

Village of
Mackinaw City,
Michigan



Fiscal Year
Ended
February 28,
2013

Financial
Statements

VILLAGE OF MACKINAW CITY

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INDEPENDENT AUDITORS' REPORT

August 13, 2013

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *Village of Mackinaw City, Michigan* (the "Village") as of and for the year ended February 28, 2013, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and each major special revenue fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, our report dated August 13, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

Rehmann Loham LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

As management of the Village of Mackinaw City, Michigan (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2013.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by approximately \$14,830,000 (net position). Of this amount, approximately \$2,317,000 (unrestricted net position) may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net position decreased by approximately \$541,000.
- The Village repaid approximately \$289,000 of long-term debt during the current fiscal year.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was approximately \$789,000 or 50 percent of fiscal 2013 total General Fund expenditures and transfers.

Overview of the Financial Statements

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

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

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

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

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

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

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

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

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

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

The Village maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Municipal Street Fund, and the Ambulance Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

The Village uses an internal service fund to account for its equipment operations. Because these services predominantly benefit governmental rather than business-type activities, they have been included within governmental activities in the government-wide financial statements.

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

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

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

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

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

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by approximately \$14,829,000 at the close of fiscal 2013.

A significant portion of the Village's net position (81%) is invested 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 position represents the resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (15%) may be used to meet the Village's ongoing obligations to citizens and creditors.

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Cash and other assets	\$ 2,059,623	\$ 2,765,051	\$ 1,320,433	\$ 1,146,108	\$ 3,380,056	\$ 3,911,159
Capital assets, net	6,784,541	6,808,805	7,086,823	7,246,520	13,871,364	14,055,325
Total assets	8,844,164	9,573,856	8,407,256	8,392,628	17,251,420	17,966,484
Current and other liabilities	192,181	86,166	106,299	99,105	298,480	185,271
Long-term liabilities	1,914,899	2,171,034	170,000	190,000	2,084,899	2,361,034
Total liabilities	2,107,080	2,257,200	276,299	289,105	2,383,379	2,546,305
Deferred inflow of resources	37,847	44,833	-	3,946	37,847	48,779
Net position:						
Net investment in capital assets	5,103,914	4,859,368	6,916,823	7,056,520	12,020,737	11,915,888
Restricted	492,645	25,365	-	60,000	492,645	85,365
Unrestricted	1,102,678	2,387,090	1,214,134	983,057	2,316,812	3,370,147
Total net position	\$ 6,699,237	\$ 7,271,823	\$ 8,130,957	\$ 8,099,577	\$14,830,194	\$15,371,400

At the end of fiscal 2013, the Village is able to report positive balances in all three categories of net position, both for the government as a whole, and for its separate governmental and business-type activities. The same situation held true for the prior year.

The Village's net position decreased by approximately \$541,000 during fiscal 2013. This decrease is mainly attributable to budgeted use of fund balance and repairs and maintenance expenditures.

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 449,929	\$ 427,077	\$ 1,091,869	\$ 1,038,691	\$ 1,541,798	\$ 1,465,768
Operating grants and contributions	547,087	514,475	372	1,833	547,459	516,308
Capital grants and contributions	101,130	1,656	18,051	-	119,181	1,656
General revenues:						
Property taxes	1,547,281	1,571,129	-	-	1,547,281	1,571,129
Grants and contributions not restricted to specific programs	65,341	64,096	-	-	65,341	64,096
Unrestricted interest income	9,325	13,465	5	-	9,330	13,465
Total revenues	2,720,093	2,591,898	1,110,297	1,040,524	3,830,390	3,632,422
Expenses:						
Legislative	32,499	-	-	-	32,499	-
General government	603,410	783,023	-	-	603,410	783,023
Public safety	647,998	670,510	-	-	647,998	670,510
Highways and streets	733,435	644,618	-	-	733,435	644,618
Health and welfare	533,496	541,988	-	-	533,496	541,988
Recreation and culture	337,225	273,501	-	-	337,225	273,501
Interest on long-term debt	78,889	52,929	-	-	78,889	52,929
Sewer	-	-	739,562	887,651	739,562	887,651
Water	-	-	328,068	-	328,068	-
Marina	-	-	337,014	330,204	337,014	330,204
Total expenses	2,966,952	2,966,569	1,404,644	1,217,855	4,371,596	4,184,424
Change in net position before transfers	(246,859)	(374,671)	(294,347)	(177,331)	(541,206)	(552,002)
Transfers	(325,727)	45,689	325,727	(45,689)	-	-
Change in net position	(572,586)	(328,982)	31,380	(223,020)	(541,206)	(552,002)
Net position:						
Beginning of year	7,271,823	7,600,805	8,099,577	8,322,597	15,371,400	15,923,402
End of year	\$ 6,699,237	\$ 7,271,823	\$ 8,130,957	\$ 8,099,577	\$14,830,194	\$15,371,400

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

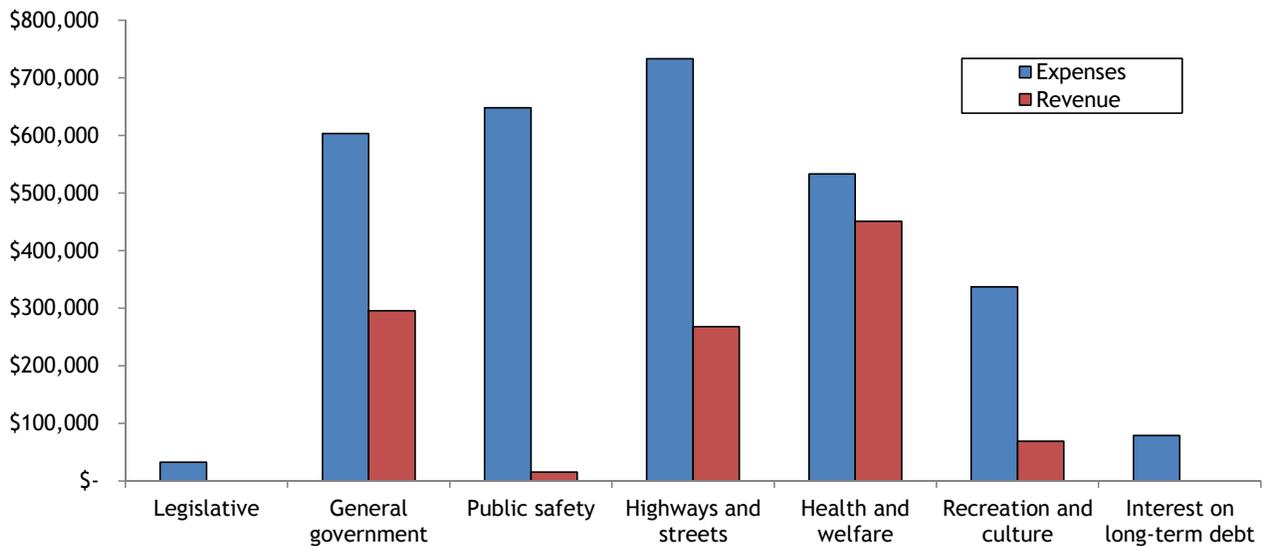
Governmental Activities. Governmental activities decreased the Village's net position by approximately \$574,000. Transfers increased by approximately \$317,000 from the prior year attributable to transfers of bond proceeds to the sewer fund for improvements.

Key elements of this decrease are as follows:

- Budgeted use of fund balance during fiscal year 2013.
- Expenditures incurred on the LED lighting upgrade.

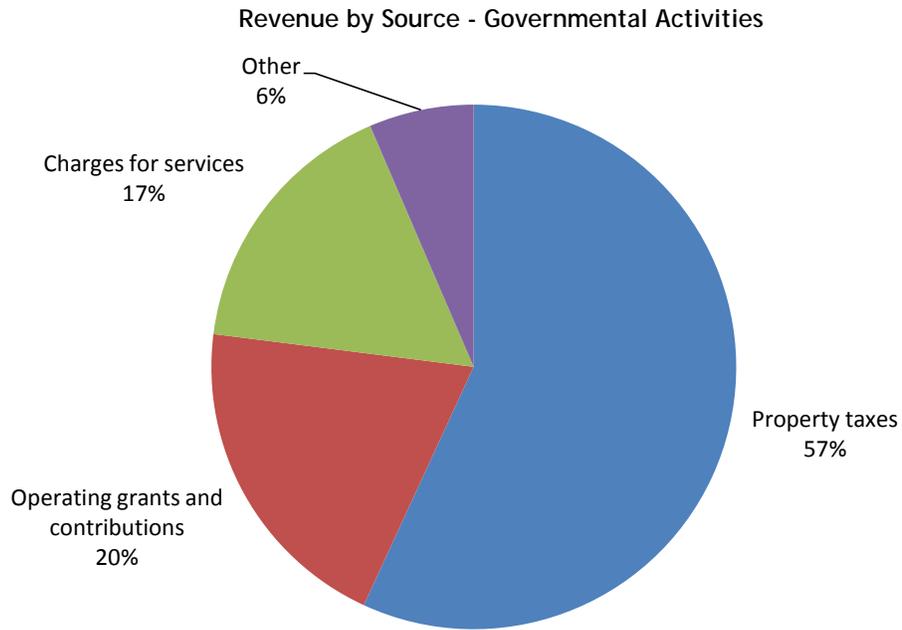
Capital grants and contributions increased from the prior year by approximately \$100,000 due to the receipt of state grants for highway and street projects. General government expenditures decreased by approximately \$147,000 related to a reallocation of certain employees wages and fringes to various functions. Highways and streets expenditures increased approximately \$98,000 from the prior year mainly related to the street light project and increased winter maintenance costs.

Expenses and Program Revenues - Governmental Activities



VILLAGE OF MACKINAW CITY

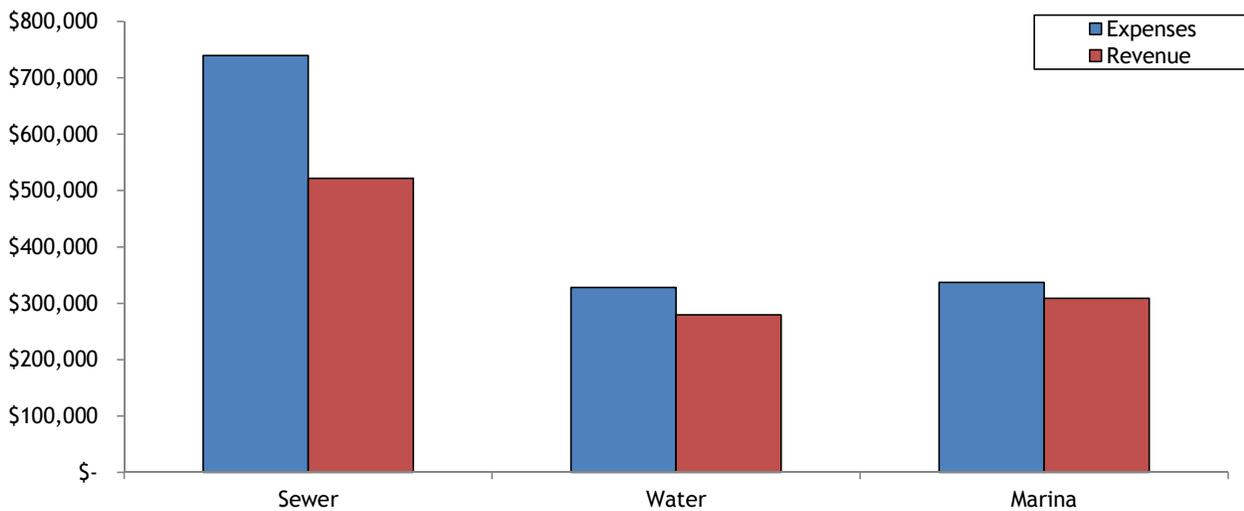
Management's Discussion and Analysis



Business-type Activities. Business-type activities increased the Village's net position by approximately \$31,000.

This increase was directly related mainly to bond proceeds transferred into the sewer fund during the year. The increase in sewer and water expenses is related to the sewer project which occurred during the year and the accounting for sewer and water activities in separate funds, respectively.

Expenses and Program Revenue - Business-type Activities



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

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

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

As of the end of the 2013 fiscal year, the Village's governmental funds reported combined ending fund balances of approximately \$1,579,000, a decrease of approximately \$818,000. Unassigned fund balance of approximately \$789,000 is available for spending at the Village's discretion. The remainder of fund balance is restricted or assigned to indicate that it is not available for new spending because it has been restricted or assigned to be spent for specific purposes.

The fund balance of the Village's General Fund decreased by approximately \$127,000 during the current fiscal year, which was mainly attributable to budgeting the use of fund balance to cover operating expenses.

The fund balance of the Village's Municipal Street special revenue fund decreased by approximately \$32,000 during the current fiscal year, which was mainly attributable to transfers to the Major Street and Local Street special revenue funds.

The fund balance of the Village's Ambulance fund increased by approximately \$11,000 during the current fiscal year, which was mainly attributable to decreased expenditures resulting from outsourcing the billing for ambulance runs.

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

Unrestricted net position of the Sewer Fund at the end of the year amounted to approximately \$807,000. The Sewer Fund had an increase in net position for the year of approximately of \$108,000. Factors attributable to this increase in net position were addressed in the discussion of the Village's business-type activities.

Unrestricted net position of the Water Fund at the end of the year amounted to approximately \$327,000. The Water Fund had a decrease in net position for the year of approximately of \$48,000 mainly due to repair and maintenance expenditures exceeding the amounts originally anticipated.

Unrestricted net position of the Marina fund at the end of the year amounted to approximately \$80,000. The Marina Fund had a decrease in net position for the year of approximately \$28,000. This decrease in net position is mainly attributable to planned expenditures for operations and repairs and maintenance to marina assets.

General Fund Budgetary Highlights

General Fund revenues and transfers out were greater than the final budget while expenditures were lower than the final budget. No budget amendments were made during the current year.

VILLAGE OF MACKINAW CITY

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2013, amounted to approximately \$13,871,000 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer systems, marina, vehicles and equipment.

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

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

- LED Lighting Project
- Village Hall Roof Project
- Conkling Park Restroom Project

Long-Term Debt. At February 28, 2013, the Village had total debt (less accrued compensated absences) outstanding of approximately \$1,851,000. Of this amount, approximately \$1,716,000 is comprised of debt backed by the full faith and credit of the Village. The remainder of the Village's bonded debt represents bonds secured solely by specified revenue sources.

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

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2013-2014 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, MICHIGAN

Statement of Net Position

February 28, 2013

	Primary Government			Downtown Development Authority Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 986,399	\$ 627,579	\$ 1,613,978	\$ 52,686
Investments	533,722	365,516	899,238	30,670
Receivables, net	518,261	170,126	688,387	8,755
Internal balances	5,516	(5,516)	-	-
Other assets	15,725	25,437	41,162	-
Restricted investments	-	137,291	137,291	-
Capital assets not being depreciated	1,042,581	103,177	1,145,758	-
Capital assets being depreciated, net	5,741,960	6,983,646	12,725,606	-
Total assets	8,844,164	8,407,256	17,251,420	92,111
Liabilities				
Accounts payable and accrued liabilities	163,590	24,553	188,143	3,127
Unearned revenue	-	81,746	81,746	-
Long-term liabilities:				
Due within one year	269,767	20,000	289,767	-
Due in more than one year	1,645,132	150,000	1,795,132	-
Net other postemployment benefits obligation	28,591	-	28,591	-
Total liabilities	2,107,080	276,299	2,383,379	3,127
Deferred inflow of resources				
Unavailable revenue	37,847	-	37,847	-
Net position				
Net investment in capital assets	5,103,914	6,916,823	12,020,737	-
Restricted for:				
Highways and streets	379,135	-	379,135	-
Cemetery	62,286	-	62,286	-
WaWatam area seniors	3,850	-	3,850	-
Debt service	47,374	-	47,374	-
Unrestricted	1,102,678	1,214,134	2,316,812	88,984
Total net position	\$ 6,699,237	\$ 8,130,957	\$ 14,830,194	\$ 88,984

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Activities

For the Year Ended February 28, 2013

Functions/Programs	Expenses	Program Revenue			Net Expense
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 32,499	\$ -	\$ -	\$ -	\$ (32,499)
General government	603,410	203,329	92,192	-	(307,889)
Public safety	647,998	6,616	7,500	1,130	(632,752)
Highways and streets	733,435	-	167,712	100,000	(465,723)
Health and welfare	533,496	231,656	219,136	-	(82,704)
Recreation and culture	337,225	8,328	60,547	-	(268,350)
Interest on long-term debt	78,889	-	-	-	(78,889)
Total governmental activities	2,966,952	449,929	547,087	101,130	(1,868,806)
Business-type activities:					
Sewer	739,562	521,274	372	-	(217,916)
Water	328,068	279,647	-	-	(48,421)
Marina	337,014	290,948	-	18,051	(28,015)
Total business-type activities	1,404,644	1,091,869	372	18,051	(294,352)
Total primary government	\$ 4,371,596	\$ 1,541,798	\$ 547,459	\$ 119,181	\$ (2,163,158)
Component unit					
Downtown Development Authority	\$ 19,110	\$ -	\$ -	\$ -	\$ (19,110)

Continued...

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Activities

For the Year Ended February 28, 2013

	Primary Government			Downtown Development Authority Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net expense	\$ (1,868,806)	\$ (294,352)	\$ (2,163,158)	\$ (19,110)
General revenues:				
Property taxes	1,547,281	-	1,547,281	31,375
Grants and contributions not restricted to specific programs	65,341	-	65,341	-
Unrestricted interest income	9,325	5	9,330	-
Transfers - internal activities	(325,727)	325,727	-	-
Total general revenues and transfers	1,296,220	325,732	1,621,952	31,375
Change in net position	(572,586)	31,380	(541,206)	12,265
Net position, beginning of year	7,271,823	8,099,577	15,371,400	76,719
Net position, end of year	\$ 6,699,237	\$ 8,130,957	\$ 14,830,194	\$ 88,984

Concluded

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

FUND FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY, MICHIGAN

Balance Sheet

Governmental Funds
February 28, 2013

	General Fund	Municipal Street Fund	Ambulance Fund	Nonmajor Governmental Funds	Total
Assets					
Cash and cash equivalents	\$ 485,545	\$ 57,804	\$ 61,439	\$ 243,296	\$ 848,084
Investments	265,623	33,650	35,736	118,195	453,204
Accounts receivable, net	6,399	-	150,188	43,500	200,087
Taxes receivable	129,042	42,953	-	2,742	174,737
Special assessments receivable	-	87,730	-	32,510	120,240
Other assets	-	-	-	15,725	15,725
Due from other funds	168,209	17,404	7,021	46,831	239,465
Due from other governmental units	10,673	-	-	12,524	23,197
Total assets	\$ 1,065,491	\$ 239,541	\$ 254,384	\$ 515,323	\$ 2,074,739
Liabilities					
Accounts payable	\$ 75,947	\$ 8,590	\$ 4,151	\$ 9,523	\$ 98,211
Accrued liabilities	8,956	-	2,406	5,611	16,973
Due to other funds	129,313	3,684	20,887	68,657	222,541
Total liabilities	214,216	12,274	27,444	83,791	337,725
Deferred inflow of resources					
Unavailable revenue	15,348	87,730	-	55,010	158,088
Fund balances					
Restricted					
Highways and streets	-	139,537	-	239,598	379,135
Cemetery	-	-	-	62,286	62,286
WaWatam area seniors	-	-	-	3,850	3,850
Debt service	-	-	-	47,374	47,374
Assigned					
Capital projects	-	-	-	1,547	1,547
Ambulance services	-	-	226,940	-	226,940
Recreation center	-	-	-	17,075	17,075
Iron workers walk foundation	-	-	-	4,792	4,792
Planning commission	12,618	-	-	-	12,618
Economic development commission	17,257	-	-	-	17,257
Performance Shell	17,340	-	-	-	17,340
Unassigned	788,712	-	-	-	788,712
Total fund balances	835,927	139,537	226,940	376,522	1,578,926
Total liabilities, deferred inflow of resources and fund balances	\$ 1,065,491	\$ 239,541	\$ 254,384	\$ 515,323	\$ 2,074,739

VILLAGE OF MACKINAW CITY, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
February 28, 2013

Fund balances - total governmental funds	\$ 1,578,926
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Amounts reported for *governmental activities* in the statement of net position are different because:

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

Capital assets, net	6,555,393
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The focus of governmental funds is on short-term financing; some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.

Unavailable special assessment revenue	120,240
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Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.

Net position of governmental activities accounted for in an internal service fund	393,436
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest on long-term liabilities	(31,556)
Bonds and notes payable	(1,654,339)
Compensated absences	(234,272)
Net other postemployment benefit obligation	<u>(28,591)</u>

Net position of governmental activities	<u>\$ 6,699,237</u>
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Concluded

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended February 28, 2013

	General Fund	Municipal Street Fund	Ambulance Fund	Nonmajor Governmental Funds	Total
Revenues					
Property taxes	\$ 1,088,595	\$ 384,932	\$ -	\$ 73,754	\$ 1,547,281
State revenue	84,579	100,000	-	157,904	342,483
Special assessments	-	20,263	-	1,828	22,091
Licenses and permits	7,579	-	-	-	7,579
Contributions	47,262	-	165,465	56,071	268,798
Charges for services	554	-	222,131	16,853	239,538
Fines and forfeitures	4,461	-	-	-	4,461
Interest	9,325	9,111	-	676	19,112
Rents	182,040	-	-	52,117	234,157
Local contribution	-	-	-	19,068	19,068
Miscellaneous	32,195	-	1,300	4,120	37,615
Total revenues	1,456,590	514,306	388,896	382,391	2,742,183
Expenditures					
Current:					
Legislative	32,499	-	-	-	32,499
General government	605,163	-	-	46,965	652,128
Public safety	594,447	-	-	-	594,447
Highways and streets	-	43,392	-	480,070	523,462
Health and welfare	-	-	366,387	108,001	474,388
Recreation and culture	215,587	-	-	145,221	360,808
Other functions	4,074	-	-	-	4,074
Debt service:					
Principal	-	-	-	234,592	234,592
Interest and paying agent fees	-	-	-	66,091	66,091
Capital outlay	-	135,747	1,466	179,260	316,473
Total expenditures	1,451,770	179,139	367,853	1,260,200	3,258,962
Revenue over (under) expenditures	4,820	335,167	21,043	(877,809)	(516,779)
Other financial sources (uses)					
Transfers in	-	-	-	651,168	651,168
Transfers out	(132,023)	(366,761)	(10,021)	(443,783)	(952,588)
Total other financing sources (uses)	(132,023)	(366,761)	(10,021)	207,385	(301,420)
Net change in fund balances	(127,203)	(31,594)	11,022	(670,424)	(818,199)
Fund balances, beginning of year	963,130	171,131	215,918	1,046,946	2,397,125
Fund balances, end of year	\$ 835,927	\$ 139,537	\$ 226,940	\$ 376,522	\$ 1,578,926

VILLAGE OF MACKINAW CITY, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Changes in Net Position of Governmental Activities
For the Year Ended February 28, 2013

Net change in fund balances - total governmental funds \$ (818,199)

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

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

Capital outlay	534,707
Depreciation expense	(496,169)

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

Current year collections on special assessments	(22,091)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term liabilities	234,592
Increase in net other postemployment benefit obligation	(10,639)

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

Current year increase in accrued interest on bonds	(11,564)
Increase in the accrual of compensated absences	(12,675)

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

Change in net position from governmental activities accounted for in internal service fund	<u>29,452</u>
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Change in net position of governmental activities	<u><u>\$ (572,586)</u></u>
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The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended February 28, 2013

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Revenues			
Property taxes	\$ 1,112,634	\$ 1,088,595	\$ (24,039)
State revenue	73,998	84,579	10,581
Licenses and permits	7,500	7,579	79
Contributions	50,659	47,262	(3,397)
Charges for services	2,225	554	(1,671)
Fines and forfeitures	1,000	4,461	3,461
Interest	12,500	9,325	(3,175)
Rents	174,500	182,040	7,540
Miscellaneous	6,550	32,195	25,645
Total revenues	1,441,566	1,456,590	15,024
Expenditures			
Legislative	23,709	32,499	(8,790)
General government	629,436	605,163	24,273
Public safety	585,271	594,447	(9,176)
Recreation and culture	321,739	215,587	106,152
Other functions	6,000	4,074	1,926
Total expenditures	1,566,155	1,451,770	114,385
Revenue (under) over expenditures	(124,589)	4,820	129,409
Other financing uses			
Transfers out	(122,225)	(132,023)	(9,798)
Net change in fund balance	(246,814)	(127,203)	119,611
Fund balance beginning of year, as restated	963,130	963,130	-
Fund balance, end of year	\$ 716,316	\$ 835,927	\$ 119,611

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Municipal Street Fund

For the Year Ended February 28, 2013

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Revenues			
Property taxes	\$ 452,817	\$ 384,932	\$ (67,885)
State revenue	105,400	100,000	(5,400)
Special assessments	31,599	20,263	(11,336)
Interest	11,695	9,111	(2,584)
Total revenues	601,511	514,306	(87,205)
Expenditures			
Current:			
Highways and streets	28,581	43,392	(14,811)
Capital outlay	511,605	135,747	375,858
Total expenditures	540,186	179,139	361,047
Revenue over expenditures	61,325	335,167	273,842
Other financing sources (uses)			
Bond proceeds	380,000	-	(380,000)
Transfers out	(372,717)	(366,761)	5,956
Total other financing sources (uses)	7,283	(366,761)	(374,044)
Net change in fund balance	68,608	(31,594)	(100,202)
Fund balance, beginning of year	171,131	171,131	-
Fund balance, end of year	\$ 239,739	\$ 139,537	\$ (100,202)

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Ambulance Fund

For the Year Ended February 28, 2013

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Revenues			
Contributions from other governmental units	\$ 165,300	\$ 165,465	\$ 165
Charges for services	222,727	222,131	(596)
Interest	200	-	(200)
Miscellaneous	1,050	1,300	250
Total revenues	389,277	388,896	(381)
Expenditures			
Current:			
Health and welfare	365,468	366,387	(919)
Capital outlay	2,500	1,466	1,034
Total expenditures	367,968	367,853	115
Revenue over expenditures	21,309	21,043	(266)
Other financing uses			
Transfers out	(10,821)	(10,021)	800
Net change in fund balance	10,488	11,022	534
Fund balance, beginning of year	215,918	215,918	-
Fund balance, end of year	\$ 226,406	\$ 226,940	\$ 534

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Net Position

Proprietary Funds

February 28, 2013

	Business-type Activities -Enterprise Funds				Governmental Activities
	Sewer	Water	Marina	Total	Internal Service Fund
Assets					
Current assets:					
Cash and cash equivalents	\$ 398,639	\$ 161,004	\$ 67,936	\$ 627,579	\$ 138,315
Investments	232,059	93,725	39,732	365,516	80,518
Accounts receivable	79,568	45,638	44,920	170,126	-
Due from other funds	74,111	4,012	3,732	81,855	1,403
Inventory	-	-	25,437	25,437	-
Total current assets	784,377	304,379	181,757	1,270,513	220,236
Noncurrent assets:					
Property and equipment					
Land	36,915	14,725	21,500	73,140	-
Construction-in-process	30,037	-	-	30,037	-
Buildings	121,971	28,211	-	150,182	-
Improvements other than buildings	7,064,498	2,349,402	113,358	9,527,258	-
Machinery and equipment	225,896	178,568	63,467	467,931	959,768
Marina	-	-	1,741,592	1,741,592	-
Accumulated depreciation	(2,596,725)	(1,031,294)	(1,275,298)	(4,903,317)	(730,620)
Net property and equipment	4,882,592	1,539,612	664,619	7,086,823	229,148
Other assets					
Restricted investments	67,291	70,000	-	137,291	-
Total noncurrent assets	4,949,883	1,609,612	664,619	7,224,114	229,148
Total assets	5,734,260	1,913,991	846,376	8,494,627	449,384
Liabilities					
Current liabilities:					
Accounts payable	8,934	9,357	1,192	19,483	15,630
Accrued liabilities	2,513	1,840	717	5,070	1,219
Due to other funds	33,350	36,086	17,935	87,371	12,811
Unearned revenue	-	-	81,746	81,746	-
Bonds payable, current portion	-	20,000	-	20,000	-
Note payable, current portion	-	-	-	-	26,288
Total current liabilities	44,797	67,283	101,590	213,670	55,948
Long-term debt					
Bonds payable, net of current portion	-	150,000	-	150,000	-
Total liabilities	44,797	217,283	101,590	363,670	55,948
Net position					
Net investment in capital assets	4,882,592	1,369,612	664,619	6,916,823	202,860
Unrestricted	806,871	327,096	80,167	1,214,134	190,576
Total net position	\$ 5,689,463	\$ 1,696,708	\$ 744,786	\$ 8,130,957	\$ 393,436

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended February 28, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Marina	Total	Internal Service Fund
Operating revenues					
Sales and charges for services	\$ 521,274	\$ -	\$ 290,948	\$ 812,222	\$ 266,371
Sales and charges for services pledged as security for revenue bonds	-	279,647	-	279,647	-
Total operating revenues	521,274	279,647	290,948	1,091,869	266,371
Operating expenses					
Salaries and wages	123,468	99,598	83,339	306,405	31,422
Fringe benefits	70,872	59,272	26,550	156,694	19,389
Supplies	66,977	17,793	10,109	94,879	10,527
Gasoline and oil	5,537	5,404	88,457	99,398	39,539
Repairs and maintenance	3,575	34,614	9,501	47,690	30,046
Contracted services	230,687	16,124	38,257	285,068	4,670
Communications	2,770	2,980	2,940	8,690	2,568
Conferences and workshops	262	276	380	918	75
Travel	-	-	121	121	-
Insurance	3,406	2,323	6,284	12,013	5,400
Utilities	83,199	10,533	21,614	115,346	4,941
Equipment rental	2,698	1,493	755	4,946	-
Depreciation	137,425	58,509	37,407	233,341	62,802
Miscellaneous	6,886	268	11,300	18,454	-
Total operating expenses	737,762	309,187	337,014	1,383,963	211,379
Operating (loss) income	(216,488)	(29,540)	(46,066)	(292,094)	54,992
Nonoperating revenues (expenses)					
Interest earnings	372	5	-	377	-
State revenue	-	-	18,051	18,051	-
Interest and fiscal charges	(1,800)	(18,881)	-	(20,681)	(1,233)
Total nonoperating revenues (expenses)	(1,428)	(18,876)	18,051	(2,253)	(1,233)
(Loss) income before transfers	(217,916)	(48,416)	(28,015)	(294,347)	53,759
Transfers					
Transfers in	370,000	-	-	370,000	-
Transfers out	(44,273)	-	-	(44,273)	(24,307)
Total transfers	325,727	-	-	325,727	(24,307)
Change in net position	107,811	(48,416)	(28,015)	31,380	29,452
Net position, beginning of year, as restated	5,581,652	1,745,124	772,801	8,099,577	363,984
Net position, end of year	\$ 5,689,463	\$ 1,696,708	\$ 744,786	\$ 8,130,957	\$ 393,436

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended February 28, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Marina	Total	Internal Service Fund
Cash flows from operating activities					
Cash collected from customers	\$ 537,222	\$ 269,412	\$ 293,009	\$ 1,099,643	\$ -
Cash collected from other funds	-	-	-	-	266,371
Cash paid for employee wages and benefits	(188,487)	(158,848)	(109,821)	(457,156)	(52,006)
Cash paid for other operating and administrative expenses	(395,327)	(89,789)	(192,907)	(678,023)	(91,566)
Net cash (used in) provided by operating activities	(46,592)	20,775	(9,719)	(35,536)	122,799
Cash flows from capital and related financing activities					
Interest payments	(1,800)	(18,881)	-	(20,681)	(1,233)
Principal payments	-	(20,000)	-	(20,000)	(34,218)
Purchase of property and equipment	(55,880)	-	(20,980)	(76,860)	-
State grant	-	-	18,051	18,051	-
Transfers in	370,000	-	-	370,000	-
Transfers out	(44,273)	-	-	(44,273)	(24,307)
Net cash provided by (used in) capital and related financing activities	268,047	(38,881)	(2,929)	226,237	(59,758)
Cash flows from investing activities					
Interest received	372	5	-	377	-
(Purchases) sales of investments	(82,433)	6,275	4,483	(71,675)	(23,416)
Net cash (used in) provided by investing activities	(82,061)	6,280	4,483	(71,298)	(23,416)
Net increase (decrease) in cash and cash equivalents	139,394	(11,826)	(8,165)	119,403	39,625
Cash and cash equivalents, beginning of year	259,245	172,830	76,101	508,176	98,690
Cash and cash equivalents, end of year	\$ 398,639	\$ 161,004	\$ 67,936	\$ 627,579	\$ 138,315

Continued...

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended February 28, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Marina	Total	Internal Service Fund
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities					
Operating (loss) income	\$ (216,488)	\$ (29,540)	\$ (46,066)	\$ (292,094)	\$ 54,992
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities					
Depreciation	137,425	58,509	37,407	233,341	62,802
Loss on disposal of capital assets	3,216	-	-	3,216	-
Changes in operating assets and liabilities which provided (used) cash					
Accounts receivable	15,948	(10,235)	2,061	7,774	-
Inventory	-	-	3,588	3,588	-
Accounts payable	7,454	2,019	(469)	9,004	6,200
Accrued liabilities	462	22	68	552	(1,195)
Due to other funds	5,391	-	-	5,391	-
Unearned revenue	-	-	(6,308)	(6,308)	-
Net cash (used in) provided by operating activities	<u>\$ (46,592)</u>	<u>\$ 20,775</u>	<u>\$ (9,719)</u>	<u>\$ (35,536)</u>	<u>\$ 122,799</u>

Concluded

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Net Position - Fiduciary Funds

Fiduciary Funds
February 28, 2013

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 7,656
Investments	1,002,595	-
Total assets	<u>1,002,595</u>	<u>\$ 7,656</u>
Liabilities		
Accounts payable	-	\$ 767
Due to employees	-	6,889
Total liabilities	<u>-</u>	<u>\$ 7,656</u>
Net position - restricted for pension benefits	<u>\$ 1,002,595</u>	

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Statement of Changes in Net Position - Fiduciary Fund Pension Trust Fund For the Year Ended February 28, 2013

Additions	
Contributions	\$ 124,924
Investment gain	<u>8,995</u>
Total additions	133,919
Deductions	
Benefit payments	<u>490,808</u>
Change in net position	(356,889)
Net position - restricted for pension benefits, beginning of year	<u>1,359,484</u>
Net position - restricted for pension benefits, end of year	<u>\$ 1,002,595</u>

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

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Discretely Presented Component Unit

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

Government-Wide and Fund Financial Statements

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

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

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

The Village reports the following major governmental funds:

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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 Village reports the following major enterprise funds:

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

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

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

Additionally, the Village reports the following fund types:

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

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

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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

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

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

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

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

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

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Assets, liabilities, deferred inflows of resources and equity

Deposits and investments

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

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

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

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

Receivables and payables

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

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

Inventories

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

Restricted investments

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Capital assets

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

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

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

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

Compensated absences

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

Long-term obligations

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

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Deferred inflows of resources

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

Fund equity

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

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

Property taxes

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan and Emmet Counties. Assessed values, as established annually by the Village and subject to acceptance by the counties, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Village for the 2012 levy was approximately \$99,000,000. The Village's general operating tax rate for fiscal 2012-13 was 10.5386 mills with an additional 3.9792 mills for streets and 0.2541 mills for the cemetery. Property taxes are recognized in the fiscal year in which they are levied.

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Interfund transactions

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

Use of Estimates

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

2. BUDGETARY INFORMATION

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

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

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

3. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the Village were adopted on the functional level basis for all governmental funds, which is the legal level of control. During the year ended February 28, 2013 the Village had expenditures in budgetary funds which were in excess of the amounts budgeted as follows:

	Final Budget	Actual Expenditures	Unfavorable Variance
General Fund			
Legislative	\$ 23,709	\$ 32,499	\$ 8,790
Public safety	585,271	594,447	9,176
Transfers out	122,225	132,023	9,798
Municipal Street Fund			
Highway and streets	28,581	43,392	14,811
Ambulance Fund			
Health and welfare	365,468	366,387	919

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of February 28, 2013:

	Primary Government	Component Unit	Totals
Statement of Net Position			
Cash and cash equivalents	\$ 1,613,978	\$ 52,686	\$ 1,666,664
Investments	899,238	30,670	929,908
Restricted investments	137,291	-	137,291
Total Statement of Net Position	\$ 2,650,507	\$ 83,356	2,733,863
Statement of Net Position - Fiduciary Funds			
Cash and cash equivalents			7,656
Investments			1,002,595
Total			\$ 3,744,114
Deposits and investments			
Bank deposits:			
Checking and savings accounts and CDs			\$ 2,741,519
Investments:			
Securities, mutual funds and similar vehicles			1,002,595
Total			\$ 3,744,114

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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

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

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year-end, \$1,824,318 of the Village's bank balance of \$2,746,772 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk-Investments. The Village's Pension Trust Fund holds securities of \$1,002,595 in a trust fund of a life insurance company, which are not in the Village's name. The carrying amount of the Pension Trust Fund investments is stated at fair value.

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

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

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

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

Bankers acceptances of United States banks.

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

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

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

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

5. RECEIVABLES

Receivables are comprised of the following at February 28, 2013:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ 200,087	\$ 170,126	\$ -
Taxes receivable	174,737	-	8,755
Special assessment receivable, due in one year	36,185	-	-
Special assessment receivable, due in more than one year	84,055	-	-
Due from other governmental units	23,197	-	-
	<u>\$ 518,261</u>	<u>\$ 170,126</u>	<u>\$ 8,755</u>

Governmental funds report unearned revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period of \$120,240 and resources that have been received, but not earned of \$38,848 at the end of the current fiscal year.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The composition of accounts payable and accrued liabilities is as follows at February 28, 2013:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 113,841	\$ 19,483	\$ 3,127
Accrued liabilities	49,749	5,070	-
	<u>\$ 163,590</u>	<u>\$ 24,553</u>	<u>\$ 3,127</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of February 28, 2013, was as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 168,209	\$ 129,313
Municipal Street Fund	17,404	3,684
Ambulance Fund	7,021	20,887
Nonmajor governmental funds	46,831	68,657
Sewer Fund	74,111	33,350
Water Fund	4,012	36,086
Marina Fund	3,732	17,935
Internal Service Fund	1,403	12,811
	<u>\$ 322,723</u>	<u>\$ 322,723</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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

For the year ended February 28, 2013, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 132,023
Municipal Street Fund	-	366,761
Ambulance Fund	-	10,021
Nonmajor governmental funds	651,168	443,783
Sewer Fund	370,000	44,273
Internal Service Fund	-	24,307
	<u>\$ 1,021,168</u>	<u>\$ 1,021,168</u>

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended February 28, 2013 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 919,923	\$ -	\$ -	\$ -	\$ 919,923
Construction in progress	132,613	122,658	-	(132,613)	122,658
Total capital assets not being depreciated	1,052,536	122,658	-	(132,613)	1,042,581
Capital assets, being depreciated:					
Buildings and improvements	2,301,906	56,781	-	-	2,358,687
Land improvements	939,830	-	-	-	939,830
Equipment	2,789,865	329,267	(30,900)	158,614	3,246,846
Infrastructure	4,680,118	-	-	-	4,680,118
Total capital assets being depreciated	10,711,719	386,048	(30,900)	158,614	11,225,481
Less accumulated depreciation for:					
Buildings and improvements	(754,936)	(64,420)	-	-	(819,356)
Land improvements	(698,005)	(31,264)	-	-	(729,269)
Equipment	(1,792,895)	(203,280)	30,900	(26,001)	(1,991,276)
Infrastructure	(1,709,614)	(234,006)	-	-	(1,943,620)
Total accumulated depreciation	(4,955,450)	(532,970)	30,900	(26,001)	(5,483,521)
Total capital assets being depreciated, net	5,756,269	(146,922)	-	132,613	5,741,960
Governmental activities capital assets, net	\$ 6,808,805	\$ (24,264)	\$ -	\$ -	\$ 6,784,541

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 73,140	\$ -	\$ -	\$ -	\$ 73,140
Construction in progress	-	30,037	-	-	30,037
Total capital assets not being depreciated	73,140	30,037	-	-	103,177
Capital assets, being depreciated:					
Buildings and improvements	150,182	-	-	-	150,182
Improvements other than buildings	9,524,135	14,325	(11,202)	-	9,527,258
Machinery and equipment	486,829	11,518	(30,416)	-	467,931
Marina	1,720,612	20,980	-	-	1,741,592
Total capital assets being depreciated	11,881,758	46,823	(41,618)	-	11,886,963
Less accumulated depreciation for:					
Buildings and improvements	(49,156)	(4,538)	-	-	(53,694)
Improvements other than buildings	(3,213,555)	(164,221)	7,986	-	(3,369,790)
Machinery and equipment	(360,197)	(29,483)	30,416	-	(359,264)
Marina	(1,085,470)	(35,099)	-	-	(1,120,569)
Total accumulated depreciation	(4,708,378)	(233,341)	38,402	-	(4,903,317)
Total capital assets being depreciated, net	7,173,380	(186,518)	(3,216)	-	6,983,646
Business-type activities capital assets, net	\$ 7,246,520	\$ (156,481)	\$ (3,216)	\$ -	\$ 7,086,823

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Depreciation expense charged to functions/programs of the primary government is as follows for the year ended February 28, 2013:

Depreciation of governmental activities by function	
General government	\$ 59,741
Public safety	64,297
Highways and streets	257,493
Health and welfare	11,574
Recreation and culture	77,063
Depreciation charged to the internal service fund	<u>62,802</u>
Total depreciation expense - governmental activities	<u>\$ 532,970</u>
Depreciation of business-type activities by function	
Sewer	137,425
Water	58,509
Marina	<u>37,407</u>
Total depreciation expense - business-type activities	<u>\$ 233,341</u>

9. LONG-TERM DEBT

A summary of long-term debt and transactions related thereto is as follows for the year ended February 28, 2013:

	Beginning of Year	Additions	Deductions	End of Year	Due Within One Year
Governmental Activities					
2012 Capital Improvement Bonds maturing serially through fiscal 2032 in annual payments ranging from \$25,000 to \$55,000 and bearing interest from 2.00% to 6.00%.	\$ 750,000	\$ -	\$ (35,000)	\$ 715,000	\$ 25,000
2009 Capital Improvement Bonds maturing serially through 2020 in annual payments ranging from \$55,000 to \$85,000 and bearing interest ranging from 3.25% to 4.50%.	545,000	-	(55,000)	490,000	60,000

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

	Beginning of Year	Additions	Deductions	End of Year	Due Within One Year
Governmental Activities (continued)					
2007 Capital Improvement Bonds, maturing serially through 2018 in annual payments ranging from \$55,000 to \$75,000 and bearing interest ranging from 4.40% to 4.60%.	\$ 385,000	\$ -	\$ (55,000)	\$ 330,000	\$ 60,000
2004 Capital Improvement Bonds maturing serially through fiscal 2015 in annual payments of \$40,000 and bearing interest at 3.38%.	120,000	-	(40,000)	80,000	40,000
2002 Capital Improvement Bonds repaid in fiscal 2013.	35,000	-	(35,000)	-	-
Total bonded debt	1,835,000	-	(220,000)	1,615,000	185,000
2005 Act 99 installment contract maturing in fiscal 2016 in semi-annual payments of \$8,382 including interest at 4.25%.	53,931	-	(14,592)	39,339	15,234
Note payable to John Deere Credit due in monthly installments of \$2,954 including interest at 2.75% through 2014.	60,506	-	(34,218)	26,288	26,288
Total installment debt	114,437	-	(48,810)	65,627	41,522
Accrued compensated absences	221,597	53,580	(40,905)	234,272	43,245
Total governmental activities	\$ 2,171,034	\$ 53,580	\$ (309,715)	\$ 1,914,899	\$ 269,767
Business-type Activities					
Water Revenue Bonds, maturing serially through fiscal 2020 in annual payments ranging from \$20,000 to \$30,000 and bearing interest at 5.00%.	\$ 190,000	\$ -	\$ (20,000)	\$ 170,000	\$ 20,000

Compensated absences are generally liquidated by the general fund.

The Village's Water Enterprise Fund Water Revenue Bond requires the Village to maintain cash reserves of approximately \$50,000. The Water Enterprise Fund had excess reserves of approximately \$10,000 at February 28, 2013.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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

Year Ended February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 226,522	\$ 70,669	\$ 20,000	\$ 17,000
2015	205,896	63,203	20,000	15,000
2016	168,209	56,035	25,000	13,000
2017	170,000	49,670	25,000	10,500
2018	180,000	42,750	25,000	8,000
2019-2023	320,000	140,325	55,000	8,500
2024-2028	210,000	90,000	-	-
2029-2032	200,000	30,450	-	-
	<u>\$ 1,680,627</u>	<u>\$ 543,102</u>	<u>\$ 170,000</u>	<u>\$ 72,000</u>

Total interest expense for the primary government for the year ending February 28, 2013 was \$111,134.

10. LEASES

The Village entered into lease agreements with three communication companies to lease a water tower as a site for the companies' telecommunications equipment. The initial term of the first lease agreement, which began in June 2001 was for five years with the right to extend the lease for four additional five year terms. The initial term of the second lease agreement, which began in May 1999 was for five years with the right to extend the lease for three additional five year terms. The third lease agreement, which began in February 2013 was for five years with the right to extend the lease for five additional five year terms.

Rental income from the lease of the water tower reported in the Recreation Center Special Revenue Fund amounted to \$29,703 for the year ended February 28, 2013. Future minimum rentals related to these leases are as follows:

2014	\$ 35,703
2015	24,138
2016	20,283
2017	10,761
2018	<u>5,500</u>
Total	<u>\$ 96,385</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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

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

Rental income from the lease reported in the General Fund amounted to \$156,658 for the year ended February 28, 2013.

11. RISK MANAGEMENT

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

12. COMMITMENTS

As of February 28, 2013, the Village had entered into a construction contract for the Conkling Park restroom project. The total estimated cost of this project is approximately \$138,000. As of February 28, 2013, approximately \$123,000 was recorded as construction-in-progress related to this project.

13. BENEFIT PLANS

Defined Benefit Pension Plan

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

Funding Policy. The Village is required to contribute at an actuarially determined rate; the current rate is 10.13% of annual covered payroll. Per the Village's contract with the Police Officers Labor Council, the Village's costs and contributions to this plan shall be limited to 10% of gross wages per year, with the employee responsible for any remainder. The Village is also responsible for the additional 0.13% as actuarially determined. Employees are currently required to contribute 5.09%. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

Annual Pension Cost. For the year ended February 28, 2013, the Village’s annual pension cost of \$26,679 for MERS was equal to the Village’s required and actual contributions. The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% (1% for calendar years 2012-2014) plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, the date of the latest actuarial valuation, was 27 years.

Three-Year Trend Information			
Years Ended February 28,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2011	\$ 25,860	100%	\$ -
2012	28,668	100%	-
2013	26,679	100%	-

Funded Status and Funding Progress. As of December 31, 2011, the most recent valuation date, the Plan was 89% funded. The actuarial accrued liability for benefits was \$745,249 and the actuarial value of assets was \$663,851, resulting in an unfunded actuarial accrued liability of \$81,398, which means the Plan is underfunded. The covered payroll (annual payroll for active employees covered by the Plan) was \$257,059 and the ratio for the underfunded actuarial accrued liability to the covered payroll was 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

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 \$82,416 and employees made contributions of \$42,508 for the plan year ended February 28, 2013.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

14. OTHER POSTEMPLOYMENT BENEFITS

Primary Government

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

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, 2013, the Village contributed \$13,123 to the Plan, all of which was to fund current year benefits. Current retirees receiving benefits contributed \$2,476 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	\$	23,656
Interest on net OPEB obligation		987
Adjustment to annual required contribution		<u>(881)</u>
Net OPEB cost (expense)		23,762
Contributions made		<u>(13,123)</u>
Increase in net OPEB obligation		10,639
Net OPEB obligation, beginning of year		<u>17,952</u>
Net OPEB obligation, end of year	\$	<u><u>28,591</u></u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

The Village's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2013 and the preceding two years was as follows:

Three-Year Trend Information			
Year Ended February 28,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 23,168	94%	\$ 6,226
2012	23,700	51%	17,952
2013	23,762	55%	28,591

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

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

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

The following simplifying assumptions were made:

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

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

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

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

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

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

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

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

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

15. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of February 28, 2013, was as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 1,042,581	\$ 103,177
Capital assets being depreciated, net	5,741,960	6,983,646
	<u>6,784,541</u>	<u>7,086,823</u>
Related debt:		
Due within one year	269,767	20,000
Due in more than one year	1,645,132	150,000
Less: accrued compensated absences	(234,272)	-
	<u>1,680,627</u>	<u>170,000</u>
Net investment in capital assets	<u>\$ 5,103,914</u>	<u>\$ 6,916,823</u>

16. RESTATEMENTS

The Village's water and sewer operations historically were presented as one fund. For the year ended February 28, 2013 the Village began accounting for the water and sewer operations in separate funds, which resulted in the elimination of the water and sewer enterprise fund and the respective net position. The net position of the water and sewer fund at February 29, 2012 was allocated to the new Sewer enterprise fund in the amount of \$5,581,652 and the new Water enterprise fund of \$1,745,124. This change in accounting for the Water and Sewer operations had no effect on the beginning net position of business-type activities.

VILLAGE OF MACKINAW CITY, MICHIGAN

Notes To Financial Statements

17. NEW ACCOUNTING PRONOUNCEMENT

The Village adopted the provisions of GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. While the classification of certain financial elements in the financial statements were revised, the implementation of this standard had no effect on net position.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF MACKINAW CITY

Required Supplementary Information

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

1. DEFINED BENEFIT PENSION PLAN

Schedule of Employer Contributions Six -Year Trend Information		
Years Ended February 28,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2008	\$ 27,486	100%
2009	24,742	100%
2010	25,540	100%
2011	25,860	100%
2012	28,668	100%
2013	26,679	100%

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Under- funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2006	\$ 372,623	\$ 393,638	\$ 21,015	95%	\$ 228,445	9%
12/31/2007	434,949	458,888	23,939	95%	239,318	10%
12/31/2008	491,574	533,118	41,544	92%	246,990	17%
12/31/2009	562,601	629,153	66,552	89%	210,361	32%
12/31/2010	611,067	686,902	75,835	89%	260,064	29%
12/31/2011	663,851	745,249	81,398	89%	257,059	32%

VILLAGE OF MACKINAW CITY

Required Supplementary Information

2. OTHER POST EMPLOYMENT BENEFITS

Schedule of Employer Contributions

Years Ended February 28,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2010	\$ 16,699	71%
2011	23,128	94%
2012	23,656	55%

Schedule of Funding Progress

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

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

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY, MICHIGAN

Detail Schedule of Revenues, Expenditures and Other Financing Uses

Budget and Actual - General Fund

For the Year Ended February 28, 2013

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Property taxes			
Current property taxes	\$ 1,101,923	\$ 1,073,136	\$ (28,787)
Property tax administration fees	10,711	15,459	4,748
Total property taxes	<u>1,112,634</u>	<u>1,088,595</u>	<u>(24,039)</u>
State revenue			
Liquor licenses	8,500	8,695	195
Other state revenue	65,498	75,884	10,386
Total state revenue	<u>73,998</u>	<u>84,579</u>	<u>10,581</u>
Licenses and permits			
Business licenses and permits	5,000	5,628	628
Non-business licenses and permits	2,500	1,951	(549)
Total licenses and permits	<u>7,500</u>	<u>7,579</u>	<u>79</u>
Contributions			
Other governmental units	43,159	44,128	969
Other	7,500	3,134	(4,366)
Total contributions	<u>50,659</u>	<u>47,262</u>	<u>(3,397)</u>
Charges for services	2,225	554	(1,671)
Fines and forfeitures	1,000	4,461	3,461
Interest earnings	12,500	9,325	(3,175)
Rents	174,500	182,040	7,540
Miscellaneous	6,550	32,195	25,645
Total revenues	<u>1,441,566</u>	<u>1,456,590</u>	<u>15,024</u>

Continued...

VILLAGE OF MACKINAW CITY, MICHIGAN

Detail Schedule of Revenues, Expenditures and Other Financing Uses

Budget and Actual - General Fund

For the Year Ended February 28, 2013

	Original and Final Budget	Actual	Variance With Original and Final Budget Positive (Negative)
Legislative			
Village council	\$ 23,709	\$ 32,499	\$ (8,790)
General government			
Village manager	48,903	90,214	(41,311)
Professional services	85,690	99,003	(13,313)
Clerk	25,571	27,636	(2,065)
Treasurer	27,108	30,829	(3,721)
Community development director	8,500	7,549	951
Village hall and grounds	141,712	110,336	31,376
Village property - other	196,124	170,881	25,243
Promotional	95,828	61,133	34,695
Planning commission	-	5,582	(5,582)
Economic development corporation	-	2,000	(2,000)
Total general government	629,436	605,163	24,273
Public safety			
Police department	475,465	493,999	(18,534)
Fire department	109,806	100,448	9,358
Total public safety	585,271	594,447	(9,176)
Recreation and culture	321,739	215,587	106,152
Other functions	6,000	4,074	1,926
Total expenditures	1,566,155	1,451,770	114,385
Revenue (under) over expenditures	(124,589)	4,820	129,409
Other financing uses			
Transfers out	(122,225)	(132,023)	(9,798)
Net change in fund balance	\$ (246,814)	\$ (127,203)	\$ 119,611

Concluded

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 February 28, 2013

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
Assets				
Cash and cash equivalents	\$ 210,672	\$ 31,646	\$ 978	\$ 243,296
Investments	117,610	16	569	118,195
Special assessments receivable	-	32,510	-	32,510
Accounts receivable	43,500	-	-	43,500
Other assets	-	15,725	-	15,725
Due from other funds	26,325	20,506	-	46,831
Due from other governmental units	12,524	-	-	12,524
Taxes receivable	2,742	-	-	2,742
Total assets	\$ 413,373	\$ 100,403	\$ 1,547	\$ 515,323
Liabilities				
Accounts payable	\$ 9,523	\$ -	\$ -	\$ 9,523
Accrued liabilities	5,611	-	-	5,611
Due to other funds	48,138	20,519	-	68,657
Total liabilities	63,272	20,519	-	83,791
Deferred inflow of resources				
Unavailable revenue	22,500	32,510	-	55,010
Fund balances				
Restricted:				
Highways and streets	239,598	-	-	239,598
Cemetery	62,286	-	-	62,286
WaWatam area seniors	3,850	-	-	3,850
Debt service	-	47,374	-	47,374
Assigned:				
Recreation center	17,075	-	-	17,075
Iron workers walk foundation	4,792	-	-	4,792
Capital projects	-	-	1,547	1,547
Total fund balances	327,601	47,374	1,547	376,522
Total liabilities, deferred inflow of resources and fund balances	\$ 413,373	\$ 100,403	\$ 1,547	\$ 515,323

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended February 28, 2013

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
Revenues				
Property taxes	\$ 73,754	\$ -	\$ -	\$ 73,754
State revenue	157,904	-	-	157,904
Contributions	56,071	-	-	56,071
Charges for services	16,853	-	-	16,853
Interest	-	628	48	676
Rents	52,117	-	-	52,117
Local contribution	-	19,068	-	19,068
Special assessments	-	1,828	-	1,828
Miscellaneous	3,720	-	400	4,120
Total revenues	360,419	21,524	448	382,391
Expenditures				
Current:				
General government	46,965	-	-	46,965
Highways and streets	480,070	-	-	480,070
Health and welfare	108,001	-	-	108,001
Recreation	145,221	-	-	145,221
Debt service:				
Principal payments	-	234,592	-	234,592
Interest and paying agent fees	-	66,091	-	66,091
Capital outlay	5,576	-	173,684	179,260
Total expenditures	785,833	300,683	173,684	1,260,200
Revenue under expenditures	(425,414)	(279,159)	(173,236)	(877,809)
Other financing sources (uses)				
Transfers in	350,000	301,168	-	651,168
Transfers out	-	-	(443,783)	(443,783)
Total other financing sources (uses)	350,000	301,168	(443,783)	207,385
Net change in fund balances	(75,414)	22,009	(617,019)	(670,424)
Fund balances, beginning of year	403,015	25,365	618,566	1,046,946
Fund balances, end of year	\$ 327,601	\$ 47,374	\$ 1,547	\$ 376,522

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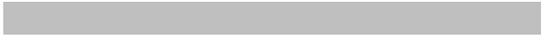
VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Balance Sheet

Nonmajor Special Revenue Funds

February 28, 2013

	Major Street	Local Street	Cemetery	Recreation Center
Assets				
Cash and cash equivalents	\$ 94,155	\$ 68,606	\$ 39,270	\$ -
Investments	54,810	39,938	22,861	-
Accounts receivable	-	-	-	43,500
Due from other funds	-	2,281	869	23,175
Due from other governmental units	8,565	3,959	-	-
Taxes receivable	-	-	2,742	-
Total assets	\$ 157,530	\$ 114,784	\$ 65,742	\$ 66,675
Liabilities				
Accounts payable	\$ 3,209	\$ 3,287	\$ 440	\$ 2,587
Accrued expenditures	2,459	1,927	273	952
Due to other funds	14,267	7,567	2,743	23,561
Total liabilities	19,935	12,781	3,456	27,100
Deferred inflow of resources				
Unavailable revenue	-	-	-	22,500
Fund balances				
Restricted:				
Highways and streets	137,595	102,003	-	-
Cemetery	-	-	62,286	-
WaWatam area seniors	-	-	-	-
Assigned:				
Recreation center	-	-	-	17,075
Iron workers walk foundation	-	-	-	-
Total fund balances	137,595	102,003	62,286	17,075
Total liabilities, deferred inflow of resources and fund balances	\$ 157,530	\$ 114,784	\$ 65,742	\$ 66,675



WaWatam Area Seniors	Iron Workers Walk Foundation	Total
\$ 3,849	\$ 4,792	\$ 210,672
1	-	117,610
-	-	43,500
-	-	26,325
-	-	12,524
-	-	2,742
<u>\$ 3,850</u>	<u>\$ 4,792</u>	<u>\$ 413,373</u>
\$ -	\$ -	\$ 9,523
-	-	5,611
-	-	48,138
<u>-</u>	<u>-</u>	<u>63,272</u>
-	-	22,500
<u>-</u>	<u>-</u>	<u>239,598</u>
-	-	62,286
3,850	-	3,850
-	-	17,075
-	4,792	4,792
<u>3,850</u>	<u>4,792</u>	<u>327,601</u>
<u>\$ 3,850</u>	<u>\$ 4,792</u>	<u>\$ 413,373</u>

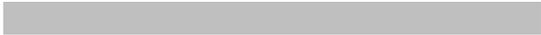
VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended February 28, 2013

	Major Street	Local Street	Cemetery	Recreation Center
Revenues				
Property taxes	\$ -	\$ -	\$ 24,567	\$ -
State revenue	106,386	51,518	-	-
Contributions	-	-	-	2,500
Charges for services	-	-	8,325	8,528
Rents	-	-	-	52,117
Miscellaneous	-	20	-	-
Total revenues	106,386	51,538	32,892	63,145
Expenditures				
Current:				
General government	-	-	46,965	-
Highways and streets	261,008	219,062	-	-
Health and welfare	-	-	-	-
Recreation	-	-	-	143,405
Capital outlay	-	-	-	4,047
Total expenditures	261,008	219,062	46,965	147,452
Revenue (under) over expenditures	(154,622)	(167,524)	(14,073)	(84,307)
Other financing sources				
Transfers in	125,000	165,000	-	60,000
Net change in fund balances	(29,622)	(2,524)	(14,073)	(24,307)
Fund balances, beginning of year	167,217	104,527	76,359	41,382
Fund balances, end of year	\$ 137,595	\$ 102,003	\$ 62,286	\$ 17,075



WaWatom Area Seniors	Iron Workers Walk Foundation	Total
\$ 49,187	\$ -	\$ 73,754
-	-	157,904
53,571	-	56,071
-	-	16,853
-	-	52,117
-	3,700	3,720
<u>102,758</u>	<u>3,700</u>	<u>360,419</u>
-	-	46,965
-	-	480,070
108,001	-	108,001
-	1,816	145,221
-	1,529	5,576
<u>108,001</u>	<u>3,345</u>	<u>785,833</u>
(5,243)	355	(425,414)
-	-	350,000
(5,243)	355	(75,414)
<u>9,093</u>	<u>4,437</u>	<u>403,015</u>
<u>\$ 3,850</u>	<u>\$ 4,792</u>	<u>\$ 327,601</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Balance Sheet Nonmajor Debt Service Funds February 28, 2013

	1998 Act 99 Installment Contract Ice System	1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds
Assets				
Cash and cash equivalents	\$ 28	\$ 12,484	\$ 3	\$ -
Investments	16	-	-	-
Special assessments receivable	-	-	-	-
Other assets	-	-	-	-
Due from other funds	-	-	11,706	-
Total assets	\$ 44	\$ 12,484	\$ 11,709	\$ -
Liabilities				
Due to other funds	\$ -	\$ -	\$ 11,709	\$ -
Deferred inflow of resources				
Unavailable revenue	-	-	-	-
Fund balances				
Restricted	44	12,484	-	-
Total liabilities, deferred inflow of resources and fund balances	\$ 44	\$ 12,484	\$ 11,709	\$ -



2005 Act 99 Installment Contract Fire Truck	2007 Special Assessment Bonds	2009 General Obligation Bonds	2011 Capital Improvement Bonds	Total
\$ -	\$ 8,853	\$ 6,510	\$ 3,768	\$ 31,646
-	-	-	-	16
-	32,510	-	-	32,510
-	-	-	15,725	15,725
-	8,800	-	-	20,506
<u>\$ -</u>	<u>\$ 50,163</u>	<u>\$ 6,510</u>	<u>\$ 19,493</u>	<u>\$ 100,403</u>
\$ -	\$ 4,001	\$ 4,809	\$ -	\$ 20,519
-	32,510	-	-	32,510
-	13,652	1,701	19,493	47,374
<u>\$ -</u>	<u>\$ 50,163</u>	<u>\$ 6,510</u>	<u>\$ 19,493</u>	<u>\$ 100,403</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Debt Service Funds

For the Year Ended February 28, 2013

	1998 Act 99 Installment Contract Ice System	1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds
Revenues				
Interest	\$ -	\$ 6	\$ -	\$ -
Special assessments	-	-	-	-
Local contributions	-	-	-	19,068
Total revenues	-	6	-	19,068
Expenditures				
Principal payments	-	-	35,000	40,000
Interest and paying agent fees	-	-	1,685	3,375
Total expenditures	-	-	36,685	43,375
Revenue over (under) expenditures	-	6	(36,685)	(24,307)
Other financing sources				
Transfers in	-	-	36,685	24,307
Net change in fund balances	-	6	-	-
Fund balances, beginning of year	44	12,478	-	-
Fund balances, end of year	\$ 44	\$ 12,484	\$ -	\$ -

2005 Act 99 Installment Contract Fire Truck	2007 Special Assessment Bonds	2009 General Obligation Bonds	2011 Capital Improvement Bonds	Total
\$ -	\$ 622	\$ -	\$ -	\$ 628
-	1,828	-	-	1,828
-	-	-	-	19,068
-	2,450	-	-	21,524
14,592	55,000	55,000	35,000	234,592
2,173	17,480	22,088	19,290	66,091
16,765	72,480	77,088	54,290	300,683
(16,765)	(70,030)	(77,088)	(54,290)	(279,159)
16,765	72,540	77,088	73,783	301,168
-	2,510	-	19,493	22,009
-	11,142	1,701	-	25,365
\$ -	\$ 13,652	\$ 1,701	\$ 19,493	\$ 47,374

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Balance Sheet Nonmajor Capital Project Funds February 28, 2013

	Waterfront Development Bond	2011 Capital Project Fund	Total
Assets			
Cash and cash equivalents	\$ 978	\$ -	\$ 978
Investments	569	-	569
	<u>1,547</u>	<u>-</u>	<u>1,547</u>
Total assets	\$ 1,547	\$ -	\$ 1,547
Fund balances			
Assigned	\$ 1,547	\$ -	\$ 1,547
	<u>1,547</u>	<u>-</u>	<u>1,547</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Project Funds

For the Year Ended February 28, 2013

	Waterfront Development Bond	2011 Capital Project Fund	Total
Revenues			
Interest	\$ -	\$ 48	\$ 48
Miscellaneous Income	400	-	400
	<hr/>	<hr/>	<hr/>
Total revenues	400	48	448
Expenditures			
Capital outlay	-	173,684	173,684
	<hr/>	<hr/>	<hr/>
Revenue over (under) expenditures	400	(173,636)	(173,236)
Other financing uses			
Transfers out	-	(443,783)	(443,783)
	<hr/>	<hr/>	<hr/>
Net change in fund balances	400	(617,419)	(617,019)
Fund balances, beginning of year	1,147	617,419	618,566
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 1,547</u>	<u>\$ -</u>	<u>\$ 1,547</u>

VILLAGE OF MACKINAW CITY, MICHIGAN

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended February 28, 2013

	Balance March 1, 2012	Additions	Deductions	Balance February 28, 2013
TAX COLLECTION FUND				
Assets				
Cash and cash equivalents	\$ 299	\$ 1,615,831	\$ 1,615,363	\$ 767
Liabilities				
Accounts payable	\$ 299	\$ 1,487,049	\$ 1,486,581	\$ 767
Due to component unit	-	36,548	36,548	-
Due to other governmental units	-	92,234	92,234	-
Total liabilities	\$ 299	\$ 1,615,831	\$ 1,615,363	\$ 767
EMPLOYEE FLEX PLAN FUND				
Assets				
Cash and cash equivalents	\$ 4,124	\$ 21,029	\$ 18,264	\$ 6,889
Liabilities				
Due to employees	\$ 4,124	\$ 21,029	\$ 18,264	\$ 6,889
TOTAL AGENCY FUNDS				
Assets				
Cash and cash equivalents	\$ 4,423	\$ 1,636,860	\$ 1,633,627	\$ 7,656
Liabilities				
Accounts payable	\$ 299	\$ 1,487,049	\$ 1,486,581	\$ 767
Due to component unit	-	36,548	36,548	-
Due to other governmental units	-	92,234	92,234	-
Due to employees	4,124	21,029	18,264	6,889
Total liabilities	\$ 4,423	\$ 1,636,860	\$ 1,633,627	\$ 7,656

INTERNAL CONTROL AND COMPLIANCE

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

August 13, 2013

Village Council
Village of Mackinaw City, Michigan
Mackinaw City, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Mackinaw City, Michigan (the "Village"), as of and for the year ended February 28, 2013, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated August 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

Finding 2013-FS-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

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

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

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

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

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

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

Finding 2013-FS-2: Recording, processing and summarizing accounting data.

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

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

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

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

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

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

Finding 2013-FS-3: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

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

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

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

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

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain other matters that we reported to the Village Council in a separate letter dated August 13, 2013.

Village's Response to Findings

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

Purpose of this Report

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

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