

VILLAGE OF MACKINAW CITY
MACKINAW CITY, MICHIGAN



FINANCIAL STATEMENTS

FEBRUARY 28, 2010

VILLAGE OF MACKINAW CITY

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INDEPENDENT AUDITORS' REPORT

August 6, 2010

Village Council
Village of Mackinaw City
Mackinaw City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *Village of Mackinaw City*, (the "Village"), as of and for the year ended February 28, 2010, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2010, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 and the Defined Benefit Pension Plan and Other Postemployment Benefits historical data presented on pages 54 through 55 are not required parts of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is centered on the page.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the **Village of Mackinaw City**, (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2010.

Financial Highlights

- The total assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$15,319,711 (*net assets*). Of this amount, \$2,759,166 (*unrestricted net assets*) may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by \$23,957.
- The Village repaid \$224,980 of long-term debt during the current fiscal year.
- The Village issued capital improvement bonds for \$650,000 during the current fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$973,840, or 55% of total General Fund expenditures and transfers.

Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 12-14 of this report.

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

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

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

The Village maintains 28 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Ambulance Fund, 2000 and 2007 Special Assessment Bonds Funds, and the 2009 Capital Improvement Fund which are considered to be major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 58-65 in this report.

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

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

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

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

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

The basic proprietary fund financial statements can be found on pages 24-27 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-55 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 58-66 of this report.

Government-wide Financial Analysis - Primary Government

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$15,319,711 at the close of fiscal 2010.

A large portion of the Village's net assets (81%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, water and sewer systems, marina, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net assets (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (18%) may be used to meet the government's ongoing obligations to citizens and creditors.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Assets						
Cash and other assets	\$ 2,138,936	\$ 2,072,816	\$ 1,225,108	\$ 1,130,688	\$ 3,364,044	\$ 3,203,504
Capital assets, net of accumulated depreciation, where applicable	<u>7,091,445</u>	<u>6,577,862</u>	<u>7,046,759</u>	<u>7,253,267</u>	<u>14,138,204</u>	<u>13,831,129</u>
Total assets	<u>9,230,381</u>	<u>8,650,678</u>	<u>8,271,867</u>	<u>8,383,955</u>	<u>17,502,248</u>	<u>17,034,633</u>
Liabilities						
Current and other liabilities	71,467	50,422	90,256	75,660	161,723	126,082
Long -term debt	<u>1,790,814</u>	<u>1,367,797</u>	<u>230,000</u>	<u>245,000</u>	<u>2,020,814</u>	<u>1,612,797</u>
Total liabilities	<u>1,862,281</u>	<u>1,418,219</u>	<u>320,256</u>	<u>320,660</u>	<u>2,182,537</u>	<u>1,738,879</u>
Net assets						
Invested in capital assets, net of related debt	5,550,120	5,476,557	6,816,759	7,008,267	12,366,879	12,484,824
Restricted	58,782	77,088	134,884	133,349	193,666	210,437
Unrestricted	<u>1,759,198</u>	<u>1,678,814</u>	<u>999,968</u>	<u>921,679</u>	<u>2,759,166</u>	<u>2,600,493</u>
Total net assets	<u>\$ 7,368,100</u>	<u>\$ 7,232,459</u>	<u>\$ 7,951,611</u>	<u>\$ 8,063,295</u>	<u>\$ 15,319,711</u>	<u>\$ 15,295,754</u>

At the end of fiscal 2010, the Village is able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

The Village's net assets increased by \$23,957 during fiscal 2010. This increase is mainly attributable to the Village's goal of retaining net assets for future infrastructure projects.

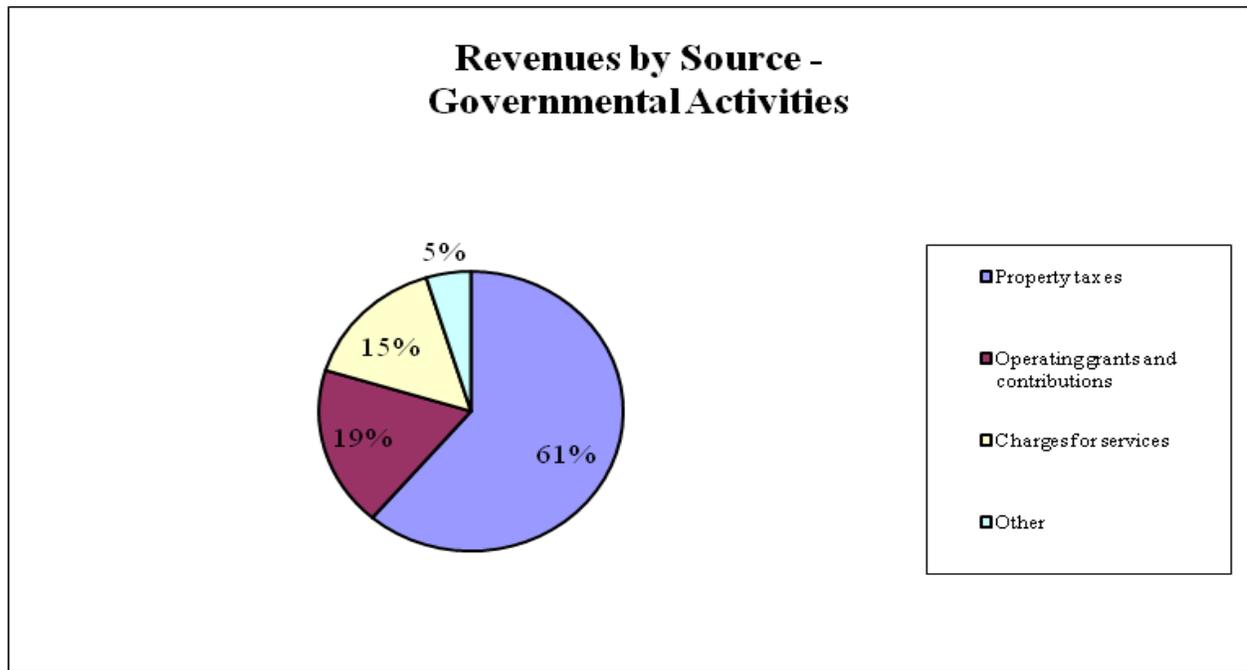
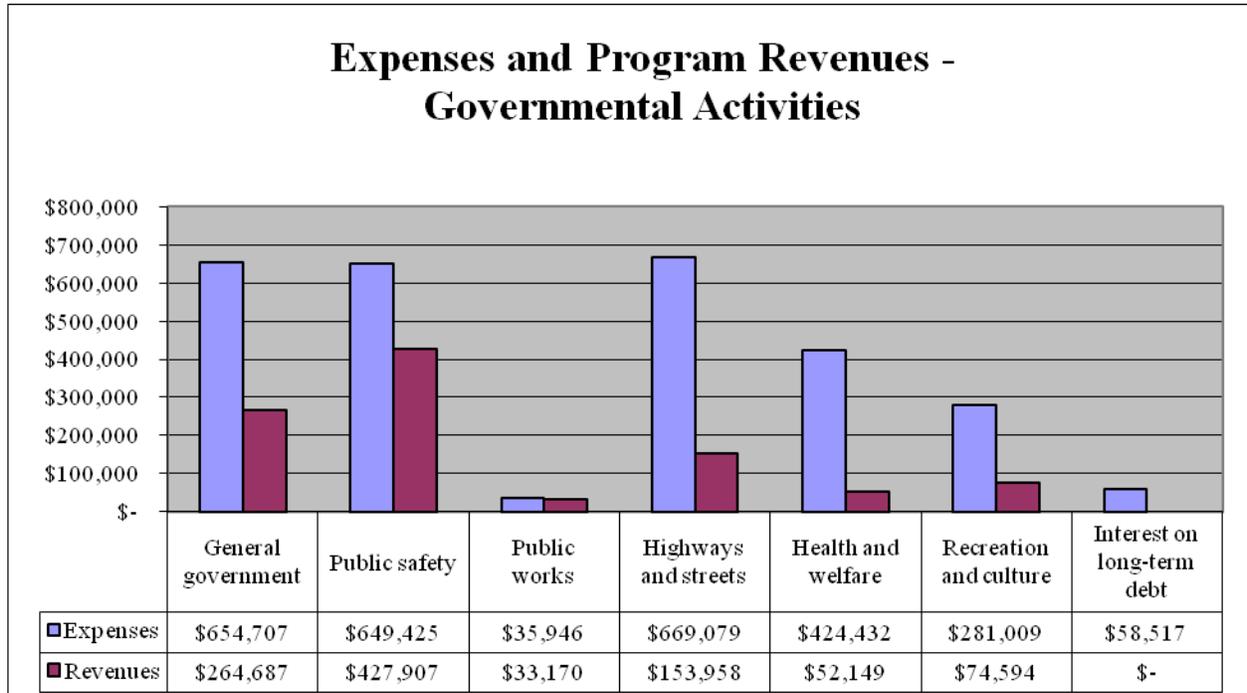
**Village of Mackinaw City - Primary Government
Condensed Statement of Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program revenues						
Charges for services	\$ 462,356	\$ 413,008	\$ 1,058,492	\$ 1,255,317	\$ 1,520,848	\$1,668,325
Operating grants and contributions	537,648	573,400	7,941	11,188	545,589	584,588
Capital grants and contributions	6,461	275,838	-	-	6,461	275,838
General revenues						
Property taxes	1,771,466	1,661,591	-	-	1,771,466	1,661,591
Grants and contributions not restricted to specific programs	44,884	58,291	-	-	44,884	58,291
Unrestricted interest income	36,203	60,542	-	-	36,203	60,542
Total revenues	<u>2,859,018</u>	<u>3,042,670</u>	<u>1,066,433</u>	<u>1,266,505</u>	<u>3,925,451</u>	<u>4,309,175</u>
Expenses						
General government	654,707	524,435	-	-	654,707	524,435
Public safety	649,425	609,139	-	-	649,425	609,139
Public works	35,946	22,607	-	-	35,946	22,607
Highways and streets	669,079	662,733	-	-	669,079	662,733
Health and welfare	424,432	392,741	-	-	424,432	392,741
Recreation and culture	281,009	263,965	-	-	281,009	263,965
Interest on long-term debt	58,517	54,216	-	-	58,517	54,216
Water and sewer	-	-	789,095	883,081	789,095	883,081
Marina	-	-	339,284	397,322	339,284	397,322
Total expenses	<u>2,773,115</u>	<u>2,529,836</u>	<u>1,128,379</u>	<u>1,280,403</u>	<u>3,901,494</u>	<u>3,810,239</u>
Increase (decrease) in net assets before transfers	85,903	512,834	(61,946)	(13,898)	23,957	498,936
Transfers	49,738	50,394	(49,738)	(50,394)	-	-
Changes in net assets	135,641	563,228	(111,684)	(64,292)	23,597	498,936
Net assets – beginning of year	7,232,459	6,669,231	8,063,295	8,127,587	15,295,754	14,796,818
Net assets – end of year	<u>\$ 7,368,100</u>	<u>\$ 7,232,459</u>	<u>\$ 7,951,611</u>	<u>\$ 8,063,295</u>	<u>\$ 15,319,711</u>	<u>\$ 15,295,754</u>

Governmental activities. Governmental activities increased the Village’s net assets by \$135,641 which is approximately \$400,000 less than the increase to net assets in the prior year. This is largely due to the decrease in capital grants because fewer road projects were completed during the current year.

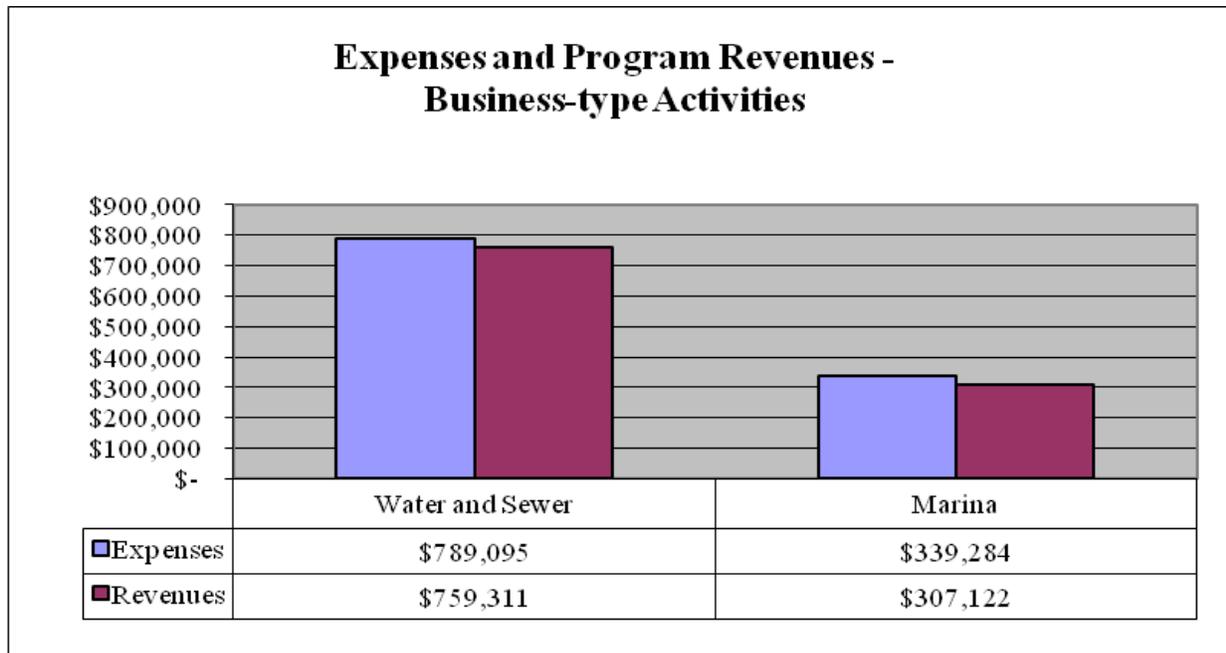
Key elements of this increase are as follows:

- Retention of net assets for future infrastructure projects.



Business-type activities. Business-type activities decreased the Village’s net assets by \$111,684.

Key elements of the current year decrease were a decrease in revenue by approximately \$200,000 during the current year which can be related to fewer new hookups to the Village’s water and sewer system.



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

Financial Analysis of the Government’s Funds

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

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

As of the end of the fiscal year 2010, the Village’s governmental funds reported combined ending fund balances of \$1,681,442, an increase of \$2,269. *Unreserved fund balance* of \$1,622,660 is available for spending at the Village’s discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

The fund balance of the Village’s General Fund increased by \$113,911 during the current fiscal year, which was mainly attributable to management of expenditures, mainly within the public safety and recreation functions.

The fund balance of the Village’s Municipal Street special revenue fund decreased by \$110,550 during the current fiscal year, which was mainly attributable to the increase in transfers to the Major and Local Street special revenue funds that were used to fund street projects.

The fund balance of the Village's Ambulance Fund increased by \$22,238 during the current fiscal year, which was mainly attributable to an increase in revenue received from county millages.

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

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

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$900,113. The Water and Sewer Fund had a decrease in net assets for the year of \$79,522. Factors concerning the finances of this fund have already been addressed in the discussion of the Village's business-type activities.

Unrestricted net assets of the Marina Fund at the end of the year amounted to \$99,855. The Marina Fund had a decrease in net assets for the year of \$32,162. Revenues decreased from fiscal 2009 by \$31,286 and expenses in fiscal 2010 were \$58,038 less than in fiscal 2009.

Budgetary Highlights

General Fund Revenues and Expenditures. General Fund revenues were higher than the original budget while expenditures and transfers out were lower. Budget amendments were made during the year to increase revenues and transfers in and increase expenditures.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2010, amounted to \$14,138,204 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, marina, vehicles and equipment.

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

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

- East Central Avenue electrical improvement
- North Huron Street project
- Replacement of finger piers at the Marina
- Fire Truck
- Ambulance
- Purchase of property

Long-term debt. At February 28, 2010, the Village had total debt (less accrued compensated absences) outstanding of approximately \$1,771,000. Of this amount, approximately \$1,516,000 is comprised of debt backed by the full faith and credit of the Village. The remainder of the Village's bonded debt represents bonds secured solely by specified revenue sources.

Additional information on the Village's long-term debt can be found in Note 3F on pages 47-49 of this report.

Economic Factors and Fiscal 2010-2011 Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2010-11 fiscal year:

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

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, P.O. Box 580, Mackinaw City, Michigan 49701.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY

STATEMENT OF NET ASSETS

FEBRUARY 28, 2010

	Primary Government			Downtown Development Authority Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 956,859	\$ 482,282	\$ 1,439,141	\$ 22,453
Investments	563,320	317,267	880,587	14,772
Receivables, net	595,632	269,684	865,316	13,853
Internal balances	125	(125)	-	-
Inventories	-	21,116	21,116	-
Restricted investments	23,000	134,884	157,884	-
Capital assets not being depreciated	1,006,350	73,140	1,079,490	-
Capital assets being depreciated, net	6,085,095	6,973,619	13,058,714	-
Total assets	9,230,381	8,271,867	17,502,248	51,078
Liabilities				
Accounts payable and accrued expenses	48,498	6,918	55,416	-
Unearned revenue	18,157	83,338	101,495	-
Long-term liabilities				
Net other postemployment benefit obligation	4,812	-	4,812	-
Due within one year	208,405	20,000	228,405	-
Due in more than one year	1,582,409	210,000	1,792,409	-
Total liabilities	1,862,281	320,256	2,182,537	-
Net assets				
Invested in capital assets, net of related debt	5,550,120	6,816,759	12,366,879	-
Restricted for debt service	58,782	134,884	193,666	-
Unrestricted	1,759,198	999,968	2,759,166	51,078
Total net assets	\$ 7,368,100	\$ 7,951,611	\$ 15,319,711	\$ 51,078

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

VILLAGE OF MACKINAW CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Expense</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities					
General government	\$ 654,707	\$ 181,484	\$ 83,203	\$ -	\$ (390,020)
Public safety	649,425	249,532	177,352	1,023	(221,518)
Public works	35,946	24,890	8,280	-	(2,776)
Highways and streets	669,079	-	148,520	5,438	(515,121)
Health and welfare	424,432	2,890	49,259	-	(372,283)
Recreation and culture	281,009	3,560	71,034	-	(206,415)
Interest on long-term debt	58,517	-	-	-	(58,517)
Total governmental activities	<u>2,773,115</u>	<u>462,356</u>	<u>537,648</u>	<u>6,461</u>	<u>(1,766,650)</u>
Business-type activities					
Water and sewer	789,095	751,370	7,941	-	(29,784)
Marina	339,284	307,122	-	-	(32,162)
Total business-type activities	<u>1,128,379</u>	<u>1,058,492</u>	<u>7,941</u>	<u>-</u>	<u>(61,946)</u>
Total primary government	<u>\$ 3,901,494</u>	<u>\$ 1,520,848</u>	<u>\$ 545,589</u>	<u>\$ 6,461</u>	<u>\$ (1,828,596)</u>
Discretely presented component unit					
Downtown development	<u>\$ 17,661</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (17,661)</u>

Continued...

VILLAGE OF MACKINAW CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2010

Functions/Programs	Primary Government			Downtown Development Authority Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net expense	\$ (1,766,650)	\$ (61,946)	\$ (1,828,596)	\$ (17,661)
General revenues				
Property taxes	1,771,466	-	1,771,466	40,714
Grants and contributions not restricted to specific programs	44,884	-	44,884	4,894
Unrestricted interest income	36,203	-	36,203	-
Transfers - internal activities	49,738	(49,738)	-	-
Total general revenues and transfers	<u>1,902,291</u>	<u>(49,738)</u>	<u>1,852,553</u>	<u>45,608</u>
Changes in net assets	135,641	(111,684)	23,957	27,947
Net assets, beginning of year	<u>7,232,459</u>	<u>8,063,295</u>	<u>15,295,754</u>	<u>23,131</u>
Net assets, end of year	<u>\$ 7,368,100</u>	<u>\$ 7,951,611</u>	<u>\$ 15,319,711</u>	<u>\$ 51,078</u>

Concluded

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

FUND FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY

**BALANCE SHEET
GOVERNMENTAL FUNDS**

FEBRUARY 28, 2010

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>
ASSETS				
Cash and cash equivalents	\$ 444,636	\$ 35,584	\$ 31,854	\$ 42,510
Investments	279,800	23,411	20,958	27,968
Accounts receivable, net	7,959	-	-	-
Taxes receivable	202,684	-	-	72,190
Special assessments receivable	-	-	-	169,656
Due from other funds	173,003	5,719	2,281	-
Due from other governmental units	-	6,896	3,493	-
Restricted investments	-	-	-	-
Total assets	<u>\$ 1,108,082</u>	<u>\$ 71,610</u>	<u>\$ 58,586</u>	<u>\$ 312,324</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 5,024	\$ -	\$ -	\$ -
Accrued payroll	10,143	1,244	765	-
Due to other funds	100,918	19,986	7,567	3,115
Deferred revenue	18,157	-	-	169,656
Total liabilities	<u>134,242</u>	<u>21,230</u>	<u>8,332</u>	<u>172,771</u>
Fund balances				
Reserved for				
Debt service	-	-	-	-
Unreserved				
Designated - Special Revenue Funds				
Accrued sick and vacation	-	-	-	-
Undesignated	973,840	50,380	50,254	139,553
Undesignated, reported in nonmajor Special revenue funds	-	-	-	-
Total fund balances	<u>973,840</u>	<u>50,380</u>	<u>50,254</u>	<u>139,553</u>
Total liabilities and fund balances	<u>\$ 1,108,082</u>	<u>\$ 71,610</u>	<u>\$ 58,586</u>	<u>\$ 312,324</u>

Ambulance	2000 Special Assessment Bonds	2007 Special Assessment Bonds	2009 Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
\$ 91,417	\$ 28,749	\$ 716	\$ -	\$ 170,112	\$ 845,578
60,113	-	-	-	77,856	490,106
31,039	-	-	-	23,000	61,998
-	-	-	-	4,627	279,501
-	-	68,420	-	5,668	243,744
7,021	3,115	-	-	2,639	193,778
-	-	-	-	-	10,389
-	-	-	-	23,000	23,000
\$ 189,590	\$ 31,864	\$ 69,136	\$ -	\$ 306,902	\$ 2,148,094
\$ 180	\$ -	\$ -	\$ -	\$ 2,275	\$ 7,479
1,998	-	-	-	877	15,027
20,887	21,255	-	-	8,517	182,245
-	-	68,420	-	5,668	261,901
23,065	21,255	68,420	-	17,337	466,652
-	10,609	716	-	47,457	58,782
-	-	-	-	75,261	75,261
166,525	-	-	-	-	1,380,552
-	-	-	-	166,847	166,847
166,525	10,609	716	-	289,565	1,681,442
\$ 189,590	\$ 31,864	\$ 69,136	\$ -	\$ 306,902	\$ 2,148,094

Continued...

VILLAGE OF MACKINAW CITY

BALANCE SHEET
GOVERNMENTAL FUNDS

FEBRUARY 28, 2010

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

Fund balances - total governmental funds \$ 1,681,442

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

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

Add: capital assets 10,289,887
Deduct: accumulated depreciation (3,430,402)

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

Add: deferred special assessment revenues 243,744

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

Add: net assets of governmental activities accounted for in an internal service fund 403,074

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

Deduct: net other postemployment benefit obligation (4,812)
Deduct: bonds and notes payable (1,541,325)
Deduct compensated absences (249,489)
Deduct: accrued interest on long-term liabilities (24,019)

Net assets of governmental activities \$ 7,368,100

Concluded

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

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2010

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>
Revenues				
Property taxes	\$ 1,250,916	\$ -	\$ -	\$ 450,913
State revenue	80,427	90,385	49,616	5,438
Special assessments	-	-	-	29,431
Licenses and permits	9,424	-	-	-
Contributions	42,266	-	-	-
Charges for services	1,068	-	-	-
Fines and forfeits	2,755	-	-	-
Interest	36,203	-	-	8,519
Rents	159,493	-	-	-
Local contribution	-	-	-	-
Miscellaneous	10,045	-	-	-
Total revenues	<u>1,592,597</u>	<u>90,385</u>	<u>49,616</u>	<u>494,301</u>
Expenditures				
Current				
Legislative	20,947	-	-	-
General government	663,377	-	-	-
Public safety	867,970	-	-	-
Highways and streets	-	740,139	182,427	58,842
Health and welfare	-	-	-	-
Recreation and culture	58,016	-	-	-
Other functions	4,186	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and paying agent fees	-	-	-	-
Total expenditures	<u>1,614,496</u>	<u>740,139</u>	<u>182,427</u>	<u>58,842</u>
Revenues (under) over expenditures	<u>(21,899)</u>	<u>(649,754)</u>	<u>(132,811)</u>	<u>435,459</u>
Other financial sources (uses)				
Transfers in	299,200	656,893	136,994	47,775
Transfers out	(163,390)	-	-	(593,784)
Issuance of long-term debt	-	-	-	-
Total other financing sources (uses)	<u>135,810</u>	<u>656,893</u>	<u>136,994</u>	<u>(546,009)</u>
Net change in fund balances	<u>113,911</u>	<u>7,139</u>	<u>4,183</u>	<u>(110,550)</u>
Fund balances, beginning of year	859,929	43,241	46,071	250,103
Fund balances, end of year	<u>\$ 973,840</u>	<u>\$ 50,380</u>	<u>\$ 50,254</u>	<u>\$ 139,553</u>

<u>Ambulance</u>	<u>2000 Special Assessment Bonds</u>	<u>2007 Special Assessment Bonds</u>	<u>2009 Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 69,637	\$ 1,771,466
-	-	-	-	-	225,866
-	27,307	3,328	-	-	60,066
-	-	-	-	-	9,424
172,850	-	-	-	49,259	264,375
245,533	-	-	-	6,985	253,586
-	-	-	-	-	2,755
-	3,867	1,978	1,524	911	53,002
-	-	-	-	57,075	216,568
-	-	-	-	15,647	15,647
902	-	-	-	10,492	21,439
419,285	31,174	5,306	1,524	210,006	2,894,194
-	-	-	-	-	20,947
-	-	-	-	32,823	696,200
-	-	-	-	-	867,970
-	-	-	-	-	981,408
355,936	-	-	-	24,817	380,753
-	-	-	-	126,268	184,284
-	-	-	-	13,280	17,466
130,111	-	-	-	78,791	208,902
-	20,000	50,000	-	139,980	209,980
-	565	24,200	-	25,345	50,110
486,047	20,565	74,200	-	441,304	3,618,020
(66,762)	10,609	(68,894)	1,524	(231,298)	(723,826)
89,000	-	69,492	-	233,214	1,532,568
-	-	-	(651,524)	(47,775)	(1,456,473)
-	-	-	650,000	-	650,000
89,000	-	69,492	(1,524)	185,439	726,095
22,238	10,609	598	-	(45,859)	2,269
144,287	-	118	-	335,424	1,679,173
\$ 166,525	\$ 10,609	\$ 716	\$ -	\$ 289,565	\$ 1,681,442

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2010

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

Net change in fund balances - total governmental funds \$ 2,269

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

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

Add: capital outlay capitalized during current year	972,798
Deduct: depreciation expense	(398,264)

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.

Add: new special assessment	24,890
Deduct: current year collections on special assessments	(60,066)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	209,980
Deduct: increase in other post employment benefits liability	(4,812)

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

Deduct: current year increase in accrued interest on bonds	(8,409)
Deduct: issuance of long term debt	(650,000)
Add: decrease in the accrual of compensated absences	17,003

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

Add: change in net assets from governmental activities accounted for in internal service fund	30,252
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Change in net assets of governmental activities	\$ 135,641
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Concluded

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

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2010

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,242,000	\$ 1,242,000	\$ 1,250,916	\$ 8,916
State revenue	77,900	77,900	80,427	2,527
Licenses and permits	6,500	6,500	9,424	2,924
Contributions	45,500	45,500	42,266	(3,234)
Charges for services	4,320	3,320	1,068	(2,252)
Fines and forfeits	1,000	2,000	2,755	755
Interest	23,000	23,000	36,203	13,203
Rents	147,000	215,793	159,493	(56,300)
Miscellaneous	3,089	3,089	10,045	6,956
Total revenues	1,550,309	1,619,102	1,592,597	(26,505)
Expenditures				
Legislative	28,450	28,450	20,947	7,503
General government	556,734	633,734	663,377	(29,643)
Public safety	948,000	948,200	867,970	80,230
Recreation and culture	100,000	100,000	58,016	41,984
Other functions	8,200	8,200	4,186	4,014
Total expenditures	1,641,384	1,718,584	1,614,496	104,088
Revenues under expenditures	(91,075)	(99,482)	(21,899)	77,583
Other financing sources (uses)				
Transfers in	-	299,200	299,200	-
Transfers out	(207,925)	(207,925)	(163,390)	44,535
Total other financing (uses) sources	(207,925)	91,275	135,810	44,535
Net change in fund balance	(299,000)	(8,207)	113,911	122,118
Fund balance beginning of year	859,929	859,929	859,929	-
Fund balance, end of year	\$ 560,929	\$ 851,722	\$ 973,840	\$ 122,118

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

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Amended Budget Positive (Negative)</u>
Revenues				
State revenue				
Winter maintenance	\$ -	\$ -	\$ 18,971	\$ 18,971
Gas and weight tax distribution	70,000	70,000	71,414	1,414
Special assessment revenue	-	200,000	-	(200,000)
Interest	200	200	-	(200)
Total revenues	<u>70,200</u>	<u>270,200</u>	<u>90,385</u>	<u>(179,815)</u>
Expenditures				
Highways and streets				
Administration	30,700	30,700	23,974	6,726
Routine maintenance	119,300	119,300	119,670	(370)
Winter maintenance	73,800	73,800	66,016	7,784
Traffic services	15,100	15,100	6,583	8,517
Construction	372,000	372,000	523,896	(151,896)
Total expenditures	<u>610,900</u>	<u>610,900</u>	<u>740,139</u>	<u>(129,239)</u>
Revenues under expenditures	<u>(540,700)</u>	<u>(340,700)</u>	<u>(649,754)</u>	<u>(309,054)</u>
Other financing sources				
Transfers in	540,700	340,700	656,893	316,193
Net change in fund balance	-	-	<u>7,139</u>	<u>7,139</u>
Fund balance, beginning of year	43,241	43,241	43,241	-
Fund balance, end of year	<u>\$ 43,241</u>	<u>\$ 43,241</u>	<u>\$ 50,380</u>	<u>\$ 7,139</u>

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

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
State revenue	\$ 33,000	\$ 33,000	\$ 49,616	\$ 16,616
Interest	70	70	-	(70)
Total revenues	33,070	33,070	49,616	16,546
Expenditures				
Highways and street				
Administration	30,250	30,250	22,654	7,596
Routine maintenance	83,140	83,140	95,313	(12,173)
Winter maintenance	74,500	74,500	54,990	19,510
Traffic services	14,650	14,650	6,470	8,180
Construction	5,750	5,750	3,000	2,750
Total expenditures	208,290	208,290	182,427	25,863
Revenues under expenditures	(175,220)	(175,220)	(132,811)	42,409
Other financing sources				
Transfers in	175,220	175,220	136,994	(38,226)
Net change in fund balance	-	-	4,183	4,183
Fund balance, beginning of year	46,071	46,071	46,071	-
Fund balance, end of year	\$ 46,071	\$ 46,071	\$ 50,254	\$ 4,183

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

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	Variance With Final Amended Budget Positive (Negative)
Revenues				
Property taxes	\$ 447,900	\$ 447,900	\$ 450,913	\$ 3,013
State revenue	5,420	5,420	5,438	18
Special assessments	19,900	19,900	29,431	9,531
Interest	5,700	5,700	8,519	2,819
Total revenues	478,920	478,920	494,301	15,381
Expenditures				
Highways and streets				
Routine maintenance	33,000	33,000	58,842	(25,842)
Revenues over expenditures	445,920	445,920	435,459	(10,461)
Other financing sources (uses)				
Transfers in	-	-	47,775	47,775
Transfers out	(515,920)	(515,920)	(593,784)	(77,864)
Total other financial uses	(515,920)	(515,920)	(546,009)	(30,089)
Net change in fund balance	(70,000)	(70,000)	(110,550)	(40,550)
Fund balance, beginning of year	250,103	250,103	250,103	-
Fund balance, end of year	\$ 180,103	\$ 180,103	\$ 139,553	\$ (40,550)

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

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Amended Budget Positive (Negative)</u>
Revenues				
Contributions from other governmental units	\$ 169,000	\$ 169,000	\$ 172,850	\$ 3,850
Charges for services	160,000	160,000	245,533	85,533
Interest	500	500	-	(500)
Miscellaneous	66,600	600	902	302
Total revenues	396,100	330,100	419,285	89,185
Expenditures				
Health and welfare	326,600	326,600	355,936	(29,336)
Capital outlay	130,000	130,000	130,111	(111)
Total expenditures	456,600	456,600	486,047	(29,447)
Revenues under expenditures	(60,500)	(126,500)	(66,762)	59,738
Other financing sources				
Bond proceeds	-	66,000	-	66,000
Transfers in	-	-	89,000	(89,000)
Total other financing sources	-	66,000	89,000	(23,000)
Net change in fund balance	(60,500)	(60,500)	22,238	82,738
Fund balance, beginning of year	144,287	144,287	144,287	-
Fund balance, end of year	\$ 83,787	\$ 83,787	\$ 166,525	\$ 82,738

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

VILLAGE OF MACKINAW CITY

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

FEBRUARY 28, 2010

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 402,140	\$ 80,142	\$ 482,282	\$ 111,281
Investments	264,576	52,691	317,267	73,214
Accounts receivable	225,158	44,526	269,684	-
Due from other funds	78,123	3,732	81,855	1,403
Inventory	-	21,116	21,116	-
Total current assets	969,997	202,207	1,172,204	185,898
Noncurrent assets				
Property and equipment				
Land	51,640	21,500	73,140	-
Land improvements	-	113,358	113,358	-
Buildings	150,182	-	150,182	-
Water and sewer system	8,710,777	-	8,710,777	-
Machinery and equipment	365,454	67,470	432,924	880,993
Marina	-	1,673,739	1,673,739	-
Accumulated depreciation	(2,947,051)	(1,160,310)	(4,107,361)	(649,033)
Net property and equipment	6,331,002	715,757	7,046,759	231,960
Other assets				
Restricted investments	134,884	-	134,884	-
Total noncurrent assets	6,465,886	715,757	7,181,643	231,960
Total assets	7,435,883	917,964	8,353,847	417,858
Liabilities				
Current liabilities				
Accounts payable	482	28	510	1,375
Accrued payroll	5,357	1,051	6,408	598
Due to other funds	64,045	17,935	81,980	12,811
Unearned revenue	-	83,338	83,338	-
Bonds payable	20,000	-	20,000	-
Total current liabilities	89,884	102,352	192,236	14,784
Long-term debt				
Bonds payable (net of current portion)	210,000	-	210,000	-
Total liabilities	299,884	102,352	402,236	14,784
Net assets				
Invested in capital assets, net of related debt	6,101,002	715,757	6,816,759	231,960
Restricted	134,884	-	134,884	-
Unrestricted	900,113	99,855	999,968	171,114
Total net assets	\$ 7,135,999	\$ 815,612	\$ 7,951,611	\$ 403,074

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

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2010

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
Operating revenues				
Sales and charges for services	\$ -	\$ 307,122	\$ 307,122	\$ 246,021
Sales and charges for services pledged as security for revenue bonds	751,370	-	751,370	-
Total operating revenues	751,370	307,122	1,058,492	246,021
Operating expenses				
Salaries and wages	218,276	86,211	304,487	32,637
Fringe benefits	102,562	30,720	133,282	15,586
Supplies	125,499	14,554	140,053	6,363
Gasoline and oil	6,018	92,153	98,171	30,171
Repairs and maintenance	8,618	1,436	10,054	27,489
Contracted services	50,051	13,237	63,288	2,257
Communications	4,146	3,004	7,150	1,494
Conferences and workshops	985	-	985	386
Travel	100	-	100	-
Insurance	6,505	5,220	11,725	5,342
Utilities	129,781	28,960	158,741	6,636
Equipment rental	10,919	313	11,232	100
Depreciation	174,391	51,502	225,893	60,951
Miscellaneous	4,819	11,974	16,793	-
Total operating expenses	842,670	339,284	1,181,954	189,412
Operating (loss) income	(91,300)	(32,162)	(123,462)	56,609
Nonoperating revenues (expenses)				
Gain on sale of asset	65,825	-	65,825	-
Interest earnings	7,941	-	7,941	-
Interest and fiscal charges	(12,250)	-	(12,250)	-
Total nonoperating revenues	61,516	-	61,516	-
(Loss) income before transfers	(29,784)	(32,162)	(61,946)	56,609
Transfers out	(49,738)	-	(49,738)	(26,357)
Change in net assets	(79,522)	(32,162)	(111,684)	30,252
Net assets, beginning of year	7,215,521	847,774	8,063,295	372,822
Net assets, end of year	\$ 7,135,999	\$ 815,612	\$ 7,951,611	\$ 403,074

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

VILLAGE OF MACKINAW CITY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2010

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
Cash flows from operating activities				
Cash collected from customers	\$ 877,643	\$ 299,007	\$ 1,176,650	\$ 246,021
Cash paid for employee wages and benefits	(315,481)	(119,612)	(435,093)	(49,028)
Cash paid for other operating and administrative expenses	(371,561)	(144,707)	(516,268)	(78,863)
Net cash provided by operating activities	190,601	34,688	225,289	118,130
Cash flows from capital and related financing activities				
Interest payments	(12,250)	-	(12,250)	-
Principal payments	(15,000)	-	(15,000)	-
Purchase of property and equipment	(22,068)	-	(22,068)	-
Proceeds from sale of capital assets	68,508	-	68,508	-
Transfer out	(49,738)	-	(49,738)	(26,357)
Net cash used in capital and related financing activities	(30,548)	-	(30,548)	(26,357)
Cash flows from investing activities				
Interest received	7,941	-	7,941	-
Purchase of investments	(31,579)	(6,817)	(38,396)	(29,744)
Net cash used in investing activities	(23,638)	(6,817)	(30,455)	(29,744)
Net increase in cash and cash equivalents	136,415	27,871	164,286	62,029
Cash and cash equivalents, beginning of year	265,725	52,271	317,996	49,252
Cash and cash equivalents, end of year	\$ 402,140	\$ 80,142	\$ 482,282	\$ 111,281

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

VILLAGE OF MACKINAW CITY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2010

	<u>Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Water and Sewer</u>	<u>Marina</u>	<u>Total</u>	
Reconciliation of operating (loss) income to net cash provided by operating activities				
Cash flows from operating activities				
Operating (loss) income	\$ (91,300)	\$ (32,162)	\$ (123,462)	\$ 56,609
Adjustments to reconcile operating (loss) income to net cash provided by operating activities				
Depreciation	174,391	51,502	225,893	60,951
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	126,273	(8,115)	118,158	-
Due from other funds	(16,359)	(3,732)	(20,091)	(1,403)
Inventory	-	10,195	10,195	-
Accounts payable	(7,761)	28	(7,733)	1,375
Accrued expenses	5,357	1,051	6,408	598
Unearned revenue	-	15,921	15,921	-
Net cash provided by operating activities	<u>\$ 190,601</u>	<u>\$ 34,688</u>	<u>\$ 225,289</u>	<u>\$ 118,130</u>

Concluded

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

VILLAGE OF MACKINAW CITY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

FEBRUARY 28, 2010

	Pension Trust Fund	Agency Funds
	Employees' Retirement System	Funds
Assets		
Cash and cash equivalents	\$ -	\$ 1,518
Investments - life insurance trust	916,244	-
Total assets	916,244	\$ 1,518
Liabilities		
Accounts payable	-	\$ 1,518
Net assets		
Held in trust for pension benefits	\$ 916,244	

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

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

Additions	
Contributions	\$ 89,198
Investment loss	<u>(183,359)</u>
Total additions	(94,161)
Deductions	
Benefit payments	<u>18,086</u>
Change in net assets	(112,247)
Net assets held in trust for pension benefits, beginning of year	<u>1,028,491</u>
Net assets held in trust for pension benefits, end of year	<u><u>\$ 916,244</u></u>

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

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

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

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

B. Government-wide and fund financial statements

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

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

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

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

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

The Village reports the following major governmental funds:

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

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

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

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

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

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

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

The *2009 Capital Improvement Fund* accounts for the 2009 general obligation bond proceeds which were used for capital improvements.

The Village reports the following major enterprise funds:

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

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

Additionally, the Village reports the following fund types:

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

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

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

D. Assets, liabilities and net assets or equity

1. Deposits and investments

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

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

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

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

2. Receivables and payables

All receivables are reported at their gross value, except the Ambulance Fund accounts receivable, which is shown net of an estimated allowance for uncollectible accounts of \$31,000.

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

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

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

3. *Property taxes*

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan and Emmet Counties. Assessed values, as established annually by the government and subject to acceptance by the counties, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Village for the 2009 levy was approximately \$112,560,000. The Village's general operating tax rate for fiscal 2009-10 was 10.9829 mills with an additional 3.9792 mills for streets and 0.2541 mills for the cemetery.

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

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

4. *Inventories*

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

5. *Restricted assets*

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

6. *Capital assets*

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

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

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

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

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

7. *Compensated absences*

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

8. *Long-term obligations*

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

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

9. *Fund equity*

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

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

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

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

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

Expenditures in excess of budget are as follows:

	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
<u>General Fund</u>			
General Government	\$ 633,734	\$ 663,377	\$ 29,643
<u>Special Revenue Funds</u>			
Major Street Fund			
Highways and streets	610,900	740,139	129,239
Municipal Street Fund			
Highways and streets	33,000	58,842	25,842
Transfers out	515,920	593,784	77,864
Ambulance Fund			
Health and welfare	326,600	355,936	29,336
Capital outlay	130,000	130,111	111

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Summary of deposit and investment balances. Following is a reconciliation of deposit and investment balances as of February 28, 2010:

	Primary Government	Component Unit	Total
Statement of Net Assets			
Cash and cash equivalents	\$ 1,439,141	\$ 22,453	\$ 1,461,594
Investments	880,587	14,772	895,359
Restricted investments	157,884	-	157,884
Total Statement of Net Assets	\$ 2,477,612	\$ 37,225	2,514,837
Statement of Fiduciary Net Assets			
Cash and cash equivalents			1,518
Investments			916,244
Total			\$ 3,432,599

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

Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,516,355
Investments in securities, mutual funds and similar vehicles	916,244
Total	\$ 3,432,599

Investment and deposit risk

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

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

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

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, \$1,621,816 of the Village's bank balance of \$2,516,047 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

- a. Bonds, securities, other obligations, and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

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

Custodial Credit Risk Investments. The Village's Pension Trust Fund holds securities of \$916,244 in a trust fund of a life insurance company, which are not in the Village's name. The carrying amount of the Pension Trust Fund investments is stated at fair value.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of February 28, 2010:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ 61,998	\$ 269,684	\$ -
Taxes receivable	279,501	-	13,853
Special assessment receivable, due in one year	54,538	-	-
Special assessment receivable, due in more than one year	189,206	-	-
Due from other governmental units	10,389	-	-
Total receivables, net	\$ 595,632	\$ 269,684	\$ 13,853

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$261,901.

C. Capital assets

Capital assets activity was as follows for the year ended February 28, 2010:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 697,613	\$ 63,844	\$ -	\$ 761,457
Construction in process	158,466	86,427	-	244,893
Total capital assets not being depreciated	856,079	150,271	-	1,006,350

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Buildings	\$ 2,263,913	\$ -	\$ -	\$2,263,913
Land improvements	939,830	-	-	939,830
Equipment	2,352,358	385,654	(19,954)	2,718,058
Infrastructure	<u>3,805,856</u>	<u>436,873</u>	<u>-</u>	<u>4,242,729</u>
 Total capital assets being depreciated	 <u>9,361,957</u>	 <u>822,527</u>	 <u>(19,954)</u>	 <u>10,164,530</u>
 Less accumulated depreciation on				
Buildings	(564,421)	(63,767)	-	(628,188)
Land improvements	(590,345)	(38,540)	-	(628,885)
Equipment	(1,407,967)	(165,437)	19,954	(1,553,450)
Infrastructure	<u>(1,077,441)</u>	<u>(191,471)</u>	<u>-</u>	<u>(1,268,912)</u>
 Total accumulated depreciation	 <u>(3,640,174)</u>	 <u>(459,215)</u>	 <u>19,954</u>	 <u>(4,079,435)</u>
 Total capital assets being depreciated, net	 <u>5,721,783</u>	 <u>363,312</u>	 <u>-</u>	 <u>6,085,095</u>
 Governmental activities capital assets, net	 <u>\$ 6,577,862</u>	 <u>\$ 513,583</u>	 <u>\$ -</u>	 <u>\$ 7,091,445</u>
 Business-type activities				
Capital assets not being depreciated				
Land	<u>\$ 74,087</u>	<u>\$ -</u>	<u>\$ (947)</u>	<u>\$ 73,140</u>
 Capital assets being depreciated				
Buildings	150,182	-	-	150,182
Improvements other than buildings	8,830,108	-	(5,973)	8,824,135
Machinery and equipment	435,900	22,068	(25,044)	432,924
Marina	<u>1,673,739</u>	<u>-</u>	<u>-</u>	<u>1,673,739</u>
 Total capital assets being depreciated	 <u>11,089,929</u>	 <u>22,068</u>	 <u>(31,017)</u>	 <u>11,080,980</u>

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for				
Buildings	(35,542)	(4,538)	-	(40,080)
Improvements other than buildings	(2,600,951)	(149,750)	4,238	(2,746,463)
Machinery and equipment	(310,800)	(24,564)	25,043	(310,321)
Marina	(963,456)	(47,041)	-	(1,010,497)
Total accumulated depreciation	(3,910,749)	(225,893)	29,281	(4,107,361)
Total capital assets being depreciated, net	7,179,180	(203,825)	(1,736)	6,973,619
Business-type activities capital assets, net	\$ 7,253,267	\$ (203,825)	\$ (2,683)	\$ 7,046,759

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

Governmental activities	
General government	\$ 33,766
Public safety	58,374
Public works	8,593
Highways and streets	191,296
Health and welfare	10,851
Recreation and culture	95,384
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	60,951
Total depreciation expense – governmental activities	\$ 459,215
Business-type activities	
Water and Sewer	\$ 174,391
Marina	51,502
Total depreciation expense – business-type activities	\$ 225,893

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows at February 28, 2010:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 8,854	\$ 510
Accrued expenses	<u>39,644</u>	<u>6,408</u>
Total accounts payable and accrued expenses	<u>\$ 48,498</u>	<u>\$ 6,918</u>

E. Interfund receivables, payables and transfers

The composition of interfund balances is as follows:

<u>Due to</u>	<u>Due from</u>			<u>Subtotal Receivable Fund</u>
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	
General Fund	\$ -	\$ 19,986	\$ 7,567	\$ 27,553
Major Street Fund	5,719	-	-	5,719
Local Street Fund	2,281	-	-	2,281
Municipal Street Fund	-	-	-	7,021
Ambulance	7,021	-	-	-
2000 Special Assessment Bonds	-	-	-	3,115
Nonmajor governmental funds	2,639	-	-	2,639
Water and Sewer Fund	78,123	-	-	78,123
Marina Fund	3,732	-	-	3,732
Internal Service Fund	<u>1,403</u>	<u>-</u>	<u>-</u>	<u>1,403</u>
Subtotal Payable Fund	<u>\$ 100,918</u>	<u>\$ 19,986</u>	<u>\$ 7,567</u>	<u>\$131,586</u>

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Due to	Due from			
	Ambulance Fund	2000 Special Assessment Bond Fund	Municipal Street Fund	Subtotal Receivable Fund
General Fund	\$ 20,887	\$ 21,255	\$ -	\$ 42,142
Major Street Fund	-	-	-	-
Local Street Fund	-	-	-	-
Municipal Street Fund	-	-	-	-
Ambulance	-	-	-	-
2000 Special Assessment Bonds	-	-	3,115	-
Nonmajor governmental funds	-	-	-	-
Water and Sewer Fund	-	-	-	-
Marina Fund	-	-	-	-
Internal Service Fund	-	-	-	-
Subtotal Payable Fund	<u>\$ 20,887</u>	<u>\$ 21,255</u>	<u>\$ 3,115</u>	<u>\$ 42,142</u>

Due to	Due from			
	Nonmajor Governmental Funds	Water and Sewer Fund	Marina Fund	Subtotal Receivable Fund
General Fund	\$ 8,517	\$ 64,045	\$ 17,935	\$ 90,497
Major Street Fund	-	-	-	-
Local Street Fund	-	-	-	-
Municipal Street Fund	-	-	-	-
Ambulance	-	-	-	-
2000 Special Assessment Bonds	-	-	-	-
Nonmajor governmental funds	-	-	-	-
Water and Sewer Fund	-	-	-	-
Marina Fund	-	-	-	-
Internal Service Fund	-	-	-	-
Total Payable Fund	<u>\$ 8,517</u>	<u>\$ 64,045</u>	<u>\$ 12,811</u>	<u>\$ 90,497</u>

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

<u>Due to</u>	Due from	
	Internal Service Fund	Total Receivable Fund
General Fund	\$ 12,811	\$ 173,003
Major Street Fund	-	5,719
Local Street Fund	-	2,281
Municipal Street Fund	-	-
Ambulance	-	7,021
2000 Special Assessment Bonds	-	3,115
Nonmajor governmental funds	-	2,639
Water and Sewer Fund	-	78,123
Marina Fund	-	3,732
Internal Service Fund	-	1,403
Total Payable Fund	<u>\$ 12,811</u>	<u>\$ 277,036</u>

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

Interfund transfers consisted of the following for the year ended February 28, 2010:

<u>Transfers Out</u>	Transfers In			
	General Fund	Major Street Fund	Local Street Fund	Subtotal
General Fund	\$ -	\$ -	\$ -	\$ -
Municipal Street Fund	-	412,127	136,994	549,121
Water and Sewer Fund	-	-	-	-
Internal Service Fund	-	-	-	-
2009 Capital Improvement Fund	299,200	244,766	-	543,966
Nonmajor Governmental Funds	-	-	-	-
Total transfers	<u>\$ 299,200</u>	<u>\$ 656,893</u>	<u>\$ 136,994</u>	<u>\$1,093,087</u>

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	Transfers In			
	Municipal Street Fund	Ambulance Fund	2007 Special Assessment Bond Fund	Subtotal
<u>Transfers Out</u>				
General Fund	\$ -	\$ -	\$ -	\$ -
Municipal Street Fund	-	-	27,951	27,951
Water and Sewer Fund	-	-	41,541	41,541
Internal Service Fund	-	-	-	-
2009 Capital Improvement Fund	-	89,000	-	89,000
Nonmajor Governmental Funds	47,775	-	-	47,775
Total transfers	\$ 47,775	\$ 89,000	\$ 69,492	\$206,267

	Transfers In	
	Nonmajor Governmental Funds	Total Transfers
<u>Transfers Out</u>		
General Fund	\$ 163,390	\$ 163,390
Municipal Street Fund	16,712	593,784
Water and Sewer Fund	8,197	49,738
Internal Service Fund	26,357	26,357
2009 Capital Improvement Fund	18,558	651,524
Nonmajor Governmental Funds	-	47,775
Total transfers	\$ 233,214	\$ 1,532,568

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

NOTES TO FINANCIAL STATEMENTS

F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended February 28, 2010:

	Balance March 1, 2009	Additions	(Reductions)	Balance February 28, 2010	Due Within 1 Year
Governmental activities					
2009 Capital Improvement Bonds maturing serially through 2020 in annual payments ranging from \$50,000 to \$80,000 and bearing interest ranging from 3.25% to 4.50%.	\$ -	\$ 650,000	\$ -	\$ 650,000	\$ 50,000
2007 Capital Improvement Bonds maturing serially through 2018 in annual payments ranging from \$45,000 to \$75,000 and bearing interest ranging from 4.30% to 4.60%.	540,000	-	(50,000)	490,000	50,000
2004 Capital Improvement Bonds maturing serially through fiscal 2015 in annual payments ranging from \$35,000 to \$40,000 and bearing interest at 3.38%.	225,000	-	(35,000)	190,000	35,000
2002 Capital Improvement Bonds maturing serially through fiscal 2013 in annual payments ranging from \$30,000 to \$35,000 and bearing interest from 3.60% to 4.10%.	135,000	-	(30,000)	105,000	35,000
2005 Act 99 installment contract maturing in fiscal 2016 in semi-annual payments of \$8,382 including interest at 4.25%.	94,169	-	(12,844)	81,325	13,405
2000 Revenue Bonds maturing serially through fiscal 2011 in annual payments of \$25,000 and bearing interest from 5.70% to 5.75%.	50,000	-	(25,000)	25,000	25,000

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	Balance March 1, 2009	Additions	(Reductions)	Balance February 28, 2010	Due Within 1 Year
2000 General Obligation Limited Tax Bonds maturing serially through fiscal 2010 in annual payments of \$25,000 and bearing interest from 5.60% to 5.65%.	\$ 25,000	\$ -	\$ (25,000)	\$ -	\$ -
2000 Special Assessment Limited Tax Bonds maturing serially through fiscal 2010 in an annual payment of \$20,000 and bearing interest from 5.60%	20,000	-	(20,000)	-	-
1999 Act 99 installment contract maturing in fiscal 2010 in semi-annual payments of \$12,136 including interest at 4.28%.	12,136	-	(12,136)	-	-
Liability for accrued compensated absences	266,492	-	(17,003)	249,489	-
Total governmental activities long-term debt	<u>\$ 1,367,797</u>	<u>\$ 650,000</u>	<u>\$ (226,983)</u>	<u>\$ 1,790,814</u>	<u>\$ 208,405</u>
Business-type activities					
Enterprise Funds					
Water Revenue Bonds maturing serially through fiscal 2020 in annual payments ranging from \$15,000 to \$30,000 and bearing interest at 5%.	\$ 245,000	\$ -	\$ (15,000)	\$ 230,000	\$ 20,000

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

The Village's Water and Sewer Enterprise Fund Water Revenue Bond requires the Village to maintain cash reserves of approximately \$50,000. The Water and Sewer Enterprise Fund had excess reserves of approximately \$10,000 at February 28, 2010.

The Village's 2000 Revenue Bond for the Recreation Center in the debt service funds requires the Village to maintain a cash reserve of approximately \$2,500. This fund had excess reserves of approximately \$20,500.

VILLAGE OF MACKINAW CITY

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:

	Governmental Activities		Business-type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 208,405	\$ 61,616	\$ 20,000	\$ 11,500
2012	193,989	54,027	20,000	10,500
2013	199,592	46,551	20,000	9,500
2014	175,234	38,916	20,000	8,500
2015	180,897	32,253	20,000	7,500
2016-2020	<u>583,208</u>	<u>69,780</u>	<u>130,000</u>	<u>20,000</u>
	<u>\$1,541,325</u>	<u>\$ 303,143</u>	<u>\$ 230,000</u>	<u>\$ 67,500</u>

Total interest expense for the Village for the year was \$70,767.

G. Lease disclosures

Lessor – operating leases

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

Rental income from the lease of the water tower reported in the Recreation Center Special Revenue Fund amounted to \$21,375 for the year ended February 28, 2010. Future minimum rentals related to these leases are as follows:

<u>Years ending February 28</u>	<u>Amount</u>
2011	\$ 12,420
2012	<u>4,140</u>
Total	<u>\$ 16,560</u>

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

The Village has a lease/operation agreement with a local skating association. This agreement is for the use and operation of the Recreation Center for ice skating activities. The agreement is renewable annually. Rental income related to this agreement reported in the Recreation Center Special Revenue Fund amounted to \$35,700 for the year ended February 28, 2010.

The Village entered into a lease agreement with a company for use of the Village pier. Rental income from the lease reported in the General Fund amounted to \$149,893 for the year ended February 28, 2010. The Village renewed this lease for a period from January 1, 2007 through December 30, 2016. The annual lease amount begins at \$126,978, with increases based on the performance of the franchise fee revenues as reported by all boat lines to Mackinac Island each year as follows:

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

4. OTHER INFORMATION

A. Retirement plans

Defined benefit pension plan

Plan description

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

Funding policy

The Village is required to contribute at an actuarially determined rate; the current rate is 11.42% of annual covered payroll. Per the Village's contract with the Police Officers Labor Council, the Village's costs and contributions to this plan shall be limited to 10% of gross wages per year, with the employee responsible for any remainder. Employees

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

are currently required to contribute 2.25%. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

Annual pension cost

For the year ended February 28, 2010, the Village's annual pension cost of \$25,540 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, the date of the latest actuarial valuation, was 30 years.

Trend information

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/29/08	\$ 27,486	100%	\$ -
2/28/09	24,742	100%	-
2/28/10	25,540	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Over (under)-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/08	\$ 491,574	\$ 533,118	\$ (41,544)	92%	\$ 246,990	(17)%

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

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

Plan description

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

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 \$89,198 for the plan year ended February 28, 2010.

B. Other Postemployment Benefits (OPEB)

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 4A, 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, 2010, the date of the last plan valuation, the Village's healthcare plan covered eighteen members (seventeen active plan members and two retirees 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, 2010, the Village contributed \$11,888 to the Plan, all of which was to fund current year benefits. Retirees receiving benefits made no contributions to the Plan, as none were required.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

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 and net OPEB cost	\$ 16,699
Contributions made	<u>(11,888)</u>
Increase in net OPEB obligation	4,812
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u>\$ 4,812</u>

The Village's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 was as follows:

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2/28/10	\$ 16,699	71%	\$ 4,812

Funded status and funding progress.

As of February 28, 2010, the actuarial accrued liability for benefits was \$166,543, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,336,033 and the ratio of the UAAL to the covered payroll was 12.5%.

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

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

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.

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 8.00% was used.

Health insurance premiums—Fiscal year 2010 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.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

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, 2010, was thirty years.

C. Risk management and litigation

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

The Village is involved in a tax tribunal hearing with a tax payer. As of August 6, 2010, a final judgment has not been reached.

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REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF MACKINAW CITY

REQUIRED SUPPLEMENTARY INFORMATION

1. DEFINED BENEFIT PENSION PLAN

Six-Year Trend Information Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2/28/05	\$ 20,423	100%
2/28/06	20,621	100%
2/28/07	24,388	100%
2/28/08	27,486	100%
2/28/09	24,742	100%
2/28/10	25,540	100%

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Under-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$ 261,493	\$ 325,387	\$ (63,894)	80%	\$ 232,553	(27)%
12/31/05	316,221	375,899	(59,678)	84%	238,190	(25)%
12/31/06	372,623	393,638	(21,015)	95%	228,445	(9)%
12/31/07	434,949	458,888	(23,939)	95%	239,318	(10)%
12/31/08	491,574	533,118	(41,544)	92%	246,990	(17)%

VILLAGE OF MACKINAW CITY

REQUIRED SUPPLEMENTARY INFORMATION

2. OTHER POSTEMPLOYEMENT BENEFITS

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2/28/2010	\$16,699	71%

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Under- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
2/28/2010	\$ -	\$ 166,543	\$ 166,543	-%	\$ 1,336,033	12.5%

SUPPLEMENTARY INFORMATION

VILLAGE OF MACKINAW CITY

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Property taxes				
Current property taxes	\$ 1,220,000	1,220,000	\$ 1,240,160	\$ 20,160
Property tax administration fees	22,000	22,000	10,756	(11,244)
Total property taxes	1,242,000	1,242,000	1,250,916	8,916
State revenue				
Liquor licenses	-	-	8,544	8,544
DEQ Grant	-	-	1,484	1,484
Other state revenue	77,900	77,900	70,399	(7,501)
Total state revenue	77,900	77,900	80,427	2,527
Licenses and permits				
Business licenses and permits	5,000	5,000	5,426	426
Non-business licenses and permits	1,500	1,500	3,998	2,498
Total licenses and permits	6,500	6,500	9,424	2,924
Contributions				
Other governmental units	37,500	37,500	37,116	(384)
Other	8,000	8,000	5,150	(2,850)
Total contributions	45,500	45,500	42,266	(3,234)
Charges for services	4,320	3,320	1,068	(2,252)
Fines and forfeits	1,000	2,000	2,755	755
Interest earnings	23,000	23,000	36,203	13,203
Rents	147,000	215,793	159,493	(56,300)
Miscellaneous	3,089	3,089	10,045	6,956
Total revenues	1,550,309	1,619,102	1,592,597	(26,505)
Other financing sources				
Transfers in	-	299,200	299,200	-
Total revenues and other financing sources	\$ 1,550,309	\$ 1,918,302	\$ 1,891,797	\$ (26,505)

VILLAGE OF MACKINAW CITY

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Amended Budget Positive (Negative)</u>
Legislative				
Village council	\$ 28,450	\$ 28,450	\$ 20,947	\$ 7,503
General government				
Village manager	111,444	111,444	114,994	(3,550)
Clerk - elections	2,340	2,340	1,561	779
Professional services	64,000	64,000	83,123	(19,123)
Clerk	42,300	42,300	38,268	4,032
Treasurer	43,000	43,000	38,684	4,316
Community development director	7,800	7,800	1,244	6,556
Village hall and grounds	102,750	102,750	57,009	45,741
Village property - other	114,200	191,200	243,830	(52,630)
Promotional	68,900	68,900	84,664	(15,764)
Total general government	556,734	633,734	663,377	(29,643)
Public safety				
Police department	481,400	481,600	491,804	(10,204)
Fire department	466,600	466,600	376,166	90,434
Total public safety	948,000	948,200	867,970	80,230
Recreation and culture	100,000	100,000	58,016	41,984
Other functions	8,200	8,200	4,186	4,014
Total expenditures	1,641,384	1,718,584	1,614,496	104,088
Other financing uses				
Transfers out	(207,925)	(207,925)	(163,390)	(44,535)
Total expenditures and other financing uses	\$ 1,433,459	\$ 1,510,659	\$ 1,451,106	\$ 59,553

VILLAGE OF MACKINAW CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

FEBRUARY 28, 2010

	Special Revenue Funds	Debt Service Funds	Waterfront Development Capital Project Bond Fund	Total
ASSETS				
Cash and cash equivalents	\$ 144,963	\$ 24,457	\$ 692	\$ 170,112
Investments	77,401	-	455	77,856
Accounts receivable	23,000	-	-	23,000
Due from other funds	2,639	-	-	2,639
Taxes receivable	4,627	-	-	4,627
Special assessments receivable	-	5,668	-	5,668
Restricted assets	-	23,000	-	23,000
Total assets	\$ 252,630	\$ 53,125	\$ 1,147	\$ 306,902
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 2,275	\$ -	\$ -	\$ 2,275
Accrued payroll	877	-	-	877
Due to other funds	8,517	-	-	8,517
Deferred revenue	-	5,668	-	5,668
Total liabilities	11,669	5,668	-	17,337
Fund balances				
Reserved				
Debt service	-	47,457	-	47,457
Unreserved				
Designated				
Accrued sick and vacation	75,261	-	-	75,261
Undesignated	165,700	-	1,147	166,847
Total fund balances	240,961	47,457	1,147	289,565
Total liabilities and fund balances	\$ 252,630	\$ 53,125	\$ 1,147	\$ 306,902

VILLAGE OF MACKINAW CITY

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

	Special Revenue Funds	Debt Service Funds	Waterfront Development Capital Project Bond Fund	Total
Revenues				
Property taxes	\$ 69,637	\$ -	\$ -	\$ 69,637
Contributions	49,259	-	-	49,259
Charges for services	6,985	-	-	6,985
Local contribution	-	15,647	-	15,647
Interest	-	911	-	911
Rents	57,075	-	-	57,075
Miscellaneous	10,492	-	-	10,492
Total revenues	193,448	16,558	-	210,006
Expenditures				
Current				
General government	32,823	-	-	32,823
Health and welfare	24,817	-	-	24,817
Recreation	126,268	-	-	126,268
Other	13,280	-	-	13,280
Capital outlay	78,791	-	-	78,791
Debt service				
Principal payments	-	139,980	-	139,980
Interest and paying agent fees	-	25,345	-	25,345
Total expenditures	275,979	165,325	-	441,304
Revenues under expenditures	(82,531)	(148,767)	-	(231,298)
Other financing sources (uses)				
Transfers in	66,185	167,029	-	233,214
Transfers out	-	(47,775)	-	(47,775)
Total other financing sources	66,185	119,254	-	185,439
Net change in fund balances	(16,346)	(29,513)	-	(45,859)
Fund balances, beginning of year	257,307	76,970	1,147	335,424
Fund balances, end of year	\$ 240,961	\$ 47,457	\$ 1,147	\$ 289,565

VILLAGE OF MACKINAW CITY
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

FEBRUARY 28, 2010

	<u>Cemetery</u>	<u>Recreation Complex</u>	<u>Recreation Center</u>	<u>Performance Shell</u>	<u>Planning Commission</u>
ASSETS					
Cash and cash equivalents	\$ 47,794	\$ 5,977	\$ 8,144	\$ 3,229	\$ 721
Investments	31,445	3,933	5,358	2,124	475
Accounts receivable	-	-	23,000	-	-
Due from other funds	869	929	533	-	308
Taxes receivable	4,627	-	-	-	-
Total assets	<u>\$ 84,735</u>	<u>\$ 10,839</u>	<u>\$ 37,035</u>	<u>\$ 5,353</u>	<u>\$ 1,504</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ 58	\$ -	\$ -	\$ -
Accrued payroll	-	877	-	-	-
Due to other funds	2,743	3,879	1,472	-	423
Total liabilities	<u>2,743</u>	<u>4,814</u>	<u>1,472</u>	<u>-</u>	<u>423</u>
Fund balances					
Unreserved					
Designated					
Accrued sick and vacation	-	-	-	-	-
Undesignated	81,992	6,025	35,563	5,353	1,081
Total fund balances	<u>81,992</u>	<u>6,025</u>	<u>35,563</u>	<u>5,353</u>	<u>1,081</u>
Total liabilities and fund balances	<u>\$ 84,735</u>	<u>\$ 10,839</u>	<u>\$ 37,035</u>	<u>\$ 5,353</u>	<u>\$ 1,504</u>

Economic Development Commission	WaWatom Area Seniors	Iron Workers Walk Foundation	Employee Sick and Vacation	Total
\$ 5,045	\$ 10,206	\$ 17,115	\$ 46,732	\$ 144,963
3,320	-	-	30,746	77,401
-	-	-	-	23,000
-	-	-	-	2,639
-	-	-	-	4,627
\$ 8,365	\$ 10,206	\$ 17,115	\$ 77,478	\$ 252,630
\$ -	\$ -	\$ -	\$ 2,217	\$ 2,275
-	-	-	-	877
-	-	-	-	8,517
-	-	-	2,217	11,669
-	-	-	75,261	75,261
8,365	10,206	17,115	-	165,700
8,365	10,206	17,115	75,261	240,961
\$ 8,365	\$ 10,206	\$ 17,115	\$ 77,478	\$ 252,630

VILLAGE OF MACKINAW CITY

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

	Cemetery	Recreation Complex	Recreation Center	Performance Shell	Planning Commission
Revenues					
Taxes	\$ 28,970	\$ -	\$ -	\$ -	\$ -
Contributions from other governmental units	-	-	-	-	-
Charges for services	2,890	2,175	1,720	-	200
Rents	-	-	57,075	-	-
Miscellaneous	-	120	172	-	-
Total revenues	31,860	2,295	58,967	-	200
Expenditures					
Current					
General government	32,823	-	-	-	-
Health and welfare	-	-	-	-	-
Recreation	-	39,626	78,024	5,554	-
Other	-	-	-	-	11,223
Capital outlay	9,279	-	32	-	-
Total expenditures	42,102	39,626	78,056	5,554	11,223
Revenues (under) over expenditures	(10,242)	(37,331)	(19,089)	(5,554)	(11,023)
Other financing sources					
Transfers in	-	23,000	26,615	6,870	9,700
Net change in fund balances	(10,242)	(14,331)	7,526	1,316	(1,323)
Fund balances, beginning of year	92,234	20,356	28,037	4,037	2,404
Fund balances, end of year	\$ 81,992	\$ 6,025	\$ 35,563	\$ 5,353	\$ 1,081

Economic Development Commission	WaWatom Area Seniors	Iron Workers Walk Foundation	Employee Sick and Vacation	Total
\$ -	\$ 40,667	\$ -	\$ -	\$ 69,637
-	49,259	-	-	49,259
-	-	-	-	6,985
-	-	-	-	57,075
-	-	10,200	-	10,492
-	89,926	10,200	-	193,448
-	-	-	-	32,823
-	24,817	-	-	24,817
-	-	3,064	-	126,268
2,057	-	-	-	13,280
-	69,000	480	-	78,791
2,057	93,817	3,544	-	275,979
(2,057)	(3,891)	6,656	-	(82,531)
-	-	-	-	66,185
(2,057)	(3,891)	6,656	-	(16,346)
10,422	14,097	10,459	75,261	257,307
\$ 8,365	\$ 10,206	\$ 17,115	\$ 75,261	\$ 240,961

VILLAGE OF MACKINAW CITY

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS

FEBRUARY 28, 2010

	1998 Act 99 Installment Contract Ice System	2000 General Obligation Bonds	2000 Revenue Bond Recreation Center	1997 Special Assessment Bonds	1998 Act 99 Installment Contract
ASSETS					
Cash and cash equivalents	\$ 49	\$ -	\$ 84	\$ -	\$ -
Special assessments receivable	-	-	-	-	-
Restricted assets	-	-	23,000	-	-
Total assets	\$ 49	\$ -	\$ 23,084	\$ -	\$ -
LIABILITIES AND FUND BALANCES					
Liabilities					
Deferred revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balances					
Reserved for debt service	49	-	23,084	-	-
Total liabilities and fund balances	\$ 49	\$ -	\$ 23,084	\$ -	\$ -

1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck	2009 General Obligation Bonds	Total
\$ 5,822	\$ 5,738	\$ -	\$ -	\$ 12,764	\$ 24,457
5,668	-	-	-	-	5,668
-	-	-	-	-	23,000
\$ 11,490	\$ 5,738	\$ -	\$ -	\$ 12,764	\$ 53,125
\$ 5,668	\$ -	\$ -	\$ -	\$ -	\$ 5,668
5,822	5,738	-	-	12,764	47,457
\$ 11,490	\$ 5,738	\$ -	\$ -	\$ 12,764	\$ 53,125

VILLAGE OF MACKINAW CITY

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

FOR THE YEAR ENDED FEBRUARY 28, 2010

	1998 Act 99 Installment Contract Ice System	2000 General Obligation Bonds	2000 Revenue Bond Recreation Center	1997 Special Assessment Bonds	1998 Act 99 Installment Contract
Revenues					
Local contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	151	-
Total revenues	-	-	-	151	-
Expenditures					
Principal payments	-	25,000	25,000	-	12,136
Interest and paying agent fees	-	706	2,150	-	261
Total expenditures	-	25,706	27,150	-	12,397
Revenues (under) over expenditures	-	(25,706)	(27,150)	151	(12,397)
Other financing sources (uses)					
Transfers in	-	25,468	27,150	-	12,397
Transfers out	-	-	-	(47,775)	-
Total other financing sources (uses)	-	25,468	27,150	(47,775)	12,397
Net change in fund balances	-	(238)	-	(47,624)	-
Fund balances, beginning of year	49	238	23,084	47,624	-
Fund balances, end of year	\$ 49	\$ -	\$ 23,084	\$ -	\$ -

1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck	2009 General Obligation Bonds	Total
\$ -	\$ -	\$ 15,647	\$ -	\$ -	\$ 15,647
26	720	-	-	14	911
26	720	15,647	-	14	16,558
-	30,000	35,000	12,844	-	139,980
-	5,495	7,004	3,921	5,808	25,345
-	35,495	42,004	16,765	5,808	165,325
26	(34,775)	(26,357)	(16,765)	(5,794)	(148,767)
-	40,334	26,357	16,765	18,558	167,029
-	-	-	-	-	(47,775)
-	40,334	26,357	16,765	18,558	119,254
26	5,559	-	-	12,764	(29,513)
5,796	179	-	-	-	76,970
\$ 5,822	\$ 5,738	\$ -	\$ -	\$ 12,764	\$ 47,457

VILLAGE OF MACKINAW CITY
COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2010

	Balance March 1, 2009	Additions	Deductions	Balance February 28, 2010
TAX COLLECTION FUND				
ASSETS				
Cash and cash equivalents	\$ 762	\$ 2,115,920	\$ 2,116,575	\$ 107
LIABILITIES				
Accounts payable	\$ 762	\$ 1,978,190	\$ 1,978,845	\$ 107
Due to component units	-	41,264	41,264	-
Due to other governmental units	-	96,466	96,466	-
Total liabilities	\$ 762	\$ 2,115,920	\$ 2,116,575	\$ 107
EMPLOYEE FLEX PLAN FUND				
ASSETS				
Cash and cash equivalents	\$ 4,653	\$ 27,545	\$ 30,787	\$ 1,411
LIABILITIES				
Due to employees	\$ 4,653	\$ 27,545	\$ 30,787	\$ 1,411
TOTAL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 5,415	\$ 2,143,465	\$ 2,147,362	\$ 1,518
LIABILITIES				
Accounts payable	\$ 762	\$ 1,978,190	\$ 1,978,845	\$ 107
Due to component units	-	41,264	41,264	-
Due to other governmental units	-	96,466	96,466	-
Due to employees	4,653	27,545	30,787	1,411
Total liabilities	\$ 5,415	\$ 2,143,465	\$ 2,147,362	\$ 1,518

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 6, 2010

Village Council
Village of Mackinaw City
Mackinaw City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *Village of Mackinaw City* (the "Village"), as of and for the year ended February 28, 2010, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

Finding 2010-1: **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: Due principally to state budget cuts and the related negative impact on cash funds available to the Village, the hiring of accounting personnel capable of writing the Village's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

Finding 2010-2: Recording, processing and summarizing accounting data

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

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

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

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

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

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

A *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. We consider the deficiency described below to be a significant deficiency.

Finding 2010-3 **Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.**

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

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

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

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

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

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

Compliance and Other Matters

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

We noted certain other matters that we reported to the Village Council of the *Village of Mackinaw City* in a separate letter dated August 6, 2010.

The Village's responses to the findings identified in our audit are described above. We did not audit the Village's response and, accordingly, we express no opinion on them.

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

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