b>\$ 49</b>	<b>\$ 238</b>	<b>\$ 23,084</b>	<b>\$ 50,739</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Due to other funds	\$ -	\$ -	\$ -	\$ 3,115	\$ -
Deferred revenue	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,115</b>	<b>-</b>
<b>Fund balances</b>					
Reserved for debt service	49	238	23,084	47,624	-
<b>Total liabilities and fund balances</b>	<b>\$ 49</b>	<b>\$ 238</b>	<b>\$ 23,084</b>	<b>\$ 50,739</b>	<b>\$ -</b>

<b>1999 Special Assessment Bonds</b>	<b>2002 General Obligation Bonds</b>	<b>2004 General Obligation Bonds</b>	<b>2005 Act 99 Installment Contract Fire Truck</b>	<b>Total</b>
\$ 5,796	\$ 179	\$ -	\$ -	\$ 57,085
5,668	-	-	-	5,668
-	-	-	-	23,000
<b>\$ 11,464</b>	<b>\$ 179</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 85,753</b>
\$ -	\$ -	\$ -	\$ -	\$ 3,115
5,668	-	-	-	5,668
5,668	-	-	-	8,783
<b>5,796</b>	<b>179</b>	<b>-</b>	<b>-</b>	<b>76,970</b>
<b>\$ 11,464</b>	<b>\$ 179</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 85,753</b>

**VILLAGE OF MACKINAW CITY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR DEBT SERVICE FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	<b>1998 Act 99 Installment Contract Ice System</b>	<b>2000 General Obligation Bonds</b>	<b>2000 Revenue Bond Recreation Center</b>	<b>1997 Special Assessment Bonds</b>	<b>1998 Act 99 Installment Contract</b>
<b>Revenues</b>					
Special assessments	\$ -	\$ -	\$ -	\$ 1,270	\$ -
Local contributions	-	-	-	-	-
Interest	2	2	-	923	-
<b>Total revenues</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>2,193</b>	<b>-</b>
<b>Expenditures</b>					
Principal payments	27,884	25,000	25,000	-	23,517
Interest and paying agent fees	569	2,113	3,569	-	1,277
<b>Total expenditures</b>	<b>28,453</b>	<b>27,113</b>	<b>28,569</b>	<b>-</b>	<b>24,794</b>
<b>Revenues (under) over expenditures</b>	<b>(28,451)</b>	<b>(27,111)</b>	<b>(28,569)</b>	<b>2,193</b>	<b>(24,794)</b>
<b>Other financing sources (uses)</b>					
Transfers in	27,750	26,706	28,570	-	24,794
Transfers out	-	-	-	(3,115)	-
<b>Total other financing sources (uses)</b>	<b>27,750</b>	<b>26,706</b>	<b>28,570</b>	<b>(3,115)</b>	<b>24,794</b>
<b>Net change in fund balances</b>	<b>(701)</b>	<b>(405)</b>	<b>1</b>	<b>(922)</b>	<b>-</b>
Fund balances, beginning of year	750	643	23,083	48,546	-
<b>Fund balances, end of year</b>	<b>\$ 49</b>	<b>\$ 238</b>	<b>\$ 23,084</b>	<b>\$ 47,624</b>	<b>\$ -</b>

<b>1999 Special Assessment Bonds</b>	<b>2002 General Obligation Bonds</b>	<b>2004 General Obligation Bonds</b>	<b>2005 Act 99 Installment Contract Fire Truck</b>	<b>Total</b>
\$ 13,882	\$ -	\$ -	\$ -	\$ 15,152
-	-	25,802	-	25,802
1,830	52	-	-	2,809
<b>15,712</b>	<b>52</b>	<b>25,802</b>	<b>-</b>	<b>43,763</b>
25,000	30,000	35,000	12,297	203,698
688	6,485	8,184	4,468	27,353
<b>25,688</b>	<b>36,485</b>	<b>43,184</b>	<b>16,765</b>	<b>231,051</b>
<b>(9,976)</b>	<b>(36,433)</b>	<b>(17,382)</b>	<b>(16,765)</b>	<b>(187,288)</b>
-	35,746	17,382	16,765	177,713
-	-	-	-	(3,115)
<b>-</b>	<b>35,746</b>	<b>17,382</b>	<b>16,765</b>	<b>174,598</b>
<b>(9,976)</b>	<b>(687)</b>	<b>-</b>	<b>-</b>	<b>(12,690)</b>
15,772	866	-	-	89,660
<b>\$ 5,796</b>	<b>\$ 179</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 76,970</b>

**VILLAGE OF MACKINAW CITY**  
**COMBINING STATEMENT OF CHANGES IN**  
**ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2009**

	Balance March 1, 2008	Additions	Deductions	Balance February 28, 2009
<b><u>TAX COLLECTION FUND</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 139	\$ 1,512,441	\$ 1,511,819	\$ 761
<b>LIABILITIES</b>				
Due to other funds	\$ 139	\$ 1,399,621	\$ 1,398,999	\$ 761
Due to component units	-	27,248	27,248	-
Due to other governmental units	-	85,572	85,572	-
<b>Total liabilities</b>	<b>\$ 139</b>	<b>\$ 1,512,441</b>	<b>\$ 1,511,819</b>	<b>\$ 761</b>
<b><u>EMPLOYEE FLEX PLAN FUND</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,836	\$ 13,720	\$ 13,903	\$ 4,653
<b>LIABILITIES</b>				
Due to employees	\$ 4,836	\$ 13,720	\$ 13,903	\$ 4,653
<b><u>TOTAL AGENCY FUNDS</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,975	\$ 1,526,161	\$ 1,525,722	\$ 5,414
<b>LIABILITIES</b>				
Due to other funds	\$ 139	\$ 1,399,621	\$ 1,398,999	\$ 761
Due to component units	-	27,248	27,248	-
Due to other governmental units	-	85,572	85,572	-
Due to employees	4,836	13,720	13,903	4,653
<b>Total liabilities</b>	<b>\$ 4,975</b>	<b>\$ 1,526,161</b>	<b>\$ 1,525,722</b>	<b>\$ 5,414</b>

## **INTERNAL CONTROL AND COMPLIANCE**

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

August 28, 2009

Village Council  
Village of Mackinaw City  
Mackinaw City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *Village of Mackinaw City* (the "Village"), as of and for the year ended February 28, 2009, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

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 over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2009-1, 2009-2, and 2009-3.

**Finding 2009-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.**

**Criteria:** All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Village's management. The preparation of the financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing account 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 Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes and part of its external financial reporting process. Accordingly, the Village'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 part of the Village's internal controls.

**Cause:** This condition was caused by the Village'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 Village to perform this task internally.

**Effect:** As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**Recommendation:** When feasible, the Village should consider training internal accounting personnel to prepare the financial statements.

**Village's Response:** Due principally to state budget cuts and the related negative impact on cash funds available to the Village, the hiring of accounting personnel capable of writing the Village's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

**Finding 2009-2**      **Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.**

**Criteria:** All Michigan governments are required to establish internal control with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the Village's management. Adequate segregation of duties as relates to the cash cycle of a municipality requires separation of the management function, the custody of assets function and the accounting function.

**Condition:** The Village's staff does not allow for adequate separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting of those assets. Further, certain employees holding management positions also collect or disburse cash or account for the transactions of the Village.

**Cause:** As is the case with many organizations of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties with the accounting function.

**Effect:** As a result of this condition, the Village's system of internal control has safeguards in place to ensure that fraud or abuse is being prevented, specifically in the transactions of the cash cycle. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

**Recommendation:** While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the Village Council.

**Village's Response:** As noted above, due to decreased cash flows of the Village, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions, and custody of the Village's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Village Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

**Finding 2009-3: Recording, processing and summarizing accounting data**

**Criteria:** All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

**Condition:** As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the Village has placed reliance on its *external* auditors, who cannot by definition be considered a part of the Village's *internal* controls.

**Cause:** This condition was caused by the Village's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

**Effect:** As a result of this condition, the Village lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task. Additionally, the Village's financial statements were initially misstated by amounts that were material to the financial statement under audit.

**Recommendation:** The Village should record all journal entries necessary to arrive at a reasonably adjusted trial balance prior to generating trial balances to be used for preparation of year-end financial statements.

**Village's Response:** The Village will continue their efforts to record all adjustments in order to provide a reasonably adjusted trial balance for the purposes of the audit.

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 Village's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2009-1 and 2009-3 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the Village Council of the *Village of Mackinaw City* in a separate letter dated August 28, 2009.

The Village's response to the findings identified is described in the preceding paragraphs. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

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