

VILLAGE OF
MACKINAW CITY



Year Ended
February 29,
2012

Financial
Statements

VILLAGE OF MACKINAW CITY

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INDEPENDENT AUDITORS' REPORT

June 19, 2012

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 29, 2012, 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 29, 2012, 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 June 19, 2012, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-12 and the Schedules of Funding Progress and Employer Contributions for the pension and other postemployment benefit plans on pages 61-62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information, as 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

VILLAGE OF MACKINAW CITY

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 29, 2012.

Financial Highlights

- The total assets of the Village exceeded its liabilities at the close of the most recent fiscal year by approximately \$15,371,000 (net assets). Of this amount, approximately \$3,370,000 (unrestricted net assets) may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets decreased by approximately \$552,000.
- The Village repaid approximately \$247,000 of long-term debt during the current fiscal year.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was approximately \$763,000 or 49 percent 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., bonds payable and compensated absences).

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

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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 19 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, the 2007 Special Assessment Bonds Fund, and the 2011 Capital Project Fund which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation.

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

Proprietary Funds. The Village maintains two 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, 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.

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. The required supplementary information and combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes.

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 approximately \$15,372,000 at the close of fiscal 2012.

A large portion of the Village's net assets (78%) 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 represents the resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (22%) may be used to meet the Village's ongoing obligations to citizens and creditors.

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Cash and other assets	\$ 2,765,051	\$ 2,265,959	\$ 1,146,108	\$ 1,208,656	\$ 3,911,159	\$ 3,474,615
Capital assets, net	6,808,805	7,184,219	7,246,520	7,441,738	14,055,325	14,625,957
Total assets	9,573,856	9,450,178	8,392,628	8,650,394	17,966,484	18,100,572
Current and other liabilities	130,999	163,554	103,051	117,797	234,050	281,351
Long-term debt	2,171,034	1,685,819	190,000	210,000	2,361,034	1,895,819
Total liabilities	2,302,033	1,849,373	293,051	327,797	2,595,084	2,177,170
Net assets:						
Invested in capital assets, net of related debt	4,859,368	5,757,501	7,056,520	7,231,738	11,915,888	12,989,239
Restricted	25,365	25,333	60,000	60,000	85,365	85,333
Unrestricted	2,387,090	1,817,971	983,057	1,030,859	3,370,147	2,848,830
Total net assets	\$ 7,271,823	\$ 7,600,805	\$ 8,099,577	\$ 8,322,597	\$ 15,371,400	\$ 15,923,402

At the end of fiscal 2012, the Village is able to report positive balances in all three categories of net assets, both for the government as a whole, and for its separate governmental and business-type activities. The same situation held true for the prior year.

The Village's net assets decreased by approximately \$552,000 during fiscal 2012. This decrease is mainly attributable to budgeted use of fund balance, increased repair and maintenance costs in the water and sewer fund, and capital projects.

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

	Changes in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 427,077	\$ 435,787	\$ 1,038,691	\$ 1,059,881	\$ 1,465,768	\$ 1,495,668
Operating grants and contributions	514,475	593,689	1,833	2,179	516,308	595,868
Capital grants and contributions	1,656	286,620	-	9,700	1,656	296,320
General revenues:						
Property taxes	1,571,129	1,815,165	-	-	1,571,129	1,815,165
Grants and contributions not restricted to specific programs	64,096	47,975	-	-	64,096	47,975
Unrestricted interest income	13,465	40,815	-	-	13,465	40,815
Total revenues	2,591,898	3,220,051	1,040,524	1,071,760	3,632,422	4,291,811
Expenses:						
General government	783,023	839,504	-	-	783,023	839,504
Public safety	670,510	660,472	-	-	670,510	660,472
Public works	10,780	8,584	-	-	10,780	8,584
Highways and streets	633,838	669,739	-	-	633,838	669,739
Health and welfare	541,988	514,813	-	-	541,988	514,813
Recreation and culture	273,501	276,118	-	-	273,501	276,118
Interest on long-term debt	52,929	59,641	-	-	52,929	59,641
Water and sewer	-	-	887,651	907,068	887,651	907,068
Marina	-	-	330,204	312,181	330,204	312,181
Total expenses	2,966,569	3,028,871	1,217,855	1,219,249	4,184,424	4,248,120
(Decrease) increase in net assets before transfers	(374,671)	191,180	(177,331)	(147,489)	(552,002)	43,691
Transfers	45,689	41,525	(45,689)	(41,525)	-	-
Change in net assets	(328,982)	232,705	(223,020)	(189,014)	(552,002)	43,691
Net assets:						
Beginning of year	7,600,805	7,368,100	8,322,597	8,511,611	15,923,402	15,879,711
End of year	\$ 7,271,823	\$ 7,600,805	\$ 8,099,577	\$ 8,322,597	\$ 15,371,400	\$ 15,923,402

VILLAGE OF MACKINAW CITY

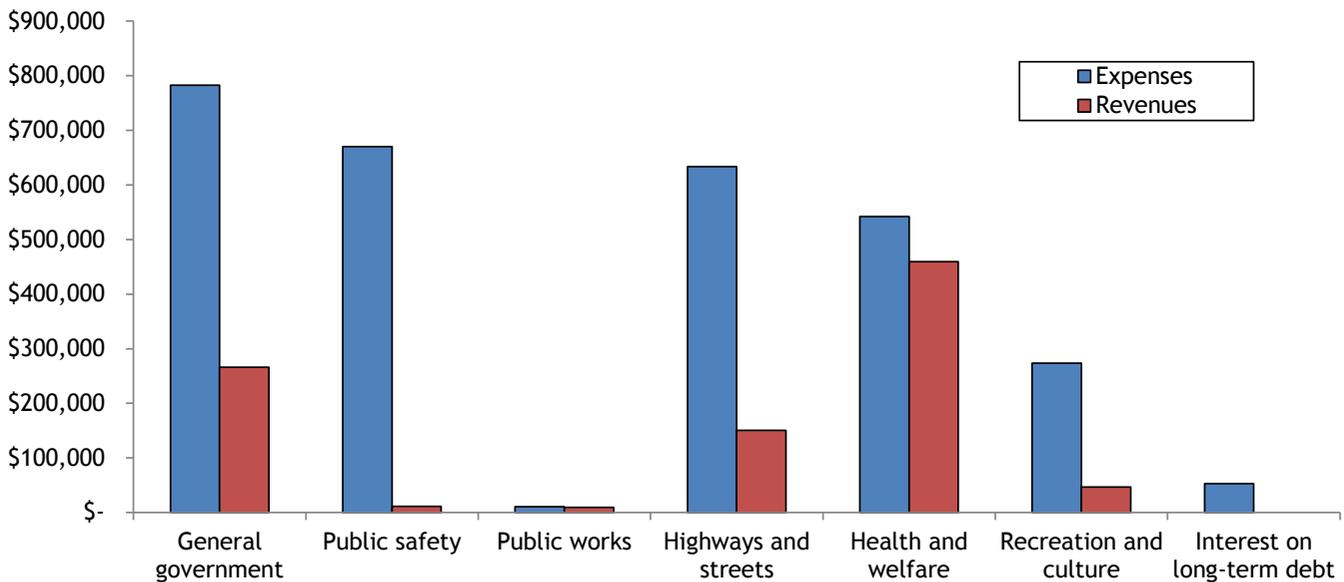
Management's Discussion and Analysis

Governmental Activities. Governmental activities decreased the Village's net assets by approximately \$329,000.

Key elements of this decrease are as follows:

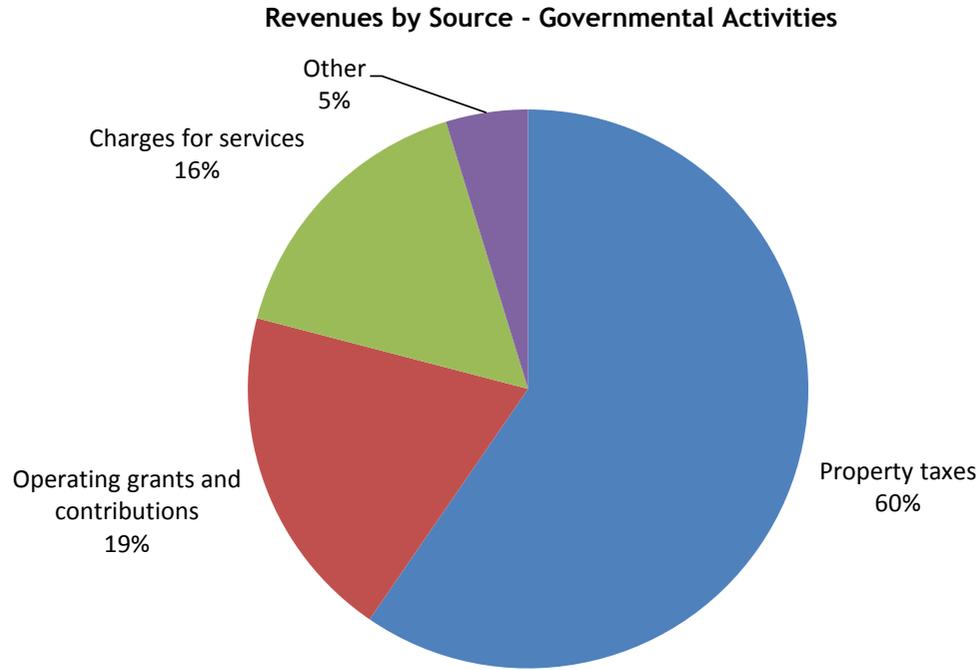
- Budgeted use of fund balance during fiscal year 2012.
- Expenditures incurred on the LED lighting upgrade that was not in the budget.
- Capital grants and contributions decreased by approximately \$285,000 related to the completion of a street project during the prior year which was partially funded through a state grant.
- Property taxes decreased approximately \$250,000 during the current year which is related to an approximate \$6,500,000 decrease in taxable values of property located within the Village.

Expenses and Program Revenues - Governmental Activities



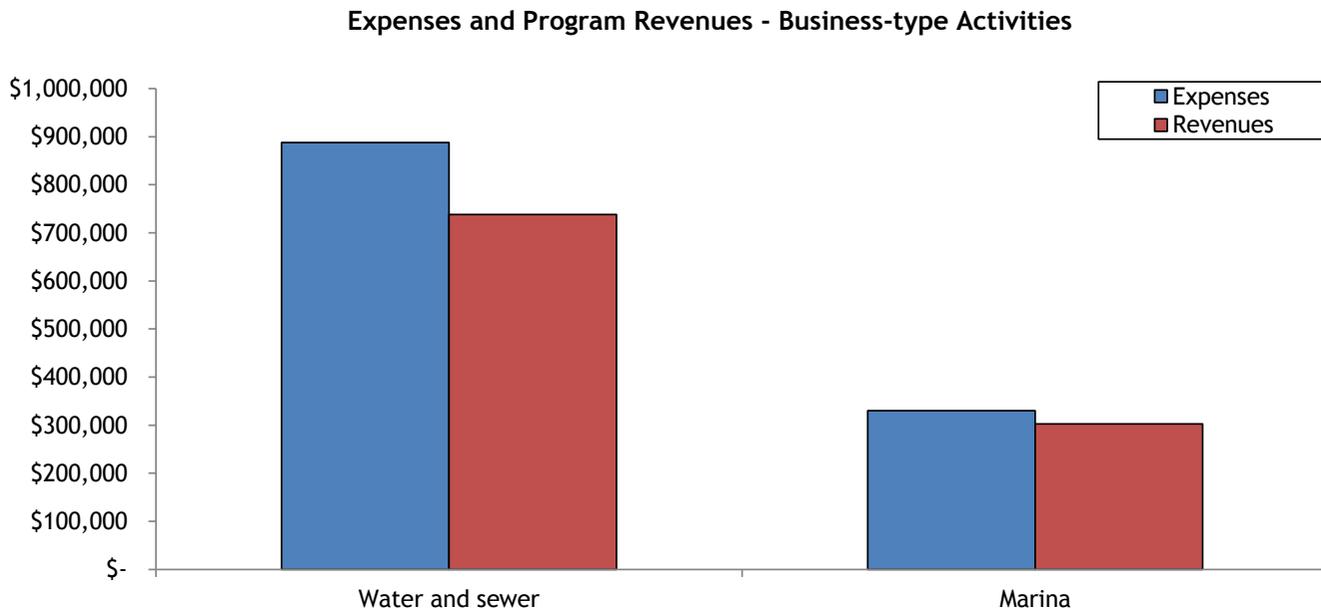
VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis



Business-type Activities. Business-type activities decreased the Village's net assets by approximately \$223,000.

This decrease was directly related to an increase in expenditures related to repairs and maintenance to the water and sewer systems and equipment and capital improvements at the Marina.



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

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

Governmental Funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The information related to the governmental funds fund balances reflects implementation of GASB 54 which greatly changed how fund balances are classified on the Balance Sheet.

As of the end of the fiscal year 2012, the Village's governmental funds reported combined ending fund balances of approximately \$2,397,000, an increase of approximately \$611,000. Unassigned fund balance of approximately \$763,000 is available for spending at the Village's discretion. The remainder of fund balance is restricted or assigned to indicate that it is not available for new spending because it has been restricted or assigned to be spent for specific purposes.

The fund balance of the Village's General Fund decreased by approximately \$124,000 during the current fiscal year, which was mainly attributable to budgeting the use of fund balance to cover operating expenses.

The fund balance of the Village's Major Street special revenue fund increased by approximately \$106,000 during the current fiscal year, which was mainly attributable to the transfer of funds from the Municipal Street Fund.

The fund balance of the Village's Local Street special revenue fund increased by approximately \$50,000 during the current fiscal year, which was mainly attributable to the transfer of funds from the Municipal Street Fund.

The fund balance of the Village's Municipal Street special revenue fund decreased by approximately \$10,000 during the current fiscal year, which was mainly attributable to transfers to the Major Street and Local Street special revenue funds.

The fund balance of the Village's Ambulance fund increased by approximately \$18,000 during the current fiscal year, which was mainly attributable to revenues being greater than the Village had originally budgeted.

The fund balance of the Village's 2011 Capital Project Fund increased by approximately \$617,000 during the current year, which was mainly attributable to the issuance of a new bond.

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

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

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to approximately \$891,000. The Water and Sewer Fund had a decrease in net assets for the year of approximately of \$195,000. Factors concerning the finances of this fund have already been addressed in the discussion of the Village's business-type activities.

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

Unrestricted net assets of the Marina fund at the end of the year amounted to approximately \$92,000. The Marina Fund had a decrease in net assets for the year of approximately \$28,000. This decrease in net assets is mainly attributable to planned expenditures for operations and repairs and maintenance to marina assets.

General Fund Budgetary Highlights

General Fund revenues, expenditures, and transfers out were lower than the final budget. No budget amendments were made in the current year. Recreation and Culture expenses were lower than budget due to budgeted capital projects which did not occur.

Capital Asset and Debt Administration

Capital Assets. The Village's investment in capital assets for its governmental and business-type activities as of February 29, 2012, amounted to approximately \$14,055,000 (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 the notes to the financial statements.

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

- LED Lighting Project
- Replacement of finger piers at the Village marina
- Sandman beach grooming machine

Long-Term Debt. At February 29, 2012, the Village had total debt (less accrued compensated absences) outstanding of approximately \$2,139,000. Of this amount, approximately \$1,949,000 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 City's long-term debt can be found in the notes to the financial statements.

Economic Factors

The following factors were considered in preparing the Village's budget for the 2012-2013 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 Village's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Village Manager, P.O. Box 580, Mackinaw City, Michigan 49701.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY

Statement of Net Assets

February 29, 2012

	Primary Government			Downtown Development Authority Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,723,631	\$ 508,176	\$ 2,231,807	\$ 47,288
Investments	604,237	294,214	898,451	27,361
Receivables, net	437,058	177,900	614,958	2,070
Internal balances	125	(125)	-	-
Inventories	-	29,025	29,025	-
Restricted investments	-	136,918	136,918	-
Capital assets not being depreciated	1,052,536	73,140	1,125,676	-
Capital assets being depreciated, net	5,756,269	7,173,380	12,929,649	-
Total assets	9,573,856	8,392,628	17,966,484	76,719
Liabilities				
Accounts payable and accrued expenses	68,214	14,997	83,211	-
Unearned revenue	44,833	88,054	132,887	-
Long-term liabilities				
Due within one year	295,392	20,000	315,392	-
Due in more than one year	1,875,642	170,000	2,045,642	-
Net other postemployment benefit obligation	17,952	-	17,952	-
Total liabilities	2,302,033	293,051	2,595,084	-
Net assets				
Invested in capital assets, net of related debt	4,859,368	7,056,520	11,915,888	-
Restricted for debt service	25,365	60,000	85,365	-
Unrestricted	2,387,090	983,057	3,370,147	76,719
Total net assets	\$ 7,271,823	\$ 8,099,577	\$ 15,371,400	\$ 76,719

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

VILLAGE OF MACKINAW CITY

Statement of Activities

For the Year Ended February 29, 2012

Functions/Programs	Expenses	Program Revenues			Net Expense
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 783,023	\$ 179,068	\$ 86,833	\$ -	\$ (517,122)
Public safety	670,510	5,088	4,500	1,656	(659,266)
Public works	10,780	-	9,244	-	(1,536)
Highways and streets	633,838	-	150,405	-	(483,433)
Health and welfare	541,988	237,957	221,836	-	(82,195)
Recreation and culture	273,501	4,964	41,657	-	(226,880)
Interest on long-term debt	52,929	-	-	-	(52,929)
Total governmental activities	2,966,569	427,077	514,475	1,656	(2,023,361)
Business-type activities					
Water and sewer	887,651	736,361	1,833	-	(149,457)
Marina	330,204	302,330	-	-	(27,874)
Total business-type activities	1,217,855	1,038,691	1,833	-	(177,331)
Total primary government	\$ 4,184,424	\$ 1,465,768	\$ 516,308	\$ 1,656	\$ (2,200,692)
Discretely presented component unit					
Downtown Development Authority	\$ 25,357	\$ -	\$ -	\$ -	\$ (25,357)

Continued...

VILLAGE OF MACKINAW CITY

Statement of Activities

For the Year Ended February 29, 2012

	Primary Government			Downtown Development Authority Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net expense	\$ (2,023,361)	\$ (177,331)	\$ (2,200,692)	\$ (25,357)
General revenues				
Property taxes	1,571,129	-	1,571,129	27,608
Grants and contributions not restricted to specific programs	64,096	-	64,096	-
Unrestricted interest income	13,465	-	13,465	-
Transfers - internal activities	45,689	(45,689)	-	-
Total general revenues and transfers	1,694,379	(45,689)	1,648,690	27,608
Changes in net assets	(328,982)	(223,020)	(552,002)	2,251
Net assets, beginning of year	7,600,805	8,322,597	15,923,402	74,468
Net assets, end of year	\$ 7,271,823	\$ 8,099,577	\$ 15,371,400	\$ 76,719

Concluded

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

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FUND FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY

Balance Sheet

Governmental Funds
February 29, 2012

	General	Major Street	Local Street	Municipal Street
Assets				
Cash and cash equivalents	\$ 541,542	\$ 110,365	\$ 67,557	\$ 72,466
Investments	303,434	63,857	39,089	41,929
Accounts receivable, net	7,042	-	-	-
Taxes receivable	125,395	-	-	42,576
Special assessments receivable	-	-	-	107,993
Due from other funds	151,633	5,719	2,281	14,160
Due from other governmental units	9,079	8,223	3,799	-
Total assets	\$ 1,138,125	\$ 188,164	\$ 112,726	\$ 279,124
Liabilities				
Accounts payable	\$ 22,407	\$ -	\$ -	\$ -
Accrued expenditures	8,442	961	632	-
Due to other funds	129,313	19,986	7,567	-
Deferred revenue	14,833	-	-	107,993
Total liabilities	174,995	20,947	8,199	107,993
Fund balances				
Restricted				
Debt service	-	-	-	-
Capital projects	-	-	-	-
Health and welfare	-	-	-	-
Highways and streets	-	167,217	104,527	171,131
Unrestricted				
Assigned				
Subsequent year expenditures	167,623	-	-	-
Health and welfare	-	-	-	-
Planning commission	5,200	-	-	-
Economic development commission	17,257	-	-	-
Performance Shell	9,674	-	-	-
Unassigned	763,376	-	-	-
Total fund balances	963,130	167,217	104,527	171,131
Total liabilities and fund balances	\$ 1,138,125	\$ 188,164	\$ 112,726	\$ 279,124

Ambulance	2007 Special Assessment Bonds	2011 Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 117,871	\$ 15,143	\$ 617,419	\$ 82,578	\$ 1,624,941
68,171	-	-	30,655	547,135
46,311	-	-	49,529	102,882
-	-	-	2,773	170,744
-	34,338	-	-	142,331
7,021	-	-	35,475	216,289
-	-	-	-	21,101
<u>\$ 239,374</u>	<u>\$ 49,481</u>	<u>\$ 617,419</u>	<u>\$ 201,010</u>	<u>\$ 2,825,423</u>
\$ 704	\$ -	\$ -	\$ 596	\$ 23,707
1,865	-	-	771	12,671
20,887	4,001	-	23,002	204,756
-	34,338	-	30,000	187,164
<u>23,456</u>	<u>38,339</u>	<u>-</u>	<u>54,369</u>	<u>428,298</u>
-	11,142	-	14,223	25,365
-	-	617,419	1,147	618,566
-	-	-	85,452	85,452
-	-	-	-	442,875
-	-	-	-	167,623
215,918	-	-	45,819	261,737
-	-	-	-	5,200
-	-	-	-	17,257
-	-	-	-	9,674
-	-	-	-	763,376
<u>215,918</u>	<u>11,142</u>	<u>617,419</u>	<u>146,641</u>	<u>2,397,125</u>
<u>\$ 239,374</u>	<u>\$ 49,481</u>	<u>\$ 617,419</u>	<u>\$ 201,010</u>	<u>\$ 2,825,423</u>

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VILLAGE OF MACKINAW CITY

Balance Sheet

Governmental Funds

February 29, 2012

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

Fund balances - total governmental funds \$ 2,397,125

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.

Capital assets	10,773,587
Accumulated depreciation	(4,256,732)

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.

Deferred special assessment revenues	142,331
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Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Net assets of governmental activities accounted for in an internal service fund	363,984
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Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Net other postemployment benefit obligation	(17,952)
Bonds and notes payable	(1,888,931)
Compensated absences	(221,597)
Accrued interest on long-term liabilities	(19,992)
	(2,148,472)

Net assets of governmental activities	<u>\$ 7,271,823</u>
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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 Balances

Governmental Funds

For the Year Ended February 29, 2012

	General	Major Street	Local Street	Municipal Street
Revenues				
Property taxes	\$ 1,104,496	\$ -	\$ -	\$ 387,410
State revenue	81,623	98,812	42,304	-
Special assessments	-	-	-	34,479
Licenses and permits	6,548	-	-	-
Contributions	57,105	-	-	-
Charges for services	1,553	-	-	-
Fines and forfeits	2,038	-	-	-
Interest	13,465	-	-	9,289
Rents	160,433	-	-	-
Local contribution	-	-	-	-
Miscellaneous	16,579	-	-	-
Total revenues	1,443,840	98,812	42,304	431,178
Expenditures				
Current:				
Legislative	24,864	-	-	-
General government	712,463	-	-	-
Public safety	595,372	-	-	-
Highways and streets	-	170,506	158,776	70,539
Health and welfare	-	-	-	-
Recreation and culture	81,950	-	-	-
Other functions	3,445	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and paying agent fees	-	-	-	-
Total expenditures	1,418,094	170,506	158,776	70,539
Revenues over (under) expenditures	25,746	(71,694)	(116,472)	360,639
Other financial sources (uses)				
Bond proceeds	-	-	-	-
Transfers in	-	177,890	166,830	10,707
Transfers out	(149,247)	-	-	(380,965)
Total other financing sources (uses)	(149,247)	177,890	166,830	(370,258)
Net change in fund balances	(123,501)	106,196	50,358	(9,619)
Fund balances, beginning of year, as restated	1,086,631	61,021	54,169	180,750
Fund balances, end of year	\$ 963,130	\$ 167,217	\$ 104,527	\$ 171,131

Ambulance	2007 Special Assessment Bonds	2011 Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 79,223	\$ 1,571,129
-	-	-	-	222,739
-	27,177	-	-	61,656
-	-	-	-	6,548
166,905	-	-	55,931	279,941
231,407	-	-	10,494	243,454
-	-	-	-	2,038
-	8,018	32	1,194	31,998
-	-	-	27,840	188,273
-	-	-	16,649	16,649
1,050	-	-	11,500	29,129
<u>399,362</u>	<u>35,195</u>	<u>32</u>	<u>202,831</u>	<u>2,653,554</u>
-	-	-	-	24,864
-	-	-	34,350	746,813
-	-	-	-	595,372
-	-	-	-	399,821
370,204	-	-	125,022	495,226
-	-	-	129,041	210,991
-	-	-	-	3,445
505	-	132,613	3,755	136,873
-	55,000	-	138,989	193,989
-	19,900	-	34,382	54,282
<u>370,709</u>	<u>74,900</u>	<u>132,613</u>	<u>465,539</u>	<u>2,861,676</u>
<u>28,653</u>	<u>(39,705)</u>	<u>(132,581)</u>	<u>(262,708)</u>	<u>(208,122)</u>
-	-	750,000	-	750,000
-	49,570	-	214,865	619,862
(10,262)	-	-	(10,707)	(551,181)
<u>(10,262)</u>	<u>49,570</u>	<u>750,000</u>	<u>204,158</u>	<u>818,681</u>
18,391	9,865	617,419	(58,550)	610,559
<u>197,527</u>	<u>1,277</u>	<u>-</u>	<u>205,191</u>	<u>1,786,566</u>
<u>\$ 215,918</u>	<u>\$ 11,142</u>	<u>\$ 617,419</u>	<u>\$ 146,641</u>	<u>\$ 2,397,125</u>

Continued...

VILLAGE OF MACKINAW CITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended February 29, 2012

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 \$ 610,559

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

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

Capital outlay capitalized during current year	132,613
Depreciation expense	(458,331)

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

Current year collections on special assessments	(61,656)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on long-term liabilities	193,989
Increase in net other postemployment benefit obligation	(11,726)

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

Current year decrease in accrued interest on bonds	1,354
Decrease in the accrual of compensated absences	37,504
Proceeds from issuance of bonds	(750,000)

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

Change in net assets from governmental activities accounted for in internal service fund	(23,288)
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Change in net assets of governmental activities	\$ (328,982)
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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 Balances

Budget and Actual - General Fund
For the Year Ended February 29, 2012

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Revenues			
Property taxes	\$ 1,150,207	\$ 1,104,496	\$ (45,711)
Federal revenue	5,000	-	(5,000)
State revenue	141,000	81,623	(59,377)
Licenses and permits	14,108	6,548	(7,560)
Contributions	38,000	57,105	19,105
Charges for services	2,850	1,553	(1,297)
Fines and forfeits	2,400	2,038	(362)
Interest	21,000	13,465	(7,535)
Rents	165,000	160,433	(4,567)
Miscellaneous	3,000	16,579	13,579
Total revenues	<u>1,542,565</u>	<u>1,443,840</u>	<u>(98,725)</u>
Expenditures			
Legislative	25,250	24,864	386
General government	697,690	712,463	(14,773)
Public safety	587,725	595,372	(7,647)
Recreation and culture	253,250	81,950	171,300
Other functions	4,600	3,445	1,155
Total expenditures	<u>1,568,515</u>	<u>1,418,094</u>	<u>150,421</u>
Revenues (under) over expenditures	(25,950)	25,746	51,696
Other financing uses			
Transfers out	(180,770)	(149,247)	31,523
Net change in fund balance	(206,720)	(123,501)	83,219
Fund balance beginning of year, as restated	<u>1,086,631</u>	<u>1,086,631</u>	-
Fund balance, end of year	<u>\$ 879,911</u>	<u>\$ 963,130</u>	<u>\$ 83,219</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 Balances

Budget and Actual - Major Street Fund
For the Year Ended February 29, 2012

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Revenues			
State revenue:			
Gas and weight tax	\$ 62,000	\$ 80,420	\$ 18,420
Winter maintenance	-	6,515	6,515
Other	-	11,877	11,877
Interest	100	-	(100)
Total revenues	<u>62,100</u>	<u>98,812</u>	<u>36,712</u>
Expenditures			
Highways and streets			
Administration	25,800	21,375	4,425
Routine maintenance	120,650	103,139	17,511
Winter maintenance	71,300	44,575	26,725
Traffic services	22,240	1,417	20,823
Total expenditures	<u>239,990</u>	<u>170,506</u>	<u>69,484</u>
Revenues under expenditures	(177,890)	(71,694)	106,196
Other financing sources			
Transfers in	177,890	177,890	-
Net change in fund balance	-	106,196	106,196
Fund balance, beginning of year	61,021	61,021	-
Fund balance, end of year	<u>\$ 61,021</u>	<u>\$ 167,217</u>	<u>\$ 106,196</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 Balances

Budget and Actual - Local Street Fund

For the Year Ended February 29, 2012

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Revenues			
State revenue	\$ 30,000	\$ 42,304	\$ 12,304
Expenditures			
Highways and street			
Administration	28,350	21,370	6,980
Routine maintenance	85,900	91,071	(5,171)
Winter maintenance	74,500	43,782	30,718
Traffic services	8,150	1,505	6,645
Construction	-	1,048	(1,048)
Total expenditures	196,900	158,776	38,124
Revenues under expenditures	(166,900)	(116,472)	50,428
Other financing sources			
Transfers in	166,830	166,830	-
Net change in fund balance	(70)	50,358	50,428
Fund balance, beginning of year	54,169	54,169	-
Fund balance, end of year	\$ 54,099	\$ 104,527	\$ 50,428

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

Budget and Actual - Municipal Street Fund
For the Year Ended February 29, 2012

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Revenues			
Property taxes	\$ 414,000	\$ 387,410	\$ (26,590)
State revenue	5,400	-	(5,400)
Special assessments	17,100	34,479	17,379
Interest	3,000	9,289	6,289
Total revenues	439,500	431,178	(8,322)
Expenditures			
Highways and streets			
Routine maintenance	46,000	70,539	(24,539)
Revenues over expenditures	393,500	360,639	(32,861)
Other financing sources (uses)			
Transfers in	-	10,707	10,707
Transfers out	(393,500)	(380,965)	12,535
Total other financing sources (uses)	(393,500)	(370,258)	23,242
Net change in fund balance	-	(9,619)	(9,619)
Fund balance, beginning of year	180,750	180,750	-
Fund balance, end of year	\$ 180,750	\$ 171,131	\$ (9,619)

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

Budget and Actual - Ambulance Fund

For the Year Ended February 29, 2012

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Revenues			
Contributions from other governmental units	\$ 164,300	\$ 166,905	\$ 2,605
Charges for services	210,000	231,407	21,407
Interest	200	-	(200)
Miscellaneous	500	1,050	550
Total revenues	<u>375,000</u>	<u>399,362</u>	<u>24,362</u>
Expenditures			
Current			
Health and welfare	361,700	370,204	(8,504)
Capital outlay	5,000	505	4,495
Total expenditures	<u>366,700</u>	<u>370,709</u>	<u>(4,009)</u>
Revenues over expenditures	8,300	28,653	20,353
Other financing uses			
Transfers out	(10,000)	(10,262)	(262)
Net change in fund balance	(1,700)	18,391	20,091
Fund balance, beginning of year	197,527	197,527	-
Fund balance, end of year	<u>\$ 195,827</u>	<u>\$ 215,918</u>	<u>\$ 20,091</u>

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

VILLAGE OF MACKINAW CITY

Statement of Net Assets

Proprietary Funds
February 29, 2012

	Business-type Activities -Enterprise Funds			Governmental Activities
	Water and Sewer	Marina	Total	Internal Service Fund
Assets				
Current assets				
Cash and cash equivalents	\$ 432,075	\$ 76,101	\$ 508,176	\$ 98,690
Investments	249,999	44,215	294,214	57,102
Accounts receivable	130,919	46,981	177,900	-
Due from other funds	78,123	3,732	81,855	1,403
Inventory	-	29,025	29,025	-
Total current assets	891,116	200,054	1,091,170	157,195
Noncurrent assets				
Property and equipment				
Land	51,640	21,500	73,140	-
Buildings	150,182	-	150,182	-
Improvements other than buildings	9,410,777	113,358	9,524,135	-
Machinery and equipment	423,362	63,467	486,829	990,668
Marina	-	1,720,612	1,720,612	-
Accumulated depreciation	(3,470,487)	(1,237,891)	(4,708,378)	(698,718)
Net property and equipment	6,565,474	681,046	7,246,520	291,950
Other assets				
Restricted investments	136,918	-	136,918	-
Total noncurrent assets	6,702,392	681,046	7,383,438	291,950
Total assets	7,593,508	881,100	8,474,608	449,145
Liabilities				
Current liabilities				
Accounts payable	8,818	1,661	10,479	9,430
Accrued expenses	3,869	649	4,518	2,414
Due to other funds	64,045	17,935	81,980	12,811
Unearned revenue	-	88,054	88,054	-
Bonds payable, current portion	20,000	-	20,000	-
Note payable, current portion	-	-	-	34,218
Total current liabilities	96,732	108,299	205,031	58,873
Long-term debt				
Bonds payable, net of current portion	170,000	-	170,000	-
Note payable, net of current portion	-	-	-	26,288
Total long-term debt	170,000	-	170,000	26,288
Total liabilities	266,732	108,299	375,031	85,161
Net assets				
Invested in capital assets, net of related debt	6,375,474	681,046	7,056,520	231,444
Restricted	60,000	-	60,000	-
Unrestricted	891,302	91,755	983,057	132,540
Total net assets	\$ 7,326,776	\$ 772,801	\$ 8,099,577	\$ 363,984

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 29, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Marina	Total	Internal Service Fund
Operating revenues				
Sales and charges for services	\$ -	\$ 302,330	\$ 302,330	\$ 216,209
Sales and charges for services pledged as security for revenue bonds	736,361	-	736,361	-
Total operating revenues	<u>736,361</u>	<u>302,330</u>	<u>1,038,691</u>	<u>216,209</u>
Operating expenses				
Salaries and wages	218,372	83,977	302,349	41,133
Fringe benefits	101,802	30,612	132,414	19,261
Supplies	102,452	21,488	123,940	7,905
Gasoline and oil	7,446	94,572	102,018	33,921
Repairs and maintenance	80,088	4,301	84,389	33,958
Contracted services	37,013	16,242	53,255	1,353
Communications	4,142	2,006	6,148	1,835
Conferences and workshops	205	-	205	-
Travel	-	-	-	-
Insurance	4,764	5,398	10,162	4,241
Utilities	111,045	29,935	140,980	7,202
Equipment rental	11,371	1,205	12,576	-
Depreciation	195,602	37,298	232,900	65,696
Miscellaneous	2,868	3,170	6,038	-
Total operating expenses	<u>877,170</u>	<u>330,204</u>	<u>1,207,374</u>	<u>216,505</u>
Operating loss	<u>(140,809)</u>	<u>(27,874)</u>	<u>(168,683)</u>	<u>(296)</u>
Nonoperating revenues (expenses)				
Interest earnings	1,833	-	1,833	-
Interest and fiscal charges	(10,481)	-	(10,481)	-
Total nonoperating revenues (expenses)	<u>(8,648)</u>	<u>-</u>	<u>(8,648)</u>	<u>-</u>
Loss before transfers	<u>(149,457)</u>	<u>(27,874)</u>	<u>(177,331)</u>	<u>(296)</u>
Transfers out	(45,689)	-	(45,689)	(22,992)
Change in net assets	<u>(195,146)</u>	<u>(27,874)</u>	<u>(223,020)</u>	<u>(23,288)</u>
Net assets, beginning of year	<u>7,521,922</u>	<u>800,675</u>	<u>8,322,597</u>	<u>387,272</u>
Net assets, end of year	<u>\$ 7,326,776</u>	<u>\$ 772,801</u>	<u>\$ 8,099,577</u>	<u>\$ 363,984</u>

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 29, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Marina	Total	Internal Service Fund
Cash flows from operating activities				
Cash collected from customers	\$ 783,379	\$ 303,145	\$ 1,086,524	\$ -
Cash collected from other funds	-	-	-	216,209
Cash paid for employee wages and benefits	(320,325)	(114,411)	(434,736)	(59,733)
Cash paid for other operating and administrative expenses	(368,644)	(193,749)	(562,393)	(88,219)
Net cash provided by (used in) operating activities	<u>94,410</u>	<u>(5,015)</u>	<u>89,395</u>	<u>68,257</u>
Cash flows from capital and related financing activities				
Interest payments	(10,481)	-	(10,481)	-
Principal payments	(20,000)	-	(20,000)	(33,291)
Purchase of property and equipment	(5,200)	(32,482)	(37,682)	(16,000)
Transfers out	(45,689)	-	(45,689)	(22,992)
Net cash used in capital and related financing activities	<u>(81,370)</u>	<u>(32,482)</u>	<u>(113,852)</u>	<u>(72,283)</u>
Cash flows from investing activities				
Interest received	1,833	-	1,833	-
Sales of investments	498	15,139	15,637	3,027
Net cash provided by investing activities	<u>2,331</u>	<u>15,139</u>	<u>17,470</u>	<u>3,027</u>
Net increase (decrease) in cash and cash equivalents	<u>15,371</u>	<u>(22,358)</u>	<u>(6,987)</u>	<u>(999)</u>
Cash and cash equivalents, beginning of year	<u>416,704</u>	<u>98,459</u>	<u>515,163</u>	<u>99,689</u>
Cash and cash equivalents, end of year	<u>\$ 432,075</u>	<u>\$ 76,101</u>	<u>\$ 508,176</u>	<u>\$ 98,690</u>

Continued...

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 29, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Marina	Total	Internal Service Fund
Reconciliation of operating loss to net cash provided by (used in) operating activities				
Cash flows from operating activities				
Operating loss	\$ (140,809)	\$ (27,874)	\$ (168,683)	\$ (296)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation	195,602	37,298	232,900	65,696
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	47,018	815	47,833	-
Inventory	-	(7,909)	(7,909)	-
Accounts payable	(7,250)	1,346	(5,904)	2,196
Accrued expenses	(151)	178	27	661
Unearned revenue	-	(8,869)	(8,869)	-
Net cash provided by (used in) operating activities	\$ 94,410	\$ (5,015)	\$ 89,395	\$ 68,257

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 29, 2012

	Pension Trust Fund		Agency Funds
	Employees' Retirement System		
Assets			
Cash and cash equivalents	\$ -	\$	4,423
Investments - life insurance trust	1,359,484	-	-
Total assets	1,359,484	\$	<u>4,423</u>
Liabilities			
Accounts payable	-	\$	299
Due to employees	-	-	4,124
Total liabilities	-	\$	<u>4,423</u>
Net assets held in trust for pension benefits	<u>\$ 1,359,484</u>		

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 29, 2012

Additions	
Contributions	\$ 86,145
Investment gain	<u>186,418</u>
Total additions	272,563
Deductions	
Benefit payments	<u>28,294</u>
Change in net assets	244,269
Net assets held in trust for pension benefits, beginning of year	<u>1,115,215</u>
Net assets held in trust for pension benefits, end of year	<u><u>\$ 1,359,484</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

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

Downtown Development Authority (the “DDA”) - 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.

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 services. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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

The fund financial statements provide information about the Village’s funds, including its fiduciary funds. Separate statements for each fund category - governmental, proprietary, and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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.

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

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

The 2011 Capital Project Fund accounts for expenditures related to the LED lighting and sewer lagoon cleaning projects.

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

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

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

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.

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. The Village considers all revenues reported in the governmental funds to be available if they are collected within sixty (60) days of the end of the current fiscal period. Property taxes, state shared revenue 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.

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

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

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

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

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

Assets, liabilities and equity

Deposits and investments

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

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

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

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

Receivables and payables

All receivables are reported at their gross value, except the Ambulance Fund accounts receivable, which is shown net of an estimated allowance for uncollectible accounts of \$50,000.

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

Property taxes

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan and Emmet Counties. Assessed values, as established annually by the Village and subject to acceptance by the counties, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Village for the 2011 levy was approximately \$101,000,000. The Village's general operating tax rate for fiscal 2011-12 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.

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

Inventories

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

Restricted assets

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

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.

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

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

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

Compensated absences

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

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

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.

Fund equity

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

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

Interfund transactions

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

Use of Estimates

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

2. BUDGETARY INFORMATION

Annual budgets are adopted on the same basis as the accounting method used to reflect actual results. The General Fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. All annual appropriations lapse at fiscal year-end.

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

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.

3. EXCESS OF EXPENDITURES OVER BUDGET

	Final Appropriation	Expenditures	Unfavorable Variance
General Fund			
General government	\$ 697,690	\$ 712,463	\$ 14,773
Public safety	587,725	595,372	7,647
Local Street Fund			
Routine maintenance	85,900	91,071	5,171
Construction	-	1,048	1,048
Municipal Street Fund			
Routine maintenance	46,000	70,539	24,539
Ambulance Fund			
Health and welfare	361,700	370,204	8,504

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of February 29, 2012:

	Primary Government	Component Unit	Totals
Statement of Net Assets			
Cash and cash equivalents	\$ 2,231,807	\$ 47,288	\$ 2,279,095
Investments	898,451	27,361	925,812
Restricted investments	136,918	-	136,918
Total Statement of Net Assets	<u>\$ 3,267,176</u>	<u>\$ 74,649</u>	3,341,825
Statement of Fiduciary Net Assets			
Cash and cash equivalents			4,423
Investments			1,359,484
Total			<u>\$ 4,705,732</u>
Deposits and investments			
Bank deposits:			
Checking and savings accounts and CDs			\$ 3,346,248
Investments:			
Securities, mutual funds and similar vehicles			1,359,484
Total			<u>\$ 4,705,732</u>

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the 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.

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, \$2,467,254 of the Village's bank balance of \$3,376,688 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk-Investments. The Village's Pension Trust Fund holds securities of \$1,359,484 in a trust fund of a life insurance company, which are not in the Village's name. The carrying amount of the Pension Trust Fund investments is stated at fair value.

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

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

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

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

Bankers acceptances of United States banks.

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

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

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

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

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

5. RECEIVABLES

Receivables are comprised of the following at February 29, 2012:

	Governmental Activities	Business-type Activities	Component Units
Accounts receivable	\$ 102,882	\$ 177,900	\$ -
Taxes receivable	170,744	-	2,070
Special assessment receivable, due in one year	36,592	-	-
Special assessment receivable, due in more than one year	105,739	-	-
Due from other governmental units	21,101	-	-
	<u>\$ 437,058</u>	<u>\$ 177,900</u>	<u>\$ 2,070</u>

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 of \$142,331 and resources that have been received, but not earned of \$44,833 at the end of the current fiscal year.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENDITURES/EXPENSES

The composition of accounts payable and accrued expenditures/expenses is as follows at February 29, 2012:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 33,137	\$ 10,479
Accrued expenditures/expenses	35,077	4,518
	<u>\$ 68,214</u>	<u>\$ 14,997</u>

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

Interfund balances consisted of the following at February 29, 2012:

Receivable fund	Payable fund				2007 Special Assessment Bonds Fund
	General Fund	Major Street Fund	Local Street Fund	Ambulance Fund	
General Fund	\$ -	\$ 19,986	\$ 7,567	\$ 20,887	\$ -
Major Street Fund	5,719	-	-	-	-
Local Street Fund	2,281	-	-	-	-
Municipal Street Fund	-	-	-	-	-
Ambulance Fund	7,021	-	-	-	-
Nonmajor governmental funds	31,034	-	-	-	4,001
Water and Sewer Fund	78,123	-	-	-	-
Marina Fund	3,732	-	-	-	-
Internal Service Fund	1,403	-	-	-	-
	<u>\$ 129,313</u>	<u>\$ 19,986</u>	<u>\$ 7,567</u>	<u>\$ 20,887</u>	<u>\$ 4,001</u>

Receivable fund	Payable fund				Total
	Nonmajor governmental funds	Water and Sewer Fund	Marina Fund	Internal Service Fund	
General Fund	\$ 8,402	\$ 64,045	\$ 17,935	\$ 12,811	\$ 151,633
Major Street Fund	-	-	-	-	5,719
Local Street Fund	-	-	-	-	2,281
Municipal Street Fund	14,160	-	-	-	14,160
Ambulance Fund	-	-	-	-	7,021
Nonmajor governmental funds	440	-	-	-	31,474
Water and Sewer Fund	-	-	-	-	78,123
Marina Fund	-	-	-	-	3,732
Internal Service Fund	-	-	-	-	1,403
	<u>\$ 23,002</u>	<u>\$ 64,045</u>	<u>\$ 17,935</u>	<u>\$ 12,811</u>	<u>\$ 295,546</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.

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

Interfund transfers consisted of the following at February 29, 2012:

Transfers in	Transfers out			
	General Fund	Municipal Street Fund	Ambulance Fund	Nonmajor Governmental Funds
Major Street Fund	\$ -	\$ 177,890	\$ -	\$ -
Local Street Fund	-	166,830	-	-
Municipal Street Fund	-	-	-	10,707
2007 Special Assessment Bond Fund	-	3,881	-	-
Nonmajor governmental Funds	149,247	32,364	10,262	-
	<u>\$ 149,247</u>	<u>\$ 380,965</u>	<u>\$ 10,262</u>	<u>\$ 10,707</u>

Transfers in	Transfers out		
	Water and Sewer Fund	Internal Service Fund	Total
Major Street Fund	\$ -	\$ -	\$ 177,890
Local Street Fund	-	-	166,830
Municipal Street Fund	-	-	10,707
2007 Special Assessment Bond Fund	45,689	-	49,570
Nonmajor Governmental Funds	-	22,992	214,865
	<u>\$ 45,689</u>	<u>\$ 22,992</u>	<u>\$ 619,862</u>

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

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended February 29, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 919,923	\$ -	\$ -	\$ 919,923
Construction in progress	-	132,613	-	132,613
Total capital assets not being depreciated	919,923	132,613	-	1,052,536
Capital assets, being depreciated:				
Buildings	2,301,906	-	-	2,301,906
Land improvements	939,830	-	-	939,830
Equipment	2,850,456	16,000	(76,591)	2,789,865
Infrastructure	4,680,118	-	-	4,680,118
Total capital assets being depreciated	10,772,310	16,000	(76,591)	10,711,719
Less accumulated depreciation for:				
Buildings	\$ (693,040)	\$ (61,896)	\$ -	\$ (754,936)
Land improvements	(665,096)	(32,909)	-	(698,005)
Equipment	(1,674,270)	(195,216)	76,591	(1,792,895)
Infrastructure	(1,475,608)	(234,006)	-	(1,709,614)
Total accumulated depreciation	(4,508,014)	(524,027)	76,591	(4,955,450)
Total capital assets being depreciated, net	6,264,296	(508,027)	-	5,756,269
Governmental activities capital assets, net	\$ 7,184,219	\$ (375,414)	\$ -	\$ 6,808,805
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 73,140	\$ -	\$ -	\$ 73,140
Capital assets, being depreciated				
Buildings	150,182	-	-	150,182
Improvements other than buildings	9,524,135	-	-	9,524,135
Machinery and Equipment	487,832	5,200	(6,203)	486,829
Marina	1,688,130	32,482	-	1,720,612
Total capital assets being depreciated	11,850,279	37,682	(6,203)	11,881,758
Less accumulated depreciation for:				
Buildings	(44,618)	(4,538)	-	(49,156)
Improvements other than buildings	(3,050,009)	(163,546)	-	(3,213,555)
Machinery and equipment	(335,889)	(30,511)	6,203	(360,197)
Marina	(1,051,165)	(34,305)	-	(1,085,470)
Total accumulated depreciation	(4,481,681)	(232,900)	6,203	(4,708,378)
Total capital assets being depreciated, net	7,368,598	(195,218)	-	7,173,380
Business-type activities capital assets, net	\$ 7,441,738	\$ (195,218)	\$ -	\$ 7,246,520

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

Depreciation expense charged to functions/programs of the primary government is as follows for the year ended February 29, 2012:

Depreciation of governmental activities by function

General government	\$ 57,217
Public safety	66,599
Public works	10,399
Highways and streets	233,833
Health and welfare	11,574
Recreation and culture	78,709
Capital assets held by the Village's internal service fund are charged to various functions based on their usage of the assets	<u>65,696</u>
	<u><u>\$ 524,027</u></u>

Depreciation of business-type activities by function

Water and Sewer	195,602
Marina	<u>37,298</u>
	<u><u>\$ 232,900</u></u>

9. LONG-TERM DEBT

A summary of long-term debt and transactions related thereto is as follows for the year ended February 29, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
2009 Capital Improvement Bonds maturing serially through 2020 in annual payments ranging from \$50,000 to \$85,000 and bearing interest ranging from 3.25% to 4.50%.	\$ 600,000	\$ -	\$ (55,000)	\$ 545,000	\$ 55,000
2007 Capital Improvement Bonds, maturing serially through 2018 in annual payments ranging from \$50,000 to \$75,000 and bearing interest ranging from 4.30% to 4.60%.	440,000	-	(55,000)	385,000	55,000

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities (continued)					
2005 Act 99 installment contract maturing in fiscal 2016 in semi-annual payments of \$8,382 including interest at 4.25%.	\$ 67,920	\$ -	\$ (13,989)	\$ 53,931	\$ 14,592
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%.	155,000	-	(35,000)	120,000	40,000
2002 Capital Improvement Bonds maturing serially through fiscal 2013 in annual payments of \$35,000 and bearing interest from 4.00% to 4.10%.	70,000	-	(35,000)	35,000	35,000
2012 Capital Improvement Bonds maturing serially through fiscal 2032 in annual payments ranging from \$25,000 to \$55,000 and bearing interest from 2.00% to 6.00%.	-	750,000	-	750,000	35,000
Total bonded debt	1,332,920	750,000	(193,989)	1,888,931	234,592
Note payable to John Deere Credit due in monthly installments of \$2,954 including interest at 2.75% through 2014.	93,797	-	(33,291)	60,506	34,218
Accrued compensated absences absences	259,101	-	(37,504)	221,597	26,582
Total governmental activities	\$ 1,685,818	\$ 750,000	\$ (264,784)	\$ 2,171,034	\$ 295,392

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type Activities					
Water Revenue Bonds, maturing serially through fiscal 2020 in annual payments ranging from \$20,000 to \$30,000 and bearing interest at 5.00%.	\$ 210,000	\$ -	\$ (20,000)	\$ 190,000	\$ 20,000

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 29, 2012.

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

Year Ended December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 268,810	\$ 67,076	\$ 20,000	\$ 9,500
2014	226,521	70,669	20,000	8,500
2015	205,897	63,203	20,000	7,500
2016	168,209	56,035	25,000	6,500
2017	170,000	49,670	25,000	5,250
2018-2022	465,000	159,625	80,000	8,250
2023-2027	200,000	99,650	-	-
2028-2032	245,000	44,250	-	-
	<u>\$ 1,949,437</u>	<u>\$ 610,178</u>	<u>\$ 190,000</u>	<u>\$ 45,500</u>

Total interest expense for the primary government for the year ending February 29, 2012 was \$62,056.

10. LEASES

Leases Receivable

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 first lease agreement, which began in June 2001 was for five years with the right to extend the lease for four additional five year terms. The initial term of the second lease agreement, which began in May 1999 was for five years with the right to extend the lease for three additional five year terms.

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

Rental income from the lease of the water tower reported in the Recreation Center Special Revenue Fund amounted to \$27,840 for the year ended February 29, 2012. Future minimum rentals related to these leases are as follows:

2013	\$	27,840
2014		27,840
2015		16,275
2016		12,420
2017		<u>4,140</u>
Total	\$	<u>88,515</u>

The Village entered into a lease agreement with a company for use of the Village pier. The Village renewed this lease for a period from January 1, 2007 through December 30, 2016. The annual lease amount in 2007 was \$126,978, with increases based on the performance of the franchise fee revenues as reported by all boat lines to Mackinac Island each year as follows:

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

Rental income from the lease reported in the General Fund amounted to \$149,198 for the year ended February 29, 2012.

11. RISK MANAGEMENT

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

12. COMMITMENTS

As of February 29, 2012, the Village had entered into a construction contract for the installation of LED street lights. The total estimated cost of this project is approximately \$440,000. As of February 29, 2012, approximately \$133,000 was recorded as construction-in-progress related to this project.

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

13. BENEFIT PLANS

Defined Benefit Pension Plan

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

Funding Policy. The Village is required to contribute at an actuarially determined rate; the current rate is 11.02% of annual covered payroll. Per the Village’s contract with the Police Officers Labor Council, the Village’s costs and contributions to this plan shall be limited to 10% of gross wages per year, with the employee responsible for any remainder. Employees are currently required to contribute 3.67%. 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 29, 2012, the Village’s annual pension cost of \$28,668 for MERS was equal to the Village’s required and actual contributions. The required contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% (1% for calendar years 2011-2014) plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information			
Years Ended February 29,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2010	\$ 25,540	100%	\$ -
2011	25,860	100%	-
2012	28,668	100%	-

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

Funded Status and Funding Progress. As of December 31, 2010, the most recent valuation date, the Plan was 89% funded. The actuarial accrued liability for benefits was \$686,902 and the actuarial value of assets was \$611,067, resulting in an unfunded actuarial accrued liability of \$75,835, which means the Plan is underfunded. The covered payroll (annual payroll for active employees covered by the Plan) was \$260,064 and the ratio for the unfunded actuarial accrued liability to the covered payroll was 29%.

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

Defined Contribution Pension Plan

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

Plan provisions and contribution requirements are established and may be amended by the Village Council. Normal retirement age is the employee's 55th birthday or the 10th anniversary of the participation commencement date. Participants are 100% vested upon entry date into the Plan. The Village made the required 10% contribution in the amount of \$68,805 and employees made contributions of \$17,340 for the plan year ended February 29, 2012.

14. OTHER POSTEMPLOYMENT BENEFITS

Primary Government

Plan Description. The Village of Mackinaw City administers a single employer defined benefit healthcare plan established by the Village Council. In addition to the retirement benefits described in Note 13, the Village provides health insurance benefits to certain retirees, which are advance funded on a discretionary basis. In accordance with Village policy, eligible retirees receive healthcare benefits for two years after retirement. At February 29, 2012, the date of the last plan valuation, the Village's healthcare plan covered sixteen members (fifteen active plan members and one retiree receiving benefits). The plan does not issue a separate financial report.

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 29, 2012, the Village contributed \$11,974 to the Plan, all of which was to fund current year benefits. Current retirees receiving benefits contributed \$452 to the Plan, based on agreed upon amounts.

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	\$ 23,656
Interest on net OPEB obligation	342
Adjustment to annual required contribution	<u>(298)</u>
Net OPEB cost (expense)	23,700
Contributions made	<u>(11,974)</u>
Increase in net OPEB obligation	11,726
Net OPEB obligation, beginning of year	<u>6,226</u>
Net OPEB obligation, end of year	<u><u>\$ 17,952</u></u>

The Village’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2012 and the preceding two years was as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 16,699	71%	\$ 4,812
2011	23,168	94%	6,226
2012	23,700	51%	17,952

Funded Status and Funding Progress. As of February 29, 2012, the actuarial accrued liability for benefits was \$240,803, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$656,408 and the ratio of the UAAL to the covered payroll was 37%.

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

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

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

The following simplifying assumptions were made:

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

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

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

Healthcare cost trend rate—The expected rate of increase in healthcare insurance premiums was based on projections by Village management. A rate of 8.00% was used.

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

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

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

Based on the historical and expected returns of the Village's short-term investment portfolio, a discount rate of 5.50% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at February 29, 2012, was thirty years.

VILLAGE OF MACKINAW CITY

Notes To Financial Statements

15. INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of February 29, 2012, was as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 1,052,536	\$ 73,140
Capital assets being depreciated, net	5,756,269	7,173,380
	<u>6,808,805</u>	<u>7,246,520</u>
Related debt:		
Due within one year	295,392	20,000
Due in more than one year	1,875,642	170,000
Less: accrued compensated absences	(221,597)	-
	<u>1,949,437</u>	<u>190,000</u>
 Invested in capital assets, net of related debt	 <u>\$ 4,859,368</u>	 <u>\$ 7,056,520</u>

16. RESTATEMENTS

During the year ended February 29, 2012 the Village adopted the provisions of GASB Statement No. 54. While the classifications of fund balance in the Village's various governmental funds were revised, the implementation of this standard had no effect on total net assets of the Governmental Activities. Beginning fund balance of the General Fund increased by \$93,160, which was comprised of amounts previously reported in certain nonmajor special revenue funds.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF MACKINAW CITY

Required Supplementary Information

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

1. DEFINED BENEFIT PENSION PLAN

Six -Year Trend Information Schedule of Employer Contributions

Years Ended February 29,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2007	\$ 24,388	100%
2008	27,486	100%
2009	24,742	100%
2010	25,540	100%
2011	25,860	100%
2012	28,668	100%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Under- funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2005	\$ 316,221	\$ 375,899	\$ 59,678	84%	\$ 238,190	25%
12/31/2006	372,623	393,638	21,015	95%	228,445	9%
12/31/2007	434,949	458,888	23,939	95%	239,318	10%
12/31/2008	491,574	533,118	41,544	92%	246,990	17%
12/31/2009	562,601	629,153	66,552	89%	210,361	32%
12/31/2010	611,067	686,902	75,835	89%	260,064	29%

VILLAGE OF MACKINAW CITY

Required Supplementary Information

2. OTHER POSTEMPLOYMENT BENEFITS

Schedule of Employer Contributions

Years Ended February 29,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2010	\$ 16,699	71%
2011	23,128	94%
2012	23,656	51%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Under-funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2/28/2010	\$ -	\$ 166,543	\$ 166,543	-%	\$ 1,336,033	13%
2/28/2011	-	219,317	219,317	-%	766,616	29%
2/29/2012	-	240,803	240,803	-%	656,408	37%

SUPPLEMENTARY INFORMATION

VILLAGE OF MACKINAW CITY

Detail Schedule of Revenues, Expenditures and Other Financing Uses

Budget and Actual - General Fund
For the Year Ended February 29, 2012

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Property taxes			
Current property taxes	\$ 1,138,757	\$ 1,104,426	\$ (34,331)
Property tax administration fees	11,450	70	(11,380)
Total property taxes	<u>1,150,207</u>	<u>1,104,496</u>	<u>(45,711)</u>
Federal Revenue			
Stonegarden - homeland security grant	5,000	-	(5,000)
State revenue			
Liquor licenses	8,500	8,496	(4)
Other state revenue	132,500	73,127	(59,373)
Total state revenue	<u>141,000</u>	<u>81,623</u>	<u>(59,377)</u>
Licenses and permits			
Business licenses and permits	9,400	3,920	(5,480)
Non-business licenses and permits	4,708	2,628	(2,080)
Total licenses and permits	<u>14,108</u>	<u>6,548</u>	<u>(7,560)</u>
Contributions			
Other governmental units	38,000	47,659	9,659
Other	-	9,446	9,446
Total contributions	<u>38,000</u>	<u>57,105</u>	<u>19,105</u>
Charges for services	2,850	1,553	(1,297)
Fines and forfeits	2,400	2,038	(362)
Interest earnings	21,000	13,465	(7,535)
Rents	165,000	160,433	(4,567)
Miscellaneous	3,000	16,579	13,579
Total revenues	<u>1,542,565</u>	<u>1,443,840</u>	<u>(98,725)</u>

Continued...

VILLAGE OF MACKINAW CITY

Detail Schedule of Revenues, Expenditures and Other Financing Uses

Budget and Actual - General Fund

For the Year Ended February 29, 2012

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Legislative			
Village council	\$ 25,250	\$ 24,864	\$ 386
General government			
Village manager	115,050	135,481	(20,431)
Clerk - elections	1,800	1,277	523
Professional services	60,000	84,231	(24,231)
Clerk	46,940	35,905	11,035
Treasurer	48,650	41,030	7,620
Community development director	9,950	6,150	3,800
Village hall and grounds	120,850	77,200	43,650
Village property - other	229,000	248,881	(19,881)
Promotional	65,450	71,411	(5,961)
Planning commission	-	7,400	(7,400)
Economic development corporation	-	3,497	(3,497)
Total general government	697,690	712,463	(14,773)
Public safety			
Police department	475,850	486,152	(10,302)
Fire department	111,875	109,220	2,655
Total public safety	587,725	595,372	(7,647)
Recreation and culture	253,250	81,950	171,300
Other functions	4,600	3,445	1,155
Total expenditures	1,568,515	1,418,094	150,421
Revenue (under) over expenditures	(25,950)	25,746	51,696
Other financing uses			
Transfers out	(180,770)	(149,247)	31,523
Net change in fund balance	\$ (206,720)	\$ (123,501)	\$ 83,219

Concluded

VILLAGE OF MACKINAW CITY

Combining Balance Sheet Nonmajor Governmental Funds February 29, 2012

	Special Revenue Funds	Debt Service Funds	Waterfront Development Capital Project Fund	Total
Assets				
Cash and cash equivalents	\$ 65,785	\$ 16,066	\$ 727	\$ 82,578
Investments	30,235	-	420	30,655
Accounts receivable	49,529	-	-	49,529
Due from other funds	24,044	11,431	-	35,475
Taxes receivable	2,773	-	-	2,773
Total assets	<u>\$ 172,366</u>	<u>\$ 27,497</u>	<u>\$ 1,147</u>	<u>\$ 201,010</u>
Liabilities				
Accounts payable	\$ 596	\$ -	\$ -	\$ 596
Accrued expenditures	771	-	-	771
Due to other funds	9,728	13,274	-	23,002
Deferred revenue	30,000	-	-	30,000
Total liabilities	<u>41,095</u>	<u>13,274</u>	<u>-</u>	<u>54,369</u>
Fund balances				
Restricted				
Debt service	-	14,223	-	14,223
Capital projects	-	-	1,147	1,147
Health and welfare	85,452	-	-	85,452
Unrestricted - assigned				
Assigned - recreation and culture	45,819	-	-	45,819
Total fund balances	<u>131,271</u>	<u>14,223</u>	<u>1,147</u>	<u>146,641</u>
Total liabilities and fund balances	<u>\$ 172,366</u>	<u>\$ 27,497</u>	<u>\$ 1,147</u>	<u>\$ 201,010</u>

VILLAGE OF MACKINAW CITY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended February 29, 2012

	Special Revenue Funds	Debt Service Funds	Waterfront Development Capital Project Fund	Total
Revenues				
Property taxes	\$ 79,223	\$ -	\$ -	\$ 79,223
Contributions	55,931	-	-	55,931
Charges for services	10,494	-	-	10,494
Interest	-	1,194	-	1,194
Rents	27,840	-	-	27,840
Local contribution	-	16,649	-	16,649
Miscellaneous	11,500	-	-	11,500
Total revenues	184,988	17,843	-	202,831
Expenditures				
Current:				
General government	34,350	-	-	34,350
Health and welfare	125,022	-	-	125,022
Recreation	129,041	-	-	129,041
Capital outlay	3,755	-	-	3,755
Debt service:				
Principal payments	-	138,989	-	138,989
Interest and paying agent fees	-	34,382	-	34,382
Total expenditures	292,168	173,371	-	465,539
Revenues under expenditures	(107,180)	(155,528)	-	(262,708)
Other financing sources (uses)				
Transfers in	59,740	155,125	-	214,865
Transfers out	-	(10,707)	-	(10,707)
Total other financing sources (uses)	59,740	144,418	-	204,158
Net change in fund balances	(47,440)	(11,110)	-	(58,550)
Fund balances, beginning of year, as restated	178,711	25,333	1,147	205,191
Fund balances, end of year	\$ 131,271	\$ 14,223	\$ 1,147	\$ 146,641

VILLAGE OF MACKINAW CITY

Combining Balance Sheet Nonmajor Special Revenue Funds February 29, 2012

	Cemetery	Recreation Center	WaWatam Area Seniors	Iron Workers Walk Foundation	Total
Assets					
Cash and cash equivalents	\$ 47,897	\$ 4,358	\$ 9,093	\$ 4,437	\$ 65,785
Investments	27,714	2,521	-	-	30,235
Accounts receivable	-	49,529	-	-	49,529
Due from other funds	869	23,175	-	-	24,044
Taxes receivable	2,773	-	-	-	2,773
Total assets	\$ 79,253	\$ 79,583	\$ 9,093	\$ 4,437	\$ 172,366
Liabilities					
Accounts payable	\$ -	\$ 596	\$ -	\$ -	\$ 596
Accrued expenditures	151	620	-	-	771
Due to other funds	2,743	6,985	-	-	9,728
Deferred revenue	-	30,000	-	-	30,000
Total liabilities	2,894	38,201	-	-	41,095
Fund balances					
Restricted - health and welfare	76,359	-	9,093	-	85,452
Unrestricted					
Assigned - recreation and culture	-	41,382	-	4,437	45,819
Total fund balances	76,359	41,382	9,093	4,437	131,271
Total liabilities and fund balances	\$ 79,253	\$ 79,583	\$ 9,093	\$ 4,437	\$ 172,366

VILLAGE OF MACKINAW CITY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended February 29, 2012

	Cemetery	Recreation Center	WaWatom Area Seniors	Iron Workers Walk Foundation	Total
Revenues					
Property taxes	\$ 24,623	\$ -	\$ 54,600	\$ -	\$ 79,223
Contributions	-	1,000	54,931	-	55,931
Charges for services	5,500	4,994	-	-	10,494
Rents	-	27,840	-	-	27,840
Miscellaneous	-	-	-	11,500	11,500
Total revenues	30,123	33,834	109,531	11,500	184,988
Expenditures					
Current					
General government	34,350	-	-	-	34,350
Health and welfare	-	-	125,022	-	125,022
Recreation	-	119,879	-	9,162	129,041
Capital outlay	330	3,159	-	266	3,755
Total expenditures	34,680	123,038	125,022	9,428	292,168
Revenues (under) over expenditures	(4,557)	(89,204)	(15,491)	2,072	(107,180)
Other financing sources					
Transfers in	-	59,740	-	-	59,740
Net change in fund balances	(4,557)	(29,464)	(15,491)	2,072	(47,440)
Fund balances, beginning of year	80,916	70,846	24,584	2,365	178,711
Fund balances, end of year	\$ 76,359	\$ 41,382	\$ 9,093	\$ 4,437	\$ 131,271

VILLAGE OF MACKINAW CITY

Combining Balance Sheet Nonmajor Debt Service Funds February 29, 2012

	1998 Act 99 Installment Contract Ice System	1999 Special Assessment Bonds	2002 General Obligation Bonds
Assets			
Cash and cash equivalents	\$ 44	\$ 12,478	\$ 278
Due from other funds	-	-	11,431
	<u>44</u>	<u>12,478</u>	<u>11,431</u>
Total assets	<u>\$ 44</u>	<u>\$ 12,478</u>	<u>\$ 11,709</u>
Liabilities			
Due to other funds	\$ -	\$ -	\$ 11,709
Fund balances			
Restricted	<u>44</u>	<u>12,478</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 44</u>	<u>\$ 12,478</u>	<u>\$ 11,709</u>



2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck	2000 Special Assessment Bonds	2009 General Obligation Bonds	Total
\$ -	\$ -	\$ -	\$ 3,266	\$ 16,066
-	-	-	-	11,431
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,266</u>	<u>\$ 27,497</u>
\$ -	\$ -	\$ -	\$ 1,565	\$ 13,274
-	-	-	1,701	14,223
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,266</u>	<u>\$ 27,497</u>

VILLAGE OF MACKINAW CITY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Debt Service Funds

For the Year Ended February 29, 2012

	1998 Act 99 Installment Contract Ice System	1999 Special Assessment Bonds	2002 General Obligation Bonds
Revenues			
Interest	\$ -	\$ 20	\$ 1,127
Local contributions	-	-	-
Total revenues	<u>-</u>	<u>20</u>	<u>1,127</u>
Expenditures			
Principal payments	-	-	35,000
Interest and paying agent fees	5	-	3,085
Total expenditures	<u>5</u>	<u>-</u>	<u>38,085</u>
Revenues (under) over expenditures	<u>(5)</u>	<u>20</u>	<u>(36,958)</u>
Other financing sources (uses)			
Transfers in	-	-	36,431
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>36,431</u>
Net change in fund balances	(5)	20	(527)
Fund balances, beginning of year	<u>49</u>	<u>12,458</u>	<u>527</u>
Fund balances, end of year	<u>\$ 44</u>	<u>\$ 12,478</u>	<u>\$ -</u>

2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck	2000 Special Assessment Bonds	2009 General Obligation Bonds	Total
\$ -	\$ -	\$ 42	\$ 5	\$ 1,194
16,649	-	-	-	16,649
16,649	-	42	5	17,843
35,000	13,989	-	55,000	138,989
4,641	2,776	-	23,875	34,382
39,641	16,765	-	78,875	173,371
(22,992)	(16,765)	42	(78,870)	(155,528)
22,992	16,765	-	78,937	155,125
-	-	(10,707)	-	(10,707)
22,992	16,765	(10,707)	78,937	144,418
-	-	(10,665)	67	(11,110)
-	-	10,665	1,634	25,333
\$ -	\$ -	\$ -	\$ 1,701	\$ 14,223

VILLAGE OF MACKINAW CITY

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended February 29, 2012

	Balance March 1, 2011	Additions	Deductions	Balance February 29, 2012
TAX COLLECTION FUND				
Assets				
Cash and cash equivalents	\$ 250	\$ 1,615,851	\$ 1,615,802	\$ 299
Liabilities				
Accounts payable	\$ 250	\$ 1,487,480	\$ 1,487,431	\$ 299
Due to component unit	-	33,655	33,655	-
Due to other governmental units	-	94,716	94,716	-
Total liabilities	\$ 250	\$ 1,615,851	\$ 1,615,802	\$ 299
EMPLOYEE FLEX PLAN FUND				
Assets				
Cash and cash equivalents	\$ 9,105	\$ 28,228	\$ 33,209	\$ 4,124
Liabilities				
Due to employees	\$ 9,105	\$ 28,228	\$ 33,209	\$ 4,124
TOTAL AGENCY FUNDS				
Assets				
Cash and cash equivalents	\$ 9,355	\$ 1,644,079	\$ 1,649,011	\$ 4,423
Liabilities				
Accounts payable	\$ 250	\$ 1,487,480	\$ 1,487,431	\$ 299
Due to component unit	-	33,655	33,655	-
Due to other governmental units	-	94,716	94,716	-
Due to employees	9,105	28,228	33,209	4,124
Total liabilities	\$ 9,355	\$ 1,644,079	\$ 1,649,011	\$ 4,423

INTERNAL CONTROL AND COMPLIANCE

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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

June 19, 2012

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 29, 2012, which collectively comprise the Village's basic financial statements and have issued our report thereon dated June 19, 2012. 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 below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

Finding 2012-FS-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

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

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

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

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

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

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

Finding 2012-FS-2: Recording, processing and summarizing accounting data.

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

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

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

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

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

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

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 2012-FS-3: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Criteria: All governmental units are required to establish internal control with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the Village's management. Adequate segregation of duties as 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 segregation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting of those assets. Further, certain employees collect or disburse cash and account for the transactions of the Village.

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

Effect: As a result of this condition, the Village's system of internal control has no 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: Management has determined that the cost exceeds the benefit to employ the number of accounting personnel required to attain an adequate separation of duties between management functions, accounting functions, and custody of the Village's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Village Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

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 in a separate letter dated June 19, 2012.

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 the responses.

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.