

Village of
Mackinaw City,
Michigan



Fiscal Year
Ended
February 28,
2014

Financial
Statements

VILLAGE OF MACKINAW CITY, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

August 15, 2014

Village Council
Village of Mackinaw City
Mackinaw City, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *Village of Mackinaw City, Michigan* (the "Village") as of and for the year ended February 28, 2014, and the related notes to the financial statements, which collectively comprise the Village'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.

Independent Auditors' 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 auditors' 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and each major special revenue fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Funding Progress and Employer Contributions for the defined benefit pension plan and other postemployment benefit plans listed in the table of contents 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate 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 and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, our report dated August 15 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.

Rehmann Lobson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

VILLAGE OF MACKINAW CITY, MICHIGAN

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 28, 2014.

Financial Highlights

- The assets of the Village exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$14,663,000 (net position). Of this amount, approximately \$1,722,000 (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 approximately \$167,000.
- The Village repaid approximately \$409,000 of bonded and installment debt during the current fiscal year.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was approximately \$614,000 or 35 percent of fiscal 2014 total General Fund expenditures and transfers.

Overview of the Financial Statements

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

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

The statement of net position presents information on all of the Village's assets, liabilities and deferred inflows of resources 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, highways and streets, 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.

VILLAGE OF MACKINAW CITY, MICHIGAN

Management's Discussion and Analysis

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, Municipal Street Special Revenue Fund, and the Ambulance Special Revenue 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.

VILLAGE OF MACKINAW CITY, MICHIGAN

Management's Discussion and Analysis

Other 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 and other postemployment benefits.

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 by approximately \$14,663,000 at the close of fiscal 2014.

A significant portion of the Village's net position (85%) is invested in capital assets (e.g., land, buildings, equipment, 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.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Cash and other assets	\$ 1,887,332	\$ 2,059,623	\$ 1,026,226	\$ 1,320,433	\$ 2,913,558	\$ 3,380,056
Capital assets, net	6,813,264	6,784,541	7,242,398	7,086,823	14,055,662	13,871,364
Total assets	8,700,596	8,844,164	8,268,624	8,407,256	16,969,220	17,251,420
Current and other liabilities	236,835	192,181	216,825	106,299	453,660	298,480
Long-term liabilities	1,852,691	1,914,899	-	170,000	1,852,691	2,084,899
Total liabilities	2,089,526	2,107,080	216,825	276,299	2,306,351	2,383,379
Deferred inflow of resources	-	37,847	-	-	-	37,847
Net position:						
Net investment in capital assets	5,217,807	5,103,914	7,242,398	6,916,823	12,460,205	12,020,737
Restricted	480,894	492,645	-	-	480,894	492,645
Unrestricted	912,369	1,102,678	809,401	1,214,134	1,721,770	2,316,812
Total net position	\$ 6,611,070	\$ 6,699,237	\$ 8,051,799	\$ 8,130,957	\$ 14,662,869	\$ 14,830,194

VILLAGE OF MACKINAW CITY, MICHIGAN

Management's Discussion and Analysis

At the end of fiscal 2014, 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 approximately \$167,000 during fiscal 2014. This decrease is mainly attributable to use of fund balance and repairs and maintenance expenditures.

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 482,006	\$ 449,929	\$ 1,234,840	\$ 1,091,869	\$ 1,716,846	\$ 1,541,798
Operating grants and contributions	661,915	547,087	494	372	662,409	547,459
Capital grants and contributions	1,121	101,130	37,500	18,051	38,621	119,181
General revenues:						
Property taxes	1,607,053	1,547,281	-	-	1,607,053	1,547,281
Grants and contributions not restricted to specific programs	140,707	65,341	-	-	140,707	65,341
Unrestricted interest income	5,760	9,325	-	-	5,760	9,325
Total revenues	2,898,562	2,720,093	1,272,834	1,110,292	4,171,396	3,830,385
Expenses:						
Legislative	69,039	32,499	-	-	69,039	32,499
General government	549,192	603,410	-	-	549,192	603,410
Public safety	631,988	647,998	-	-	631,988	647,998
Highways and streets	783,451	733,435	-	-	783,451	733,435
Health and welfare	589,435	533,496	-	-	589,435	533,496
Recreation and culture	361,607	337,225	-	-	361,607	337,225
Interest on long-term debt	70,393	78,889	-	-	70,393	78,889
Sewer	-	-	520,388	739,562	520,388	739,562
Water	-	-	305,721	328,068	305,721	328,068
Marina	-	-	457,507	337,014	457,507	337,014
Total expenses	3,055,105	2,966,952	1,283,616	1,404,644	4,338,721	4,371,596
Change in net position before transfers	(156,543)	(246,859)	(10,782)	(294,347)	(167,325)	(541,206)
Transfers	68,376	(325,727)	(68,376)	325,727	-	-
Change in net position	(88,167)	(572,586)	(79,158)	31,380	(167,325)	(541,211)
Net position:						
Beginning of year	6,699,237	7,271,823	8,130,957	8,099,577	14,830,194	15,371,400
End of year	\$ 6,611,070	\$ 6,699,237	\$ 8,051,799	\$ 8,130,957	\$ 14,662,869	\$ 14,830,194

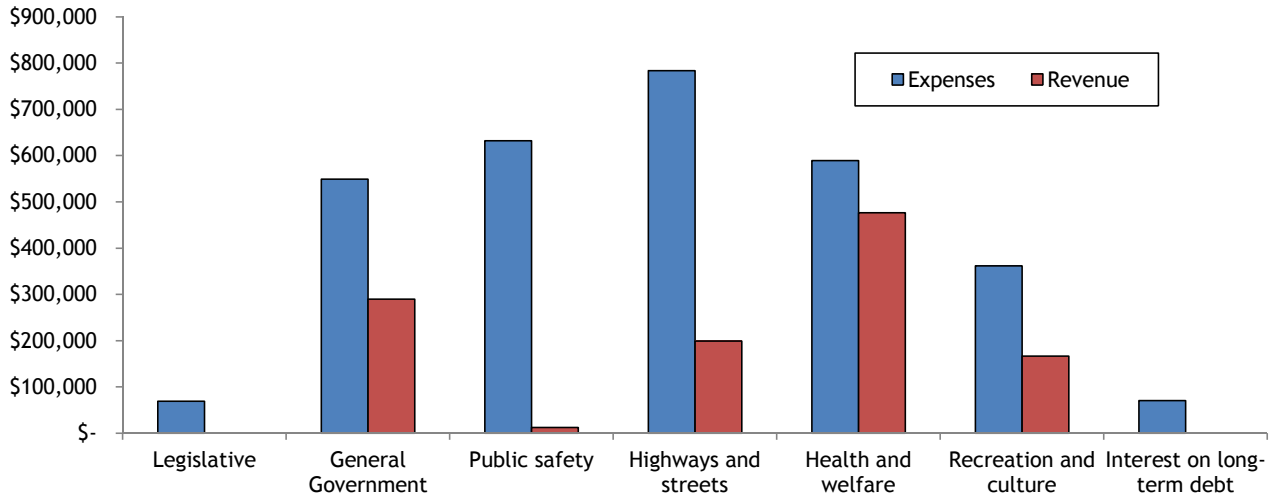
VILLAGE OF MACKINAW CITY, MICHIGAN

Management's Discussion and Analysis

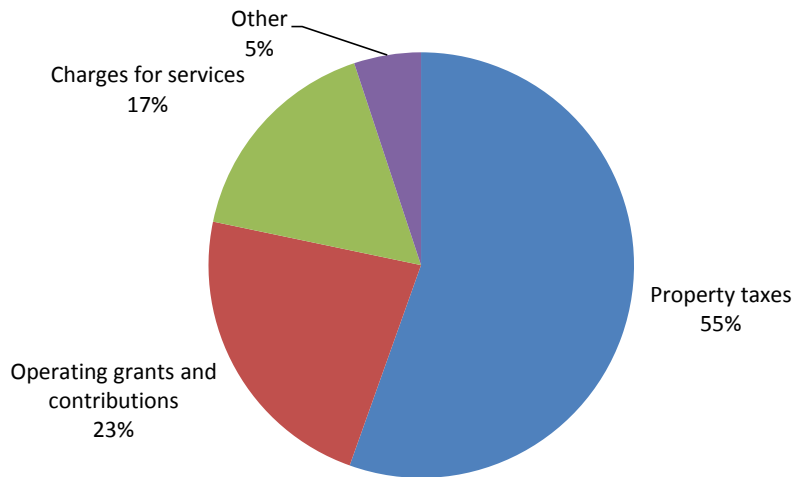
Governmental Activities. Governmental activities decreased the Village's net position by approximately \$88,000. Although total revenues increased approximately \$178,000 from the prior year, primarily from an increase in both program and general grant and contribution revenues, expenses also increased by approximately \$88,000 due to increased expenses in legislative, highways and streets, health and welfare and recreation and culture; offset by decreases in general government and public safety.

General government expenditures decreased by approximately \$54,000 related to the appropriate reallocation of certain employee's wages and fringes from general government to more specific operational functions within governmental activities. Highways and streets expenditures increased approximately \$50,000 from the prior year mainly related to hiring additional personnel.

Expenses and Program Revenues - Governmental Activities



Revenue by Source - Governmental Activities

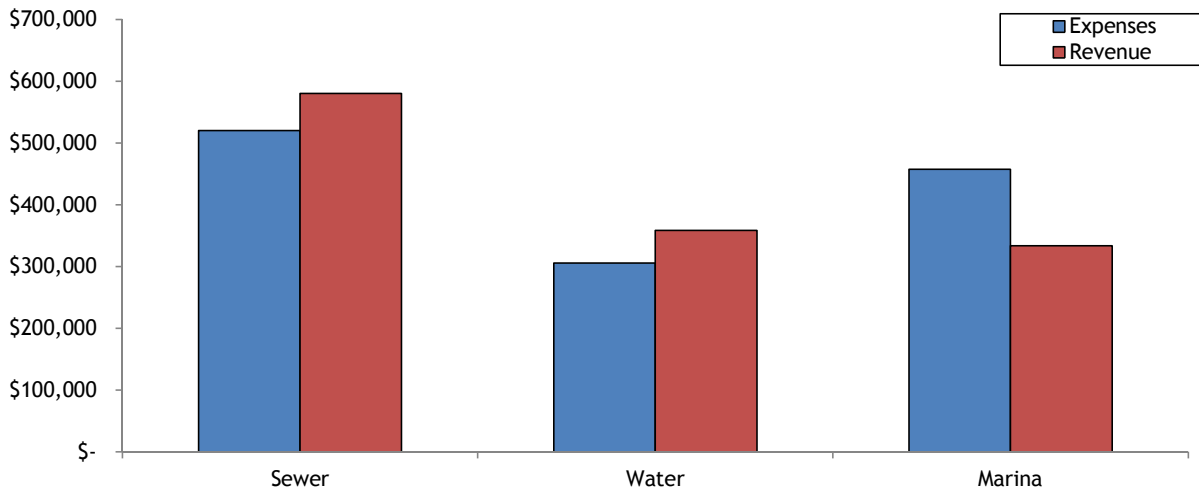


VILLAGE OF MACKINAW CITY, MICHIGAN

Management's Discussion and Analysis

Business-type Activities. Business-type activities decreased the Village's net position by approximately \$79,000. This decrease was directly related to the marina's operational expenses being greater than revenues by approximately \$161,000. Although revenues increased from the prior year, due to an approximate \$20,000 increase in transient moorage and approximately \$19,000 from a waterways grant; this increase was slightly offset by an approximate \$9,000 decrease in seasonal moorage from the prior year. The operation expenses for the marina are consistent with prior year amounts, however, in the current year, approximately \$143,000 in dredging expenses were incurred that did not exist in the prior year.

Expenses and Program Revenue - Business-type Activities



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

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 2014 fiscal year, the Village's governmental funds reported combined ending fund balances of approximately \$1,378,000, a decrease of approximately \$201,000. Unassigned fund balance of approximately \$614,000 is available for spending at the Village's discretion. The remaining fund balance is restricted or assigned to be spent for specific purposes and not available for new spending.

The fund balance of the Village's General Fund decreased by approximately \$165,000 during the current fiscal year, which was mainly attributable to the use of fund balance to cover operating expenses.

The fund balance of the Village's Municipal Street Special Revenue Fund increased by approximately \$15,000 during the current fiscal year, which was mainly attributable to a slight increase in property tax revenue and transfers out.

The fund balance of the Village's Ambulance Special Revenue Fund decreased by approximately \$39,000 during the current fiscal year, which was mainly attributable to an approximate \$25,000 increase in charges for services, offset by an approximate \$74,000 decrease in expenses, primarily related to an approximate \$63,000 increase in insurance write-offs.

VILLAGE OF MACKINAW CITY, MICHIGAN

Management's Discussion and Analysis

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 approximately \$166,000 higher than the actual for the year ended February 28, 2014. The primary reason for the overall budget variance was revenues were approximately \$233,000 less than the final amended budget, primarily due to contributions being approximately \$180,000 less than the final amended budget.

Capital Assets and Debt Administration

Capital Assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2014, amounted to approximately \$14,056,000 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, machinery, marina, vehicles and equipment.

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

Major capital assets purchased during the current fiscal year included the following:

- McLott Property Acquisition
- Conkling Park
- Barbara Street Lift Station
- Dump Truck Purchase

Long-Term Debt. At February 28, 2014, the Village had total debt (less accrued compensated absences) outstanding of approximately \$1,595,000.

The Village issued new debt during the fiscal year of approximately \$153,000 under Act 99 as an installment contract maturing in fiscal 2020. Semi-annual payments of approximately \$14,000 are due each year and bear interest at 2.3%. The Village also repaid \$170,000 in Water Revenue Bonds during the year.

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets

The following factors were considered in preparing the Village's budget for the 2014-2015 fiscal year:

- Identify ways to cut expenses at the same time look for ways to generate new revenue.
- Improvements to the Gary R. Williams Memorial Park with the removal of the former McLott house. A full and complete renovation will take several years.
- Clean-up and repair activities caused by the harsh winter of 2013/2014.
- Ongoing beach maintenance at First Beach.
- Full renovation of the Village Water Tower. It has been 14 years since any significant work has been done on the water tower.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Net Position

February 28, 2014

	Primary Government			Downtown Development Authority Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 1,572,746	\$ 644,659	\$ 2,217,405	\$ 94,131
Receivables, net	293,595	215,008	508,603	8,486
Internal balances	5,516	(5,516)	-	-
Other assets	15,475	34,784	50,259	-
Restricted investments	-	137,291	137,291	-
Capital assets not being depreciated	1,196,311	73,140	1,269,451	-
Capital assets being depreciated, net	5,616,953	7,169,258	12,786,211	-
Total assets	8,700,596	8,268,624	16,969,220	102,617
Liabilities				
Accounts payable and accrued liabilities	192,335	134,661	326,996	3,339
Unearned revenue	22,452	82,164	104,616	-
Long-term liabilities:				
Due within one year	255,650	-	255,650	-
Due in more than one year	1,597,041	-	1,597,041	-
Net other postemployment benefits obligation	22,048	-	22,048	-
Total liabilities	2,089,526	216,825	2,306,351	3,339
Net position				
Net investment in capital assets	5,217,807	7,242,398	12,460,205	-
Restricted for:				
Highways and streets	340,975	-	340,975	-
Cemetery	106,421	-	106,421	-
WaWatam area seniors	9,781	-	9,781	-
Debt service	23,717	-	23,717	-
Unrestricted	912,369	809,401	1,721,770	99,278
Total net position	\$ 6,611,070	\$ 8,051,799	\$ 14,662,869	\$ 99,278

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Activities

For the Year Ended February 28, 2014

Functions/Programs	Expenses	Program Revenue			Net Expense
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 69,039	\$ -	\$ -	\$ -	\$ (69,039)
General government	549,192	197,716	92,163	-	(259,313)
Public safety	631,988	7,089	4,500	1,121	(619,278)
Highways and streets	783,451	-	199,160	-	(584,291)
Health and welfare	589,435	267,581	208,947	-	(112,907)
Recreation and culture	361,607	9,620	157,145	-	(194,842)
Interest on long-term debt	70,393	-	-	-	(70,393)
Total governmental activities	<u>3,055,105</u>	<u>482,006</u>	<u>661,915</u>	<u>1,121</u>	<u>(1,910,063)</u>
Business-type activities:					
Sewer	520,388	579,855	494	-	59,961
Water	305,721	358,662	-	-	52,941
Marina	457,507	296,323	-	37,500	(123,684)
Total business-type activities	<u>1,283,616</u>	<u>1,234,840</u>	<u>494</u>	<u>37,500</u>	<u>(10,782)</u>
Total primary government	<u>\$ 4,338,721</u>	<u>\$ 1,716,846</u>	<u>\$ 662,409</u>	<u>\$ 38,621</u>	<u>\$ (1,920,845)</u>
Component unit					
Downtown Development Authority	<u>\$ 20,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20,903)</u>

Continued...

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Activities

For the Year Ended February 28, 2014

	Primary Government			Downtown Development Authority Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net expense	\$ (1,910,063)	\$ (10,782)	\$ (1,920,845)	\$ (20,903)
General revenues:				
Property taxes	1,607,053	-	1,607,053	31,197
Grants and contributions not restricted to specific programs	140,707	-	140,707	-
Unrestricted interest income	5,760	-	5,760	-
Transfers - internal activities	68,376	(68,376)	-	-
Total general revenues and transfers	1,821,896	(68,376)	1,753,520	31,197
Change in net position	(88,167)	(79,158)	(167,325)	10,294
Net position, beginning of year	6,699,237	8,130,957	14,830,194	88,984
Net position, end of year	\$ 6,611,070	\$ 8,051,799	\$ 14,662,869	\$ 99,278

Concluded

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

FUND FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY, MICHIGAN

Balance Sheet Governmental Funds February 28, 2014

	General Fund	Municipal Street Fund	Ambulance Fund	Nonmajor Governmental Funds	Total
Assets					
Cash and investments	\$ 659,363	\$ 116,234	\$ 177,070	\$ 358,607	\$ 1,311,274
Accounts receivable, net	5,743	-	31,479	5,074	42,296
Taxes receivable	97,150	33,982	-	6,794	137,926
Special assessments receivable	-	68,787	-	21,789	90,576
Other assets	-	-	-	15,475	15,475
Due from other funds	172,280	23,523	7,021	49,750	252,574
Due from other governmental units	10,290	-	-	12,507	22,797
Total assets	\$ 944,826	\$ 242,526	\$ 215,570	\$ 469,996	\$ 1,872,918
Liabilities					
Accounts payable	\$ 101,434	\$ 15,886	\$ 2,327	\$ 3,316	\$ 122,963
Accrued liabilities	13,420	-	4,443	5,694	23,557
Due to other funds	143,938	3,409	20,887	67,416	235,650
Unearned revenue	14,785	-	-	-	14,785
Total liabilities	273,577	19,295	27,657	76,426	396,955
Deferred inflow of resources					
Unavailable revenue	-	68,787	-	29,456	98,243
Fund balances					
Restricted					
Highways and streets	-	154,444	-	186,531	340,975
Cemetery	-	-	-	106,421	106,421
WaWatam area seniors	-	-	-	9,781	9,781
Debt service	-	-	-	53,236	53,236
Assigned					
Capital projects	-	-	-	3,848	3,848
Ambulance services	-	-	187,913	-	187,913
Iron workers walk foundation	-	-	-	4,297	4,297
Planning commission	15,745	-	-	-	15,745
Economic development commission	19,257	-	-	-	19,257
Performance Shell	22,742	-	-	-	22,742
Unassigned	613,505	-	-	-	613,505
Total fund balances	671,249	154,444	187,913	364,114	1,377,720
Total liabilities, deferred inflow of resources and fund balances	\$ 944,826	\$ 242,526	\$ 215,570	\$ 469,996	\$ 1,872,918

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
February 28, 2014

Fund balances - total governmental funds \$ 1,377,720

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

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

Capital assets not being depreciated	1,318,969
Capital assets being depreciated, net	5,162,869

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

Unavailable special assessment revenue	90,576
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Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in activities in the statement of net position.

Net position of governmental activities accounted for in an internal service fund	423,841
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest on long-term liabilities	(29,519)
Bonds and notes payable	(1,454,104)
Compensated absences	(257,234)
Net other postemployment benefit obligation	(22,048)
	<u>(1,763,905)</u>

Net position of governmental activities	<u>\$ 6,611,070</u>
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The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended February 28, 2014

	General Fund	Municipal Street Fund	Ambulance Fund	Nonmajor Governmental Funds	Total
Revenues					
Property taxes	\$ 1,072,974	\$ 400,334	\$ -	\$ 133,745	\$ 1,607,053
State revenue	86,564	-	-	178,313	264,877
Special assessments	-	18,944	-	10,721	29,665
Licenses and permits	13,687	-	-	-	13,687
Contributions	215,619	-	153,949	57,385	426,953
Charges for services	657	-	258,900	18,501	278,058
Fines and forfeitures	6,527	-	-	-	6,527
Interest	5,760	3,315	-	3,665	12,740
Rents	167,808	-	-	72,533	240,341
Local contribution	-	-	-	17,651	17,651
Miscellaneous	11,871	-	713	4,241	16,825
Total revenues	1,581,467	422,593	413,562	496,755	2,914,377
Expenditures					
Current:					
General government	500,362	-	-	45,144	545,506
Legislative	69,039	-	-	-	69,039
Public safety	599,688	-	-	-	599,688
Highways and streets	-	41,095	-	510,436	551,531
Health and welfare	-	-	431,554	101,501	533,055
Recreation and culture	450,382	-	-	137,624	588,006
Debt service:					
Principal	-	-	-	200,235	200,235
Interest and paying agent fees	-	-	-	70,385	70,385
Capital outlay	-	-	10,596	40,293	50,889
Total expenditures	1,619,471	41,095	442,150	1,105,618	3,208,334
Revenue over (under) expenditures	(38,004)	381,498	(28,588)	(608,863)	(293,957)
Other financial sources (uses)					
Transfers in	-	-	-	596,455	596,455
Transfers out	(126,674)	(366,591)	(10,439)	-	(503,704)
Total other financing sources (uses)	(126,674)	(366,591)	(10,439)	596,455	92,751
Net change in fund balances	(164,678)	14,907	(39,027)	(12,408)	(201,206)
Fund balances, beginning of year	835,927	139,537	226,940	376,522	1,578,926
Fund balances, end of year	\$ 671,249	\$ 154,444	\$ 187,913	\$ 364,114	\$ 1,377,720

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended February 28, 2014

Net change in fund balances - total governmental funds \$ (201,206)

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

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

Capital outlay	403,668
Depreciation expense	(477,223)

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

Current year collections on special assessments	(29,665)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term liabilities	200,235
Decrease in net other postemployment benefit obligation	6,543

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

Current year decrease in accrued interest on bonds	2,038
Increase in the accrual of compensated absences	(22,962)

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

Change in net position from governmental activities accounted for in internal service fund	<u>30,405</u>
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Change in net position of governmental activities	<u><u>\$ (88,167)</u></u>
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The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended February 28, 2014

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,146,933	\$ 1,108,577	\$ 1,072,974	\$ (35,603)
State revenue	75,398	87,398	86,564	(834)
Licenses and permits	7,500	10,700	13,687	2,987
Contributions	395,399	395,399	215,619	(179,780)
Charges for services	2,175	2,175	657	(1,518)
Fines and forfeitures	1,900	6,125	6,527	402
Interest	11,000	11,000	5,760	(5,240)
Rents	182,000	182,000	167,808	(14,192)
Miscellaneous	11,300	11,300	11,871	571
Total revenues	<u>1,833,605</u>	<u>1,814,674</u>	<u>1,581,467</u>	<u>(233,207)</u>
Expenditures				
Legislative	25,177	63,742	69,039	(5,297)
General government	601,754	531,057	500,362	30,695
Public safety	584,973	603,073	599,688	3,385
Recreation and culture	170,305	440,853	450,382	(9,529)
Total expenditures	<u>1,382,209</u>	<u>1,638,725</u>	<u>1,619,471</u>	<u>19,254</u>
Revenue over (under) expenditures	451,396	175,949	(38,004)	(213,953)
Other financing uses				
Transfers out	(175,098)	(175,098)	(126,674)	48,424
Net change in fund balance	276,299	852	(164,678)	(165,530)
Fund balance beginning of year	<u>835,927</u>	<u>835,927</u>	<u>835,927</u>	-
Fund balance, end of year	<u>\$ 1,112,226</u>	<u>\$ 836,779</u>	<u>\$ 671,249</u>	<u>\$ (165,530)</u>

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Municipal Street Special Revenue Fund

For the Year Ended February 28, 2014

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Property taxes	\$ 390,000	\$ 368,000	\$ 400,334	\$ 32,334
Special assessments	25,800	19,725	18,944	(781)
Interest	-	-	3,315	3,315
Total revenues	415,800	387,725	422,593	34,868
Expenditures				
Current:				
Highways and streets	30,000	38,150	41,095	(2,945)
Revenue over expenditures	385,800	349,575	381,498	31,923
Other financing sources uses				
Transfers out	(385,800)	(475,235)	(366,591)	108,644
Net change in fund balance	-	(125,660)	14,907	140,567
Fund balance, beginning of year	139,537	139,537	139,537	-
Fund balance, end of year	\$ 139,537	\$ 13,877	\$ 154,444	\$ 140,567

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Ambulance Special Revenue Fund

For the Year Ended February 28, 2014

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Contributions from other governmental units	\$ 155,000	\$ 153,559	\$ 153,949	\$ 390
Charges for services	187,189	240,000	258,900	18,900
Interest	200	200	-	(200)
Miscellaneous	1,050	1,050	713	(337)
Total revenues	343,439	394,809	413,562	18,753
Expenditures				
Current:				
Health and welfare	346,100	458,210	431,554	26,656
Capital outlay	17,000	15,000	10,596	4,404
Total expenditures	363,100	473,210	442,150	31,060
Revenue under expenditures	(19,661)	(78,401)	(28,588)	49,813
Other financing uses				
Transfers out	(10,439)	(10,439)	(10,439)	-
Net change in fund balance	(30,100)	(88,840)	(39,027)	49,813
Fund balance, beginning of year	226,940	226,940	226,940	-
Fund balance, end of year	\$ 196,840	\$ 138,100	\$ 187,913	\$ 49,813

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Net Position

Proprietary Funds
February 28, 2014

	Business-type Activities -Enterprise Funds				Governmental Activities
	Sewer	Water	Marina	Total	Internal Service Fund
Assets					
Current assets:					
Cash and investments	\$ 384,827	\$ 160,860	\$ 98,972	\$ 644,659	\$ 261,472
Accounts receivable	101,476	54,809	58,723	215,008	-
Due from other funds	74,111	4,012	3,732	81,855	1,403
Inventory	-	-	34,784	34,784	-
Total current assets	<u>560,414</u>	<u>219,681</u>	<u>196,211</u>	<u>976,306</u>	<u>262,875</u>
Noncurrent assets:					
Property and equipment					
Land	36,915	14,725	21,500	73,140	-
Buildings	121,971	28,211	-	150,182	-
Improvements other than buildings	7,417,570	2,338,091	113,358	9,869,019	-
Machinery and equipment	252,343	204,314	63,467	520,124	1,019,734
Marina	-	-	1,757,833	1,757,833	-
Accumulated depreciation	<u>(2,736,223)</u>	<u>(1,078,457)</u>	<u>(1,313,220)</u>	<u>(5,127,900)</u>	<u>(688,308)</u>
Net property and equipment	<u>5,092,576</u>	<u>1,506,884</u>	<u>642,938</u>	<u>7,242,398</u>	<u>331,426</u>
Other assets:					
Restricted cash and investments	67,291	70,000	-	137,291	-
Total noncurrent assets	<u>5,159,867</u>	<u>1,576,884</u>	<u>642,938</u>	<u>7,379,689</u>	<u>331,426</u>
Total assets	<u>5,720,281</u>	<u>1,796,565</u>	<u>839,149</u>	<u>8,355,995</u>	<u>594,301</u>
Liabilities					
Current liabilities:					
Accounts payable	3,676	9,004	117,069	129,749	15,572
Accrued liabilities	2,207	1,826	879	4,912	724
Due to other funds	33,350	36,086	17,935	87,371	12,811
Unearned revenue	-	-	82,164	82,164	-
Note payable, current portion	-	-	-	-	24,379
Total current liabilities	<u>39,233</u>	<u>46,916</u>	<u>218,047</u>	<u>304,196</u>	<u>53,486</u>
Noncurrent liabilities, net of current portion:					
Note payable	-	-	-	-	116,974
Total liabilities	<u>39,233</u>	<u>46,916</u>	<u>218,047</u>	<u>304,196</u>	<u>170,460</u>
Net position					
Net investment in capital assets	5,092,576	1,506,884	642,938	7,242,398	190,073
Unrestricted (deficit)	<u>588,472</u>	<u>242,765</u>	<u>(21,836)</u>	<u>809,401</u>	<u>233,768</u>
Total net position	<u>\$ 5,681,048</u>	<u>\$ 1,749,649</u>	<u>\$ 621,102</u>	<u>\$ 8,051,799</u>	<u>\$ 423,841</u>

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended February 28, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Marina	Total	Internal Service Fund
Operating revenues					
Sales and charges for services	\$ 579,855	\$ 358,662	\$ 296,323	\$ 1,234,840	\$ 261,341
Operating expenses					
Salaries and wages	116,660	104,396	84,943	305,999	36,931
Fringe benefits	61,037	54,963	23,851	139,851	18,906
Supplies	70,390	18,714	14,446	103,550	4,366
Gasoline and oil	4,308	4,391	84,509	93,208	42,120
Repairs and maintenance	1,990	20,119	3,882	25,991	22,441
Contracted services	14,101	11,686	165,279	191,066	1,802
Communications	4,335	3,408	4,223	11,966	3,850
Conferences and workshops	297	560	80	937	95
Travel	-	25	92	117	-
Insurance	3,367	1,966	5,097	10,430	4,018
Utilities	98,886	11,795	25,922	136,603	6,074
Equipment rental	4,615	4,448	358	9,421	-
Depreciation	139,498	56,017	37,922	233,437	77,762
Miscellaneous	904	4,718	6,903	12,525	-
Total operating expenses	520,388	297,206	457,507	1,275,101	218,365
Operating income (loss)	59,467	61,456	(161,184)	(40,261)	42,976
Nonoperating revenues (expenses)					
Interest earnings	494	-	-	494	-
State revenue	-	-	37,500	37,500	-
Gain on disposal of asset	-	-	-	-	13,850
Interest and fiscal charges	-	(8,515)	-	(8,515)	(2,046)
Total nonoperating revenues (expenses)	494	(8,515)	37,500	29,479	11,804
Income (loss) before transfers	59,961	52,941	(123,684)	(10,782)	54,780
Transfers out	(68,376)	-	-	(68,376)	(24,375)
Change in net position	(8,415)	52,941	(123,684)	(79,158)	30,405
Net position, beginning of year	5,689,463	1,696,708	744,786	8,130,957	393,436
Net position, end of year	\$ 5,681,048	\$ 1,749,649	\$ 621,102	\$ 8,051,799	\$ 423,841

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended February 28, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Marina	Total	Internal Service Fund
Cash flows from operating activities					
Cash collected from customers	\$ 557,947	\$ 349,491	\$ 282,520	\$ 1,189,958	\$ -
Cash collected from other funds	-	-	-	-	261,341
Cash paid for employee wages and benefits	(178,003)	(159,373)	(108,632)	(446,008)	(56,332)
Cash paid for other operating and administrative expenses	(208,451)	(79,024)	(203,843)	(491,318)	(84,824)
Net cash provided by (used in) operating activities	171,493	111,094	(29,955)	252,632	120,185
Cash flows from capital and related financing activities					
Interest payments	-	(8,515)	-	(8,515)	(2,046)
Principal payments	-	(170,000)	-	(170,000)	(38,311)
Purchase of property and equipment	(349,482)	(26,448)	(16,241)	(392,171)	(180,040)
State grant	-	-	37,500	37,500	-
Transfers in	-	-	-	-	-
Proceeds from sale of equipment	-	-	-	-	13,850
Transfers out	(68,376)	-	-	(68,376)	(24,375)
Net cash provided by (used in) capital and related financing activities	(417,858)	(204,963)	21,259	(601,562)	(230,922)
Cash flows from investing activities					
Interest received	494	-	-	494	-
Purchases of investments	-	-	-	-	153,376
Net cash provided by investing activities	494	-	-	494	153,376
Net (decrease) increase in cash and investments	(245,871)	(93,869)	(8,696)	(348,436)	42,639
Cash and investments, beginning of year	630,698	254,729	107,668	993,095	218,833
Cash and investments, end of year	\$ 384,827	\$ 160,860	\$ 98,972	\$ 644,659	\$ 261,472

Continued...

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended February 28, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Marina	Total	Internal Service Fund
Cash flows from operating activities					
Operating income (loss)	\$ 59,467	\$ 61,456	\$ (161,184)	\$ (40,261)	\$ 42,976
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities					
Depreciation	139,498	56,017	37,922	233,437	77,762
(Gain) loss on disposal of capital assets	-	3,159	-	3,159	-
Changes in operating assets and liabilities which provided (used) cash					
Accounts receivable	(21,908)	(9,171)	(13,803)	(44,882)	-
Inventory	-	-	(9,347)	(9,347)	-
Accounts payable	(5,258)	(353)	115,877	110,266	(58)
Accrued liabilities	(306)	(14)	162	(158)	(495)
Unearned revenue	-	-	418	418	-
Net cash (used in) provided by operating activities	<u>\$ 171,493</u>	<u>\$ 111,094</u>	<u>\$ (29,955)</u>	<u>\$ 252,632</u>	<u>\$ 120,185</u>

Concluded

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Net Position - Fiduciary Funds

Fiduciary Funds
February 28, 2014

	Pension Trust Fund	
	Employees' Retirement System	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 11,831
Investments	900,004	-
Total assets	<u>900,004</u>	<u>\$ 11,831</u>
Liabilities		
Accounts payable	-	\$ 808
Due to employees	-	11,023
Total liabilities	<u>-</u>	<u>\$ 11,831</u>
Net position - restricted for pension benefits	<u>\$ 900,004</u>	

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Changes in Net Position - Fiduciary Fund Pension Trust Fund For the Year Ended February 28, 2014

Additions	
Contributions	\$ 63,836
Investment gain	<u>111,078</u>
Total additions	174,914
Deductions	
Benefit payments	<u>277,505</u>
Change in net position	(102,591)
Net position - restricted for pension benefits, beginning of year	<u>1,002,595</u>
Net position - restricted for pension benefits, end of year	<u><u>\$ 900,004</u></u>

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

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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

The fund financial statements provide information about the Village's funds, including its fiduciary funds. Separate statements for each fund category - governmental, proprietary, and fiduciary - are presented. The emphasis of fund 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, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. The Village considers all revenues reported in the governmental funds to be available if they are collected within sixty (60) days of the end of the current fiscal period. Property taxes, state shared revenue, grant revenue, interest and other receivables earned within the year, but not collected until after year-end are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Village.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted net position includes assets that are subject to restrictions beyond the Village's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

The Village reports the following major governmental funds:

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

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

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

The Village reports the following major enterprise funds:

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

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

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

Additionally, the Village reports the following fund types:

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

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

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

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

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

Agency 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.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Assets, liabilities, deferred inflows of resources and equity

Deposits and investments

The Village pools cash and investment resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable and is displayed on the statement of net position/balance sheet as "Cash and investments." The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various certificates of deposit. Cash resources of the debt service and trust and agency funds are held separately, as required by law.

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

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

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

Receivables and payables

All receivables are reported at their gross value, and where appropriate are reduced by the estimated portion that is expected to be uncollectible. The Ambulance Special Revenue Fund accounts receivable is shown net of an estimated allowance for uncollectible accounts of \$87,000.

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

Inventories

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

Restricted investments

Certain resources are set aside for repairs and replacements in the sewer and water funds and are classified as restricted assets on the Statement of Net Position because their use is limited.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Village defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

	Years
Land improvements	10-15
Infrastructure	20
Buildings and improvements	15-40
Machinery and equipment	5-25
Improvements other than buildings	20-75
Marina	7-40

Compensated absences

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

Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Deferred inflows of resources

In addition to liabilities, the statement of financial position 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from two sources: property taxes and special assessment receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources reported in the government-wide and governmental fund financial statements for items such as property taxes levied during the year that were intended to finance future periods.

Fund equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Village Council (the Village's highest level of decision-making authority). A formal resolution of the Village Council is required to establish, modify, or rescind a fund balance commitment. The Village reports assigned fund balance for amounts that are constrained by the Village's intent to be used for specific purposes, but are neither restricted nor committed. The Village Council has delegated the authority to assign fund balance to the Village Manager or his designee. Unassigned fund balance is the residual classification for the General Fund.

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.

Property taxes

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan and Emmet Counties. Assessed values, as established annually by the 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 2013 levy was approximately \$96,430,000. The Village's general operating tax rate for fiscal 2013-14 was 10.6215 mills with an additional 4.2485 mills for streets and 0.8495 mills for the cemetery. Property taxes are recognized in the fiscal year in which they are levied.

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Interfund transactions

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. BUDGETARY INFORMATION

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.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

3. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the Village were adopted on the functional level basis for all governmental funds, which is the legal level of control. During the year ended February 28, 2014 the Village had expenditures in budgetary funds which were in excess of the amounts budgeted as follows:

	Final Amended Budget	Actual Expenditures	Unfavorable Variance
General Fund			
Legislative	\$ 63,742	\$ 69,039	\$ 5,297
Recreation and culture	440,853	450,382	9,529
Municipal Street Special Revenue Fund			
Highway and streets	38,150	41,095	2,945

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of February 28, 2014:

	Primary Government	Component Unit	Totals
Statement of Net Position			
Cash and investments	\$ 2,217,405	\$ 94,131	\$ 2,311,536
Restricted investments	137,291	-	137,291
Total Statement of Net Position	<u>\$ 2,354,696</u>	<u>\$ 94,131</u>	2,448,827
Statement of Net Position - Fiduciary Funds			
Cash and cash equivalents			11,831
Investments			900,004
Total			<u>\$ 3,360,662</u>
Deposits and investments			
Bank deposits:			
Checking and savings accounts			\$ 1,389,871
Certificates of deposit:			
Maturing in 1 year			919,787
Maturing in 1-5 years			151,000
Investments:			
Securities, mutual funds and similar vehicles			900,004
Total			<u>\$ 3,360,662</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments below. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments included in the Statement of Net Position - Fiduciary Funds do not have specific maturity dates.

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

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year-end, \$1,597,700 of the Village's bank balance of \$2,483,747 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk-Investments. The Village's Pension Trust Fund holds securities of \$900,004 in a trust fund of a life insurance company, which are not in the Village's name. The carrying amount of the Pension Trust Fund investments is stated at fair value.

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

Bonds, securities, other obligations, and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.

Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

Bankers acceptances of United States banks.

Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.

Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.

External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

5. RECEIVABLES

Receivables are comprised of the following at February 28, 2014:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ 42,296	\$ 215,008	\$ -
Taxes receivable	137,926	-	8,486
Special assessment receivable, due in one year	21,372	-	-
Special assessment receivable, due in more than one year	69,204	-	-
Due from other governmental units	22,797	-	-
	<u>\$ 293,595</u>	<u>\$ 215,008</u>	<u>\$ 8,486</u>

Governmental funds report deferred inflows of resources in connection with receivables that are not considered to be available to liquidate liabilities of the current period of \$98,243.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The composition of accounts payable and accrued liabilities is as follows at February 28, 2014:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 138,535	\$ 129,749	\$ 3,339
Accrued liabilities	53,800	4,912	-
	<u>\$ 192,335</u>	<u>\$ 134,661</u>	<u>\$ 3,339</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of February 28, 2014, was as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 172,280	\$ 143,938
Municipal Street Fund	23,523	3,409
Ambulance Fund	7,021	20,887
Nonmajor governmental funds	49,750	67,416
Sewer	74,111	33,350
Water	4,012	36,086
Marina	3,732	17,935
Internal Service Fund	1,403	12,811
	<u>\$ 335,832</u>	<u>\$ 335,832</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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

For the year ended February 28, 2014, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 126,674
Municipal Street Fund	-	366,591
Ambulance Fund	-	10,439
Nonmajor governmental funds	596,455	-
Sewer Fund	-	68,376
Internal Service Fund	-	24,375
	<u>\$ 596,455</u>	<u>\$ 596,455</u>

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended February 28, 2014 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 919,923	\$ 276,388	\$ -	\$ -	\$ 1,196,311
Construction in progress	122,658	36,583	-	(159,241)	-
Total capital assets not being depreciated	1,042,581	312,971	-	(159,241)	1,196,311
Capital assets, being depreciated:					
Buildings and improvements	2,358,687	-	-	159,241	2,517,928
Land improvements	939,830	17,000	-	-	956,830
Equipment	3,246,846	253,737	(120,074)	-	3,380,509
Infrastructure	4,680,118	-	-	-	4,680,118
Total capital assets being depreciated	11,225,481	270,737	(120,074)	159,241	11,535,385
Less accumulated depreciation for:					
Buildings and improvements	(819,356)	(67,340)	-	-	(886,696)
Land improvements	(729,269)	(26,538)	-	-	(755,807)
Equipment	(1,991,276)	(227,101)	120,074	-	(2,098,303)
Infrastructure	(1,943,620)	(234,006)	-	-	(2,177,626)
Total accumulated depreciation	(5,483,521)	(554,985)	120,074	-	(5,918,432)
Total capital assets being depreciated, net	5,741,960	(284,248)	-	159,241	5,616,953
Governmental activities capital assets, net	\$ 6,784,541	\$ 28,723	\$ -	\$ -	\$ 6,813,264

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 73,140	\$ -	\$ -	\$ -	\$ 73,140
Construction in progress	30,037	304,947	-	(334,984)	-
Total capital assets not being depreciated	103,177	304,947	-	(334,984)	73,140
Capital assets, being depreciated:					
Buildings and improvements	150,182	-	-	-	150,182
Improvements other than buildings	9,527,258	18,088	(11,311)	334,984	9,869,019
Machinery and equipment	467,931	52,895	(702)	-	520,124
Marina	1,741,592	16,241	-	-	1,757,833
Total capital assets being depreciated	11,886,963	87,224	(12,013)	334,984	12,297,158
Less accumulated depreciation for:					
Buildings and improvements	(53,694)	(4,538)	-	-	(58,232)
Improvements other than buildings	(3,369,790)	(168,022)	8,152	-	(3,529,660)
Machinery and equipment	(359,264)	(25,263)	702	-	(383,825)
Marina	(1,120,569)	(35,614)	-	-	(1,156,183)
Total accumulated depreciation	(4,903,317)	(233,437)	8,854	-	(5,127,900)
Total capital assets being depreciated, net	6,983,646	(146,213)	(3,159)	334,984	7,169,258
Business-type activities capital assets, net	\$ 7,086,823	\$ 158,734	\$ (3,159)	\$ -	\$ 7,242,398

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Depreciation expense charged to functions/programs of the primary government is as follows for the year ended February 28, 2014:

Depreciation of governmental activities by function	
General government	\$ 57,490
Public safety	67,371
Highways and streets	261,914
Health and welfare	11,573
Recreation and culture	78,875
Depreciation charged to the internal service fund	<u>77,762</u>
Total depreciation expense - governmental activities	<u>\$ 554,985</u>
Depreciation of business-type activities by function	
Sewer	139,498
Water	56,017
Marina	<u>37,922</u>
Total depreciation expense - business-type activities	<u>\$ 233,437</u>

9. LONG-TERM DEBT

A summary of long-term debt and transactions related thereto is as follows for the year ended February 28, 2014:

	Beginning of Year	Additions	Deductions	End of Year	Due Within One Year
Governmental Activities					
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%.	\$ 715,000	\$ -	\$ (25,000)	\$ 690,000	\$ 25,000
2009 Capital Improvement Bonds maturing serially through fiscal 2020 in annual payments ranging from \$55,000 to \$85,000 and bearing interest ranging from 3.25% to 4.5%.	490,000	-	(60,000)	430,000	65,000

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

	Beginning of Year	Additions	Deductions	End of Year	Due Within One Year
Governmental Activities (continued)					
2007 Capital Improvement Bonds, maturing serially through fiscal 2018 in annual payments ranging from \$45,000 to \$80,000 and bearing interest ranging from 4.3% to 4.6%.	\$ 330,000	\$ -	\$ (60,000)	\$ 270,000	\$ 60,000
2004 Capital Improvement Bonds maturing serially through fiscal 2015 in annual payments of \$40,000 and bearing interest at 3.38%.	80,000	-	(40,000)	40,000	40,000
Total bonded debt	1,615,000	-	(185,000)	1,430,000	190,000
2005 Act 99 installment contract maturing in fiscal 2016 in semi-annual payments of \$8,382 including interest at 4.25%.	39,339	-	(15,235)	24,104	15,897
2013 Act 99 installment contract maturing in fiscal 2020 in semi-annual payments of \$13,767 and bearing interest at 2.3%.	-	153,376	(12,023)	141,353	24,379
Note payable to John Deere Credit repaid in fiscal 2014.	26,288	-	(26,288)	-	-
Total installment debt	65,627	153,376	(53,546)	165,457	40,276
Accrued compensated absences	234,272	98,320	(75,358)	257,234	25,374
Total governmental activities	\$ 1,914,899	\$ 251,696	\$ (313,904)	\$ 1,852,691	\$ 255,650
Business-type Activities					
Water Revenue Bonds, repaid in fiscal 2014.	\$ 170,000	\$ -	\$ (170,000)	\$ -	\$ -

* Compensated absences are generally liquidated by the general fund.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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

Year Ended February 28,	Governmental Activities	
	Principal	Interest
2015	\$ 230,276	\$ 66,357
2016	193,158	58,618
2017	195,531	51,673
2018	206,135	44,149
2019	131,748	35,811
2020-2024	268,609	127,508
2025-2029	215,000	79,500
2030-2032	155,000	18,900
	<u>\$ 1,595,457</u>	<u>\$ 482,516</u>

Total interest expense for the primary government for the year ended February 28, 2014 was \$70,394.

10. LEASES

The Village entered into lease agreements with three communication companies to lease a water tower as a site for the companies' telecommunications equipment. The initial term of the first lease agreement, which began in June 2001 was for five years with the right to extend the lease for four additional five year terms. The third lease agreement, which began in February 2013 was for five years with the right to extend the lease for five additional five year terms.

Rental income from the lease of the water tower reported in the Recreation Center Special Revenue Fund amounted to \$14,283 for the year ended February 28, 2014. Future minimum rentals related to these leases are as follows:

2015	\$ 24,333
2016	20,659
2017	11,330
2018	<u>6,193</u>
Total	<u>\$ 62,515</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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 \$159,008 for the year ended February 28, 2014.

11. 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.

12. BENEFIT PLANS

Defined Benefit Pension Plan

Plan Description. The Village established a defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The police officers at the Village are the only employees eligible to participate in this plan. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling (800) 767-6377.

Funding Policy. The Village is required to contribute at an actuarially determined rate; the current rate is 10.13% 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 5.09%. 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.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Annual Pension Cost. For the year ended February 28, 2014, the Village’s annual pension cost of \$27,253 for MERS was equal to the Village’s required and actual contributions. The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% (1% for calendar years 2012-2014) plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, the date of the latest actuarial valuation, was 27 years.

Three-Year Trend Information			
Years Ended February 28,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2012	\$ 28,668	100%	\$ -
2013	26,679	100%	-
2014	27,253	100%	-

Funded Status and Funding Progress. As of December 31, 2012, the most recent valuation date, the Plan was 88% funded. The actuarial accrued liability for benefits was \$811,455 and the actuarial value of assets was \$715,856, resulting in an unfunded actuarial accrued liability of \$95,599, which means the Plan is underfunded. The covered payroll (annual payroll for active employees covered by the Plan) was \$262,651 and the ratio for the underfunded actuarial accrued liability to the covered payroll was 36%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 in the amount of \$62,156 and employees made contributions of \$1,680 for the plan year ended February 28, 2014.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

13. OTHER POSTEMPLOYMENT BENEFITS

Primary Government

Plan Description. The Village of Mackinaw City administers a single employer defined benefit healthcare plan established by the Village Council. In addition to the retirement benefits described in Note 13, the Village provides health insurance benefits to certain retirees, which are advance funded on a discretionary basis. In accordance with Village policy, eligible retirees receive healthcare benefits for two years after retirement. At February 28, 2013, the date of the last plan valuation, the Village’s healthcare plan covered sixteen members (fifteen active plan members and one retiree receiving benefits). The plan does not issue a separate financial report.

Funding Policy. The contribution requirements of Plan members and the Village are established and may be amended by the Village Council. The required contribution is based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually by Village Council. For the year ended February 28, 2014, the Village contributed \$11,898 to the Plan, all of which was to fund current year benefits. Current retirees receiving benefits contributed \$2,799 to the Plan, based on agreed upon amounts. Subsequent to year end, this Plan was closed to future retirees that did not meet the definition of a qualifying employee.

Annual OPEB Cost and Net OPEB Obligation. The Village’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Village has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Village’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Village’s net OPEB obligation:

Annual required contribution	\$ 11,977
Interest on net OPEB obligation	1,573
Adjustment to annual required contribution	<u>(8,195)</u>
Net OPEB cost (expense)	5,355
Contributions made	<u>(11,898)</u>
Decrease in net OPEB obligation	(6,543)
Net OPEB obligation, beginning of year	<u>28,591</u>
Net OPEB obligation, end of year	<u><u>\$ 22,048</u></u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

The Village's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2014 and the preceding two years was as follows:

Three-Year Trend Information			
Year Ended February 28,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 23,700	51%	\$ 17,952
2013	23,762	55%	28,591
2014	5,355	222%	22,048

Funded Status and Funding Progress. As of February 28, 2012, the actuarial accrued liability for benefits was \$240,803 all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$656,408 and the ratio of the UAAL to the covered payroll was 37%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees—Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62.

Mortality—Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2006 United States Life Tables for Males and for Females were used.

Turnover—Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate—The expected rate of increase in healthcare insurance premiums was based on projections by Village management. A rate of 3.00% was used.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Health insurance premiums—Fiscal year 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate—The expected long-term inflation assumption of 3.30% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

Payroll growth rate—The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Village’s short-term investment portfolio, a discount rate of 5.50% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at February 28, 2014, was thirty years.

14 NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of February 28, 2014, was as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 1,196,311	\$ 73,140
Capital assets being depreciated, net	5,616,953	7,169,258
	<u>6,813,264</u>	<u>7,242,398</u>
Related debt:		
Due within one year	255,650	-
Due in more than one year	1,597,041	-
Less: accrued compensated absences	(257,234)	-
	<u>1,595,457</u>	<u>-</u>
Net investment in capital assets	<u>\$ 5,217,807</u>	<u>\$ 7,242,398</u>

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF MACKINAW CITY, MICHIGAN

Required Supplementary Information

The following schedules of employer contributions and schedules of funding progress, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

1. DEFINED BENEFIT PENSION PLAN

Schedule of Employer Contributions Six -Year Trend Information

Years Ended February 28,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2009	\$ 24,742	100%
2010	25,540	100%
2011	25,860	100%
2012	28,668	100%
2013	26,679	100%
2014	27,253	100%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Under- funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2007	\$ 434,949	\$ 458,888	\$ 23,939	95%	\$ 239,318	10%
12/31/2008	491,574	533,118	41,544	92%	246,990	17%
12/31/2009	562,601	629,153	66,552	89%	210,361	32%
12/31/2010	611,067	686,902	75,835	89%	260,064	29%
12/31/2011	663,851	745,249	81,398	89%	257,059	32%
12/31/2012	715,856	811,455	95,599	88%	262,651	36%

VILLAGE OF MACKINAW CITY, MICHIGAN

Required Supplementary Information

2. OTHER POSTEMPLOYMENT BENEFITS

Schedule of Employer Contributions

Years Ended February 28,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2011	23,128	94%
2012	23,656	55%
2014	11,978	99%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Under-funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2/28/2011	\$ -	\$ 219,317	\$ 219,317	-%	\$ 766,616	29%
2/29/2012	-	240,803	240,803	-%	656,408	37%
2/28/2014	-	22,048	22,048	-%	59,539	37%

* A plan this size is not required to be valued each year. Additional years of data will be included in future years as revised valuations are necessary.

**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND
SCHEDULES**

VILLAGE OF MACKINAW CITY, MICHIGAN

Detail Schedule of Revenues, Expenditures and Other Financing Uses

Budget and Actual - General Fund

For the Year Ended February 28, 2014

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Property taxes				
Current property taxes	\$ 1,136,222	\$ 1,093,417	\$ 1,057,688	\$ (35,729)
Property tax administration fees	10,711	15,160	15,286	126
Total property taxes	<u>1,146,933</u>	<u>1,108,577</u>	<u>1,072,974</u>	<u>(35,603)</u>
State revenue				
Liquor licenses	8,500	8,500	9,037	537
Other state revenue	66,898	78,898	77,527	(1,371)
Total state revenue	<u>75,398</u>	<u>87,398</u>	<u>86,564</u>	<u>(834)</u>
Licenses and permits				
Business licenses and permits	5,000	8,200	8,438	238
Non-business licenses and permits	2,500	2,500	5,249	2,749
Total licenses and permits	<u>7,500</u>	<u>10,700</u>	<u>13,687</u>	<u>2,987</u>
Contributions				
Other governmental units	43,159	43,159	41,475	(1,684)
Other	352,240	352,240	174,144	(178,096)
Total contributions	<u>395,399</u>	<u>395,399</u>	<u>215,619</u>	<u>(179,780)</u>
Charges for services	2,175	2,175	657	(1,518)
Fines and forfeitures	1,900	6,125	6,527	402
Interest earnings	11,000	11,000	5,760	(5,240)
Rents	182,000	182,000	167,808	(14,192)
Miscellaneous	11,300	11,300	11,871	571
Total revenues	<u>1,833,605</u>	<u>1,814,674</u>	<u>1,581,467</u>	<u>(233,207)</u>

Continued...

VILLAGE OF MACKINAW CITY, MICHIGAN

Detail Schedule of Revenues, Expenditures and Other Financing Uses

Budget and Actual - General Fund

For the Year Ended February 28, 2014

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Expenditures				
Legislative				
Village council	\$ 25,177	\$ 63,742	\$ 69,039	\$ (5,297)
General government				
Village manager	80,796	82,101	86,396	(4,295)
Professional services	80,790	67,000	63,129	3,871
Clerk	21,935	26,135	27,095	(960)
Treasurer	25,337	29,857	28,478	1,379
Community development director	69,090	19,390	16,369	3,021
Village hall and grounds	97,751	71,689	68,505	3,184
Village property - other	151,995	145,275	130,831	14,444
Promotional	61,460	77,010	73,586	3,424
Planning commission	10,600	10,600	5,973	4,627
Economic development corporation	2,000	2,000	-	2,000
Total general government	601,754	531,057	500,362	30,695
Public safety				
Police department	475,118	507,218	517,999	(10,781)
Fire department	109,855	95,855	81,689	14,166
Total public safety	584,973	603,073	599,688	3,385
Recreation and culture				
	170,305	440,853	450,382	(9,529)
Total expenditures	1,382,209	1,638,725	1,619,471	19,254
Revenue (under) over expenditures	451,396	175,949	(38,004)	(213,953)
Other financing uses				
Transfers out	(175,098)	(175,098)	(126,674)	48,424
Net change in fund balance	\$ 276,299	\$ 852	\$ (164,678)	\$ (165,530)

Concluded

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 February 28, 2014

	Special Revenue Funds	Debt Service Funds	Waterfront Development Bond Capital Fund	Total
Assets				
Cash and investments	\$ 314,640	\$ 40,119	\$ 3,848	\$ 358,607
Special assessments receivable	-	21,789	-	21,789
Accounts receivable	5,074	-	-	5,074
Other assets	-	15,475	-	15,475
Due from other funds	40,950	8,800	-	49,750
Due from other governmental units	12,507	-	-	12,507
Taxes receivable	6,794	-	-	6,794
Total assets	\$ 379,965	\$ 86,183	\$ 3,848	\$ 469,996
Liabilities				
Accounts payable	\$ 3,316	\$ -	\$ -	\$ 3,316
Accrued liabilities	5,694	-	-	5,694
Due to other funds	56,258	11,158	-	67,416
Total liabilities	65,268	11,158	-	76,426
Deferred inflow of resources				
Unavailable revenue	7,667	21,789	-	29,456
Fund balances				
Restricted:				
Highways and streets	186,531	-	-	186,531
Cemetery	106,421	-	-	106,421
WaWatam area seniors	9,781	-	-	9,781
Debt service	-	53,236	-	53,236
Assigned:				
Iron workers walk foundation	4,297	-	-	4,297
Capital projects	-	-	3,848	3,848
Total fund balances	307,030	53,236	3,848	364,114
Total liabilities, deferred inflow of resources and fund balances	\$ 379,965	\$ 86,183	\$ 3,848	\$ 469,996

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended February 28, 2014

	Special Revenue Funds	Debt Service Funds	Waterfront Development Bond Capital Funds	Total
Revenues				
Property taxes	\$ 133,745	\$ -	\$ -	\$ 133,745
State revenue	178,313	-	-	178,313
Contributions	57,385	-	-	57,385
Charges for services	18,501	-	-	18,501
Interest	-	3,665	-	3,665
Rents	72,533	-	-	72,533
Local contribution	-	17,651	-	17,651
Special assessments	-	10,721	-	10,721
Miscellaneous	1,940	-	2,301	4,241
Total revenues	462,417	32,037	2,301	496,755
Expenditures				
Current:				
General government	45,144	-	-	45,144
Highways and streets	510,436	-	-	510,436
Health and welfare	101,501	-	-	101,501
Recreation and culture	137,624	-	-	137,624
Debt service:				
Principal	-	200,235	-	200,235
Interest and paying agent fees	-	70,385	-	70,385
Capital outlay	40,293	-	-	40,293
Total expenditures	834,998	270,620	-	1,105,618
Revenue (over) under expenditures	(372,581)	(238,583)	2,301	(608,863)
Other financing sources				
Transfers in	352,010	244,445	-	596,455
Net change in fund balances	(20,571)	5,862	2,301	(12,408)
Fund balances, beginning of year	327,601	47,374	1,547	376,522
Fund balances, end of year	\$ 307,030	\$ 53,236	\$ 3,848	\$ 364,114

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Balance Sheet Nonmajor Special Revenue Funds February 28, 2014

	Major Street	Local Street	Cemetery	Recreation Center
Assets				
Cash and investments	\$ 102,983	\$ 95,061	\$ 102,592	\$ -
Accounts receivable	-	-	-	5,000
Due from other funds	-	2,281	869	37,800
Due from other governmental units	8,545	3,962	-	-
Taxes receivable	-	-	6,794	-
Total assets	\$ 111,528	\$ 101,304	\$ 110,255	\$ 42,800
Liabilities				
Accounts payable	\$ -	\$ -	\$ 804	\$ 2,512
Accrued liabilities	2,246	2,221	287	940
Due to other funds	14,267	7,567	2,743	31,681
Total liabilities	16,513	9,788	3,834	35,133
Deferred inflow of resources				
Unavailable revenue	-	-	-	7,667
Fund balances				
Restricted:				
Highways and streets	95,015	91,516	-	-
Cemetery	-	-	106,421	-
WaWatam area seniors	-	-	-	-
Assigned:				
Iron workers walk foundation	-	-	-	-
Total fund balances	95,015	91,516	106,421	-
Total liabilities, deferred inflow of resources and fund balances	\$ 111,528	\$ 101,304	\$ 110,255	\$ 42,800



WaWatom Area Seniors	Iron Workers Walk Foundation	Total
\$ 9,781	\$ 4,223	\$ 314,640
-	74	5,074
-	-	40,950
-	-	12,507
-	-	6,794
<u>\$ 9,781</u>	<u>\$ 4,297</u>	<u>\$ 379,965</u>
\$ -	\$ -	\$ 3,316
-	-	5,694
-	-	56,258
-	-	65,268
-	-	7,667
-	-	186,531
-	-	106,421
9,781	-	9,781
-	4,297	4,297
<u>9,781</u>	<u>4,297</u>	<u>307,030</u>
<u>\$ 9,781</u>	<u>\$ 4,297</u>	<u>\$ 379,965</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended February 28, 2014

	Major Street	Local Street	Cemetery	Recreation Center
Revenues				
Property taxes	\$ -	\$ -	\$ 81,198	\$ -
State revenue	120,674	57,639	-	-
Contributions	-	-	-	2,500
Charges for services	-	-	8,081	10,420
Rents	-	-	-	72,533
Miscellaneous	-	17	-	1,048
Total revenues	120,674	57,656	89,279	86,501
Expenditures				
Current:				
General government	-	-	45,144	-
Highways and streets	282,687	227,749	-	-
Health and welfare	-	-	-	-
Recreation and culture	-	-	-	137,068
Capital outlay	-	-	-	39,479
Total expenditures	282,687	227,749	45,144	176,547
Revenue (under) over expenditures	(162,013)	(170,093)	44,135	(90,046)
Other financing sources				
Transfers in	119,433	159,606	-	72,971
Net change in fund balances	(42,580)	(10,487)	44,135	(17,075)
Fund balances, beginning of year	137,595	102,003	62,286	17,075
Fund balances, end of year	\$ 95,015	\$ 91,516	\$ 106,421	\$ -



WaWatom Area Seniors	Iron Workers Walk Foundation	Total
\$ 52,547	\$ -	\$ 133,745
-	-	178,313
54,885	-	57,385
-	-	18,501
-	-	72,533
-	875	1,940
<u>107,432</u>	<u>875</u>	<u>462,417</u>
-	-	45,144
-	-	510,436
101,501	-	101,501
-	556	137,624
-	814	40,293
<u>101,501</u>	<u>1,370</u>	<u>834,998</u>
5,931	(495)	(372,581)
-	-	352,010
5,931	(495)	(20,571)
<u>3,850</u>	<u>4,792</u>	<u>327,601</u>
<u>\$ 9,781</u>	<u>\$ 4,297</u>	<u>\$ 307,030</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Balance Sheet Nonmajor Debt Service Funds February 28, 2014

	1998 Act 99 Installment Contract Ice System	1999 Special Assessment Bonds	2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck
Assets				
Cash and investments	\$ 44	\$ 12,470	\$ -	\$ -
Special assessments receivable	-	-	-	-
Other assets	-	-	-	-
Due from other funds	-	-	-	-
Total assets	\$ 44	\$ 12,470	\$ -	\$ -
Liabilities				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Deferred inflow of resources				
Unavailable revenue	-	-	-	-
Fund balances				
Restricted	44	12,470	-	-
Total liabilities, deferred inflow of resources and fund balances	\$ 44	\$ 12,470	\$ -	\$ -



2007 Special Assessment Bonds	2009 General Obligation Bonds	2011 Capital Improvement Bonds	Total
\$ 15,699	\$ 8,863	\$ 3,043	\$ 40,119
21,789	-	-	21,789
-	-	15,475	15,475
8,800	-	-	8,800
<u>\$ 46,288</u>	<u>\$ 8,863</u>	<u>\$ 18,518</u>	<u>\$ 86,183</u>
\$ 4,001	\$ 7,157	\$ -	\$ 11,158
21,789	-	-	21,789
<u>20,498</u>	<u>1,706</u>	<u>18,518</u>	<u>53,236</u>
<u>\$ 46,288</u>	<u>\$ 8,863</u>	<u>\$ 18,518</u>	<u>\$ 86,183</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Debt Service Funds For the Year Ended February 28, 2014

	1998 Act 99 Installment Contract Ice System	1999 Special Assessment Bonds	2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck
Revenues				
Interest	\$ -	\$ 6	\$ -	\$ -
Special assessments	-	-	-	-
Local contributions	-	-	17,651	-
Total revenues	<u>-</u>	<u>6</u>	<u>17,651</u>	<u>-</u>
Expenditures				
Principal payments	-	-	40,000	15,235
Interest and paying agent fees	-	20	2,026	1,530
Total expenditures	<u>-</u>	<u>20</u>	<u>42,026</u>	<u>16,765</u>
Revenue under expenditures	-	(14)	(24,375)	(16,765)
Other financing sources				
Transfers in	-	-	24,375	16,765
Net change in fund balances	-	(14)	-	-
Fund balances, beginning of year	<u>44</u>	<u>12,484</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 44</u>	<u>\$ 12,470</u>	<u>\$ -</u>	<u>\$ -</u>



2007 Special Assessment Bonds	2009 General Obligation Bonds	2011 Capital Improvement Bonds	Total
\$ 3,655	\$ 4	\$ -	\$ 3,665
10,721	-	-	10,721
-	-	-	17,651
<u>14,376</u>	<u>4</u>	<u>-</u>	<u>32,037</u>
60,000	60,000	25,000	200,235
15,060	20,299	31,450	70,385
<u>75,060</u>	<u>80,299</u>	<u>56,450</u>	<u>270,620</u>
(60,684)	(80,295)	(56,450)	(238,583)
<u>67,530</u>	<u>80,300</u>	<u>55,475</u>	<u>244,445</u>
6,846	5	(975)	5,862
<u>13,652</u>	<u>1,701</u>	<u>19,493</u>	<u>47,374</u>
<u>\$ 20,498</u>	<u>\$ 1,706</u>	<u>\$ 18,518</u>	<u>\$ 53,236</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

■ Combining Balance Sheet Nonmajor Capital Project Funds February 28, 2014

	Waterfront Development Fund
Assets	
Cash and investments (equal to assigned fund balance)	<u>\$ 3,848</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Project Funds
For the Year Ended February 28, 2014

	Waterfront Development Bond
Revenues	
Miscellaneous	\$ 2,301
Fund balances, beginning of year	<u>1,547</u>
Fund balances, end of year	<u><u>\$ 3,848</u></u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended February 28, 2014

	Balance March 1, 2013	Additions	Deductions	Balance February 28, 2014
TAX COLLECTION FUND				
Assets				
Cash and cash equivalents	\$ 767	\$ 1,565,768	\$ 1,565,727	\$ 808
Liabilities				
Accounts payable	\$ 767	\$ 1,473,062	\$ 1,473,021	\$ 808
Due to component unit	-	8,920	8,920	-
Due to other governmental units	-	83,786	83,786	-
Total liabilities	\$ 767	\$ 1,565,768	\$ 1,565,727	\$ 808
EMPLOYEE FLEX PLAN FUND				
Assets				
Cash and cash equivalents	\$ 6,889	\$ 40,265	\$ 36,131	\$ 11,023
Liabilities				
Due to employees	\$ 6,889	\$ 40,265	\$ 36,131	\$ 11,023
TOTAL AGENCY FUNDS				
Assets				
Cash and cash equivalents	\$ 7,656	\$ 1,606,033	\$ 1,601,858	\$ 11,831
Liabilities				
Accounts payable	\$ 767	\$ 1,473,062	\$ 1,473,021	\$ 808
Due to component unit	-	8,920	8,920	-
Due to other governmental units	-	83,786	83,786	-
Due to employees	6,889	40,265	36,131	11,023
Total liabilities	\$ 7,656	\$ 1,606,033	\$ 1,601,858	\$ 11,831

INTERNAL CONTROL AND COMPLIANCE

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

August 15, 2014

Village Council
Village of Mackinaw City, Michigan
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 (the "Village"), as of and for the year ended February 28, 2014, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated August 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Village's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

Finding 2014-FS-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

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

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

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

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

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

Village's Response: The Village has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that the hiring of accounting personnel capable of writing the Village's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

Finding 2014-FS-2: Recording, processing and summarizing accounting data.

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

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

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

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

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

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

Finding 2014-FS-3: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

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

Condition: The small size of the Village's staff does not allow for adequate segregation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting of those assets. Further, certain employees collect or disburse cash and account for the transactions of the Village.

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

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

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

Village's Response: Management has determined that the cost exceeds the benefit to employ the number of accounting personnel required to attain an adequate separation of duties between management functions, accounting functions, and custody of the Village's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Village Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

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.

Compliance and Other Matters

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

Village's Response to Findings

The Village's responses to the findings identified in our audit are described above. The Village'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 Village'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 Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.