

Village of Mackinaw City, Michigan

BASIC FINANCIAL STATEMENTS

February 29, 2016

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Mackinaw City, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Mackinaw City, Michigan, as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise the Village of Mackinaw City, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Mackinaw City, Michigan, as of February 29, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison schedules on pages 4 through 10, pages 38 through 39 and pages 40 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Mackinaw City, Michigan's basic financial statements. The combining major and nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining major and nonmajor fund financial statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining major and nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Village Council
Village of Mackinaw City, Michigan

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2016, on our consideration of the Village of Mackinaw City's internal control over financial reporting and on 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* in considering the Village of Mackinaw City's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

July 15, 2016

Management's Discussion and Analysis

As management of the Village of Mackinaw City, Michigan (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 29, 2016.

The assets of the Villages governmental activities exceeded its liabilities the close of the most recent fiscal year by \$6,718,568 (net position). Of this amount, \$824,388 (unrestricted net position) may be used to meet the Village's ongoing obligations to citizens and creditors.

The Village's total net position decreased by \$142,344, primarily due to the implementation of GASB 68 (see footnote 10).

The Village repaid \$261,158 of bond debt during the current fiscal year.

At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$845,100 or 53 % of fiscal 2016 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 five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) other information.

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 position presents information on all of the Village's assets, outflows and liabilities with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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., bonds and notes payable and 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 (business-type activities). The governmental activities of the Village include legislative, general government, public safety, public works, health and welfare, and recreation and culture. The business-type activities of the Village include sewer, water, 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.

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 Village'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 numerous 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 Streets, Local Streets, Municipal Street Fund, and the Ambulance Fund which are considered to be major funds. Data from the other 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 elsewhere in this report.

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

Proprietary Funds. The Village maintains two 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 sewer, water, 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 activities, they have been included within governmental activities in the government-wide financial statements.

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

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. 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.

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.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI). RSI includes this management discussion and analysis, along with the schedules of funding progress and employer contributions for the Village's defined benefit pension plan.

Other Information. The combining and individual fund statements and schedules referred to earlier in connection with the general fund and nonmajor governmental funds are presented immediately following the notes to the financial statements.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities of the governmental activities by \$6,718,568 at the close of fiscal 2016.

A significant portion of the Village's net position (11,194,350) is invested in capital assets (e.g., land, buildings, equipment, water, sewer, 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 position represents the resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the Village's ongoing obligations to citizens and creditors.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current Assets	\$ 2,926,605	\$ 2,062,541	\$ 1,323,629	\$ 1,208,253	\$ 4,250,234	\$ 3,270,794
Capital and Other Assets	6,221,675	6,379,496	7,031,697	7,200,537	13,253,372	13,580,033
Total Assets	9,148,280	8,442,037	8,355,326	8,408,790	17,503,606	16,850,827
Deferred Outflows of Resources	119,787	-	-	-	119,787	-
Current Liabilities	339,298	254,167	8,284	72,506	347,582	326,673
Noncurrent Liabilities	2,145,735	1,316,199	-	-	2,145,735	1,316,199
Total Liabilities	2,485,033	1,570,366	8,284	72,506	2,493,317	1,642,872
Deferred Inflow	64,466	-	-	-	64,466	-
Net Position						
Net Investment in						
Capital Assets	4,162,652	5,014,315	7,031,697	7,200,537	11,194,349	12,214,852
Restricted	1,845,135	1,068,000	-	-	1,845,135	1,068,000
Unrestricted	710,781	789,356	1,315,345	1,135,747	2,026,126	1,925,103
Total Net Position	\$ 6,718,568	\$ 6,871,671	\$ 8,347,042	\$ 8,336,284	\$ 15,065,610	\$ 15,207,955

At the end of fiscal 2016, the Village is able to report positive balances in all three categories of net position, both for the government as a whole, and for its separate governmental and business-type activities. The same situation held true for the prior year.

The Village's net position decreased by \$142,344 during fiscal 2016. This decrease is mainly attributable to addition of pension liability to statements in 2016.

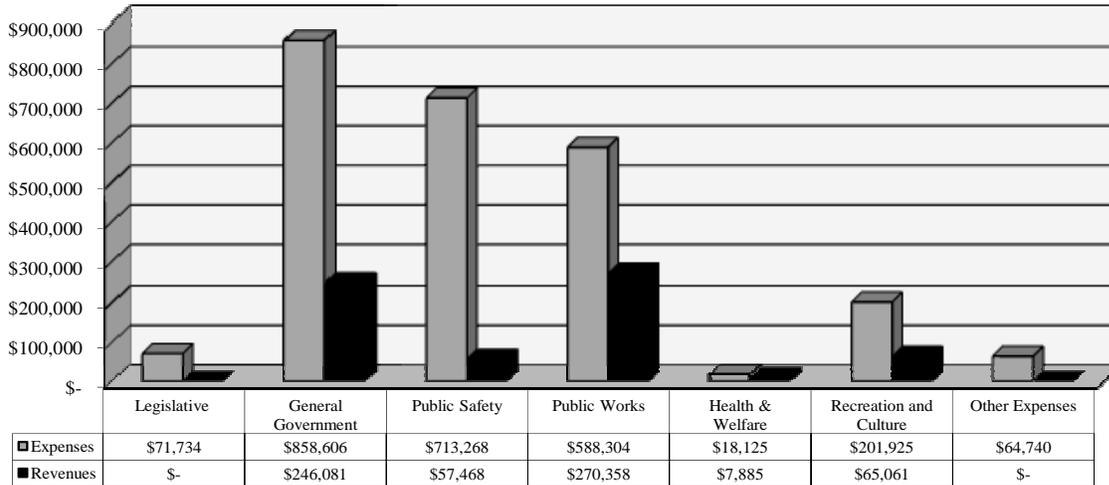
The following table shows the activities of the Village.

Statement of Activities

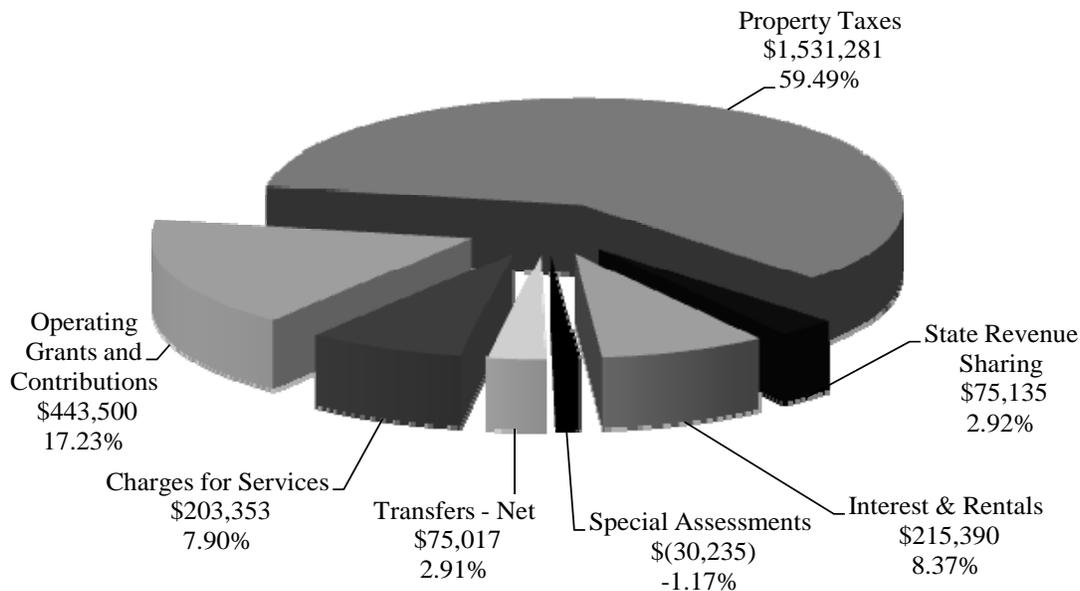
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Revenues						
Charges for Services	\$ 203,353	\$ 307,498	\$ 1,280,549	\$ 1,215,801	\$ 1,483,902	\$ 1,523,299
Operating Grants and Contributions	443,500	1,036,833	9,656	24,620	453,156	1,061,453
Capital Grants and Contributions	-	-	-	109,619	-	109,619
General Revenues and Transfers						
Property Taxes	1,531,281	1,573,511	-	-	1,531,281	1,573,511
Grants and Contributions	-	-	93,483	153,646	93,483	153,646
Special Assessments	(30,235)	35,572	-	-	(30,235)	35,572
State Revenue Sharing	75,135	66,313	-	-	75,135	66,313
Interest and Rentals	215,390	182,400	82,623	53,264	298,013	235,664
Total Revenues	2,438,424	3,202,127	1,466,311	1,556,950	3,904,735	4,759,077
Program Expenses						
Legislative	71,734	85,610	-	-	71,734	85,610
General Government	858,606	679,817	-	-	858,606	679,817
Public Safety	713,268	706,752	-	-	713,268	706,752
Public Works	588,304	760,867	-	-	588,304	760,867
Health and Welfare	18,125	554,164	-	-	18,125	554,164
Recreation and Culture	201,925	262,699	-	-	201,925	262,699
Interest on Long-term Debt	64,369	-	-	-	64,369	-
Other Expenses	371	56,053	-	-	371	56,053
Sewer	-	-	681,658	592,338	681,658	592,338
Water	-	-	408,918	344,532	408,918	344,532
Marina	-	-	289,960	334,455	289,960	334,455
Total Expenses	2,516,702	3,105,962	1,380,536	1,271,325	3,897,238	4,377,287
Changes in Net Position						
Before Transfers	(78,278)	96,165	85,775	285,625	7,497	381,790
Transfers	75,017	84,746	(75,017)	(67,662)	-	17,084
Changes in Net Position	(3,261)	180,911	10,758	217,963	7,497	398,874
Net Position - Beginning as Restated	6,721,829	6,611,070	8,336,284	8,051,799	15,058,113	14,662,869
Prior Period Adjustments	-	79,690	-	66,522	-	146,212
Net Position - Ending	\$ 6,718,568	\$ 6,871,671	\$ 8,347,042	\$ 8,336,284	\$ 15,065,610	\$ 15,207,955

Governmental Activities. Governmental activities decreased the Village's net position by \$153,103 from the prior year, primarily due to the implementation of GASB 68 in current year.

Expenses and Program Revenues – Governmental Activities

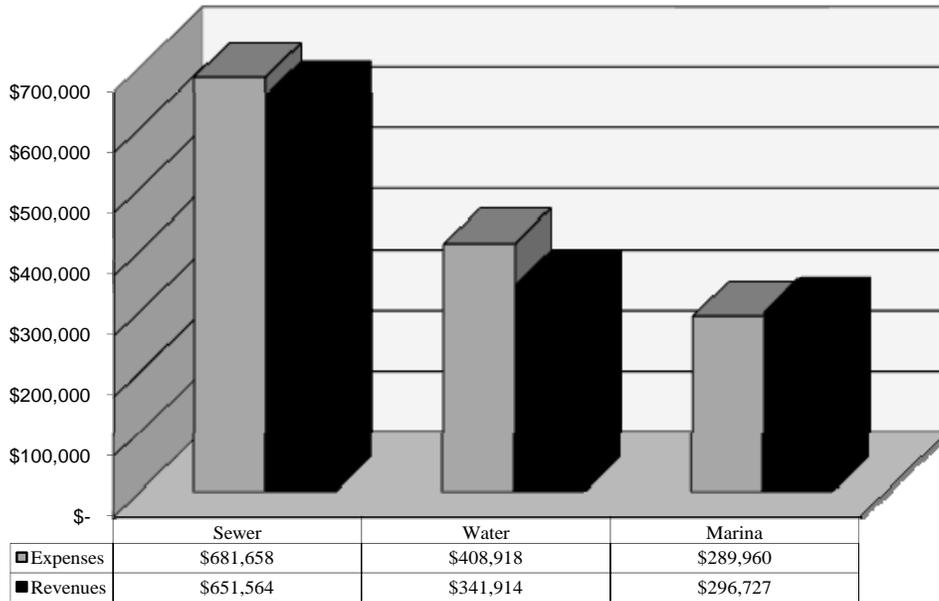


Revenues by Source – Governmental Activities



Business-type Activities. Business-type activities increased the Village's net position by \$10,758. This increase was primarily due to an increase in grants and charges for service. There was also a increase in the expenses of the marina fund.

Expenses and Program Revenue – Business-type Activities



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

Financial Analysis of the Government's Funds.

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, unassigned 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 2016 fiscal year, the Village's governmental funds reported combined ending fund balances of \$2,642,655, an increase of \$927,294. Unassigned fund balance of \$911,127 is available for spending at the Village's discretion. The remaining fund balance is restricted, committed, or assigned to be spent for specific purposes and not available for new spending.

The fund balance of the Village's General Fund increased by \$79,225 during the current fiscal year, which was mainly attributable to cuts in spending.

The fund balance of the Village's Municipal Street Fund increased by \$443,447 during the current fiscal year, which was mainly attributable to bond proceeds for street projects.

The fund balance of the Village's Ambulance Fund decreased by \$974 during the current fiscal year, which was mainly attributable to lower fees.

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

Factors concerning the finances of the enterprise funds have already been discussed in the discussion of the Village's business-type activities.

General Fund Budgetary Highlights

The budget net change in fund balance for the General Fund was \$79,225 higher than the actual for the year ended February 29, 2016. The primary reason for the overall budget variance was revenues were \$56,431 lower than the final amended budget, and expenditures were \$238,447 less than final amended budget.

Capital Asset and Debt Administration

Capital Assets. The Village's investment in capital assets for its governmental and business-type activities as of February 29, 2016, amounted to \$13,253,373 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, machinery, water, sewer, marina, vehicles and equipment.

Additional information on the Village's capital assets can be found on pages 30 and 31 in the notes to the financial statements.

Long-Term Debt. At February 29, 2016, the Village had total debt (less accrued compensated absences) outstanding of \$2,396,265.

Additional information on the City's long-term debt can be found on page 32 in the notes to the financial statements.

Economic Factors and Next Year's Budgets

The following factors were considered in preparing the Village's budget for the 2016-2017 fiscal year:

- Identify ways to cut expenses at the same time look for ways to generate new revenue.
- Updating of Village Recreation plan to better address the Marina, the updated plan will allow the Village to be eligible for State and Federal grants to fund capital improvements.
- Identify ways to increase Revenue and Usage of Village of Mackinaw Recreation Center.
- Ongoing Village Parks and Beach maintenance and infrastructure repair or replacement.
- Maintain and Increase Capital Reserves for street repair and reconstruction and Capital equipment.

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 Village'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, P.O. Box 580, Mackinaw City, Michigan 49701.

Basic Financial Statements

Village of Mackinaw City, Michigan

Statement of Net Position February 29, 2016

	Primary Government		Total	Component
	Governmental Activities	Business-type Activities		Unit DDA
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 2,718,995	\$ 492,040	\$ 3,211,035	\$ 109,299
Cash and Equivalents - Restricted	-	589,007	589,007	-
Receivables:				
Accounts	83,191	231,056	314,247	-
Special Assessments	35,576	-	35,576	-
Taxes	68,402	-	68,402	1,416
Due from Other Governmental Units	-	-	-	-
Internal Balances	5,516	(5,516)	-	-
Inventory	-	17,042	17,042	-
Other Assets	14,925	-	14,925	-
Capital Assets (Not Depreciated)	1,207,341	73,140	1,280,481	-
Capital Assets (Net of Depreciation)	5,014,334	6,958,557	11,972,891	-
TOTAL ASSETS	9,148,280	8,355,326	17,503,606	110,715
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Investment and Contributions	119,787	-	119,787	-
LIABILITIES:				
Accounts Payable	25,833	645	26,478	3,127
Accrued Liabilities	30,331	7,639	37,970	-
Unearned Revenue	-	#REF!	#REF!	-
Accrued Interest Payable	32,604	-	32,604	-
Installment Payable - Due within one year	25,530	-	25,530	-
Installment Payable - Due in more than one year	66,493	-	66,493	-
Bonds Payable - Due within one year	225,000	-	225,000	-
Bonds Payable - Due in more than one year	1,742,000	-	1,742,000	-
Vested Employee Benefits - Due in more than one year	113,607	-	113,607	-
Net Pension Obligation - Due in more than one year	223,635	-	223,635	-
TOTAL LIABILITIES	2,485,033	#REF!	#REF!	3,127
DEFERRED INFLOWS OF RESOURCES:				
Pension investment experience	64,466	-	64,466	-
NET POSITION:				
Net Investment in Capital Assets	4,162,652	7,031,697	11,194,349	-
Restricted	1,845,135	-	1,845,135	-
Unrestricted	710,781	1,315,345	2,026,126	107,588
TOTAL NET POSITION	\$ 6,718,568	\$ 8,347,042	\$ 15,065,610	\$ 107,588

Village of Mackinaw City, Michigan

Statement of Activities For the Year Ended February 29, 2016

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit DDA
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 71,734	\$ -	\$ -	\$ -	\$ (71,734)	\$ -	\$ (71,734)	\$ -
General Government	858,606	183,050	63,031	-	(612,525)	-	(612,525)	-
Public Safety	713,268	4,876	52,592	-	(655,800)	-	(655,800)	-
Public Works	588,304	-	270,358	-	(317,946)	-	(317,946)	-
Health and Welfare	18,125	-	7,885	-	(10,240)	-	(10,240)	-
Recreation and Culture	201,925	15,427	49,634	-	(136,864)	-	(136,864)	-
Other Expenses	64,740	-	-	-	(64,740)	-	(64,740)	-
Total Governmental Activities	2,516,702	203,353	443,500	-	(1,869,849)	-	(1,869,849)	-
Business-type Activities:								
Sewer	681,658	650,060	1,504	-	-	(30,094)	(30,094)	-
Water	408,918	336,499	5,415	-	-	(67,004)	(67,004)	-
Marina	289,960	293,990	2,737	-	-	6,767	6,767	-
Total Business-type Activities	1,380,536	1,280,549	9,656	-	-	(90,331)	(90,331)	-
Total Primary Government	\$ 3,897,238	\$ 1,483,902	\$ 453,156	\$ -	(1,869,849)	(90,331)	(1,960,180)	-
Component Unit:								
DDA	\$ 27,043	\$ -	\$ -					(27,043)
General Revenues and Transfers:								
Property Taxes					1,531,281	-	1,531,281	31,086
Grants					-	93,483	93,483	-
State Revenue Sharing					75,135	-	75,135	-
Interest and Rentals					215,390	82,623	298,013	-
Special Assessments					(30,235)	-	(30,235)	-
Transfers - Net					75,017	(75,017)	-	-
Total General Revenues and Transfers					1,866,588	101,089	1,967,677	31,086
Change in Net Position					(3,261)	10,758	7,497	4,043
Net Position - Beginning as Restated (Footnote 10)					6,721,829	8,336,284	15,058,113	103,545
Net Position - Ending					\$ 6,718,568	\$ 8,347,042	\$ 15,065,610	\$ 107,588

Village of Mackinaw City, Michigan

Balance Sheet Governmental Funds February 29, 2016

	General Fund	Major Street Fund	Local Street Fund	Municipal Street Fund	Ambulance Fund	Nonmajor Governmental Funds	Total
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 880,615	\$ 464,758	\$ 64,654	\$ 706,452	\$ 115,972	\$ 275,975	\$ 2,508,426
Taxes Receivable	46,933	-	-	17,892	-	3,577	68,402
Accounts Receivable	65,081	8,955	4,154	-	-	5,000	83,190
Due from Other Governmental Units	-	-	-	-	-	-	-
Special Assessments Receivable	-	-	-	35,576	-	-	35,576
Due From Other Funds	172,704	5,719	2,281	23,523	7,021	47,468	258,716
Other Assets	-	-	-	-	-	14,925	14,925
TOTAL ASSETS	\$ 1,165,333	\$ 479,432	\$ 71,089	\$ 783,443	\$ 122,993	\$ 346,945	\$ 2,969,235
LIABILITIES:							
Accounts Payable	\$ 10,753	\$ 4,477	\$ 4,058	\$ -	\$ -	\$ 809	\$ 20,097
Accrued Liabilities	22,331	2,850	2,059	-	-	1,875	29,115
Due to Other Funds	144,361	19,986	7,567	3,409	20,887	45,582	241,792
TOTAL LIABILITIES	177,445	27,313	13,684	3,409	20,887	48,266	291,004
DEFERRED INFLOW OF RESOURCES:							
Unavailable Revenue	-	-	-	35,576	-	-	35,576
FUND BALANCES:							
Restricted	-	452,119	57,405	744,458	-	69,313	1,323,295
Committed	113,607	-	-	-	-	-	113,607
Assigned	142,788	-	-	-	102,106	163,339	408,233
Unassigned	731,493	-	-	-	-	66,027	797,520
TOTAL FUND BALANCES	987,888	452,119	57,405	744,458	102,106	298,679	2,642,655
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES	\$ 1,165,333	\$ 479,432	\$ 71,089	\$ 783,443	\$ 122,993	\$ 346,945	

Reconciliation to amounts reported for governmental activities in the statement of net position:

Capital assets used by governmental activities	5,886,336
Net Pension Obligation and related deferred inflows/outflows	(168,314)
Installments and bonds payable for governmental activities	(1,967,000)
Unavailable revenue	35,576
Vested employee benefits	(113,607)
Internal service funds included in governmental activities	435,526
Accrued interest payable	(32,604)
Net position of governmental activities	\$ 6,718,568

See accompanying notes to financial statements.

Village of Mackinaw City, Michigan

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended February 29, 2016

	General Fund	Major Street Fund	Local Street Fund	Municipal Street Fund	Ambulance Fund	Nonmajor Governmental Funds	Total
REVENUES:							
Taxes	\$ 1,058,931	\$ -	\$ -	\$ 393,180	\$ -	\$ 79,170	\$ 1,531,281
Special Assessments	-	-	-	23,107	-	-	23,107
Licenses and Permits	39,435	-	-	-	-	-	39,435
Federal Sources	-	-	-	-	-	-	-
State Sources	94,781	130,051	54,501	-	-	-	279,333
Contributions	41,869	-	-	-	-	4,316	46,185
Charges for Services	183,681	-	-	-	-	19,672	203,353
Interest and Rentals	210,402	-	-	3,417	1	1,570	215,390
Other Revenues	29,883	54,086	-	31,720	7,885	30,108	153,682
TOTAL REVENUES	1,658,982	184,137	54,501	451,424	7,886	134,836	2,491,766
EXPENDITURES:							
Legislative	71,734	-	-	-	-	-	71,734
General Government	686,099	-	-	-	-	50,520	736,619
Public Safety	628,002	-	-	-	-	-	628,002
Public Works	29,786	500,562	143,362	57,304	-	-	731,014
Health and Welfare	-	-	-	-	8,860	17	8,877
Recreation and Culture	61,345	-	-	-	-	64,425	125,770
Capital Outlay	-	-	-	-	-	371	371
Debt Service	-	-	-	-	-	292,102	292,102
TOTAL EXPENDITURES	1,476,966	500,562	143,362	57,304	8,860	407,435	2,594,489
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	182,016	(316,425)	(88,861)	394,120	(974)	(272,599)	(102,723)
OTHER FINANCING SOURCES (USES):							
Bond Proceeds	-	-	-	955,000	-	-	955,000
Transfers In	-	624,577	111,933	-	-	346,971	1,083,481
Transfers (Out)	(102,791)	-	-	(905,673)	-	-	(1,008,464)
TOTAL OTHER FINANCING SOURCES (USES)	(102,791)	624,577	111,933	49,327	-	346,971	1,030,017
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	79,225	308,152	23,072	443,447	(974)	74,372	927,294
FUND BALANCES, BEGINNING OF YEAR	908,663	143,967	34,333	301,011	103,080	224,307	1,715,361
FUND BALANCES, END OF YEAR	\$ 987,888	\$ 452,119	\$ 57,405	\$ 744,458	\$ 102,106	\$ 298,679	\$ 2,642,655

See accompanying notes to financial statements.

Village of Mackinaw City, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended February 29, 2016

Net changes in fund balances – total governmental funds		\$	927,294
The change in net position reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$467,015) exceeded capital outlay of \$324,519.			
			(142,496)
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.			
Bond proceeds are another financing source on the fund statements but increases liabilities on the statement of net position.			
			(955,000)
Principal repayments:			
Bonds payable		\$	228,000
Installment payable			<u>8,207</u>
Unearned revenue in fund statement recorded as revenue in GASB statement.			
			(53,342)
An internal service fund is 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 funds is reported with governmental activities.			
			(19,547)
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:			
Vested employee benefits		\$	11,471
Other post employee benefits			19,098
Accrued interest on bonds			(8,474)
Pension Items			<u>(18,472)</u>
			<u>3,623</u>
Changes in net position of governmental activities		\$	<u>(3,261)</u>

Village of Mackinaw City, Michigan

Statement of Net Position Proprietary Funds February 29, 2016

	Enterprise Funds				Internal Service
	Sewer	Water	Marina	Total	Fund
					Equipment
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 67,984	\$ 259,235	\$ 164,821	\$ 492,040	\$ 210,569
Cash and Equivalents - Restricted	519,007	70,000	-	589,007	-
Accounts Receivable	182,879	48,177	-	231,056	1
Due from Other Funds	74,111	4,012	3,732	81,855	2,806
Inventories	-	-	17,042	17,042	-
Capital Assets (Not Depreciated)	36,915	14,725	21,500	73,140	-
Capital Assets (Net of Depreciation)	4,913,794	1,463,186	581,577	6,958,557	335,339
TOTAL ASSETS	<u>\$ 5,794,690</u>	<u>\$ 1,859,335</u>	<u>\$ 788,672</u>	<u>\$ 8,442,697</u>	<u>\$ 548,715</u>
LIABILITIES:					
Due to Other Funds	\$ 33,350	\$ 36,086	\$ 17,935	\$ 87,371	\$ 14,214
Accounts Payable	-	645	-	645	5,736
Accrued Liabilities	4,340	2,937	362	7,639	1,216
Bonds Payable - Due within one year	-	-	-	-	25,530
Bonds Payable - Due in more than one year	-	-	-	-	66,493
TOTAL LIABILITIES	<u>37,690</u>	<u>39,668</u>	<u>18,297</u>	<u>95,655</u>	<u>113,189</u>
NET POSITION:					
Net Investment in Capital Assets	4,950,709	1,477,911	603,077	7,031,697	243,316
Unrestricted	806,291	341,756	167,298	1,315,345	192,210
TOTAL NET POSITION	<u>\$ 5,757,000</u>	<u>\$ 1,819,667</u>	<u>\$ 770,375</u>	<u>\$ 8,347,042</u>	<u>\$ 435,526</u>

Village of Mackinaw City, Michigan

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds For the Year Ended February 29, 2016

	Enterprise Funds			Total	Internal Service
	Sewer	Water	Marina		Fund Equipment
OPERATING REVENUES:					
Charges for Services	\$ 650,060	\$ 336,499	\$ 293,990	\$ 1,280,549	\$ 186,479
Other Income	1,504	5,415	2,737	9,656	7,335
TOTAL OPERATING REVENUES	651,564	341,914	296,727	1,290,205	193,814
OPERATING EXPENSES:					
Employee Wages and Benefits	158,532	130,134	74,620	363,286	57,246
Supplies	49,687	12,523	1,404	63,614	2,941
Gasoline and Oil	3,644	2,994	70,940	77,578	22,446
Repairs and Maintenance	10,531	11,695	10,952	33,178	22,068
Contracted Services	133,237	114,432	27,239	274,908	4,782
Insurance	5,778	6,598	10,167	22,543	8,311
Depreciation	147,854	52,107	36,977	236,938	78,252
Utilities	100,217	19,259	28,019	147,495	6,970
Other Expenses	72,178	59,176	29,642	160,996	7,762
TOTAL OPERATING EXPENSES	681,658	408,918	289,960	1,380,536	210,778
OPERATING INCOME (LOSS)	(30,094)	(67,004)	6,767	(90,331)	(16,964)
NONOPERATING REVENUES (EXPENSES):					
Interest Expense	-	-	-	-	(2,583)
Interest and Rentals	231	82,374	18	82,623	-
Grants	93,483	-	-	93,483	-
Total Nonoperating Revenues (Expenses)	93,714	82,374	18	176,106	(2,583)
INCOME BEFORE OPERATING TRANSFERS	63,620	15,370	6,785	85,775	(19,547)
Operating Transfers Out	(75,017)	-	-	(75,017)	-
CHANGES IN NET POSITION	(11,397)	15,370	6,785	10,758	(19,547)
NET POSITION, MARCH 1	5,768,397	1,804,297	763,590	8,336,284	455,073
NET POSITION, FEBRUARY 28	\$ 5,757,000	\$ 1,819,667	\$ 770,375	\$ 8,347,042	\$ 435,526

**Statement of Cash Flows
Proprietary Funds
For the Year Ended February 29, 2016**

	Enterprise Funds			Internal Service	
	Sewer	Water	Marina	Fund Equipment	
Cash Flows from Operating Activities:					
Cash Received from Customers or Users	\$ 596,011	\$ 348,179	\$ 368,476	\$ 1,312,666	\$ 192,408
Cash Payments to Employees	(156,950)	(128,749)	(139,820)	(425,519)	(57,939)
Cash Payments to Vendors	(376,048)	(227,890)	(178,363)	(782,301)	(69,372)
Net Cash Provided (Used) by Operating Activities	63,013	(8,460)	50,293	104,846	65,097
Cash Flows from Capital and Related Financing Activities:					
Federal Grants / State Grants	93,483	-	-	93,483	-
Principal Expense	-	-	-	-	(24,951)
Interest Expense	-	-	-	-	(2,583)
Purchase/(Adjustments) of Capital Assets	(20,309)	(13,539)	(34,250)	(68,098)	(62,927)
Net Cash Provided (Used) by Capital and Related Financing Activities	73,174	(13,539)	(34,250)	25,385	(90,461)
Cash Flows from Non-Capital Financing Activities:					
Transfers to Other Funds	(75,017)	-	-	(75,017)	-
Net Cash Provided (Used) by Non-Capital Financing Activities	(75,017)	-	-	(75,017)	-
Cash Flows from Investing Activities:					
Interest and Rentals Received	231	82,374	18	82,623	-
Net Cash Provided by Investing Activities	231	82,374	18	82,623	-
Net Increase (Decrease) in Cash	61,401	60,375	16,061	137,837	(25,364)
Cash and Equivalents, Beginning of Year	525,590	268,860	148,760	943,210	235,933
Cash and Equivalents, End of Year	\$ 586,991	\$ 329,235	\$ 164,821	\$ 1,081,047	\$ 210,569
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ (30,094)	\$ (67,004)	\$ 6,767	\$ (90,331)	\$ (16,964)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	147,854	52,107	36,977	236,938	78,252
(Increase) Decrease in Assets					
Receivables	(55,553)	6,265	60,435	11,147	(1,406)
Inventories	-	-	11,314	11,314	-
Increase (Decrease) in Liabilities:					
Accounts Payable	(776)	(1,213)	-	(1,989)	5,908
Accrued Liabilities	1,582	1,385	169	3,136	(693)
Deferred Revenue	-	-	(65,369)	(65,369)	-
Net Cash Provided (Used) by Operating Activities	\$ 63,013	\$ (8,460)	\$ 50,293	\$ 104,846	\$ 65,097

Statement of Fiduciary Net Position
Fiduciary Funds
February 29, 2016

	Pension Trust Fund	
	Employee Retirement System	Agency Funds
ASSETS:		
Cash and Equivalents - Unrestricted	\$ -	\$ 671
Investments	631,890	-
TOTAL ASSETS	\$ 631,890	\$ 671
LIABILITIES:		
Other Liabilities	\$ -	\$ 671
NET POSITION:		
Held in Trust for Pension Benefits and Other Purposes	\$ 631,890	

Village of Mackinaw City, Michigan

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended February 29, 2016**

	<u>Pension Trust Fund Employee Retirement System</u>
ADDITIONS:	
Contributions	\$ 58,117
Investment gain (loss)	<u>21,828</u>
Total Additions	<u>79,945</u>
DEDUCTIONS:	
Benefit payments	<u>230,113</u>
Change in Net Position	(150,168)
Net Position Held in Trust for Benefits, Beginning of Year	<u>782,058</u>
Net Position Held in Trust for Benefits, End of Year	<u><u>\$ 631,890</u></u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**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, Michigan* (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

Downtown Development Authority (“DDA”) – The amounts reported as the component unit in the basic financial statements include the financial data of the Village’s 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.

Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government (the Village). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Village. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Village and for each function of the Village’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Taxes Receivable

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 Village 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 2015 levy was \$58,356,332. The Village's general operating tax rate for fiscal 2015/2016 was 10.6215 mills with an additional 4.2485 mills for streets, .8495 mills for the cemetery, .5225 mills for advertising, .8495 mills for library, and 1.8056 mills for DDA. Property taxes are recognized in the fiscal year in which they are levied.

When the Village incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Village's practice to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

The Village reports the following major governmental funds:

General Fund. This 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.

Major and Local Streets. The Streets Funds account for the operation of the street departments. Primary financing is provided by the Village's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

Municipal Street Fund. This Fund accounts for the use of a tax levy, which is used to supplement the Major and Local Street funds.

Ambulance Fund. This fund accounts for the operations of the Village-operated ambulance service.

The Village reports the following major enterprise funds:

Sewer. This fund accounts for the activities of the Village's sewage disposal and sewage treatment systems.

Water. This fund accounts for the activities of the Village's water distribution and water treatment systems.

Marina. This fund accounts for the operations of the Village-owned marina.

The Village reports the following fund types:

Special Revenue Funds. These funds are used to account for and report proceeds of specific revenue sources (other than debt service or capital projects) that are restricted or committed to expenditures for specified purposes.

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

Debt Service Funds. These fund are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

Capital Project Funds. These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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

Enterprise Funds. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

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

Agency Funds. These funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets held for other governments and employees in an agency capacity.

Measurement Focus, Basis of Accounting

Government-wide and Proprietary Financial Statements. The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Village gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Village considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Village funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Village's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Equivalents

The Village considers cash and equivalents to be cash on hand and demand deposits and investments with a maturity of 90 days or less. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of proprietary fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to January 1, 2003 consist of the road network assets, bridges, sidewalks, and storm sewers that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. All assets with a cost of \$500 or more and useful life of one (1) year or more are capitalized.

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

Infrastructure	40-50 years
Buildings and Improvements	20-50 years
Vehicles and Equipment	5-15 years

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Village has pension items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Village has unavailable revenues and pension items that qualify for reporting in this category.

Long-Term Obligations

In the government-wide financial statements and the 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 position.

Vested Employee Benefits

The liability for vested employee benefits reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Budgetary Data

Annual budgets are adopted on the same basis as the accounting method used to reflect actual results. The General Fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. 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.

Interfund Transfers

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. The internal service fund is used to record charges for services to all village departments as operating revenue.

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, outflows and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Village is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Village has no items classified as being Nonspendable.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Village has \$1,327,295 of restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Village. These amounts cannot be used for any other purpose unless the Village removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Village's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Village through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Village would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

NOTE 2 - CASH AND EQUIVALENTS:

At year end, the Village’s cash and equivalents were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Cash and Equivalents					
-Unrestricted	\$ 2,718,995	\$ 492,040	\$ 3,211,035	\$ 671	\$ 109,299
-Restricted	-	589,007	589,007	-	-
Investments	-	-	-	<u>631,890</u>	-
Total	<u>\$ 2,718,995</u>	<u>\$ 1,081,047</u>	<u>\$ 3,800,042</u>	<u>\$ 632,561</u>	<u>\$ 109,299</u>

The categories of cash and equivalents are as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 3,800,042	\$ 671	\$ 109,299
Investments: Securities, mutual funds, and similar vehicles	-	<u>631,890</u>	-
Total	<u>\$ 3,800,042</u>	<u>\$ 632,561</u>	<u>\$ 109,299</u>

Cash and equivalents are restricted in the amount of \$589,007 for replacement and repairs in the water and sewer funds.

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.

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.

Custodial credit risk. 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, \$2,327,487 of the Village’s bank balance of \$3,974,483 was exposed to credit risk because it was uninsured and uncollateralized.

Custodial investment credit risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of February 29, none of the Village’s investments, excluding the money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the Village’s name by the counter party.

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

Statutory Authority:

An act (PA 152) to amend 1943 PA 20, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers’ acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The Village of Mackinaw City reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, proprietary funds, and fiduciary funds.

Interfund balances at February 29, 2016 consisted of the following:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 172,704	\$ 144,361
Major Street Fund	5,719	19,986
Local Street Fund	2,281	7,567
Municipal Street Fund	23,523	3,409
Ambulance Fund	7,021	20,887
Nonmajor Governmental Funds	47,468	45,582
Sewer	74,111	33,350
Water	4,012	36,086
Marina	3,732	17,935
Internal Service Fund	<u>2,806</u>	<u>14,214</u>
Total	<u>\$ 343,377</u>	<u>\$ 343,377</u>

All 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.

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 102,791
Major Street Fund	624,577	-
Local Street Fund	111,933	-
Municipal Street Fund	-	905,673
Nonmajor Governmental Funds	346,971	-
Sewer	<u>-</u>	<u>75,017</u>
Total	<u>\$ 1,083,481</u>	<u>\$ 1,083,481</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to 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.

NOTE 4 - CAPITAL ASSETS:

Capital asset activity for the year ended February 29, 2016, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not depreciated:</i>				
Land	\$ 1,196,311	\$ -	\$ -	\$ 1,196,311
Construction in Progress	<u>11,030</u>	<u>-</u>	<u>-</u>	<u>11,030</u>
Subtotal	<u>1,207,341</u>	<u>-</u>	<u>-</u>	<u>1,207,341</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	956,830	-	-	956,830
Buildings and Improvements	2,517,928	-	-	2,517,928
Equipment	3,483,122	62,927	(65,574)	3,480,475
Infrastructure	<u>4,680,118</u>	<u>324,519</u>	<u>-</u>	<u>5,004,637</u>
Subtotal	<u>11,637,998</u>	<u>387,446</u>	<u>(65,574)</u>	<u>11,959,870</u>
<i>Less accumulated depreciation for:</i>				
Land Improvements	(783,484)	(20,990)	-	(804,474)
Buildings and Improvements	(956,359)	(69,663)	-	(1,026,022)
Equipment	(2,314,368)	(219,766)	65,574	(2,468,560)
Infrastructure	<u>(2,411,632)</u>	<u>(234,848)</u>	<u>-</u>	<u>(2,646,480)</u>
Subtotal	<u>(6,465,843)</u>	<u>(545,267)</u>	<u>65,574</u>	<u>(6,945,536)</u>
Net Capital Assets Being Depreciated	<u>5,172,155</u>	<u>(157,821)</u>	<u>-</u>	<u>5,014,334</u>
Capital Assets – Net	<u>\$ 6,379,496</u>	<u>\$ (157,821)</u>	<u>\$ -</u>	<u>\$ 6,221,675</u>

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

Governmental Activities:	
General Government	\$ 133,009
Public Safety	66,794
Public Works	260,061
Health and Welfare	9,248
Recreation and Culture	<u>76,155</u>
Total Governmental Activities	<u>\$ 545,267</u>

NOTE 4 - CAPITAL ASSETS: (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Capital assets not depreciated:</i>				
Land	\$ 73,140	\$ -	\$ -	\$ 73,140
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	263,539	-	-	263,539
Water	2,403,347	-	-	2,403,347
Sewer	7,417,570	-	-	7,417,570
Marina	1,757,834	34,250	-	1,792,084
Equipment	<u>591,200</u>	<u>33,848</u>	<u>(23,669)</u>	<u>601,379</u>
Subtotal	<u>12,433,490</u>	<u>68,098</u>	<u>(23,669)</u>	<u>12,477,919</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Improvements	(157,720)	(5,384)	-	(163,104)
Water	(972,559)	(40,895)	-	(1,013,454)
Sewer	(2,577,412)	(133,001)	-	(2,710,413)
Marina	(1,191,935)	(36,130)	-	(1,228,065)
Equipment	<u>(406,467)</u>	<u>(21,528)</u>	<u>23,669</u>	<u>(404,326)</u>
Subtotal	<u>(5,306,093)</u>	<u>(236,938)</u>	<u>23,669</u>	<u>(5,519,362)</u>
Net Capital Assets Being Depreciated	<u>7,127,397</u>	<u>(168,840)</u>	<u>-</u>	<u>6,958,557</u>
Capital Assets – Net	<u>\$ 7,200,537</u>	<u>\$ (168,840)</u>	<u>\$ -</u>	<u>\$ 7,031,697</u>

Depreciation expense was charged to business-type activities as follows:

Business-type Activities:	
Sewer	\$ 52,107
Water	147,854
Marina	<u>36,977</u>
Total Business-type Activities	<u>\$ 236,938</u>

NOTE 5 - LEASES:

The Village entered into a lease agreement with a company for use of the Village pier. The Village renewed this lease for a period from January 1, 2007 through December 30, 2016. The annual lease amount in 2007 was \$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:

- Up to 1.50% increase in the franchise fee revenues equals 1.50% increase in pier lease.
- Increase greater than 1.60% in franchise fee revenues equals the increase in the pier lease capped at 5.00%.

Rental income from the lease reported in the General Fund amounted to \$165,581 for the year ended February 29, 2016.

NOTE 6 - LONG-TERM DEBT:

General Long-Term Debt - The bonds payable reflected in the basic financial statements consist of general obligation notes incurred by the Village of Mackinaw City. The Village has pledged the general full faith and credit of the Village for the payment of principal and interest on the bonds.

Changes in long-term debt during the twelve months ending February 29, 2016 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
2015 MI Transportation Bonds, maturing serially through fiscal 2030 in annual payments ranging from \$35,000 to 68,000 and bearing interest from 5.0% to 3.00%.	\$ -	\$ 955,000	\$ 68,000	\$ 887,000	\$ 55,000
2012 Capital Improvement Bonds, maturing serially through fiscal 2032 in annual payments ranging from \$25,000 to \$55,000 and bearing interest from 2.0% to 6.0%.	665,000	-	30,000	635,000	30,000
2009 Capital Improvement Bonds, maturing serially through fiscal 2020 in annual payments ranging from \$55,000 to \$85,000 and bearing interest from 3.25% to 4.5%.	365,000	\$ -	65,000	300,000	70,000
2007 Capital Improvement Bonds, maturing serially through fiscal 2018 in annual payments ranging from \$45,000 to \$80,000 and bearing interest from 4.3% to 4.6%.	<u>210,000</u>	<u>-</u>	<u>65,000</u>	<u>145,000</u>	<u>70,000</u>
Total Bond Debt	<u>1,240,000</u>	<u>955,000</u>	<u>228,000</u>	<u>1,967,000</u>	<u>225,000</u>
2005 Act 99 installment contract, maturing in fiscal 2016 in semi- annual payments of \$8,382, including interest at 4.25%.	8,207	-	8,207	-	-
2013 Act 99 installment contract, maturing in fiscal 2020 in semi- annual payments of \$13,767, including interest at 2.3%.	<u>116,974</u>	<u>-</u>	<u>24,951</u>	<u>92,023</u>	<u>25,530</u>
Total Installment Debt	<u>125,181</u>	<u>-</u>	<u>33,158</u>	<u>92,023</u>	<u>25,530</u>
Vested Employee Benefits	<u>125,078</u>	<u>-</u>	<u>11,471</u>	<u>113,607</u>	<u>-</u>
TOTAL LONG-TERM DEBT	<u>\$ 1,490,259</u>	<u>\$ 955,000</u>	<u>\$ 272,629</u>	<u>\$ 2,172,630</u>	<u>\$ 250,530</u>

NOTE 6 - LONG-TERM DEBT: (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30	Bonds Payable		Installment Contracts Payable	
	Principal	Interest	Principal	Interest
2017	\$ 225,000	\$ 70,988	\$ 25,530	\$ 2,003
2018	236,000	63,518	26,135	1,398
2019	162,000	54,953	26,749	785
2020	168,000	49,680	13,609	158
2021	94,000	44,020		
2022-2026	507,000	175,530	-	-
2027-2031	520,000	78,370	-	-
2032	55,000	3,300	-	-
Total	<u>\$ 1,967,000</u>	<u>\$ 540,359</u>	<u>\$ 92,023</u>	<u>\$ 4,344</u>

Total interest expense for the primary government for the year ended February 29, 2016, was \$55,860.

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS:

Defined Benefit Pension Plan

Description of Plan and Plan Assets

The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.25% and 2.5% for deputies times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2015.

General Information about the Pension Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

02 – Police Open Division	
	<u>2014 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/20
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Future Retiree:	2.50% (Non-Compounding)
Employee Contributions:	6.32%
Act 88:	No

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS: (Continued)

Employees Covered by Benefit Terms

At February 29, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	1
Active employees	5
	7

Funding Policy

The Village is required to contribute at an actuarially determined rate; the current rate is 11.41% 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 6.52%. 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.

Net Pension Liability

The Village’s net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 to 4.0 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS: (Continued)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate. The discount rate used to measure the total pension liability will be 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at March 1, 2015	\$ 952,037	\$ 797,978	\$ 154,059
Service cost	34,173	-	34,173
Interest on total pension liability	76,530	-	76,530
Changes in benefits	(1,516)	-	(1,516)
Difference between expected and actual experience	(73,675)	-	(73,675)
Changes in assumptions	60,179	-	60,179
Employer contributions	-	25,976	(25,976)
Employee contributions	-	16,767	(16,767)
Net investment income	-	(12,451)	12,451
Benefit payments, including employee refunds	(25,000)	(25,000)	-
Administrative expense	-	(1,786)	1,786
Other changes	2,391	-	2,391
Net changes	73,082	3,506	69,576
Balances as of February 29, 2016	\$ 1,025,119	\$ 801,484	\$ 223,635

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Village, calculated using the discount rate of 8.25% , as well as what the Village’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25%) or 1-percentage-point higher (9.25%) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Village’s net pension liability	\$420,674	\$223,635	\$63,334

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued MERS financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended February 29, 2016, the Village recognized pension expense of \$45,819. At February 29, 2016, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 64,466
Changes in assumptions	52,657	-
Net difference between projected and actual earnings on pension plan investments	61,542	-
Contributions subsequent to the measurement date	5,588	-
Total	\$ 119,787	\$ 64,466

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

Year Ended February 29:	Outflows	Inflows
2016	\$ 22,910	\$ 9,209
2017	22,910	9,209
2018	22,910	9,209
2019	22,910	9,209
2020	7,522	9,209
Thereafter	15,037	18,511

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS: (Continued)

Defined Contribution Pension Plan

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.

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 for all employee employed before 2014 and 5% for all employees post in the amount of \$58,117 and employees made contributions of \$0 for the plan year ended February 29, 2016.

NOTE 8 - RISK MANAGEMENT:

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.

NOTE 9 - EXCESS EXPENDITURES OVER APPROPRIATIONS:

Public Act 2 of 1968, as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Village's actual expenditures were in excess of amounts appropriated as follows:

	<u>Total Appropriations</u>		<u>Amount of Expenditures</u>		<u>Budget Variance</u>
General Fund:					
Public Works	\$ 27,607	\$	29,786	\$	(2,179)
Transfer Out	-		102,791		(102,791)
Municipal Street Public works	52,269		57,304		(5,035)

NOTE 10 - RESTATEMENT

	<u>Governmental Activities</u>
Beginning net position as previously reported at March 1, 2015	\$ 6,871,671
Restatement of beginning net position – implementation of GASB 68: Net pension liability (measurement date) and Contributions to beginning of fiscal year	<u>(149,842)</u>
Net position as restated, March 1, 2015	<u>\$ 6,721,829</u>

Required Supplementary Information

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended February 29, 2016**

	2016
Total pension liability	
Service cost	\$ 34,173
Interest	76,530
Changes in Benefits	(1,516)
Difference between expected and actual experience	(73,675)
Changes in Assumptions	60,179
Benefit payments, including refund of member contributions	(25,000)
Other Changes	2,391
	73,082
Net change in total pension liability	73,082
Total pension liability - beginning	952,037
Total pension liability - ending	\$ 1,025,119
Plan fiduciary net position	
Contributions - employer	\$ 25,976
Contributions - employee	16,767
Net investment income (loss)	(12,451)
Benefit payments, including refunds of member contributions	(25,000)
Administrative expense	(1,786)
	3,506
Net change in plan fiduciary net position	3,506
Plan fiduciary net position - beginning	797,978
Plan fiduciary net position - ending	\$ 801,484
Net pension liability - ending	\$ 223,635
Plan fiduciary net position as a percentage of the total pension liability	78%
Covered - employee payroll	\$ 264,088
Net pension liability as a percentage of covered-employee payroll	85%
Annual money-weighted rate of return, net of investment expense	6%

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended February 29, 2016**

	2016
Actuarially determined contribution	\$ 27,936
Contributions in relation to the actuarially determined contribution	25,976
Contribution deficiency (excess)	\$ 1,960
Covered - employee payroll	\$ 264,088
Contributions as a percentage of covered-employee payroll	10%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years
Asset valuation method	5-years smoothed market
Inflation	4.50%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%
Retirement age	In the 2014 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	The Mortality table was adjusted to reflect longer lifetimes.

Village of Mackinaw City, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended February 29, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes	\$ 1,041,330	\$ 1,041,330	\$ 1,058,931	\$ 17,601
Licenses and Permits	34,600	34,600	39,435	4,835
Federal Sources	8,000	8,000	-	(8,000)
State Sources	74,300	74,300	94,781	20,481
Contributions	47,000	47,000	41,869	(5,131)
Charges for Services	189,824	189,824	183,681	(6,143)
Interest and Rentals	201,000	201,000	210,402	9,402
Other Revenue	94,359	119,359	29,883	(89,476)
TOTAL REVENUES	1,690,413	1,715,413	1,658,982	(56,431)
EXPENDITURES				
Legislative	66,375	73,337	71,734	1,603
General Government:				
Village Manager	113,615	101,353	86,057	15,296
Professional Services	76,000	112,300	118,798	(6,498)
Village Clerk	70,263	70,263	69,027	1,236
Treasurer	75,953	76,627	75,867	760
Building and Grounds	265,927	286,253	268,901	17,352
Planning Commission	8,431	8,431	3,307	5,124
Promotional	70,125	70,125	64,142	5,983
Total General Government	680,314	725,352	686,099	39,253
Public Safety:				
Fire Department	164,324	164,324	87,017	77,307
Building and Zoning Department	58,034	47,034	43,516	3,518
Police Department	511,416	498,416	497,469	947
Total Public Safety	733,774	709,774	628,002	81,772
Public Works	30,607	27,607	29,786	(2,179)
Recreation and Culture	179,343	179,343	61,345	117,998
TOTAL EXPENDITURES	1,690,413	1,715,413	1,476,966	238,447

Village of Mackinaw City, Michigan

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended February 29, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	182,016	182,016
OTHER FINANCING SOURCES (USES)				
Transfers (Out)	-	-	(102,791)	(102,791)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(102,791)	(102,791)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	79,225	<u>\$ 79,225</u>
FUND BALANCES, BEGINNING OF YEAR			908,663	
FUND BALANCES, END OF YEAR			<u>\$ 987,888</u>	

Village of Mackinaw City, Michigan

Required Supplementary Information Budgetary Comparison Schedule Major Street Fund Year Ended February 29, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State Sources	\$ 93,000	\$ 93,000	\$ 130,051	\$ 37,051
Other Revenues	128,361	128,861	54,086	(74,775)
TOTAL REVENUES	<u>221,361</u>	<u>221,861</u>	<u>184,137</u>	<u>(37,724)</u>
EXPENDITURES				
Public Works	845,938	846,438	500,562	345,876
TOTAL EXPENDITURES	<u>845,938</u>	<u>846,438</u>	<u>500,562</u>	<u>345,876</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(624,577)</u>	<u>(624,577)</u>	<u>(316,425)</u>	<u>308,152</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	1,323,000	1,323,000	624,577	(698,423)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,323,000</u>	<u>1,323,000</u>	<u>624,577</u>	<u>(698,423)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 698,423</u>	<u>\$ 698,423</u>	308,152	<u>\$ (390,271)</u>
FUND BALANCES, BEGINNING OF YEAR			<u>143,967</u>	
FUND BALANCES, END OF YEAR			<u>\$ 452,119</u>	

Village of Mackinaw City, Michigan

**Required Supplementary Information
Budgetary Comparison Schedule
Local Street Fund
Year Ended February 29, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State Sources	\$ 50,000	\$ 50,000	\$ 54,501	\$ 4,501
Other Revenues	38,078	38,578	-	(38,578)
TOTAL REVENUES	88,078	88,578	54,501	(34,077)
EXPENDITURES				
Public Works	200,011	200,511	143,362	57,149
TOTAL EXPENDITURES	200,011	200,511	143,362	57,149
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(111,933)	(111,933)	(88,861)	23,072
OTHER FINANCING SOURCES (USES)				
Transfers In	111,933	111,933	111,933	-
TOTAL OTHER FINANCING SOURCES (USES)	111,933	111,933	111,933	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	23,072	\$ 23,072
FUND BALANCES, BEGINNING OF YEAR			34,333	
FUND BALANCES, END OF YEAR			\$ 57,405	

Village of Mackinaw City, Michigan

Required Supplementary Information Budgetary Comparison Schedule Municipal Street Fund Year Ended February 29, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 364,354	\$ 364,354	\$ 393,180	\$ 28,826
Special Assessments	15,617	15,617	23,107	7,490
Other Revenue	255,000	1,275,269	31,720	(1,243,549)
Interest and Rentals	2,593	2,593	3,417	824
TOTAL REVENUES	<u>637,564</u>	<u>1,657,833</u>	<u>451,424</u>	<u>(1,206,409)</u>
EXPENDITURES				
Public Works	27,000	52,269	57,304	(5,035)
TOTAL EXPENDITURES	<u>27,000</u>	<u>52,269</u>	<u>57,304</u>	<u>(5,035)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>610,564</u>	<u>1,605,564</u>	<u>394,120</u>	<u>(1,211,444)</u>
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	995,000	995,000	955,000	(40,000)
Transfers Out	(1,605,564)	(1,605,564)	(905,673)	699,891
TOTAL OTHER FINANCING SOURCES (USES)	<u>(610,564)</u>	<u>(610,564)</u>	<u>49,327</u>	<u>659,891</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ 995,000</u>	443,447	<u>\$ (551,553)</u>
FUND BALANCES, BEGINNING OF YEAR			301,011	
FUND BALANCES, END OF YEAR			<u>\$ 744,458</u>	

Village of Mackinaw City, Michigan

Required Supplementary Information Budgetary Comparison Schedule Ambulance Fund Year Ended February 29, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest and Rentals	\$ -	\$ -	\$ 1	\$ 1
Other Revenue	-	10,000	7,885	(2,115)
TOTAL REVENUES	-	10,000	7,886	(2,114)
EXPENDITURES				
Health and Welfare	-	10,000	8,860	1,140
TOTAL EXPENDITURES	-	10,000	8,860	1,140
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	(974)	\$ (974)
			(974)	
FUND BALANCES, BEGINNING OF YEAR			103,080	
FUND BALANCES, END OF YEAR			\$ 102,106	

Other Information

Village of Mackinaw City, Michigan

**Combining Balance Sheet
General Fund
February 29, 2016**

	General Fund	Fire Capital Improvement	Ambulance Capital Improvement	Performance Shell	Planning Commission	Economic Development Corporation	Total
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 737,854	\$ 62,366	\$ 38,656	\$ 22,482	\$ -	\$ 19,257	\$ 880,615
Taxes Receivable	46,933	-	-	-	-	-	46,933
Accounts Receivable	65,054	-	-	27	-	-	65,081
Due From Other Funds	172,704	-	-	-	-	-	172,704
TOTAL ASSETS	\$ 1,022,545	\$ 62,366	\$ 38,656	\$ 22,509	\$ -	\$ 19,257	1,165,333
LIABILITIES:							
Accounts Payable	\$ 10,753	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,753
Accrued Liabilities	22,331	-	-	-	-	-	22,331
Due to Other Funds	144,361	-	-	-	-	-	144,361
TOTAL LIABILITIES	177,445	-	-	-	-	-	177,445
FUND BALANCES:							
Assigned	\$ -	\$ 62,366	\$ 38,656	\$ 22,509	\$ -	\$ 19,257	\$ 142,788
Committed	113,607	-	-	-	-	-	113,607
Unassigned	731,493	-	-	-	-	-	731,493
TOTAL FUND BALANCES	845,100	62,366	38,656	22,509	-	19,257	987,888
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,022,545	\$ 62,366	\$ 38,656	\$ 22,509	\$ -	\$ 19,257	\$ 1,165,333

Village of Mackinaw City, Michigan

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance - General Fund
For the Year Ended February 29, 2016**

	General Fund	Fire Capital Improvement	Ambulance Capital Improvement	Performance Shell	Planning Commission	Economic Development Corporation	Total
REVENUES							
Taxes	\$ 1,058,931	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,058,931
Licenses and Permits	39,435	-	-	-	-	-	39,435
State Sources	94,781	-	-	-	-	-	94,781
Contributions	37,369	4,500	-	-	-	-	41,869
Charges for Services	183,681	-	-	-	-	-	183,681
Interest and Rentals	210,402	-	-	-	-	-	210,402
Other Revenue	29,883	-	-	-	-	-	29,883
TOTAL REVENUES	1,654,482	4,500	-	-	-	-	1,658,982
EXPENDITURES							
Legislative	71,734	-	-	-	-	-	71,734
General Government	686,099	-	-	-	-	-	686,099
Public Safety	628,002	-	-	-	-	-	628,002
Public Works	13,674	-	-	233	15,879	-	29,786
Recreation and Culture	61,345	-	-	-	-	-	61,345
TOTAL EXPENDITURES	1,460,854	-	-	233	15,879	-	1,476,966
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	193,628	4,500	-	(233)	(15,879)	-	182,016
OTHER FINANCING SOURCES (USES)							
Transfers (Out)	(102,791)	-	-	-	-	-	(102,791)
TOTAL OTHER FINANCING SOURCES (USES)	(102,791)	-	-	-	-	-	(102,791)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	90,837	4,500	-	(233)	(15,879)	-	79,225
FUND BALANCES, BEGINNING OF YEAR	754,263	57,866	38,656	22,742	15,879	19,257	908,663
FUND BALANCES, END OF YEAR	\$ 845,100	\$ 62,366	\$ 38,656	\$ 22,509	\$ -	\$ 19,257	\$ 987,888

	Special Revenue Funds				Debt Service Funds				Total
	Recreation Center	Iron Workers Walk Foundation	WaWatam Seniors	Cemetery	2007 Special Assessment Bonds	2009 General Obligation Bonds	2011 Capital Improvement Bonds	2015 Transportation Bonds	
ASSETS:									
Cash and Equivalents - Unrestricted	\$ 42,850	\$ 6,092	\$ -	\$ 162,043	\$ 9,537	\$ 52,410	\$ 3,043	\$ -	\$ 275,975
Taxes Receivable	-	-	-	3,577	-	-	-	-	3,577
Accounts Receivable	5,000	-	-	-	-	-	-	-	5,000
Due From Other Funds	37,800	-	-	868	8,800	-	-	-	47,468
Other Assets	-	-	-	-	-	-	14,925	-	14,925
TOTAL ASSETS	\$ 85,650	\$ 6,092	\$ -	\$ 166,488	\$ 18,337	\$ 52,410	\$ 17,968	\$ -	\$ 346,945
LIABILITIES:									
Due to Other Funds	\$ 31,681	\$ -	\$ -	\$ 2,743	\$ 4,001	\$ 7,157	\$ -	\$ -	\$ 45,582
Accounts Payable	809	-	-	-	-	-	-	-	809
Accrued Liabilities	1,469	-	-	406	-	-	-	-	1,875
TOTAL LIABILITIES	33,959	-	-	3,149	4,001	7,157	-	-	\$ 48,266
FUND BALANCE:									
Assigned	-	-	-	163,339	-	-	-	-	163,339
Restricted	-	6,092	-	-	-	45,253	17,968	-	69,313
Unassigned	51,691	-	-	-	14,336	-	-	-	66,027
TOTAL FUND BALANCE	51,691	6,092	-	163,339	14,336	45,253	17,968	-	298,679
TOTAL LIABILITIES AND FUND BALANCES	\$ 85,650	\$ 6,092	\$ -	\$ 166,488	\$ 18,337	\$ 52,410	\$ 17,968	\$ -	\$ 346,945

Village of Mackinaw City, Michigan

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended February 29, 2016**

	Special Revenue Funds				Debt Service Funds				Total
	Recreation Center	Iron Workers Walk Foundation	WaWatom Area Seniors	Cemetery	2007 Special Assessment Bonds	2009 General Obligation Bonds	2011 Capital Improvement Bonds	2015 Transportation Bonds	
REVENUES									
Taxes	\$ -	\$ -	\$ -	\$ 79,170	\$ -	\$ -	\$ -	\$ -	\$ 79,170
Contributions	2,500	1,816	-	-	-	-	-	-	4,316
Charges for Service	15,427	-	-	4,245	-	-	-	-	19,672
Interest and Rentals	1,500	-	-	-	10	60	-	-	1,570
Other Revenue	30,108	-	-	-	-	-	-	-	30,108
TOTAL REVENUES	49,535	1,816	-	83,415	10	60	-	-	134,836
EXPENDITURES									
General Government	-	-	-	50,520	-	-	-	-	50,520
Health and Welfare	-	-	17	-	-	-	-	-	17
Recreation and Culture	63,470	955	-	-	-	-	-	-	64,425
Debt Service	-	-	-	-	74,660	80,750	60,450	76,242	292,102
Capital Outlay	-	371	-	-	-	-	-	-	371
TOTAL EXPENDITURES	63,470	1,326	17	50,520	74,660	80,750	60,450	76,242	407,435
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,935)	490	(17)	32,895	(74,650)	(80,690)	(60,450)	(76,242)	(272,599)
OTHER FINANCING SOURCES (USES):									
Transfers In	65,626	-	-	-	74,660	70,293	60,150	76,242	346,971
TOTAL OTHER FINANCING SOURCES (USES)	65,626	-	-	-	74,660	70,293	60,150	76,242	346,971
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	51,691	490	(17)	32,895	10	(10,397)	(300)	-	74,372
FUND BALANCES, BEGINNING OF YEAF	-	5,602	17	130,444	14,326	55,650	18,268	-	224,307
FUND BALANCES, END OF YEAR	\$ 51,691	\$ 6,092	\$ -	\$ 163,339	\$ 14,336	\$ 45,253	\$ 17,968	\$ -	\$ 298,679

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

SUE A. BOWLBY, CPA, PRINCIPAL
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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**INDEPENDENT AUDITOR'S 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**

Village Council
Village of Mackinaw City, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Mackinaw City, Michigan, as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise the Village of Mackinaw City, Michigan's basic financial statements and have issued our report thereon dated July 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village of Mackinaw City, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Mackinaw City, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Mackinaw City, Michigan's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies listed as 2016-001, 2016-002, 2016-003, and 2016-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Mackinaw City, Michigan'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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2016-004.

Village of Mackinaw City, Michigan's Response to Finding

The Village of Mackinaw City, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Village of Mackinaw City, Michigan's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

July 15, 2016

Internal Control Over Financial Reporting

Significant Deficiencies

**Preparation of the Financial Statements in Accordance
with Generally Accepted Accounting Principles**

Finding 2016-001

Condition: As part of the audit process, the Village, like some other governments, has historically relied on the independent auditors to assist in the preparation of the Government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. Management feels it is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect: The Village relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the Village's internal controls. By definition, independent auditors should not be part of the Village's internal controls.

Cause: Change in application of auditing standards.

Recommendation: We recommend that the Village consider providing applicable employees with training that would allow them to attain the qualification required to fully understand the GAAP financial statements preparation process. Should the Board choose not to address this issue, management and the Board of should realize that an increased risk is present.

Management's Response – Corrective Action: Historically it has been the practice for the independent auditors of the Village to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements. The Board needs to evaluate the cost benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP or outsourcing this task to its external auditors in determining the best interests of the Village.

- Contact Person(s) Responsible for Correction:
David White, Village Manager

Internal Control Over Financial Reporting

Significant Deficiencies

Material Journal Entries Proposed by Auditors

Finding 2016-002

Condition: Material journal entries in many areas were proposed by the auditors. These adjustments were detected by the Village's internal control over financial reporting. These entries were subsequently recorded in the general ledger.

Criteria: Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in and Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, and results of operations, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal control.

Effect: Through the posting of material journal entries (that were identified by management); the auditors are effectively part of the Village's internal controls.

Cause: Unknown.

Recommendation: We recommend that the Village take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Management's Response – Corrective Action Plan: Historically it has been the practice for the independent auditors of the Village to assist in the preparation of the financial statements, as well as the related notes to the financial statements. This has always included the preparation by or suggestion from the auditors of material journal entries. The Village will strive to correct this in future reporting.

- *Contact Person(s) Responsible for Correction:*
David White, Village Manager

Internal Control Over Financial Statements – Significant Deficiencies

Segregation of Duties

Finding 2016-003

Condition/Criteria: A limited number of accounting personnel perform several functions of receipting, disbursing, and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from funds and increases the potential for inaccurate reporting of account activity.

Cause: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Village should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Management's Response – Corrective Action: The Village has implemented compensating controls to reduce the risks discussed above.

- Contact Person Responsible for Correction:
David White, Village Manager

Internal Control over Financial Reporting and Compliance and Other Matters

Significant Deficiencies – Noncompliance with State Statutes

Excess Expenditures Over Appropriations

Finding 2016-004

Condition: Our examination of procedures used by the Village to adopt and maintain operating budgets for the Village’s budgetary funds revealed the following instance of noncompliance with the provisions of Public Act 621 of 1978, Section 18(1), as amended , the Uniform Budgeting and Accounting Act.

The Village’s 2015-16 General Appropriations Act (budget) provided for expenditures of the General Fund and the Municipal Street Fund to be controlled to the activity level. During the fiscal year ended February 29, 2016, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund on page 41-42 and the Municipal Street Fund on page 45 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 621 of 1978, as amended.

During the year ended February 29, 2016, the Village incurred expenditures in certain budgetary funds, which were in excess of the amount appropriated as follows:

	<u>Total</u> <u>Appropriations</u>		<u>Amount of</u> <u>Expenditures</u>		<u>Budget</u> <u>Variance</u>
General Fund					
Public Works	\$ 27,607		\$ 29,786	\$	(2,179)
Transfers Out	-		102,391		(102,391)
Municipal Street					
Public Works	52,269		57,304		(5,035)

Effect: The Village has not complied with various State Statutes.

Cause: Failure to amend the budget for the General and Municipal Street Funds during the year.

Recommendation: We recommend that the Village and personnel responsible for administering the activities of the various funds of the Village, develop budgetary control procedures for the Ambulance Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act , or amendments thereof.

Management’s Response – Corrective Action Plan: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

- *Contact Person(s) Responsible for Correction:*
David White, Village Manager



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Village Council
Village of Mackinaw City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Mackinaw City, Michigan, for the year ended February 29, 2016, and have issued our report thereon July 15, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted accounting standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated April 12, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village of Mackinaw City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village of Mackinaw City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on combining fund financial statements, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated April 12, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Mackinaw City are described in Note 1 to the financial statements. Two new accounting policies were adopted GASB'S 68 & 71 and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions that have been recognized in the financial statements in the proper period.

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the vested employee benefits is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the Annual Required Contribution for Pension Obligations was based on various assumptions regarding life expectancies, inflation, salary increases, and investment rates.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 15, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Comments and Recommendations

Payroll (Prior Year)

During testing, it was noted that not all employees had a properly filled out I-9 and one employee was missing a New Hire form. We recommend that all employees have the required forms properly filled out and kept on file to help ensure proper record retention.

Status: Corrected.

Dormant Funds (Prior Year)

During testing, it was noted that there were some funds with minimal balances and no activity during the year. We recommend the Village review all of their funds to see if any can be closed.

Status: Uncorrected.

Compensated Absences (Prior Year)

During testing, it was noted that the Village did not have a policy for sick and vacation accrual for non-union members. We recommend that the Village adopt a policy for sick and vacation accrual for non-union members to help ensure payouts are in compliance with accepted Village policies.

Status: Corrected.

Interfunds (Prior Year)

During testing, it was noted that the Village did not know what the correct balances should be in their due to other funds and due from other funds accounts. We recommend that the Village determine what the proper balances should be and either pay the balances owed or write them off to help ensure accuracy of accounting records.

Status: Corrected.

New Policies (Prior Year)

During testing, it was noted that the Village did not have the following policies adopted: ACH/Electronic Transactions, Fraud Policy, Conflict of Interest Policy, GASB 54 Fund Balance Policy and Asset Capitalization Policy. We recommend the Village adopt the above mentioned policies to help ensure proper accounting practices are in place.

Status: Corrected.

Bank Accounts (Prior Year)

During testing, it was noted that two bank accounts were not recorded on the general ledger. We recommend that all bank accounts that utilize the Village tax ID number be recorded on the general ledger to help ensure accuracy and completeness of accounting records.

Status: Uncorrected.

Uniform Chart of Accounts (Prior Year)

Currently there are several balance sheet and income statement accounts that are coded incorrectly per the Uniform Chart of Accounts. It is recommended that the Village consult with the Uniform Chart of Accounts for appropriate account numbers for all line items.

Status: Corrected.

Ambulance Receivable (Prior Year)

It was noted during our testing of accounts receivable, that over 85% of the ambulance accounts receivable consisted of balances that were over 90 days old, and as a result a large percentage of accounts receivable was offset by an allowance for doubtful accounts. We recommend that ambulance accounts receivable be reviewed based on the reasonableness of collectability and make necessary adjustments.

Status: Corrected.

Budgeting (Prior Year)

The Village of Mackinaw City adopts its budget expenditures in excess of budgeted revenues and beginning fund balances. Specifically, the budget adopted for the Major and Local Streets had budgeted expenditures in excess of budgeted revenue and beginning fund balances. These funds should be budgeted in accordance with Uniform Budgeting and Accounting Act guidelines.

Status: Corrected.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Village of Mackinaw City, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

July 15 2016