

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



**FINANCIAL STATEMENTS**

**FEBRUARY 28, 2011**

# VILLAGE OF MACKINAW CITY

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## INDEPENDENT AUDITORS' REPORT

June 27, 2011

Village Council  
Village of Mackinaw City  
Mackinaw City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **Village of Mackinaw City** (the "Village") as of and for the year ended February 28, 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2011, 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.

As described in Note 4E to the financial statements, beginning net assets have been restated to correct an error from a prior year.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2011, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-11 and the Schedules of Funding Progress on pages 54-55 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

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

## Management's Discussion and Analysis

As management of the **Village of Mackinaw City** (the "Village") we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2011.

### Financial Highlights

- The total assets of the Village exceeded its liabilities at the close of the most recent fiscal year by approximately \$15,925,000 (*net assets*). Of this amount approximately, \$2,850,000 (*unrestricted net assets*) may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by approximately \$45,000.
- The Village repaid approximately \$240,000 of long-term debt during the current fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was approximately \$995,000, or 61% of total General Fund expenditures and transfers.

### Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

The Village maintains 27 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Ambulance Fund, and the 2007 Special Assessment Bonds Fund which are considered to be major funds. Data from the other 21 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 58-63 in this report.

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

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

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

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

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

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-53 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 56-64 of this report.

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

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by approximately \$15,925,000 at the close of fiscal 2011.

A large portion of the Village's net assets (82%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, water and sewer systems, marina, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>						
Cash and other assets	\$ 2,265,959	\$ 2,138,936	\$ 1,208,656	\$ 1,225,108	\$ 3,474,615	\$ 3,364,044
Capital assets, net of accumulated depreciation, where applicable	<u>7,184,219</u>	<u>7,091,445</u>	<u>7,441,738</u>	<u>7,046,759</u>	<u>14,625,957</u>	<u>14,138,204</u>
<b>Total assets</b>	<b><u>9,450,178</u></b>	<b><u>9,230,381</u></b>	<b><u>8,650,394</u></b>	<b><u>8,271,867</u></b>	<b><u>18,100,572</u></b>	<b><u>17,502,248</u></b>
<b>Liabilities</b>						
Current and other liabilities	163,554	71,467	117,797	90,256	281,351	161,723
Long -term debt	<u>1,685,819</u>	<u>1,790,814</u>	<u>210,000</u>	<u>230,000</u>	<u>1,895,819</u>	<u>2,020,814</u>
<b>Total liabilities</b>	<b><u>1,849,373</u></b>	<b><u>1,862,281</u></b>	<b><u>327,797</u></b>	<b><u>320,256</u></b>	<b><u>2,177,170</u></b>	<b><u>2,182,537</u></b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	5,757,501	5,550,120	7,231,738	6,816,759	12,989,239	12,366,879
Restricted	25,333	58,782	60,000	134,884	85,333	193,666
Unrestricted	<u>1,817,971</u>	<u>1,759,198</u>	<u>1,030,859</u>	<u>999,968</u>	<u>2,848,830</u>	<u>2,759,166</u>
<b>Total net assets</b>	<b><u>\$ 7,600,805</u></b>	<b><u>\$ 7,368,100</u></b>	<b><u>\$ 8,322,597</u></b>	<b><u>\$ 7,951,611</u></b>	<b><u>\$ 15,923,402</u></b>	<b><u>\$ 15,319,711</u></b>

At the end of fiscal 2011, the Village is able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

The Village's net assets increased by approximately \$45,000 during fiscal 2011. This increase is mainly attributable to the Village's goal of retaining net assets for future infrastructure projects.

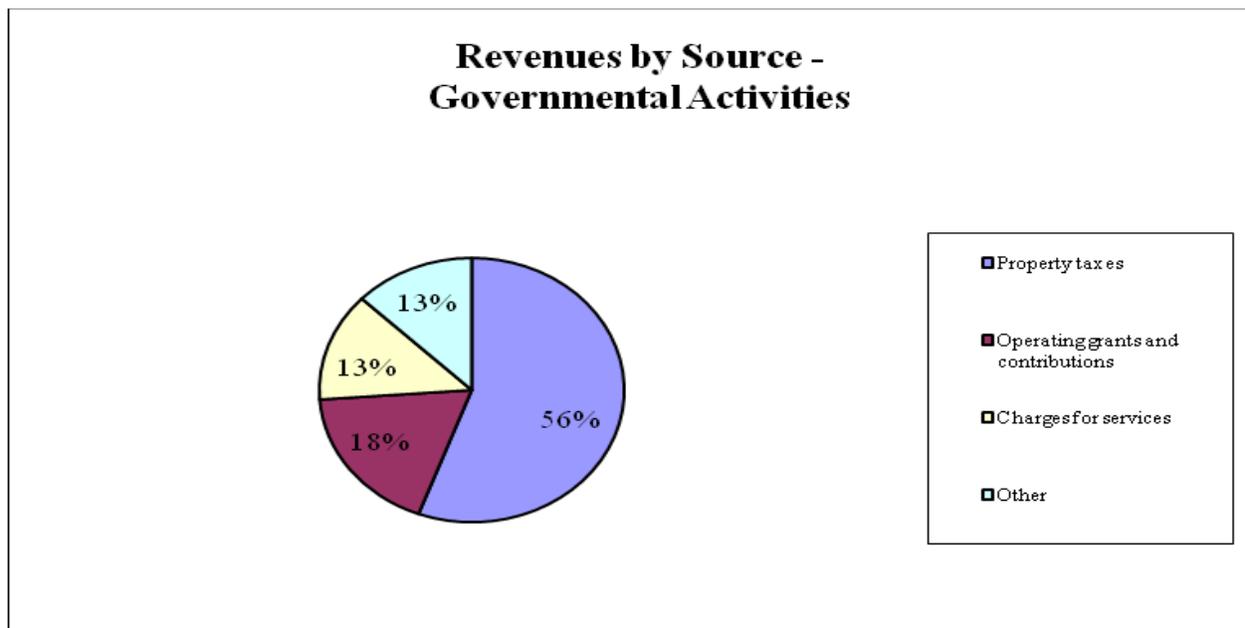
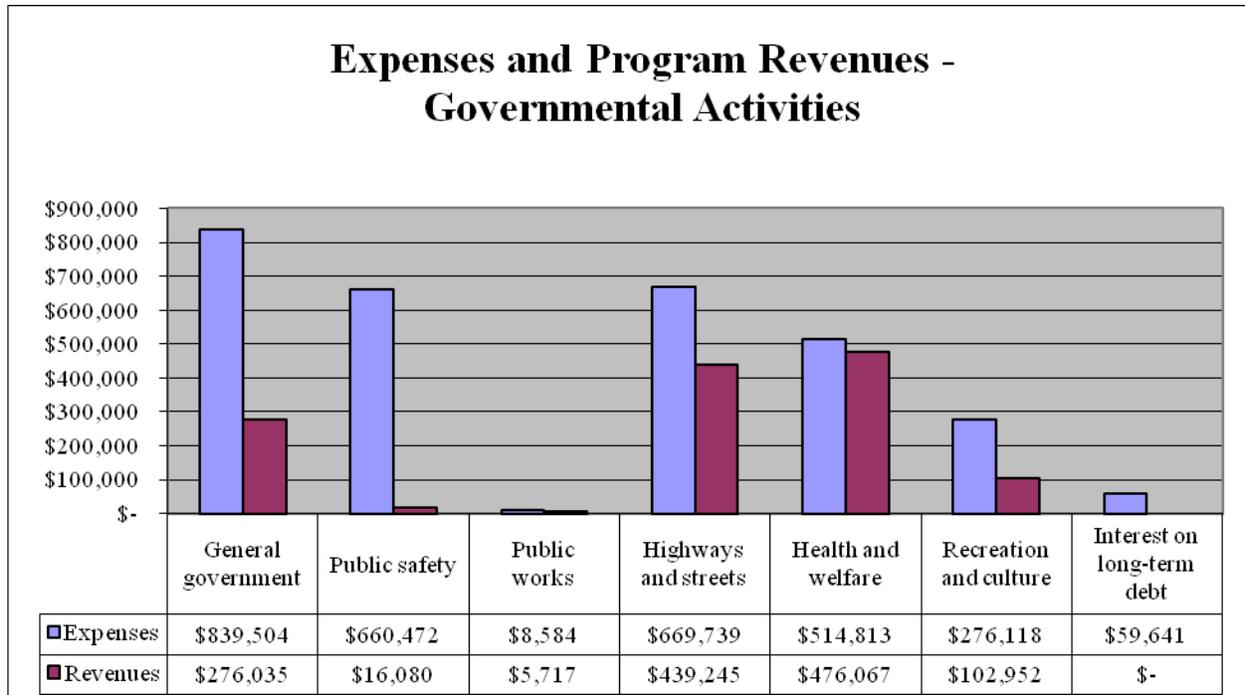
**Village of Mackinaw City - Primary Government  
Condensed Statement of Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 435,787	\$ 462,356	\$ 1,059,881	\$ 1,058,492	\$ 1,495,668	\$1,520,848
Operating grants and contributions	593,689	537,648	2,179	7,941	595,868	545,589
Capital grants and contributions	286,620	6,461	9,700	-	296,320	6,461
General revenues						
Property taxes	1,815,165	1,771,466	-	-	1,815,165	1,771,466
Grants and contributions not restricted to specific programs	47,975	44,884	-	-	47,975	44,884
Unrestricted interest income	40,815	36,203	-	-	40,815	36,203
<b>Total revenues</b>	<b><u>3,220,051</u></b>	<b><u>2,859,018</u></b>	<b><u>1,071,760</u></b>	<b><u>1,066,433</u></b>	<b><u>4,291,811</u></b>	<b><u>3,925,451</u></b>
<b>Expenses</b>						
General government	839,504	654,707	-	-	839,504	654,707
Public safety	660,472	649,425	-	-	660,472	649,425
Public works	8,584	35,946	-	-	8,584	35,946
Highways and streets	669,739	669,079	-	-	669,739	669,079
Health and welfare	514,813	424,432	-	-	514,813	424,432
Recreation and culture	276,118	281,009	-	-	276,118	281,009
Interest on long-term debt	59,641	58,517	-	-	59,641	58,517
Water and sewer	-	-	907,068	789,095	907,068	789,095
Marina	-	-	312,181	339,284	312,181	339,284
<b>Total expenses</b>	<b><u>3,028,871</u></b>	<b><u>2,773,115</u></b>	<b><u>1,219,249</u></b>	<b><u>1,128,379</u></b>	<b><u>4,248,120</u></b>	<b><u>3,901,494</u></b>
Increase (decrease) in net assets before transfers	191,180	85,903	(147,489)	(61,946)	43,691	23,957
Transfers	41,525	49,738	(41,525)	(49,738)	-	-
<b>Changes in net assets</b>	<b>232,705</b>	<b>135,641</b>	<b>(189,014)</b>	<b>(111,684)</b>	<b>43,691</b>	<b>23,957</b>
Net assets – beginning of year, as restated (2010)	7,368,100	7,232,459	8,511,611	8,623,295	15,879,711	15,855,754
<b>Net assets – end of year</b>	<b><u>\$ 7,600,805</u></b>	<b><u>\$ 7,368,100</u></b>	<b><u>\$ 8,322,597</u></b>	<b><u>\$ 8,511,611</u></b>	<b><u>\$ 15,923,402</u></b>	<b><u>\$ 15,879,711</u></b>

**Governmental activities.** Governmental activities increased the Village’s net assets by \$232,705 which is approximately \$97,000 more than the increase to net assets in the prior year.

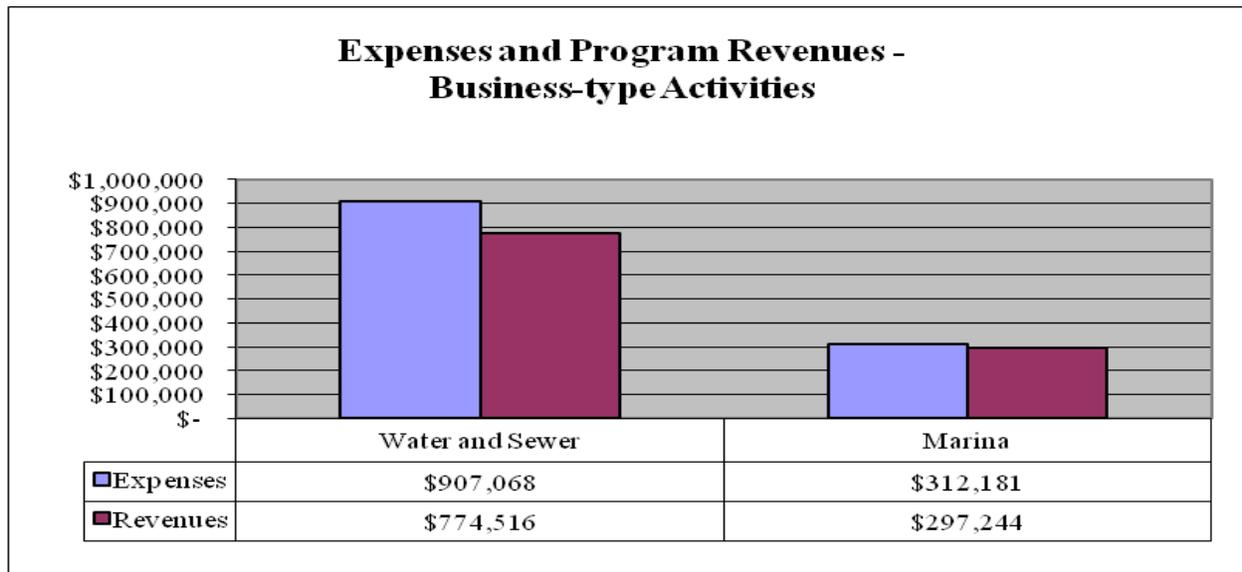
Key elements of this increase are as follows:

- Retention of net assets for future infrastructure projects.
- Federal grant for approximately \$284,000 that was used for street improvements.



**Business-type activities.** Business-type activities decreased the Village’s net assets by \$189,014.

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



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

### Financial Analysis of the Government’s Funds

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

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

As of the end of the fiscal year 2011, the Village’s governmental funds reported combined ending fund balances of approximately \$1,790,000, an increase of approximately \$105,000. *Unreserved fund balance* of approximately \$1,760,000 is available for spending at the Village’s discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

The fund balance of the Village’s General Fund increased by approximately \$20,000 during the current fiscal year, which was mainly attributable to management of expenditures, mainly within the general government function.

The fund balance of the Village’s Major Street special revenue fund increased by approximately \$11,000 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 increased by approximately \$41,000 during the current fiscal year, which was mainly attributable to the planned savings for

future projects and the decrease in transfers to the Major Street and Local Street special revenue funds.

The fund balance of the Village's Ambulance Fund increased by approximately \$31,000 during the current fiscal year, which was mainly attributable to the management of expenditures and increased revenue.

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

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

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to approximately \$915,000. The Water and Sewer Fund had a decrease in net assets for the year of approximately \$175,000. Factors concerning the finances of this fund have already been addressed in the discussion of the Village's business-type activities.

Unrestricted net assets of the Marina Fund at the end of the year amounted to approximately \$115,000. The Marina Fund had a decrease in net assets for the year of approximately \$15,000. This decrease in net assets is mainly attributable to planned expenditures for repairs and maintenance to marina assets.

### **Budgetary Highlights**

**General Fund Revenues and Expenditures.** General Fund revenues were higher than the original budget while expenditures and transfers out were lower. Budget amendments were made during the year to increase revenues and adjust expenditures when necessary. This usually occurs when a project or activity revenue or expenditure is not known or forecasted during the original budget adoption process.

### **Capital Asset and Debt Administration**

**Capital assets.** The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2011, amounted to approximately \$14,630,000 (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 Note 3C on pages 39-41 of this report.

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

- East Central Avenue electrical improvement
- Replacement of finger piers at the Marina
- John Deere Loader

**Long-term debt.** At February 28, 2011, the Village had total debt (less accrued compensated absences) outstanding of approximately \$1,640,000. Of this amount, approximately \$1,430,000 is comprised of debt backed by the full faith and credit of the Village. The remainder of the Village's bonded debt represents bonds secured solely by specified revenue sources.

Additional information on the Village's long-term debt can be found in Note 3F on pages 45-46 of this report.

### **Economic Factors**

The following factors were considered in preparing the Village's budget for the 2011-2012 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 28, 2011**

	<b>Primary Government</b>			<b>Downtown Development Authority Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 1,065,596	\$ 515,163	\$ 1,580,759	\$ 39,605
Investments	586,265	310,694	896,959	23,889
Receivables, net	613,973	225,733	839,706	10,974
Internal balances	125	(125)	-	-
Inventories	-	21,116	21,116	-
Restricted investments	-	136,075	136,075	-
Capital assets not being depreciated	919,923	73,140	993,063	-
Capital assets being depreciated, net	6,264,296	7,368,598	13,632,894	-
<b>Total assets</b>	<b>9,450,178</b>	<b>8,650,394</b>	<b>18,100,572</b>	<b>74,468</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	138,426	20,874	159,300	-
Unearned revenue	18,902	96,923	115,825	-
Long-term liabilities				
Due within one year	227,280	20,000	247,280	-
Due in more than one year	1,458,539	190,000	1,648,539	-
Net other postemployment benefit obligation	6,226	-	6,226	-
<b>Total liabilities</b>	<b>1,849,373</b>	<b>327,797</b>	<b>2,177,170</b>	<b>-</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	5,757,501	7,231,738	12,989,239	-
Restricted for debt service	25,333	60,000	85,333	-
Unrestricted	1,817,971	1,030,859	2,848,830	74,468
<b>Total net assets</b>	<b>\$ 7,600,805</b>	<b>\$ 8,322,597</b>	<b>\$ 15,923,402</b>	<b>\$ 74,468</b>

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

**VILLAGE OF MACKINAW CITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Expense</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities					
General government	\$ 839,504	\$ 191,421	\$ 84,318	\$ 296	\$ (563,469)
Public safety	660,472	6,465	9,121	494	(644,392)
Public works	8,584	-	5,717	-	(2,867)
Highways and streets	669,739	-	154,915	284,330	(230,494)
Health and welfare	514,813	233,865	242,202	-	(38,746)
Recreation and culture	276,118	4,036	97,416	1,500	(173,166)
Interest on long-term debt	59,641	-	-	-	(59,641)
Total governmental activities	<u>3,028,871</u>	<u>435,787</u>	<u>593,689</u>	<u>286,620</u>	<u>(1,712,775)</u>
Business-type activities					
Water and sewer	907,068	772,337	2,179	-	(132,552)
Marina	312,181	287,544	-	9,700	(14,937)
Total business-type activities	<u>1,219,249</u>	<u>1,059,881</u>	<u>2,179</u>	<u>9,700</u>	<u>(147,489)</u>
<b>Total primary government</b>	<b><u>\$ 4,248,120</u></b>	<b><u>\$ 1,495,668</u></b>	<b><u>\$ 595,868</u></b>	<b><u>\$ 296,320</u></b>	<b><u>\$ (1,860,264)</u></b>
<b>Discretely presented component unit</b>					
Downtown Development Authority	<u>\$ 23,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (23,342)</u>

Continued...

**VILLAGE OF MACKINAW CITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	<b>Primary Government</b>			<b>Downtown Development Authority Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Changes in net assets</b>				
Net expense	\$ (1,712,775)	\$ (147,489)	\$ (1,860,264)	\$ (23,342)
<b>General revenues and transfers</b>				
Property taxes	1,815,165	-	1,815,165	46,732
Grants and contributions not restricted to specific programs	47,975	-	47,975	-
Unrestricted interest income	40,815	-	40,815	-
Transfers - internal activities	41,525	(41,525)	-	-
<b>Total general revenues and transfers</b>	<b>1,945,480</b>	<b>(41,525)</b>	<b>1,903,955</b>	<b>46,732</b>
<b>Changes in net assets</b>	<b>232,705</b>	<b>(189,014)</b>	<b>43,691</b>	<b>23,390</b>
Net assets, beginning of year, as previously reported	7,368,100	7,951,611	15,319,711	51,078
Prior period adjustment	-	560,000	560,000	-
Net assets, beginning of year, as restated	7,368,100	8,511,611	15,879,711	51,078
<b>Net assets, end of year</b>	<b>\$ 7,600,805</b>	<b>\$ 8,322,597</b>	<b>\$ 15,923,402</b>	<b>\$ 74,468</b>

Concluded

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

## **FUND FINANCIAL STATEMENTS**

**VILLAGE OF MACKINAW CITY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**FEBRUARY 28, 2011**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 525,633	\$ 41,532	\$ 33,306	\$ 73,258
Investments	304,696	25,051	20,089	44,186
Accounts receivable, net	8,935	-	-	-
Taxes receivable	182,644	-	-	65,028
Special assessments receivable	-	-	-	142,472
Due from other funds	173,003	5,719	2,281	-
Due from other governmental units	11,534	14,081	6,563	-
<b>Total assets</b>	<b><u>\$ 1,206,445</u></b>	<b><u>\$ 86,383</u></b>	<b><u>\$ 62,239</u></b>	<b><u>\$ 324,944</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 83,707	\$ 4,807	\$ -	\$ -
Accrued expenditures	9,447	569	503	-
Due to other funds	100,918	19,986	7,567	1,722
Deferred revenue	18,902	-	-	142,472
<b>Total liabilities</b>	<b><u>212,974</u></b>	<b><u>25,362</u></b>	<b><u>8,070</u></b>	<b><u>144,194</u></b>
<b>Fund balances</b>				
Reserved for				
Debt service	-	-	-	-
Unreserved				
Undesignated	993,471	61,021	54,169	180,750
Undesignated, reported in nonmajor Special revenue funds	-	-	-	-
<b>Total fund balances</b>	<b><u>993,471</u></b>	<b><u>61,021</u></b>	<b><u>54,169</u></b>	<b><u>180,750</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 1,206,445</u></b>	<b><u>\$ 86,383</u></b>	<b><u>\$ 62,239</u></b>	<b><u>\$ 324,944</u></b>

<u>Ambulance</u>	<u>2007 Special Assessment Bonds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 108,550	\$ 2,670	\$ 180,958	\$ 965,907
65,443	-	66,671	526,136
42,590	-	74,449	125,974
-	-	4,162	251,834
-	61,515	-	203,987
7,021	-	7,388	195,412
-	-	-	32,178
<b><u>\$ 223,604</u></b>	<b><u>\$ 64,185</u></b>	<b><u>\$ 333,628</u></b>	<b><u>\$ 2,301,428</u></b>
\$ 448	\$ -	\$ 3,139	\$ 92,101
4,742	-	732	15,993
20,887	1,393	31,406	183,879
-	61,515	-	222,889
<b><u>26,077</u></b>	<b><u>62,908</u></b>	<b><u>35,277</u></b>	<b><u>514,862</u></b>
-	-	25,333	25,333
197,527	1,277	-	1,488,215
-	-	273,018	273,018
<b><u>197,527</u></b>	<b><u>1,277</u></b>	<b><u>298,351</u></b>	<b><u>1,786,566</u></b>
<b><u>\$ 223,604</u></b>	<b><u>\$ 64,185</u></b>	<b><u>\$ 333,628</u></b>	<b><u>\$ 2,301,428</u></b>

Continued...

VILLAGE OF MACKINAW CITY

BALANCE SHEET  
GOVERNMENTAL FUNDS

FEBRUARY 28, 2011

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

Fund balances - total governmental funds \$ 1,786,566

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

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

Add: capital assets 10,717,565  
Deduct: accumulated depreciation (3,874,992)

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

Add: deferred special assessment revenues 203,987

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

Add: net assets of governmental activities accounted for in an internal service fund 387,272

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

Deduct: net other postemployment benefit obligation (6,226)  
Deduct: bonds and notes payable (1,332,921)  
Deduct: compensated absences (259,101)  
Deduct: accrued interest on long-term liabilities (21,345)

**Net assets of governmental activities** \$ 7,600,805

Concluded

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>
<b>Revenues</b>				
Property taxes	\$ 1,283,995	\$ -	\$ -	\$ 450,229
Federal revenue	10,621	284,181	-	-
State revenue	75,316	94,208	50,958	149
Special assessments	-	-	-	27,184
Licenses and permits	14,599	-	-	-
Contributions	37,542	-	-	-
Charges for services	4,817	-	-	-
Fines and forfeits	2,663	-	-	-
Interest	40,815	-	-	9,749
Rents	161,693	-	-	-
Local contribution	-	-	-	-
Miscellaneous	16,969	-	-	-
<b>Total revenues</b>	<b><u>1,649,030</u></b>	<b><u>378,389</u></b>	<b><u>50,958</u></b>	<b><u>487,311</u></b>
<b>Expenditures</b>				
Current				
Legislative	19,440	-	-	-
General government	728,323	-	-	-
Public safety	633,486	-	-	-
Highways and streets	-	607,748	137,043	56,632
Health and welfare	-	-	-	-
Recreation and culture	88,528	-	-	-
Other functions	4,124	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and paying agent fees	-	-	-	-
<b>Total expenditures</b>	<b><u>1,473,901</u></b>	<b><u>607,748</u></b>	<b><u>137,043</u></b>	<b><u>56,632</u></b>
<b>Revenues over (under) expenditures</b>	<b><u>175,129</u></b>	<b><u>(229,359)</u></b>	<b><u>(86,085)</u></b>	<b><u>430,679</u></b>
<b>Other financial sources (uses)</b>				
Transfers in	-	240,000	90,000	-
Transfers out	(155,498)	-	-	(389,482)
<b>Total other financing sources (uses)</b>	<b><u>(155,498)</u></b>	<b><u>240,000</u></b>	<b><u>90,000</u></b>	<b><u>(389,482)</u></b>
<b>Net change in fund balances</b>	<b><u>19,631</u></b>	<b><u>10,641</u></b>	<b><u>3,915</u></b>	<b><u>41,197</u></b>
Fund balances, beginning of year	973,840	50,380	50,254	139,553
<b>Fund balances, end of year</b>	<b><u>\$ 993,471</u></b>	<b><u>\$ 61,021</u></b>	<b><u>\$ 54,169</u></b>	<b><u>\$ 180,750</u></b>

<u>Ambulance</u>	<u>2007 Special Assessment Bonds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 80,941	\$ 1,815,165
-	-	-	294,802
-	-	-	220,631
-	6,905	5,668	39,757
-	-	-	14,599
170,815	-	71,387	279,744
227,190	-	10,111	242,118
-	-	-	2,663
-	4,681	1,036	56,281
-	-	65,340	227,033
-	-	17,145	17,145
600	-	6,725	24,294
<b>398,605</b>	<b>11,586</b>	<b>258,353</b>	<b>3,234,232</b>
-	-	-	19,440
-	-	35,659	763,982
-	-	-	633,486
-	-	-	801,423
358,069	-	109,442	467,511
-	-	123,418	211,946
-	-	19,470	23,594
1,474	-	1,183	2,657
-	50,000	158,405	208,405
-	22,050	39,816	61,866
<b>359,543</b>	<b>72,050</b>	<b>487,393</b>	<b>3,194,310</b>
<b>39,062</b>	<b>(60,464)</b>	<b>(229,040)</b>	<b>39,922</b>
-	61,025	261,465	652,490
(8,060)	-	(34,248)	(587,288)
<b>(8,060)</b>	<b>61,025</b>	<b>227,217</b>	<b>65,202</b>
<b>31,002</b>	<b>561</b>	<b>(1,823)</b>	<b>105,124</b>
166,525	716	300,174	1,681,442
<b>\$ 197,527</b>	<b>\$ 1,277</b>	<b>\$ 298,351</b>	<b>\$ 1,786,566</b>

Continued...

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2011**

**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 \$ 105,124

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

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

Add: capital outlay capitalized during current year	427,678
Deduct: depreciation expense	(444,590)

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.

Deduct: current year collections on special assessments	(39,757)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	208,405
Deduct: increase in net other postemployment benefit obligation	(1,414)

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

Add: current year decrease in accrued interest on bonds	2,673
Deduct: increase in the accrual of compensated absences	(9,612)

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.

Deduct: change in net assets from governmental activities accounted for in internal service fund	(15,802)
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<b>Change in net assets of governmental activities</b>	<b>\$ 232,705</b>
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Concluded

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 1,233,150	\$ 1,265,628	\$ 1,283,995	\$ 18,367
Federal revenue	-	10,621	10,621	-
State revenue	74,968	74,968	75,316	348
Licenses and permits	7,000	7,000	14,599	7,599
Contributions	36,500	36,500	37,542	1,042
Charges for services	800	800	4,817	4,017
Fines and forfeits	2,400	2,400	2,663	263
Interest	21,000	21,000	40,815	19,815
Rents	222,000	222,000	161,693	(60,307)
Miscellaneous	3,200	3,200	16,969	13,769
<b>Total revenues</b>	<b>1,601,018</b>	<b>1,644,117</b>	<b>1,649,030</b>	<b>4,913</b>
<b>Expenditures</b>				
Legislative	25,250	25,250	19,440	5,810
General government	696,083	728,323	728,323	-
Public safety	627,325	633,486	633,486	-
Recreation and culture	83,830	88,528	88,528	-
Other functions	4,500	4,500	4,124	376
<b>Total expenditures</b>	<b>1,436,988</b>	<b>1,480,087</b>	<b>1,473,901</b>	<b>6,186</b>
<b>Revenues over expenditures</b>	<b>164,030</b>	<b>164,030</b>	<b>175,129</b>	<b>11,099</b>
<b>Other financing uses</b>				
Transfers out	(228,030)	(228,030)	(155,498)	72,532
<b>Net change in fund balance</b>	<b>(64,000)</b>	<b>(64,000)</b>	<b>19,631</b>	<b>83,631</b>
Fund balance beginning of year	973,840	973,840	973,840	-
<b>Fund balance, end of year</b>	<b>\$ 909,840</b>	<b>\$ 909,840</b>	<b>\$ 993,471</b>	<b>\$ 83,631</b>

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

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

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Amended Budget Positive (Negative)</u>
<b>Revenues</b>				
State revenue				
Gas and weight tax	\$ 62,000	\$ 62,000	\$ 74,325	\$ 12,325
Winter maintenance	-	-	19,883	19,883
Federal revenue	-	284,181	284,181	-
Interest	100	100	-	(100)
<b>Total revenues</b>	<b><u>62,100</u></b>	<b><u>346,281</u></b>	<b><u>378,389</u></b>	<b><u>32,108</u></b>
<b>Expenditures</b>				
Highways and streets				
Administration	25,800	25,800	22,993	2,807
Routine maintenance	127,650	94,221	94,221	-
Winter maintenance	71,300	42,914	42,914	-
Traffic services	29,950	24,050	17,724	6,326
Construction	78,000	429,896	429,896	-
<b>Total expenditures</b>	<b><u>332,700</u></b>	<b><u>616,881</u></b>	<b><u>607,748</u></b>	<b><u>9,133</u></b>
<b>Revenues under expenditures</b>	<b><u>(270,600)</u></b>	<b><u>(270,600)</u></b>	<b><u>(229,359)</u></b>	<b><u>41,241</u></b>
<b>Other financing sources</b>				
Transfers in	270,600	270,600	240,000	(30,600)
<b>Net change in fund balance</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>10,641</u></b>	<b><u>10,641</u></b>
Fund balance, beginning of year	50,380	50,380	50,380	-
<b>Fund balance, end of year</b>	<b><u>\$ 50,380</u></b>	<b><u>\$ 50,380</u></b>	<b><u>\$ 61,021</u></b>	<b><u>\$ 10,641</u></b>

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**LOCAL STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
<b>Revenues</b>				
<b>State revenue</b>	<b>\$ 30,000</b>	<b>\$ 30,000</b>	<b>\$ 50,958</b>	<b>\$ 20,958</b>
<b>Expenditures</b>				
Highways and street				
Administration	28,850	28,850	22,931	5,919
Routine maintenance	83,900	83,900	69,831	14,069
Winter maintenance	74,500	74,500	36,983	37,517
Traffic services	14,650	14,650	5,786	8,864
Construction	4,170	4,170	1,512	2,658
<b>Total expenditures</b>	<b>206,070</b>	<b>206,070</b>	<b>137,043</b>	<b>69,027</b>
<b>Revenues under expenditures</b>	<b>(176,070)</b>	<b>(176,070)</b>	<b>(86,085)</b>	<b>89,985</b>
<b>Other financing sources</b>				
Transfers in	176,000	176,000	90,000	(86,000)
<b>Net change in fund balance</b>	<b>(70)</b>	<b>(70)</b>	<b>3,915</b>	<b>3,985</b>
Fund balance, beginning of year	50,254	50,254	50,254	-
<b>Fund balance, end of year</b>	<b>\$ 50,184</b>	<b>\$ 50,184</b>	<b>\$ 54,169</b>	<b>\$ 3,985</b>

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

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

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 444,000	\$ 444,000	\$ 450,229	\$ 6,229
State revenue	5,400	5,400	149	(5,251)
Special assessments	18,500	18,500	27,184	8,684
Interest	4,100	4,100	9,749	5,649
<b>Total revenues</b>	<b>472,000</b>	<b>472,000</b>	<b>487,311</b>	<b>15,311</b>
<b>Expenditures</b>				
Highways and streets				
Routine maintenance	46,000	56,632	56,632	-
<b>Revenues over expenditures</b>	<b>426,000</b>	<b>415,368</b>	<b>430,679</b>	<b>15,311</b>
<b>Other financing uses</b>				
Transfers out	(474,670)	(464,038)	(389,482)	74,556
<b>Net change in fund balance</b>	<b>(48,670)</b>	<b>(48,670)</b>	<b>41,197</b>	<b>89,867</b>
Fund balance, beginning of year	139,553	139,553	139,553	-
<b>Fund balance, end of year</b>	<b>\$ 90,883</b>	<b>\$ 90,883</b>	<b>\$ 180,750</b>	<b>\$ 89,867</b>

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

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

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
<b>Revenues</b>				
Contributions from other governmental units	\$ 171,600	\$ 171,600	\$ 170,815	\$ (785)
Charges for services	193,450	193,450	227,190	33,740
Interest	200	200	-	(200)
Miscellaneous	500	500	600	100
<b>Total revenues</b>	<b>365,750</b>	<b>365,750</b>	<b>398,605</b>	<b>32,855</b>
<b>Expenditures</b>				
Current				
Health and welfare	351,150	351,150	358,069	(6,919)
Capital outlay	5,000	5,000	1,474	3,526
<b>Total expenditures</b>	<b>356,150</b>	<b>356,150</b>	<b>359,543</b>	<b>(3,393)</b>
<b>Revenues over expenditures</b>	<b>9,600</b>	<b>9,600</b>	<b>39,062</b>	<b>29,462</b>
<b>Other financing uses</b>				
Transfers out	(9,600)	(9,600)	(8,060)	1,540
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>31,002</b>	<b>31,002</b>
Fund balance, beginning of year	166,525	166,525	166,525	-
<b>Fund balance, end of year</b>	<b>\$ 166,525</b>	<b>\$ 166,525</b>	<b>\$ 197,527</b>	<b>\$ 31,002</b>

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

VILLAGE OF MACKINAW CITY

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

FEBRUARY 28, 2011

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 416,704	\$ 98,459	\$ 515,163	\$ 99,689
Investments	251,340	59,354	310,694	60,129
Accounts receivable	177,937	47,796	225,733	-
Due from other funds	78,123	3,732	81,855	1,403
Inventory	-	21,116	21,116	-
<b>Total current assets</b>	<b>924,104</b>	<b>230,457</b>	<b>1,154,561</b>	<b>161,221</b>
<b>Noncurrent assets</b>				
<b>Property and equipment</b>				
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	420,362	67,470	487,832	974,668
Marina	-	1,688,130	1,688,130	-
Accumulated depreciation	(3,277,085)	(1,204,596)	(4,481,681)	(633,022)
<b>Net property and equipment</b>	<b>6,755,876</b>	<b>685,862</b>	<b>7,441,738</b>	<b>341,646</b>
<b>Other assets</b>				
Restricted investments	136,075	-	136,075	-
<b>Total noncurrent assets</b>	<b>6,891,951</b>	<b>685,862</b>	<b>7,577,813</b>	<b>341,646</b>
<b>Total assets</b>	<b>7,816,055</b>	<b>916,319</b>	<b>8,732,374</b>	<b>502,867</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	16,068	315	16,383	7,234
Accrued expenses	4,020	471	4,491	1,753
Due to other funds	64,045	17,935	81,980	12,811
Unearned revenue	-	96,923	96,923	-
Bonds payable, current portion	20,000	-	20,000	-
Note payable, current portion	-	-	-	33,291
<b>Total current liabilities</b>	<b>104,133</b>	<b>115,644</b>	<b>219,777</b>	<b>55,089</b>
<b>Long-term debt</b>				
Bonds payable, net of current portion	190,000	-	190,000	-
Note payable, net of current portion	-	-	-	60,506
<b>Total long-term debt</b>	<b>190,000</b>	<b>-</b>	<b>190,000</b>	<b>60,506</b>
<b>Total liabilities</b>	<b>294,133</b>	<b>115,644</b>	<b>409,777</b>	<b>115,595</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	6,545,876	685,862	7,231,738	247,849
Restricted	60,000	-	60,000	-
Unrestricted	916,046	114,813	1,030,859	139,423
<b>Total net assets</b>	<b>\$ 7,521,922</b>	<b>\$ 800,675</b>	<b>\$ 8,322,597</b>	<b>\$ 387,272</b>

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

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
<b>Operating revenues</b>				
Sales and charges for services	\$ -	\$ 287,544	\$ 287,544	\$ 212,789
Sales and charges for services pledged as security for revenue bonds	772,337	-	772,337	-
<b>Total operating revenues</b>	<b>772,337</b>	<b>287,544</b>	<b>1,059,881</b>	<b>212,789</b>
<b>Operating expenses</b>				
Salaries and wages	216,611	77,521	294,132	45,723
Fringe benefits	116,891	32,399	149,290	25,147
Supplies	140,265	13,187	153,452	6,598
Gasoline and oil	7,110	74,944	82,054	28,147
Repairs and maintenance	17,820	3,289	21,109	42,472
Contracted services	51,224	15,653	66,877	1,769
Communications	4,204	2,177	6,381	2,104
Conferences and workshops	1,817	40	1,857	460
Travel	100	585	685	102
Insurance	6,059	5,713	11,772	5,793
Utilities	111,319	31,012	142,331	5,939
Equipment rental	24,862	1,919	26,781	-
Depreciation	194,828	44,286	239,114	65,657
Miscellaneous	2,458	9,456	11,914	130
<b>Total operating expenses</b>	<b>895,568</b>	<b>312,181</b>	<b>1,207,749</b>	<b>230,041</b>
<b>Operating (loss)</b>	<b>(123,231)</b>	<b>(24,637)</b>	<b>(147,868)</b>	<b>(17,252)</b>
<b>Nonoperating revenues (expenses)</b>				
Gain on sale of asset	-	-	-	25,576
State revenue	-	9,700	9,700	-
Interest earnings	2,179	-	2,179	-
Interest and fiscal charges	(11,500)	-	(11,500)	(449)
<b>Total nonoperating revenues (expenses)</b>	<b>(9,321)</b>	<b>9,700</b>	<b>379</b>	<b>25,127</b>
<b>(Loss) income before transfers</b>	<b>(132,552)</b>	<b>(14,937)</b>	<b>(147,489)</b>	<b>7,875</b>
Transfers out	(41,525)	-	(41,525)	(23,677)
<b>Change in net assets</b>	<b>(174,077)</b>	<b>(14,937)</b>	<b>(189,014)</b>	<b>(15,802)</b>
Net assets, beginning of year, as previously reported	7,135,999	815,612	7,951,611	403,074
Prior period adjustment	560,000	-	560,000	-
Net assets, beginning of year, as restated	<b>7,695,999</b>	<b>815,612</b>	<b>8,511,611</b>	<b>403,074</b>
<b>Net assets, end of year</b>	<b>\$ 7,521,922</b>	<b>\$ 800,675</b>	<b>\$ 8,322,597</b>	<b>\$ 387,272</b>

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

**VILLAGE OF MACKINAW CITY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	<b>Enterprise Funds</b>			<b>Governmental Activities - Internal Service Fund</b>
	<b>Water and Sewer</b>	<b>Marina</b>	<b>Total</b>	
<b>Cash flows from operating activities</b>				
Cash collected from customers	\$ 819,558	\$ 284,274	\$ 1,103,832	\$ -
Cash collected from other funds	-	-	-	212,789
Cash paid for employee wages and benefits	(334,839)	(110,500)	(445,339)	(69,715)
Cash paid for other operating and administrative expenses	(351,652)	(144,103)	(495,755)	(87,655)
<b>Net cash provided by operating activities</b>	<b>133,067</b>	<b>29,671</b>	<b>162,738</b>	<b>55,419</b>
<b>Cash flows from capital and related financing activities</b>				
Interest payments	(11,500)	-	(11,500)	(449)
Principal payments	(20,000)	-	(20,000)	(8,415)
Purchase of property and equipment	(59,702)	(14,391)	(74,093)	(80,555)
Proceeds from sale of capital assets	-	-	-	33,000
State grant	-	9,700	9,700	-
Transfers out	(41,525)	-	(41,525)	(23,677)
<b>Net cash used in capital and related financing activities</b>	<b>(132,727)</b>	<b>(4,691)</b>	<b>(137,418)</b>	<b>(80,096)</b>
<b>Cash flows from investing activities</b>				
Interest received	2,179	-	2,179	-
Sales (purchases) of investments	12,045	(6,663)	5,382	13,085
<b>Net cash provided by (used in) investing activities</b>	<b>14,224</b>	<b>(6,663)</b>	<b>7,561</b>	<b>13,085</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>14,564</b>	<b>18,317</b>	<b>32,881</b>	<b>(11,592)</b>
Cash and cash equivalents, beginning of year	402,140	80,142	482,282	111,281
<b>Cash and cash equivalents, end of year</b>	<b>\$ 416,704</b>	<b>\$ 98,459</b>	<b>\$ 515,163</b>	<b>\$ 99,689</b>

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 28, 2011**

	<u>Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Water and Sewer</u>	<u>Marina</u>	<u>Total</u>	
<b>Reconciliation of operating loss to net cash provided by operating activities</b>				
<b>Cash flows from operating activities</b>				
Operating loss	\$ (123,231)	\$ (24,637)	\$ (147,868)	\$ (17,252)
Adjustments to reconcile operating loss to net cash provided by operating activities				
Depreciation	194,828	44,286	239,114	65,657
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	47,221	(3,270)	43,951	-
Accounts payable	15,586	287	15,873	5,859
Accrued expenses	(1,337)	(580)	(1,917)	1,155
Unearned revenue	-	13,585	13,585	-
<b>Net cash provided by operating activities</b>	<b><u>\$ 133,067</u></b>	<b><u>\$ 29,671</u></b>	<b><u>\$ 162,738</u></b>	<b><u>\$ 55,419</u></b>
				Concluded
<b>Non-cash capital and related financing activities</b>				
Assets purchased with long-term debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,212</u>

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

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

**FEBRUARY 28, 2011**

	<b>Pension Trust Fund</b>	
	<b>Employees' Retirement System</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ 9,355
Investments - life insurance trust	1,115,215	-
<b>Total assets</b>	<b>1,115,215</b>	<b>\$ 9,355</b>
<b>Liabilities</b>		
Accounts payable	-	<b>\$ 9,355</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 1,115,215</b>	

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

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

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

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<b>Additions</b>	
Contributions	\$ 105,326
Investment gain	<u>128,390</u>
<b>Total additions</b>	233,716
<b>Deductions</b>	
Benefit payments	<u>34,745</u>
<b>Change in net assets</b>	<b>198,971</b>
Net assets held in trust for pension benefits, beginning of year	<u>916,244</u>
<b>Net assets held in trust for pension benefits, end of year</b>	<b><u><u>\$ 1,115,215</u></u></b>

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

## **NOTES TO FINANCIAL STATEMENTS**

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

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

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

#### B. Government-wide and fund financial statements

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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*Fund Financial Statements.* The fund financial statements provide information about the Village's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund 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 and expenditures of the general government, except those required to be accounted for in another fund.

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

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

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

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

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

The Village reports the following major enterprise funds:

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

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

Additionally, the Village reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are accumulated for specific purposes not including major capital projects.

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

### **3. *Property taxes***

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan and Emmet Counties. Assessed values, as established annually by the 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 2010 levy was approximately \$108,000,000. The Village's general operating tax rate for fiscal 2010-11 was 10.5386 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

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### 4. *Inventories*

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

### 5. *Restricted assets*

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

### 6. *Capital assets*

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

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

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

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### **7. *Compensated absences***

It is the Village's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide 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.

### **8. *Long-term obligations***

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

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

### **9. *Fund equity***

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

## **2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### **Budgetary information**

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

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

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

The Ambulance special revenue fund reported a final amended budget amount of \$351,150 in health and welfare expenditures while actual expenditures were \$358,069 resulting in expenditures in excess of budget of \$6,919.

### 3. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

Following is a reconciliation of deposit and investment balances as of February 28, 2011:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
<b>Statement of Net Assets</b>			
Cash and cash equivalents	\$ 1,580,759	\$ 39,605	\$ 1,620,364
Investments	896,959	23,889	920,848
Restricted investments	<u>136,075</u>	<u>-</u>	<u>136,075</u>
<b>Total Statement of Net Assets</b>	<b><u>\$ 2,613,793</u></b>	<b><u>\$ 63,494</u></b>	2,677,287
<b>Statement of Fiduciary Net Assets</b>			
Cash and cash equivalents			9,355
Investments			<u>1,115,215</u>
<b>Total</b>			<b><u>\$ 3,801,857</u></b>

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

Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,686,642
Investments in securities, mutual funds and similar vehicles	<u>1,115,215</u>
<b>Total</b>	<b><u>\$ 3,801,857</u></b>

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

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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

*Custodial Credit Risk Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year-end, \$1,861,930 of the Village's bank balance of \$2,797,511 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

*Custodial Credit Risk Investments.* The Village's Pension Trust Fund holds securities of \$1,115,215 in a trust fund of a life insurance company, which are not in the Village's name. The carrying amount of the Pension Trust Fund investments is stated at fair value.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### B. Receivables

The composition of receivables is as follows as of February 28, 2011:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts receivable	\$ 125,974	\$ 225,733	\$ -
Taxes receivable	251,834	-	10,974
Special assessment receivable, due in one year	52,922	-	-
Special assessment receivable, due in more than one year	151,065	-	-
Due from other governmental units	<u>32,178</u>	<u>-</u>	<u>-</u>
<b>Total receivables, net</b>	<b><u>\$ 613,973</u></b>	<b><u>\$ 225,733</u></b>	<b><u>\$ 10,974</u></b>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period of \$203,987 and resources that have been received, but not earned of \$18,902 at the end of the current fiscal year.

### C. Capital assets

Capital asset activity was as follows for the year ended February 28, 2011:

#### Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 919,923	\$ -	\$ -	\$ 919,923
Construction in process	<u>244,893</u>	<u>-</u>	<u>(244,893)</u>	<u>-</u>
Total capital assets not being depreciated	<u>1,164,816</u>	<u>-</u>	<u>(244,893)</u>	<u>919,923</u>
Capital assets being depreciated				
Buildings	2,263,913	37,993	-	2,301,906
Land improvements	939,830	-	-	939,830
Equipment	2,718,058	221,490	(89,092)	2,850,456
Infrastructure	<u>4,084,263</u>	<u>595,855</u>	<u>-</u>	<u>4,680,118</u>
Total capital assets being depreciated	<u>10,006,064</u>	<u>855,338</u>	<u>(89,092)</u>	<u>10,772,310</u>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Less accumulated depreciation on				
Buildings	\$ (628,188)	\$ (64,852)	\$ -	\$ (693,040)
Land improvements	(628,885)	(36,211)	-	(665,096)
Equipment	(1,553,450)	(202,488)	81,668	(1,674,270)
Infrastructure	<u>(1,268,912)</u>	<u>(206,696)</u>	<u>-</u>	<u>(1,475,608)</u>
Total accumulated depreciation	<u>(4,079,435)</u>	<u>(510,247)</u>	<u>81,668</u>	<u>(4,508,014)</u>
Total capital assets being depreciated, net	<u>5,926,629</u>	<u>345,091</u>	<u>(7,424)</u>	<u>6,264,296</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 7,091,445</u></b>	<b><u>\$ 345,091</u></b>	<b><u>\$ (252,317)</u></b>	<b><u>\$ 7,184,219</u></b>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	<u>\$ 73,140</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,140</u>
Capital assets being depreciated				
Buildings	150,182	-	-	150,182
Improvements other than buildings	9,524,135	-	-	9,524,135
Machinery and equipment	432,924	59,702	(4,794)	487,832
Marina	<u>1,673,739</u>	<u>14,391</u>	<u>-</u>	<u>1,688,130</u>
Total capital assets being depreciated	<u>11,780,980</u>	<u>74,093</u>	<u>(4,794)</u>	<u>11,850,279</u>
Less accumulated depreciation for				
Buildings	(40,080)	(4,538)	-	(44,618)
Improvements other than buildings	(2,886,463)	(163,546)	-	(3,050,009)
Machinery and equipment	(310,321)	(30,362)	4,794	(335,889)
Marina	<u>(1,010,497)</u>	<u>(40,668)</u>	<u>-</u>	<u>(1,051,165)</u>
Total accumulated depreciation	<u>(4,247,361)</u>	<u>(239,114)</u>	<u>4,794</u>	<u>(4,481,681)</u>
Total capital assets being depreciated, net	<u>7,533,619</u>	<u>(165,021)</u>	<u>-</u>	<u>7,368,598</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 7,606,759</u></b>	<b><u>\$ (165,021)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 7,441,738</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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

### Governmental activities

General government	\$ 57,217
Public safety	70,926
Public works	9,496
Highways and streets	206,523
Health and welfare	11,574
Recreation and culture	88,854
Capital assets held by the Village's internal service fund are charged to the various functions based on their usage of the assets	<u>65,657</u>

**Total depreciation expense – governmental activities** **\$ 510,247**

### Business-type activities

Water and Sewer	\$ 194,828
Marina	<u>44,286</u>

**Total depreciation expense – business-type activities** **\$ 239,114**

### D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows at February 28, 2011:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 99,335	\$ 16,383
Accrued expenses	<u>39,091</u>	<u>4,491</u>
<b>Total accounts payable and accrued expenses</b>	<u><b>\$ 138,426</b></u>	<u><b>\$ 20,874</b></u>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### E. Interfund receivables, payables and transfers

The composition of interfund balances is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>			
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Municipal Street Fund</u>
General Fund	\$ -	\$ 19,986	\$ 7,567	\$ -
Major Street Fund	5,719	-	-	-
Local Street Fund	2,281	-	-	-
Ambulance Fund	7,021	-	-	-
Nonmajor governmental funds	2,639	-	-	1,722
Water and Sewer Fund	78,123	-	-	-
Marina Fund	3,732	-	-	-
Internal Service Fund	1,403	-	-	-
<b>Total</b>	<b><u>\$ 100,918</u></b>	<b><u>\$ 19,986</u></b>	<b><u>\$ 7,567</u></b>	<b><u>\$ 1,722</u></b>

<u>Receivable fund</u>	<u>Payable fund</u>			
	<u>Ambulance Fund</u>	<u>2007 Special Assessment Bond Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water and Sewer Fund</u>
General Fund	\$ 20,887	\$ -	\$ 29,772	\$ 64,045
Major Street Fund	-	-	-	-
Local Street Fund	-	-	-	-
Ambulance Fund	-	-	-	-
Nonmajor governmental funds	-	1,393	1,634	-
Water and Sewer Fund	-	-	-	-
Marina Fund	-	-	-	-
Internal Service Fund	-	-	-	-
<b>Total</b>	<b><u>\$ 20,887</u></b>	<b><u>\$ 1,393</u></b>	<b><u>\$ 31,406</u></b>	<b><u>\$ 64,045</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

<u>Receivable fund</u>	<u>Payable fund</u>		
	Marina Fund	Internal Service Fund	Total
General Fund	\$ 17,935	\$ 12,811	\$ 173,003
Major Street Fund	-	-	5,719
Local Street Fund	-	-	2,281
Ambulance Fund	-	-	7,021
Nonmajor governmental funds	-	-	7,388
Water and Sewer Fund	-	-	78,123
Marina Fund	-	-	3,732
Internal Service Fund	-	-	1,403
<b>Total</b>	<b><u>\$ 17,935</u></b>	<b><u>\$ 12,811</u></b>	<b><u>\$ 278,670</u></b>

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

Interfund transfers consisted of the following at February 28, 2011:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Subtotal</u>
	Major Street Fund	Local Street Fund	2007 Special Assessment Bonds Fund	
General Fund	\$ -	\$ -	\$ -	\$ -
Municipal Street Fund	240,000	90,000	19,500	349,500
Ambulance Fund	-	-	-	-
Nonmajor governmental funds	-	-	-	-
Water and Sewer Fund	-	-	41,525	41,525
Internal Service Fund	-	-	-	-
<b>Total transfers</b>	<b><u>\$ 240,000</u></b>	<b><u>\$ 90,000</u></b>	<b><u>\$ 61,025</u></b>	<b><u>\$ 391,025</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

<u>Transfers Out</u>	<u>Transfers In Nonmajor Governmental Funds</u>	<u>Total Transfers</u>
General Fund	\$ 155,498	\$ 155,498
Municipal Street Fund	39,982	389,482
Ambulance Fund	8,060	8,060
Nonmajor governmental funds	34,248	34,248
Water and Sewer Fund	-	41,525
Internal Service Fund	23,677	23,677
<b>Total transfers</b>	<b><u>\$ 261,465</u></b>	<b><u>\$ 652,490</u></b>

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

### F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended February 28, 2011:

	<u>Balance March 1, 2010</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 28, 2011</u>	<u>Due Within 1 Year</u>
<b>Governmental activities</b>					
2009 Capital Improvement Bonds maturing serially through 2020 in annual payments ranging from \$50,000 to \$80,000 and bearing interest ranging from 3.25% to 4.50%.	\$ 650,000	\$ -	\$ (50,000)	\$ 600,000	\$ 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%.	490,000	-	(50,000)	440,000	55,000

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2010</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 28, 2011</u>	<u>Due Within 1 Year</u>
2005 Act 99 installment contract maturing in fiscal 2016 in semi-annual payments of \$8,382 including interest at 4.25%.	\$ 81,325	\$ -	\$ (13,404)	\$ 67,921	\$ 13,989
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%.	190,000	-	(35,000)	155,000	35,000
2002 Capital Improvement Bonds maturing serially through fiscal 2013 in annual payments of \$35,000 and bearing interest from 3.80% to 4.10%.	105,000	-	(35,000)	70,000	35,000
Note payable to John Deere Credit due in monthly installments of \$2,954 including interest at 2.75% through 2014.	-	102,212	(8,415)	93,797	33,291
2000 Revenue Bonds repaid in fiscal 2011.	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>-</u>
Total installment debt	1,541,325	102,212	(216,819)	1,426,718	227,280
Liability for accrued compensated absences	<u>249,489</u>	<u>9,612</u>	<u>-</u>	<u>259,101</u>	<u>-</u>
<b>Total governmental activities long-term debt</b>	<b><u>\$ 1,790,814</u></b>	<b><u>\$ 111,824</u></b>	<b><u>\$ (216,819)</u></b>	<b><u>\$ 1,685,819</u></b>	<b><u>\$ 227,280</u></b>
<b>Business-type activities</b>					
<b>Enterprise Funds</b>					
Water Revenue Bonds maturing serially through fiscal 2020 in annual payments ranging from \$20,000 to \$30,000 and bearing interest at 5.00%.	<u>\$ 230,000</u>	<u>\$ -</u>	<u>\$ (20,000)</u>	<u>\$ 210,000</u>	<u>\$ 20,000</u>

Compensated absences are generally liquidated by the general fund.

The Village's Water and Sewer Enterprise Fund Water Revenue Bond requires the Village to maintain cash reserves of approximately \$50,000. The Water and Sewer Enterprise Fund had excess reserves of approximately \$10,000 at February 28, 2011.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2012	\$ 227,280	\$ 56,189	\$ 20,000	\$ 10,500
2013	233,810	47,786	20,000	9,500
2014	201,522	39,219	20,000	8,500
2015	180,897	32,253	20,000	7,500
2016	138,209	25,585	25,000	6,500
2017-2020	<u>445,000</u>	<u>44,195</u>	<u>105,000</u>	<u>13,500</u>
	<b><u>\$1,426,718</u></b>	<b><u>\$ 245,227</u></b>	<b><u>\$ 210,000</u></b>	<b><u>\$ 56,000</u></b>

Total interest expense for the Village for the year was \$71,590.

### G. Lease disclosures

#### **Lessor – operating leases**

The Village entered into lease agreements with two communication companies to lease a water tower as a site for the companies' telecommunications equipment. The initial term which began in June 2001 of the lease agreement with one company was for five years with the right to extend the lease for four additional five year terms. The initial term which began in May 1999 of the lease agreement with the other company was for five years with the right to extend the lease for three additional five year terms.

Rental income from the lease of the water tower reported in the Recreation Center Special Revenue Fund amounted to \$27,840 for the year ended February 28, 2011. Future minimum rentals related to these leases are as follows:

<b><u>Years ending February 28</u></b>	<b><u>Amount</u></b>
2012	\$ 27,840
2013	27,840
2014	27,840
2015	16,275
2016	12,420
2017	<u>4,140</u>
<b>Total</b>	<b><u>\$ 116,355</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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The Village has a lease/operation agreement with a local skating association. This agreement is for the use and operation of the Recreation Center for ice skating activities. The agreement is renewable annually. Rental income related to this agreement reported in the Recreation Center Special Revenue Fund amounted to \$37,500 for the year ended February 28, 2011.

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:

- 1.50% increase or less equals 1.50% increase in pier lease.
- 1.60%-5.00% increase equals increase in pier lease equal to reported increase.
- Greater than 5.00% increase equals pier lease capped at 5.00% increase.

Rental income from the lease reported in the General Fund amounted to \$152,093 for the year ended February 28, 2011.

#### 4. OTHER INFORMATION

##### A. Retirement plans

###### Defined benefit pension plan

###### Plan description

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

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### **Funding policy**

The Village is required to contribute at an actuarially determined rate; the current rate is 12.30% of annual covered payroll. Per the Village's contract with the Police Officers Labor Council, the Village's costs and contributions to this plan shall be limited to 10% of gross wages per year, with the employee responsible for any remainder. Employees are currently required to contribute 2.48%. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

### **Annual pension cost**

For the year ended February 28, 2011, the Village's annual pension cost of \$25,860 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009, the date of the latest actuarial valuation, was 30 years.

### **Schedule of Employer Contributions**

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
2/28/09	\$ 24,742	100%	\$ -
2/28/10	25,540	100%	-
2/28/11	25,860	100%	-

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Over (under)- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/09	\$ 562,601	\$ 629,153	\$ (66,552)	89%	\$ 210,361	(32)%

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

### **Defined contribution pension plan**

#### **Plan description**

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

Plan provisions and contribution requirements are established and may be amended by the Village Council. Normal retirement age is the employee's 55th birthday or the 10th anniversary of the participation commencement date. Participants are 100% vested upon entry date into the Plan. The Village made the required 10% contribution in the amount of \$69,268 for the plan year ended February 28, 2011.

### **B. Other Postemployment Benefits (OPEB)**

#### **Plan description**

The Village of Mackinaw City administers a single employer defined benefit healthcare plan established by the Village Council. In addition to the retirement benefits described in Note 4A, the Village provides health insurance benefits to certain retirees, which are advance funded on a discretionary basis. In accordance with Village policy, eligible retirees receive healthcare benefits for two years after retirement. At February 28, 2011, the date of the last plan valuation, the Village's healthcare plan covered nineteen members (seventeen active plan members and two retirees receiving benefits). The plan does not issue a separate financial report.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### Funding policy

The contribution requirements of Plan members and the Village are established and may be amended by the Village Council. The required contribution is based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually by Village Council. For the year ended February 28, 2011, the Village contributed \$21,754 to the Plan, all of which was to fund current year benefits. Current retirees receiving benefits contributed \$1,222 to the Plan, based on agreed upon amounts.

### 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	\$ 23,128
Interest on net OPEB obligation	265
Adjustment to annual required contribution	<u>(224)</u>
 Net OPEB cost	 23,168
Contributions made	<u>(21,754)</u>
 Increase in net OPEB obligation	 1,414
Net OPEB obligation, beginning of year	<u>4,812</u>
 <b>Net OPEB obligation, end of year</b>	 <b><u>\$ 6,226</u></b>

The Village's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011 was as follows:

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2/28/10	\$ 16,699	71%	\$ 4,812
2/28/11	23,168	94%	6,226

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### **Funded status and funding progress.**

As of February 28, 2011, the actuarial accrued liability for benefits was \$219,317, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$766,616 and the ratio of the UAAL to the covered payroll was 29%.

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.

*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.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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*Health insurance premiums*—Fiscal year 2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

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

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

Based on the historical and expected returns of the Village's short-term investment portfolio, a discount rate of 5.50% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at February 28, 2011, was thirty years.

### C. Risk management and litigation

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

### D. Net assets invested in capital assets, net of related debt

The composition of net assets invested in capital assets, net of related debt as of February 28, 2011, was as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Capital assets, not being depreciated	\$ 919,923	\$ 73,140
Capital assets, net of depreciation	6,264,296	7,369,598
Noncurrent liabilities		
Due within one year	(227,280)	(20,000)
Due in more than one year	(1,458,539)	(190,000)
Less: accrued compensated absences	<u>259,101</u>	<u>-</u>
	<u><b>\$ 5,757,501</b></u>	<u><b>\$ 7,231,738</b></u>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### **E. Restatement**

During the year ended February 28, 2011, the Village recorded certain water and sewer system additions with a cost of \$700,000 and prior accumulated depreciation of \$140,000, which were donated to the Village in a prior year. This resulted in a net increase to the beginning net assets of the Water and Sewer Fund of \$560,000.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

# VILLAGE OF MACKINAW CITY

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULES OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS

The following schedules of employer contributions and schedules of funding progress, 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.

#### 1. DEFINED BENEFIT PENSION PLAN

##### Six-Year Trend Information Schedule of Employer Contributions

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual Required</u> <u>Contribution (ARC)</u>	<u>Percentage</u> <u>of ARC</u> <u>Contributed</u>
2/28/06	\$ 20,621	100%
2/28/07	24,388	100%
2/28/08	27,486	100%
2/28/09	24,742	100%
2/28/10	25,540	100%
2/28/11	25,860	100%

##### Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value</u> <u>of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>-Entry Age</u> <u>(b)</u>	<u>Under-</u> <u>funded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
12/31/04	\$ 261,493	\$ 325,387	\$ (63,894)	80%	\$ 232,553	(27)%
12/31/05	316,221	375,899	(59,678)	84%	238,190	(25)%
12/31/06	372,623	393,638	(21,015)	95%	228,445	(9)%
12/31/07	434,949	458,888	(23,939)	95%	239,318	(10)%
12/31/08	491,574	533,118	(41,544)	92%	246,990	(17)%
12/31/09	562,601	629,153	(66,552)	89%	210,361	(32)%

# VILLAGE OF MACKINAW CITY

## REQUIRED SUPPLEMENTARY INFORMATION

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### 2. OTHER POSTEMPLOYMENT BENEFITS

#### Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2/28/2010	\$16,699	71%
2/28/2011	23,128	94%

#### Schedule of Funding Progress

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

## **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 28, 2011**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Property taxes</b>				
Current property taxes	\$ 1,221,500	\$ 1,253,978	\$ 1,272,416	\$ 18,438
Property tax administration fees	11,650	11,650	11,579	(71)
<b>Total property taxes</b>	<b>1,233,150</b>	<b>1,265,628</b>	<b>1,283,995</b>	<b>18,367</b>
<b>Federal Revenue</b>				
Stonegarden - homeland security grant	-	9,121	9,121	-
Buffer zone protection plan grant	-	1,500	1,500	-
<b>Total federal revenue</b>	<b>-</b>	<b>10,621</b>	<b>10,621</b>	<b>-</b>
<b>State revenue</b>				
Liquor licenses	8,500	8,500	7,649	(851)
Other state revenue	66,468	66,468	67,667	1,199
<b>Total state revenue</b>	<b>74,968</b>	<b>74,968</b>	<b>75,316</b>	<b>348</b>
<b>Licenses and permits</b>				
Business licenses and permits	4,000	4,000	9,195	5,195
Non-business licenses and permits	3,000	3,000	5,404	2,404
<b>Total licenses and permits</b>	<b>7,000</b>	<b>7,000</b>	<b>14,599</b>	<b>7,599</b>
<b>Contributions</b>				
Other governmental units	34,000	34,000	31,951	(2,049)
Other	2,500	2,500	5,591	3,091
<b>Total contributions</b>	<b>36,500</b>	<b>36,500</b>	<b>37,542</b>	<b>1,042</b>
<b>Charges for services</b>	<b>800</b>	<b>800</b>	<b>4,817</b>	<b>4,017</b>
<b>Fines and forfeits</b>	<b>2,400</b>	<b>2,400</b>	<b>2,663</b>	<b>263</b>
<b>Interest earnings</b>	<b>21,000</b>	<b>21,000</b>	<b>40,815</b>	<b>19,815</b>
<b>Rents</b>	<b>222,000</b>	<b>222,000</b>	<b>161,693</b>	<b>(60,307)</b>
<b>Miscellaneous</b>	<b>3,200</b>	<b>3,200</b>	<b>16,969</b>	<b>13,769</b>
<b>Total revenues</b>	<b>1,601,018</b>	<b>1,644,117</b>	<b>1,649,030</b>	<b>4,913</b>

Continued...

**VILLAGE OF MACKINAW CITY**

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

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Amended Budget Positive (Negative)</u>
<b>Legislative</b>				
<b>Village council</b>	<b>\$ 25,250</b>	<b>\$ 25,250</b>	<b>\$ 19,440</b>	<b>\$ 5,810</b>
<b>General government</b>				
Village manager	116,150	116,150	115,766	384
Clerk - elections	1,800	1,800	-	1,800
Professional services	58,000	90,240	105,163	(14,923)
Clerk	43,140	43,140	35,278	7,862
Treasurer	44,633	44,633	40,394	4,239
Community development director	65,300	65,300	25,773	39,527
Village hall and grounds	141,500	141,500	76,874	64,626
Village property - other	161,260	161,260	261,516	(100,256)
Promotional	64,300	64,300	67,559	(3,259)
<b>Total general government</b>	<b>696,083</b>	<b>728,323</b>	<b>728,323</b>	<b>-</b>
<b>Public safety</b>				
Police department	487,850	494,011	508,552	(14,541)
Fire department	139,475	139,475	124,934	14,541
<b>Total public safety</b>	<b>627,325</b>	<b>633,486</b>	<b>633,486</b>	<b>-</b>
<b>Recreation and culture</b>	<b>83,830</b>	<b>88,528</b>	<b>88,528</b>	<b>-</b>
<b>Other functions</b>	<b>4,500</b>	<b>4,500</b>	<b>4,124</b>	<b>376</b>
<b>Total expenditures</b>	<b>1,436,988</b>	<b>1,480,087</b>	<b>1,473,901</b>	<b>6,186</b>
<b>Revenue over expenditures</b>	<b>164,030</b>	<b>164,030</b>	<b>175,129</b>	<b>11,099</b>
<b>Other financing uses</b>				
Transfers out	(228,030)	(228,030)	(155,498)	72,532
<b>Net change in fund balance</b>	<b>\$ (64,000)</b>	<b>\$ (64,000)</b>	<b>\$ 19,631</b>	<b>\$ 83,631</b>

Concluded

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

**FEBRUARY 28, 2011**

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Waterfront Development Capital Project Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 136,770	\$ 43,473	\$ 715	\$ 180,958
Investments	66,239	-	432	66,671
Accounts receivable	74,449	-	-	74,449
Due from other funds	4,273	3,115	-	7,388
Taxes receivable	4,162	-	-	4,162
<b>Total assets</b>	<b>\$ 285,893</b>	<b>\$ 46,588</b>	<b>\$ 1,147</b>	<b>\$ 333,628</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 3,139	\$ -	\$ -	\$ 3,139
Accrued expenditures	732	-	-	732
Due to other funds	10,151	21,255	-	31,406
<b>Total liabilities</b>	<b>14,022</b>	<b>21,255</b>	<b>-</b>	<b>35,277</b>
<b>Fund balances</b>				
Reserved for				
Debt service	-	25,333	-	25,333
Unreserved				
Undesignated	271,871	-	1,147	273,018
<b>Total fund balances</b>	<b>271,871</b>	<b>25,333</b>	<b>1,147</b>	<b>298,351</b>
<b>Total liabilities and fund balances</b>	<b>\$ 285,893</b>	<b>\$ 46,588</b>	<b>\$ 1,147</b>	<b>\$ 333,628</b>

**VILLAGE OF MACKINAW CITY**

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

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Waterfront Development Capital Project Fund</b>	<b>Total</b>
<b>Revenues</b>				
Property taxes	\$ 80,941	\$ -	\$ -	\$ 80,941
Special assessments	-	5,668	-	5,668
Contributions	71,387	-	-	71,387
Charges for services	10,111	-	-	10,111
Interest	-	1,036	-	1,036
Rents	65,340	-	-	65,340
Local contribution	-	17,145	-	17,145
Miscellaneous	6,725	-	-	6,725
<b>Total revenues</b>	<b>234,504</b>	<b>23,849</b>	<b>-</b>	<b>258,353</b>
<b>Expenditures</b>				
Current				
General government	35,659	-	-	35,659
Health and welfare	109,442	-	-	109,442
Recreation	123,418	-	-	123,418
Other	19,470	-	-	19,470
Capital outlay	1,183	-	-	1,183
Debt service				
Principal payments	-	158,405	-	158,405
Interest and paying agent fees	-	39,816	-	39,816
<b>Total expenditures</b>	<b>289,172</b>	<b>198,221</b>	<b>-</b>	<b>487,393</b>
<b>Revenues under expenditures</b>	<b>(54,668)</b>	<b>(174,372)</b>	<b>-</b>	<b>(229,040)</b>
<b>Other financing sources (uses)</b>				
Transfers in	96,826	164,639	-	261,465
Transfers out	(11,248)	(23,000)	-	(34,248)
<b>Total other financing sources (uses)</b>	<b>85,578</b>	<b>141,639</b>	<b>-</b>	<b>227,217</b>
<b>Net change in fund balances</b>	<b>30,910</b>	<b>(32,733)</b>	<b>-</b>	<b>(1,823)</b>
Fund balances, beginning of year	240,961	58,066	1,147	300,174
<b>Fund balances, end of year</b>	<b>\$ 271,871</b>	<b>\$ 25,333</b>	<b>\$ 1,147</b>	<b>\$ 298,351</b>

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

**FEBRUARY 28, 2011**

	<u>Cemetery</u>	<u>Recreation Complex</u>	<u>Recreation Center</u>	<u>Performance Shell</u>	<u>Planning Commission</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 49,046	\$ 1,150	\$ -	\$ 4,457	\$ 132
Investments	29,582	693	-	2,688	80
Accounts receivable	-	-	74,449	-	-
Due from other funds	869	2,563	533	-	308
Taxes receivable	4,162	-	-	-	-
<b>Total assets</b>	<b><u>\$ 83,659</u></b>	<b><u>\$ 4,406</u></b>	<b><u>\$ 74,982</u></b>	<b><u>\$ 7,145</u></b>	<b><u>\$ 520</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 128	\$ 794	\$ -	\$ -
Accrued expenditures	-	399	236	-	97
Due to other funds	2,743	3,879	3,106	-	423
<b>Total liabilities</b>	<b><u>2,743</u></b>	<b><u>4,406</u></b>	<b><u>4,136</u></b>	<b><u>-</u></b>	<b><u>520</u></b>
<b>Fund balances</b>					
Unreserved					
Undesignated	80,916	-	70,846	7,145	-
<b>Total liabilities and fund balances</b>	<b><u>\$ 83,659</u></b>	<b><u>\$ 4,406</u></b>	<b><u>\$ 74,982</u></b>	<b><u>\$ 7,145</u></b>	<b><u>\$ 520</u></b>

<b>Economic Development Commission</b>	<b>WaWatom Area Seniors</b>	<b>Iron Workers Walk Foundation</b>	<b>Employee Sick and Vacation</b>	<b>Total</b>
\$ 6,708	\$ 24,584	\$ 2,365	\$ 48,328	\$ 136,770
4,046	-	-	29,150	66,239
-	-	-	-	74,449
-	-	-	-	4,273
-	-	-	-	4,162
<b>\$ 10,754</b>	<b>\$ 24,584</b>	<b>\$ 2,365</b>	<b>\$ 77,478</b>	<b>\$ 285,893</b>
\$ -	\$ -	\$ -	\$ 2,217	\$ 3,139
-	-	-	-	732
-	-	-	-	10,151
-	-	-	<b>2,217</b>	<b>14,022</b>
10,754	24,584	2,365	75,261	271,871
<b>\$ 10,754</b>	<b>\$ 24,584</b>	<b>\$ 2,365</b>	<b>\$ 77,478</b>	<b>\$ 285,893</b>

VILLAGE OF MACKINAW CITY

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

FOR THE YEAR ENDED FEBRUARY 28, 2011

	Cemetery	Recreation Complex	Recreation Center	Performance Shell	Planning Commission
<b>Revenues</b>					
Property taxes	\$ 28,508	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-	-
Charges for services	6,075	2,883	1,153	-	-
Rents	-	-	65,340	-	-
Miscellaneous	-	-	225	-	-
<b>Total revenues</b>	<b>34,583</b>	<b>2,883</b>	<b>66,718</b>	<b>-</b>	<b>-</b>
<b>Expenditures</b>					
Current					
General government	35,659	-	-	-	-
Health and welfare	-	-	-	-	-
Recreation	-	45,156	52,004	5,008	-
Other	-	-	-	-	16,859
Capital outlay	-	-	1,183	-	-
<b>Total expenditures</b>	<b>35,659</b>	<b>45,156</b>	<b>53,187</b>	<b>5,008</b>	<b>16,859</b>
Revenues (under) over expenditures	(1,076)	(42,273)	13,531	(5,008)	(16,859)
<b>Other financing sources (uses)</b>					
Transfers in	-	36,248	33,000	6,800	15,778
Transfers out	-	-	(11,248)	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>36,248</b>	<b>21,752</b>	<b>6,800</b>	<b>15,778</b>
<b>Net change in fund balances</b>	<b>(1,076)</b>	<b>(6,025)</b>	<b>35,283</b>	<b>1,792</b>	<b>(1,081)</b>
Fund balances, beginning of year	81,992	6,025	35,563	5,353	1,081
<b>Fund balances, end of year</b>	<b>\$ 80,916</b>	<b>\$ -</b>	<b>\$ 70,846</b>	<b>\$ 7,145</b>	<b>\$ -</b>

<b>Economic Development Commission</b>	<b>WaWatom Area Seniors</b>	<b>Iron Workers Walk Foundation</b>	<b>Employee Sick and Vacation</b>	<b>Total</b>
\$ -	\$ 52,433	\$ -	\$ -	\$ 80,941
-	71,387	-	-	71,387
-	-	-	-	10,111
-	-	-	-	65,340
-	-	6,500	-	6,725
<b>-</b>	<b>123,820</b>	<b>6,500</b>	<b>-</b>	<b>234,504</b>
-	-	-	-	35,659
-	109,442	-	-	109,442
-	-	21,250	-	123,418
2,611	-	-	-	19,470
-	-	-	-	1,183
<b>2,611</b>	<b>109,442</b>	<b>21,250</b>	<b>-</b>	<b>289,172</b>
(2,611)	14,378	(14,750)	-	(54,668)
5,000	-	-	-	96,826
-	-	-	-	(11,248)
<b>5,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85,578</b>
<b>2,389</b>	<b>14,378</b>	<b>(14,750)</b>	<b>-</b>	<b>30,910</b>
8,365	10,206	17,115	75,261	240,961
<b>\$ 10,754</b>	<b>\$ 24,584</b>	<b>\$ 2,365</b>	<b>\$ 75,261</b>	<b>\$ 271,871</b>

VILLAGE OF MACKINAW CITY

COMBINING BALANCE SHEET  
NONMAJOR DEBT SERVICE FUNDS

FEBRUARY 28, 2011

	1998 Act 99 Installment Contract Ice System	2000 General Obligation Bonds	2000 Revenue Bond Recreation Center	1997 Special Assessment Bonds	1998 Act 99 Installment Contract
<b>ASSETS</b>					
Cash and cash equivalents	\$ 49	\$ -	\$ -	\$ -	\$ -
Due from other funds	-	-	-	-	-
<b>Total assets</b>	<b>\$ 49</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Fund balances</b>					
Reserved for debt service	49	-	-	-	-
<b>Total liabilities and fund balances</b>	<b>\$ 49</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck	2000 Special Assessment Bonds	2009 General Obligation Bonds	Total
\$ 12,458	\$ 527	\$ -	\$ -	\$ 28,805	\$ 1,634	\$ 43,473
-	-	-	-	3,115	-	3,115
<b>\$ 12,458</b>	<b>\$ 527</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,920</b>	<b>\$ 1,634</b>	<b>\$ 46,588</b>
\$ -	\$ -	\$ -	\$ -	\$ 21,255	\$ -	\$ 21,255
12,458	527	-	-	10,665	1,634	25,333
<b>\$ 12,458</b>	<b>\$ 527</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,920</b>	<b>\$ 1,634</b>	<b>\$ 46,588</b>

**VILLAGE OF MACKINAW CITY**

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

**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	<b>1998 Act 99 Installment Contract Ice System</b>	<b>2000 General Obligation Bonds</b>	<b>2000 Revenue Bond Recreation Center</b>	<b>1997 Special Assessment Bonds</b>	<b>1998 Act 99 Installment Contract</b>
<b>Revenues</b>					
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-
Local contributions	-	-	-	-	-
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenditures</b>					
Principal payments	-	-	25,000	-	-
Interest and paying agent fees	-	-	719	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>25,719</b>	<b>-</b>	<b>-</b>
<b>Revenues (under) over expenditures</b>	<b>-</b>	<b>-</b>	<b>(25,719)</b>	<b>-</b>	<b>-</b>
<b>Other financing sources (uses)</b>					
Transfers in	-	-	25,635	-	-
Transfers out	-	-	(23,000)	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>2,635</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>(23,084)</b>	<b>-</b>	<b>-</b>
Fund balances, beginning of year	49	-	23,084	-	-
<b>Fund balances, end of year</b>	<b>\$ 49</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck	2000 Special Assessment Bonds	2009 General Obligation Bonds	Total
\$ 5,668	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,668
968	7	-	-	56	5	1,036
-	-	17,145	-	-	-	17,145
<b>6,636</b>	<b>7</b>	<b>17,145</b>	<b>-</b>	<b>56</b>	<b>5</b>	<b>23,849</b>
-	35,000	35,000	13,405	-	50,000	158,405
-	4,415	5,822	3,360	-	25,500	39,816
-	<b>39,415</b>	<b>40,822</b>	<b>16,765</b>	-	<b>75,500</b>	<b>198,221</b>
<b>6,636</b>	<b>(39,408)</b>	<b>(23,677)</b>	<b>(16,765)</b>	<b>56</b>	<b>(75,495)</b>	<b>(174,372)</b>
-	34,197	23,677	16,765	-	64,365	164,639
-	-	-	-	-	-	(23,000)
-	<b>34,197</b>	<b>23,677</b>	<b>16,765</b>	-	<b>64,365</b>	<b>141,639</b>
<b>6,636</b>	<b>(5,211)</b>	-	-	<b>56</b>	<b>(11,130)</b>	<b>(32,733)</b>
5,822	5,738	-	-	10,609	12,764	58,066
<b>\$ 12,458</b>	<b>\$ 527</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,665</b>	<b>\$ 1,634</b>	<b>\$ 25,333</b>

**VILLAGE OF MACKINAW CITY**  
**COMBINING STATEMENT OF CHANGES IN**  
**ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2011**

	Balance March 1, 2010	Additions	Deductions	Balance February 28, 2011
<b>TAX COLLECTION FUND</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 107	\$ 1,554,420	\$ 1,554,277	\$ 250
<b>LIABILITIES</b>				
Accounts payable	\$ 107	\$ 1,413,670	\$ 1,413,527	\$ 250
Due to component units	-	36,023	36,023	-
Due to other governmental units	-	104,727	104,727	-
<b>Total liabilities</b>	<b>\$ 107</b>	<b>\$ 1,554,420</b>	<b>\$ 1,554,277</b>	<b>\$ 250</b>
<b>EMPLOYEE FLEX PLAN FUND</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,411	\$ 44,655	\$ 36,961	\$ 9,105
<b>LIABILITIES</b>				
Due to employees	\$ 1,411	\$ 44,655	\$ 36,961	\$ 9,105
<b>TOTAL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,518	\$ 1,599,075	\$ 1,591,238	\$ 9,355
<b>LIABILITIES</b>				
Accounts payable	\$ 107	\$ 1,413,670	\$ 1,413,527	\$ 250
Due to component units	-	36,023	36,023	-
Due to other governmental units	-	104,727	104,727	-
Due to employees	1,411	44,655	36,961	9,105
<b>Total liabilities</b>	<b>\$ 1,518</b>	<b>\$ 1,599,075</b>	<b>\$ 1,591,238</b>	<b>\$ 9,355</b>

## **INTERNAL CONTROL AND COMPLIANCE**

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

June 27, 2011

Village Council  
Village of Mackinaw City  
Mackinaw City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *Village of Mackinaw City* (the "Village") as of and for the year ended February 28, 2011, which collectively comprise the Village's basic financial statements and have issued our report thereon dated June 27, 2011. 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 2011-1:**     **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 2011-2: 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 statement under audit.

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

**Village's Response:** The Village will continue 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 2011-3      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 separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting of those assets. Further, certain employees holding management positions also collect or disburse cash or account for the transactions of the Village.

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

**Effect:** As a result of this condition, the Village's system of internal control has 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*.

In addition, we noted certain other matters that we reported to the Village Council of the *Village of Mackinaw City* in a separate letter dated June 27, 2011.

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 style with a large, prominent 'L' and 'J'.