

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF MACKINAC ISLAND	County MACKINAC
Fiscal Year End MARCH 31, 2007	Opinion Date SEPTEMBER 27, 2007	Date Audit Report Submitted to State SEPTEMBER 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations)

- YES** **NO** **Check each applicable box below.** (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 231-627-3143	
Street Address 902 S HURON STREET, PO BOX 250		City CHEBOYGAN	State MI
			Zip 49721
Authorizing CPA Signature <i>Annette Eustice, CPA, CGFM</i>	Printed Name ANNETTE EUSTICE, CPA, CGFM		License Number 1101019667

**CITY OF MACKINAC ISLAND
MACKINAC ISLAND, MICHIGAN**

FINANCIAL STATEMENTS

MARCH 31, 2007

CITY OF MACKINAC ISLAND

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INDEPENDENT AUDITORS' REPORT

September 27, 2007

Members of the City Council
City of Mackinac Island
Mackinac Island, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Mackinac Island*, (the "City") as of and for the year ended March 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the **City of Mackinac Island** (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2007.

Financial Highlights

- The total assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$15,790,784 (*net assets*). Of this amount, \$729,770 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$8,596.
- The City refunded the \$2,960,000 balance on the Sanitary Sewage Disposal and Water Supply System Revenue Refunding Bonds, Series 2006 by issuing a \$3,000,000 Sanitary Sewage Disposal and Water Supply System Revenue Refunding Bonds, Series 2006. The cash flow requirements necessary to service the debt payments is expected to decrease by approximately \$262,000 resulting in an economic gain of approximately \$180,000.
- In addition to the refunding, the City repaid approximately \$188,000 of long-term debt during the current year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$216,254, or 10.8% of total General Fund expenditures and transfers out.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City'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 City's finances, in a manner similar to a private-sector business.

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

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

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

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City maintains 14 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 which is considered to be the major fund. Data from the other 13 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 City adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund budget.

The basic governmental funds financial statements can be found on pages 13-17 of this report.

Proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water, sewer and landfill operations.

The basic proprietary fund financial statements can be found on pages 18-21 of this report.

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

The basic fiduciary fund financial statements can be found on page 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-38 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 39-49 of this report.

Government-wide Financial Analysis - Primary Government

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$15,790,784 at the close of fiscal 2007.

A large portion of the City's net assets (91.6%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, water and sewer systems, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City'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 City's net assets (3.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (4.6%) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Mackinac Island Condensed Statement of Net Assets March 31, 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Cash and other assets	\$ 1,111,944	\$ 1,013,115	\$ 724,067	\$ 445,681	\$ 1,836,011	\$ 1,458,796
Capital assets, net of accumulated depreciation	<u>5,400,505</u>	<u>5,493,127</u>	<u>12,501,119</u>	<u>12,603,861</u>	<u>17,901,624</u>	<u>18,096,988</u>
Total assets	<u>6,512,449</u>	<u>6,506,242</u>	<u>13,225,186</u>	<u>13,049,542</u>	<u>19,737,635</u>	<u>19,555,784</u>

City of Mackinac Island
Condensed Statement of Net Assets
March 31, 2007 (Concluded)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Liabilities						
Current and other liabilities	\$ 174,762	\$ 269,170	\$ 505,636	\$ 152,453	\$ 680,398	\$ 421,623
Long-term debt, net of current portion	431,453	449,781	2,835,000	2,885,000	3,266,453	3,334,781
Total liabilities	<u>606,215</u>	<u>718,951</u>	<u>3,340,636</u>	<u>3,037,453</u>	<u>3,946,851</u>	<u>3,756,404</u>
Net assets						
Invested in capital assets, net of related debt	4,876,259	4,861,004	9,581,119	9,643,861	14,457,378	14,504,865
Restricted	300,205	299,804	303,431	350,000	603,636	649,804
Unrestricted	729,770	598,221	-	18,228	729,770	644,711
Total net assets	<u>\$ 5,906,234</u>	<u>\$ 5,787,291</u>	<u>\$ 9,884,550</u>	<u>\$10,012,089</u>	<u>\$15,790,784</u>	<u>\$15,799,380</u>

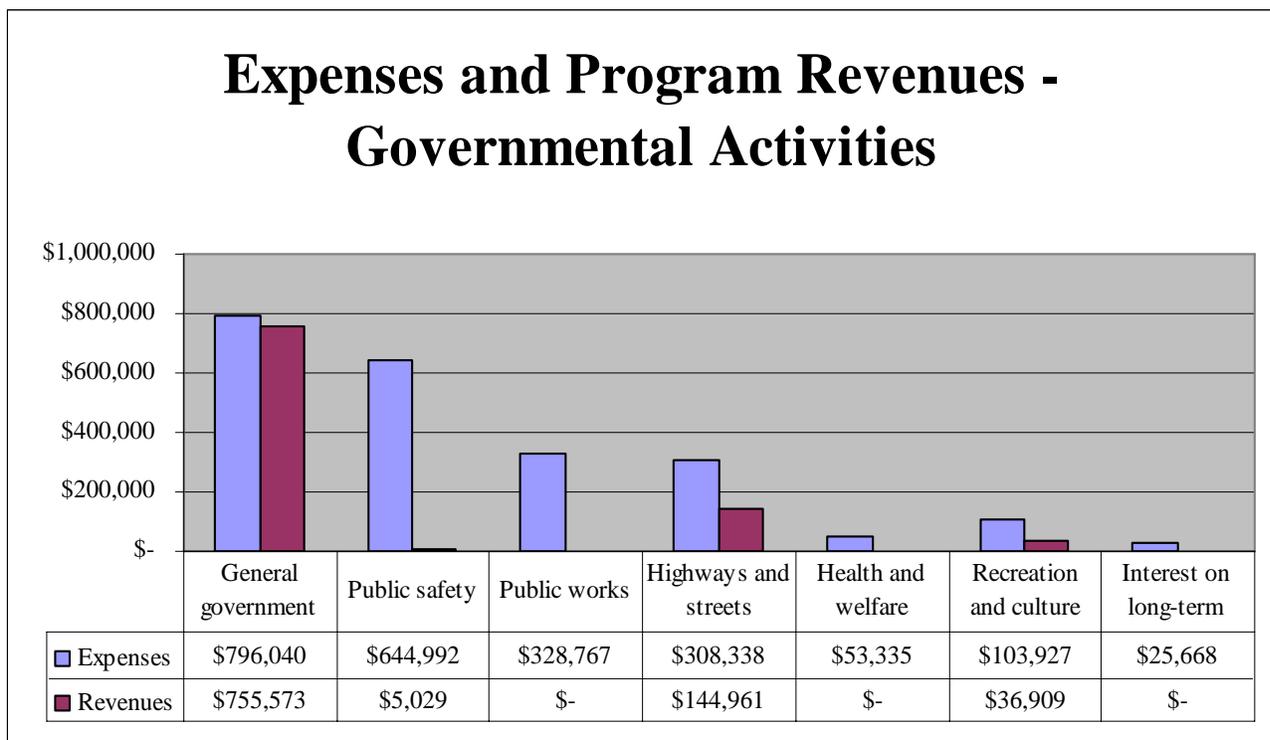
City of Mackinac Island
Condensed Statement of Changes in Net Assets
For the Year Ended March 31, 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues						
Charges for services	\$ 62,462	\$ 39,765	\$ 2,229,059	\$ 1,495,857	\$ 2,291,521	\$ 1,535,622
Operating grants and contributions	849,250	829,801	-	-	849,250	829,801
Capital grants and contributions	30,760	-	-	-	30,760	-
General revenues						
Property taxes	1,437,538	1,392,416	-	-	1,437,538	1,392,416
Other	-	-	224,360	126,256	224,360	126,256
Total revenues	<u>2,380,010</u>	<u>2,261,982</u>	<u>2,453,419</u>	<u>1,622,113</u>	<u>4,833,429</u>	<u>3,884,095</u>
Expenses						
General government	796,040	737,269	-	-	796,040	737,269
Public safety	644,992	698,565	-	-	644,992	698,565
Public works	328,767	315,022	-	-	328,767	315,022
Highways and streets	308,338	294,299	-	-	308,338	294,299
Health and welfare	53,335	51,183	-	-	53,335	51,183
Recreation and culture	103,927	75,433	-	-	103,927	75,433
Interest on long-term debt	25,668	28,110	-	-	25,668	28,110
DPW	-	-	2,580,958	2,345,682	2,580,958	2,345,682
Total expenses	<u>2,261,067</u>	<u>2,199,881</u>	<u>2,580,958</u>	<u>2,345,682</u>	<u>4,842,025</u>	<u>4,545,563</u>

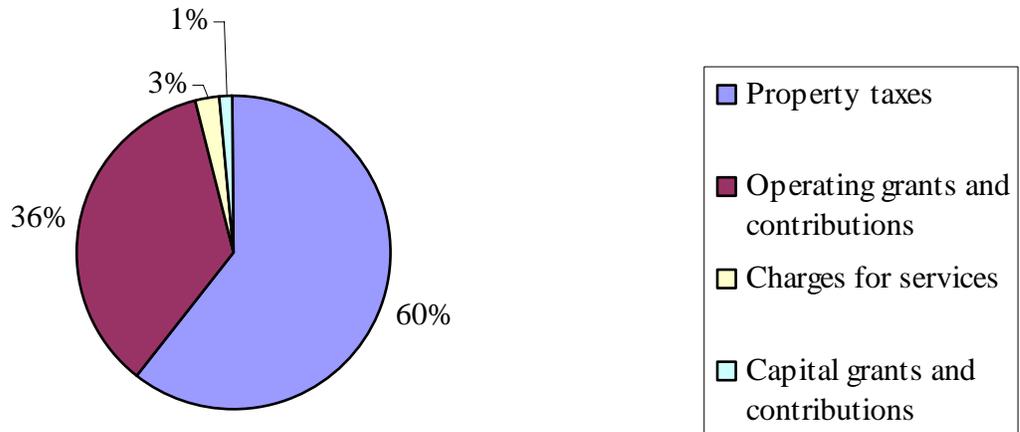
City of Mackinac Island
Condensed Statement of Changes in Net Assets
For the Year Ended March 31, 2007 (Concluded)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Change in net assets	\$ 118,943	\$ 62,101	\$ (127,539)	\$ (723,569)	\$ (8,596)	\$ (661,468)
Net assets, beginning of year	<u>5,787,291</u>	<u>5,725,190</u>	<u>10,012,089</u>	<u>10,753,658</u>	<u>15,799,380</u>	<u>16,460,848</u>
Net assets, end of year	<u>\$ 5,906,234</u>	<u>\$ 5,787,291</u>	<u>\$ 9,884,550</u>	<u>\$ 10,012,089</u>	<u>\$ 15,790,784</u>	<u>\$ 15,799,380</u>

Governmental activities. Governmental activities increased the City's net assets by \$118,943.



Revenues by Source - Governmental Activities



Business-type activities. Business-type activities decreased the City’s net assets by \$127,539 (\$723,569 in 2006). This decrease is mainly attributable to an increase in expenditures and no increase in user fees in prior years. Rate increases were initiated in 2006 and planned increases in fiscal 2007 combined with a one mill allocation to enterprise fund revenues have been implemented to reduce these decreases in net assets.

Expenses and Program Revenues - Business-type Activities



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

Financial Analysis of the Government's Funds

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

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

As of the end of the fiscal year 2007, the City's governmental funds reported combined ending fund balances of \$1,063,046, an increase of \$109,344. *Unreserved fund balance* of \$762,841 is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

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

The DPW had no unrestricted net assets as of March 31, 2007. The DPW had a decrease in net assets for the year of \$127,539. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

General Fund. During the year, General Fund revenues and expenditures were under budgeted amounts. The end result was an increase of fund balance of \$75,771 compared to a budgeted increase of zero.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of March 31, 2007, amounted to \$17,901,624 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, vehicles and equipment.

Additional information on the City's capital assets can be found in Note 3C on pages 31-32 of this report.

The City purchased \$646,565 in capital asset additions during the year ended March 31, 2007 including a membrane replacement at the water filtration plant (\$329,500) and a dock leveling system at British Landing (\$120,075).

Long-term debt. At March 31, 2007, the City had total debt outstanding of \$3,470,412. Of this amount, \$265,412 is comprised of debt backed by the full faith and credit of the City. The remainder of the City's bonded debt represents bonds secured solely by specified revenue sources.

On July 12, 2006, the City issued Sanitary Sewage Disposal and Water Supply System Revenue Refunding Bonds, Series 2006 of \$3,000,000 (par amount) with an interest rate of 4.5% to 5.0% to refund the 1999 Sanitary Sewer and Water Refunding Bonds dated July 8, 1999 which had an interest rate of 5.5% and a par value of \$2,960,000. The 2006 Sanitary Sewage Disposal and Water Supply System Revenue Refunding Bonds were issued at a premium and, after paying issuance costs of \$4,500 and underwriter's discount of \$30,000, the net proceeds were \$2,987,444.

The net proceeds from the issuance of the refunding bonds were used to pay off the 1999 Sanitary Sewer and Water Refunding Bonds in the amount of \$2,960,000 and the remaining \$27,444 was deposited into the City's Water and Sewer Enterprise Fund to pay other bond issuance related costs. The refunding met the requirements of an in-substance defeasance and the refunded bonds were removed from the City's financial statements.

As a result of the refunding, the City reduced its total debt service requirements by \$259,826 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$180,004.

On May 4, 2007, the City entered into an Installment Purchase Agreement to \$329,500 of settle the costs of the Membrane Replacement Project. The cost of the project was incurred and the related amount due are reported in Accounts Payable in the Department of Public Works Enterprise Fund at March 31, 2007. The Installment Purchase Agreement issued pursuant to the provisions of Act 99, Public Acts of Michigan, requires monthly payment of \$4,070 beginning June 2007, including interest charged at 4.35% with the final installment due in May 2015.

Additional information on the City's long-term debt can be found in Note 3F on pages 34-37 of this report.

Economic Factors and Fiscal 2007-2008 Budgets and Rates

The following factors were considered in preparing the City's budget for the 2007-08 fiscal year:

- The contemplated sale of Rowe House Condominiums, proceeds of which will be received by the General Fund.
- Water and sewer rate increases of 25% on June 1, 2007 to offset previous operating losses.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Mayor's Assistant, PO Box 455, Mackinac Island, Michigan 49757.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MACKINAC ISLAND

STATEMENT OF NET ASSETS

MARCH 31, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 841,592	\$ 111,823	\$ 953,415
Receivables, net	59,762	335,259	395,021
Internal balances	8,013	(8,013)	-
Restricted cash	71,463	284,998	356,461
Restricted investments	131,114	-	131,114
Capital assets not being depreciated	18,180	-	18,180
Capital assets being depreciated, net	5,382,325	12,501,119	17,883,444
Total assets	6,512,449	13,225,186	19,737,635
Liabilities			
Accounts payable and accrued expenses	55,803	420,636	476,439
Long-term liabilities			
Due within one year	118,959	85,000	203,959
Due in more than one year	431,453	2,835,000	3,266,453
Total liabilities	606,215	3,340,636	3,946,851
Net assets			
Invested in capital assets, net of related debt	4,876,259	9,581,119	14,457,378
Restricted			
Perpetual care	146,216	-	146,216
Capital outlay	96,394	-	96,394
Debt service	57,595	303,431	361,026
Unrestricted	729,770	-	729,770
Total net assets	\$ 5,906,234	\$ 9,884,550	\$ 15,790,784

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

CITY OF MACKINAC ISLAND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 796,040	\$ 53,211	\$ 671,602	\$ 30,760
Public safety	644,992	-	5,029	-
Public works	328,767	-	-	-
Highways and streets	308,338	-	144,961	-
Health and welfare	53,335	-	-	-
Recreation and culture	103,927	9,251	27,658	-
Interest on long-term debt	25,668	-	-	-
Total governmental activities	2,261,067	62,462	849,250	30,760
Business-type activities				
Department of Public Works				
Water	670,714	635,929	-	-
Sewer	965,544	754,621	-	-
Landfill	944,700	838,509	-	-
Total business-type activities	2,580,958	2,229,059	-	-
Total	\$ 4,842,025	\$ 2,291,521	\$ 849,250	\$ 30,760

General revenues

 Property taxes
 Other

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (40,467)	\$ -	\$ (40,467)
(639,963)	-	(639,963)
(328,767)	-	(328,767)
(163,377)	-	(163,377)
(53,335)	-	(53,335)
(67,018)	-	(67,018)
(25,668)	-	(25,668)
(1,318,595)	-	(1,318,595)
-	(34,785)	(34,785)
-	(210,923)	(210,923)
-	(106,191)	(106,191)
-	(351,899)	(351,899)
(1,318,595)	(351,899)	(1,670,494)
1,437,538	-	1,437,538
-	224,360	224,360
1,437,538	224,360	1,661,898
118,943	(127,539)	(8,596)
5,787,291	10,012,089	15,799,380
\$ 5,906,234	\$ 9,884,550	\$ 15,790,784

FUND FINANCIAL STATEMENTS

CITY OF MACKINAC ISLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

MARCH 31, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 199,494	\$ 642,098	\$ 841,592
Taxes receivable	57,645	2,117	59,762
Due from other funds	8,013	2,294	10,307
Restricted cash and cash equivalents	-	71,463	71,463
Restricted investments	-	131,114	131,114
Total assets	<u>\$ 265,152</u>	<u>\$ 849,086</u>	<u>\$ 1,114,238</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 36,189	\$ 320	\$ 36,509
Accrued expenses	10,415	1,974	12,389
Due to other funds	2,294	-	2,294
Total liabilities	<u>48,898</u>	<u>2,294</u>	<u>51,192</u>
Fund balances			
Reserved			
Capital outlay	-	96,394	96,394
Debt service	-	57,595	57,595
Perpetual care	-	146,216	146,216
Unreserved			
Designated			
Capital outlay	7,968	517,236	525,204
Undesignated	208,286	-	208,286
Undesignated, reported in nonmajor Special revenue funds	-	29,351	29,351
Total fund balances	<u>216,254</u>	<u>846,792</u>	<u>1,063,046</u>
Total liabilities and fund balances	<u>\$ 265,152</u>	<u>\$ 849,086</u>	<u>\$ 1,114,238</u>

Continued...

CITY OF MACKINAC ISLAND

BALANCE SHEET GOVERNMENTAL FUNDS

MARCH 31, 2007

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

Fund balances - total governmental funds \$ 1,063,046

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

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

Add: capital assets	7,346,474
Subtract: accumulated depreciation	(1,945,969)

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

Subtract: bonds and notes payable	(524,246)
Subtract: compensated absences	(26,166)
Subtract: accrued interest on long-term liabilities	(6,905)

Net assets of governmental activities \$ 5,906,234

Concluded

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

CITY OF MACKINAC ISLAND

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

FOR THE YEAR ENDED MARCH 31, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 1,385,995	\$ 51,543	\$ 1,437,538
Licenses and permits	455,192	-	455,192
Federal revenue	-	700	700
State revenue	38,797	145,546	184,343
Charges for services	-	62,462	62,462
Fines and forfeits	2,429	6,935	9,364
Rents and royalties	29,932	-	29,932
Interest and dividends	24,459	42,044	66,503
Contributions	45,670	8,367	54,037
Miscellaneous	94,849	-	94,849
Total revenues	<u>2,077,323</u>	<u>317,597</u>	<u>2,394,920</u>
Expenditures			
Legislative	53,911	-	53,911
General government	506,412	16,612	523,024
Public safety	640,596	-	640,596
Public works	203,694	387,109	590,803
Culture and recreation	97,050	45,200	142,250
Other functions	202,302	-	202,302
Debt service			
Principal payments	-	107,877	107,877
Interest and paying agent fees	-	24,813	24,813
Total expenditures	<u>1,703,965</u>	<u>581,611</u>	<u>2,285,576</u>
Revenues over (under) expenditures	<u>373,358</u>	<u>(264,014)</u>	<u>109,344</u>
Other financing sources (uses)			
Transfers in	-	316,957	316,957
Transfers out	(297,587)	(19,370)	(316,957)
Total other financing (uses) sources	<u>(297,587)</u>	<u>297,587</u>	<u>-</u>
Net change in fund balance	<u>75,771</u>	<u>33,573</u>	<u>109,344</u>
Fund balances, beginning of year	140,483	813,219	953,702
Fund balances, end of year	<u>\$ 216,254</u>	<u>\$ 846,792</u>	<u>\$ 1,063,046</u>

Continued...

CITY OF MACKINAC ISLAND

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

FOR THE YEAR ENDED MARCH 31, 2007

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

Net change in fund balances - total governmental funds \$ 109,344

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

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

Add: assets capitalized during current year 120,608
Subtract: depreciation expense (213,230)

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

Add: principal payments on long-term liabilities 107,877

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.

Subtract: increase in accrued interest on bonds (855)
Subtract: increase in the accrual of compensated absences (4,801)

Change in net assets of governmental activities \$ 118,943

Concluded

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

CITY OF MACKINAC ISLAND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED MARCH 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Taxes	\$ 1,449,700	\$ 1,392,931	\$ 1,385,995	\$ (6,936)
Licenses and permits	436,465	449,704	455,192	5,488
State revenues	44,000	17,755	38,797	21,042
Fines and forfeits	5,000	2,100	2,429	329
Rents and royalties	18,000	29,932	29,932	-
Interest and dividends	25,000	20,270	24,459	4,189
Contributions	5,000	45,700	45,670	(30)
Miscellaneous	54,800	110,265	94,849	(15,416)
Total revenues	2,037,965	2,068,657	2,077,323	8,666
Expenditures				
Legislative	47,100	50,585	53,911	(3,326)
General government	429,959	525,165	506,412	18,753
Public safety	693,000	673,190	640,596	32,594
Public works	209,400	203,855	203,694	161
Culture and recreation	77,320	97,135	97,050	85
Other functions	241,100	214,738	202,302	12,436
Total expenditures	1,697,879	1,764,668	1,703,965	60,703
Revenues over expenditures	340,086	303,989	373,358	69,369
Transfers				
Transfers out	(339,636)	(303,989)	(297,587)	6,402
Net change in fund balance	450	-	75,771	75,771
Fund balances, beginning of year	140,483	140,483	140,483	-
Fund balances, end of year	\$ 140,933	\$ 140,483	\$ 216,254	\$ 75,771

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

CITY OF MACKINAC ISLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DEPARTMENT OF PUBLIC WORKS ENTERPRISE FUND
MARCH 31, 2007

Assets	
Current assets	
Cash and cash equivalents	\$ 111,823
Accounts receivable	335,259
	447,082
Total current assets	
Noncurrent assets	
Restricted cash	284,998
Property, plant and equipment, net of accumulated depreciation	12,501,119
	12,786,117
Total noncurrent assets	
	13,233,199
Total assets	
Liabilities	
Current liabilities	
Accounts payable	408,469
Accrued expenses	12,167
Due to other funds	8,013
Bonds payable	85,000
	513,649
Total current liabilities	
Bonds Payable (net of current portion)	2,835,000
Total liabilities	
	3,348,649
Net Assets	
Invested in capital assets, net of related debt	9,581,119
Restricted	
Debt service	303,431
	9,884,550
Total net assets	
	\$ 9,884,550

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

CITY OF MACKINAC ISLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUND
DEPARTMENT OF PUBLIC WORKS ENTERPRISE FUND
FOR THE YEAR ENDED MARCH 31, 2007

<hr/>	
Operating revenues	
Charges for services	\$ 995,681
Charges for services pledged as security for revenue bonds	1,316,879
	<hr/>
Total operating revenues	2,312,560
Operating expenses	
Landfill	944,700
Sewer	823,118
Water	649,478
	<hr/>
Total operating expenses	2,417,296
Operating loss	(104,736)
Non-operating revenues (expenses)	
Interest revenue	13,078
Interest expense	(163,662)
Other revenue	127,781
	<hr/>
Total non-operating expenses	(22,803)
Change in net assets	(127,539)
Net assets, beginning of year	10,012,089
	<hr/>
Net assets, end of year	\$ 9,884,550
	<hr/> <hr/>

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

CITY OF MACKINAC ISLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
DEPARTMENT OF PUBLIC WORKS ENTERPRISE FUND
FOR THE YEAR ENDED MARCH 31, 2007

Cash flows from operating activities	
Cash collected from customers	\$ 2,337,246
Cash paid for employee wages and benefits	(589,579)
Cash paid for other operating and administrative expenses	<u>(913,577)</u>
Net cash used in operating activities	<u>834,090</u>
Cash flows from non-capital financing activities	
Other revenue	<u>127,781</u>
Cash flows from capital and related financing activities	
Sale of investments	9,579
Purchase of property, plant and equipment	(525,957)
Proceeds from refunding bonds	3,000,000
Principal paid on bonds	(3,040,000)
Interest expense	<u>(151,879)</u>
Net cash used in capital and related financing activities	<u>(708,257)</u>
Cash flows from investing activities	
Interest earnings	<u>13,078</u>
Net cash provided by investing activities	<u>13,078</u>
Net increase in cash and cash equivalents	266,692
Cash and cash equivalents, including restricted, beginning of year	<u>130,129</u>
Cash and cash equivalents, including restricted, end of year	396,821
Restricted cash, end of year	<u>284,998</u>
Cash and cash equivalents, end of year	<u>\$ 111,823</u>

Continued...

CITY OF MACKINAC ISLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
DEPARTMENT OF PUBLIC WORKS ENTERPRISE FUND
FOR THE YEAR ENDED MARCH 31, 2007

**Reconciliation of operating loss to
net cash provided by (used in) operating activities**

Cash flows from operating activities

Operating loss	\$ (104,736)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	628,699
Changes in operating assets and liabilities which provided (used) cash	
Accounts receivable	15,686
Due from other funds	9,000
Accounts payable	327,456
Accrued expenses	3,944
Due to other funds	<u>(45,959)</u>

Net cash used in operating activities

\$ 834,090

Concluded

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

CITY OF MACKINAC ISLAND
STATEMENT OF FIDUCIARY NET ASSETS

MARCH 31, 2007

Assets	
Cash and cash equivalents	<u>\$ 10,541</u>
Liabilities	
Accounts payable	<u>\$ 10,541</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Fire Hall Building Authority - The Fire Hall Building Authority is a blended component unit of the City of Mackinac Island.

B. Government-wide and Fund Financial Statements

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

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

Fund Financial Statements. The fund financial statements provide information about the City’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 *General Fund*, the major governmental fund, is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Department of Public Works* (the “DPW”), the major enterprise fund, accounts for the activities of the City’s water distribution, water treatment, sewage disposal, sewage treatment systems and landfill.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Additionally, the City reports the following fund types:

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

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

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

The *Permanent Trust Fund* accounts for the resources accumulated and restricted for perpetual care at the City's cemetery.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.

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

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

Nonexchange transactions, in which the City 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.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when both measurable and available. The City 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 City.

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.

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

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. 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 *non-operating* 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 City's enterprise funds, are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

State statutes authorizes the City 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 City's investments during the year consisted of certificate of deposits with original maturities of more than three months.

2. Receivables and Payables

All receivables are reported at their gross value.

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

3. Property Taxes

The City's property taxes are levied each July 1 and December 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 28; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Mackinac County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

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

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

4. *Restricted Assets*

Certain resources are set aside for repayment of the City's DPW Enterprise Fund revenue bonds, general obligation note payable and capital improvements, and are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

5. *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 City 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.

Because the City is considered a phase 3 government for GASB 34 implementation requirements, the City is not required to report infrastructure retrospectively; therefore, the City has elected to report infrastructure retrospectively to the extent that there is related outstanding debt. All future infrastructure will be capitalized.

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 are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	15
Buildings and building improvements	35-40
Water and wastewater system infrastructure	7-75
Machinery and equipment	3-40
Infrastructure	40
Book collection	3

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

6. *Long-Term Obligations*

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

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

7. *Fund Equity*

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1) Budgetary Information

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

The budget document presents information by fund, function, department and line item. The legal level of budgetary control adopted by the City Council is the function level which is the level at which expenditures may not exceed appropriations. Budget amendments require the approval of the City Council.

2) Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on the functional basis. The approved budgets of the City for the budgetary funds were adopted at the function level for the General Fund and each special revenue fund.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Expenditures in the General Fund in excess of budget are as follows:

	Final Amended Budget	Actual	Negative Variance
Legislative	\$ 50,585	\$ 53,911	\$ 3,326

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets are as follows:

Statement of Net Assets

Cash and cash equivalents	\$ 953,415
Restricted cash	356,461
Restricted investments	131,114

Total Statement of Net Assets **1,440,990**

Statement of Fiduciary Net Assets

Cash and cash equivalents	10,541
---------------------------	--------

Total **\$ 1,451,531**

A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 1,451,201
Cash on hand	330

Total deposits and investments **\$ 1,451,531**

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City'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.

Credit risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City 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 City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,220,811 of the City's bank balance of \$1,518,369 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts or a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

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

The City's deposits are in accordance with statutory authority.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of March 31, 2007:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts receivable	\$ -	\$ 88,598
Taxes receivable	59,762	-
Impact fees due within one year	-	24,000
Impact fees due in greater than one year	-	222,661
Total receivables	<u>\$ 59,762</u>	<u>\$ 335,259</u>

C. Capital assets

Capital assets activity was as follows for the year ended March 31, 2007:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated – land	\$ 18,180	\$ -	\$ -	\$ 18,180
Capital assets being depreciated				
Buildings	5,221,747	32,500	-	5,254,247
Equipment	666,825	23,992	-	690,817
Infrastructure	1,297,453	52,833	-	1,350,286
Book collection	21,660	11,283	-	32,943
Total capital assets being depreciated	<u>7,207,685</u>	<u>120,608</u>	<u>-</u>	<u>7,328,293</u>
Less accumulated depreciation on				
Buildings	(1,356,581)	(130,978)	-	(1,487,559)
Equipment	(144,524)	(41,106)	-	(185,630)
Infrastructure	(219,858)	(33,427)	-	(253,285)
Book collection	(11,775)	(7,719)	-	(19,494)
Total accumulated depreciation	<u>(1,732,738)</u>	<u>(231,230)</u>	<u>-</u>	<u>(1,945,968)</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Total capital assets being depreciated, net	\$ 5,474,947	\$ (92,622)	\$ -	\$ 5,382,325
Governmental activities capital assets, net	<u>\$ 5,493,127</u>	<u>\$ (92,622)</u>	<u>\$ -</u>	<u>\$ 5,400,505</u>
Business-type activities				
Capital assets being depreciated				
Buildings	\$ 1,100,001	\$ -	\$ -	\$ 1,100,001
Water and sewer system	18,728,263	405,882	-	19,134,145
Machinery and equipment	<u>3,004,516</u>	<u>120,075</u>	<u>-</u>	<u>3,124,591</u>
Total capital assets being depreciated	<u>22,832,780</u>	<u>525,957</u>	<u>-</u>	<u>23,358,737</u>
Less accumulated depreciation for				
Buildings	(444,224)	(31,374)	-	(475,598)
Water and sewer system	(7,903,239)	(467,781)	-	(8,371,020)
Machinery and equipment	<u>(1,881,456)</u>	<u>(129,544)</u>	<u>-</u>	<u>(2,011,000)</u>
Total accumulated depreciation	<u>(10,228,919)</u>	<u>(628,699)</u>	<u>-</u>	<u>(10,857,618)</u>
Business-type activities capital assets, net	<u>\$ 12,603,861</u>	<u>\$ (102,742)</u>	<u>\$ -</u>	<u>\$ 12,501,119</u>

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

Governmental activities	
General government	\$ 69,974
Public safety	71,104
Public works	33,776
Health and welfare	12,584
Recreation and culture	<u>25,792</u>
Total depreciation expense – governmental activities	<u>\$ 213,230</u>
Business-type activities	
Water	\$ 257,200
Sewer	247,636
Landfill	<u>123,863</u>
Total depreciation expense – business-type activities	<u>\$ 628,699</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

D. Accounts Payable and Accrued Expenses

The composition of accounts payable and accrued expenses is as follows at March 31, 2007:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 44,634	\$ 408,469
Accrued expenses	<u>11,169</u>	<u>12,167</u>
Total accounts payables and accrued expenses	<u>\$ 55,803</u>	<u>\$ 420,636</u>

E. Interfund Receivables, Payables and Transfers

Interfund balances consisted of the following as of March 31, 2007:

	<u>Payable fund</u>		
<u>Receivable fund</u>	<u>DPW</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
General Fund	<u>\$ 8,013</u>	<u>\$ 2,294</u>	<u>\$ 10,307</u>
		<u>Transfers in</u>	
		<u>Nonmajor Governmental Funds</u>	
<u>Transfers out</u>			
General Fund		\$ 297,597	
Nonmajor governmental funds		<u>19,370</u>	
Total		<u>\$ 316,967</u>	

The outstanding balances between funds result mainly 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.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

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

F. Long-term Debt

A summary of long-term debt and transactions related thereto is as follows for the year ended March 31, 2007:

	Balance		Balance	Due
	April 1,	Additions	March 31,	Within
	2006	(Reductions)	2007	1 Year
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities				
Fire truck installment loan payable to National City Bank due in annual installments of \$41,830 including interest charged at 2.99% through fiscal 2014.	\$ 272,123	\$ -	\$ 32,877	\$ 239,246 \$ 33,959
1997 Building Authority Bonds payable to First National Bank of St. Ignace, due in annual principal installments ranging from \$60,000 to \$75,000, interest ranging from 4.85% - 4.95% due in semi-annual installments through fiscal 2010.	265,000	-	60,000	205,000 65,000

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

	Balance April 1, 2006	Additions	(Reductions)	Balance March 31, 2007	Due Within 1 Year
1999 Michigan Transportation Fund Bonds payable to Michigan Transportation Fund, due in annual principal installments ranging from \$15,000 to \$20,000, interest ranging from 4.9% - 5.1% due in semi-annual installments through fiscal 2011.	\$ 95,000	\$ -	\$ 15,000	\$ 80,000	\$ 20,000
Accrued compensated absences.	<u>21,365</u>	<u>4,801</u>	<u>-</u>	<u>26,166</u>	<u>-</u>
Total governmental activities	<u>653,488</u>	<u>4,801</u>	<u>107,877</u>	<u>550,412</u>	<u>118,959</u>
Business-type activities					
4.5% to 5.0% revenue refunding bonds series 2006, due in annual principal installments ranging from \$80,000 to \$200,000, interest due in semi-annual installments through fiscal 2020.	-	3,000,000	80,000	2,920,000	85,000
5.5% revenue bonds refunded in July 2006.	<u>2,960,000</u>	<u>-</u>	<u>2,960,000</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>2,960,000</u>	<u>3,000,000</u>	<u>3,040,000</u>	<u>2,920,000</u>	<u>85,000</u>
Total long-term debt	<u>\$3,613,488</u>	<u>\$3,004,801</u>	<u>\$3,147,877</u>	<u>\$3,470,412</u>	<u>\$ 203,959</u>

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

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

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

	Governmental activities		Business-type activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 118,959	\$ 19,865	\$ 85,000	\$ 141,400
2009	120,076	14,589	90,000	137,575
2010	131,230	8,981	90,000	133,525
2011	57,422	4,918	95,000	129,475
2012	38,653	3,177	100,000	125,200
2013-2017	57,906	2,497	585,000	551,012
2018-2022	-	-	745,000	392,798
2023-2027	-	-	955,000	191,500
2028	-	-	<u>175,000</u>	<u>8,750</u>
	<u>\$ 524,246</u>	<u>\$ 54,027</u>	<u>\$ 2,920,000</u>	<u>\$1,811,235</u>

Total interest expense for the City for the year was approximately \$188,000.

On July 12, 2006, the City issued Sanitary Sewage Disposal and Water Supply System Revenue Refunding Bonds, Series 2006 of \$3,000,000 (par amount) with an interest rate of 4.5% to 5.0% to advance refund the 1999 Sanitary Sewer and Water Refunding Bonds dated July 8, 1999 which had an interest rate of 5.5% and a par value of \$2,960,000. The 2006 Sanitary Sewage Disposal and Water Supply System Revenue Refunding Bonds were issued at a premium and, after paying issuance costs of \$4,500 and underwriter's discount of \$30,000, the net proceeds were \$2,987,444. The net proceeds from the issuance of the refunding bonds were used to pay off the 1999 Sanitary Sewer and Water Refunding Bonds in the amount of \$2,960,000 and the remaining \$27,444 was deposited into the City's Water and Sewer Enterprise Fund to pay other bond issuance related costs. The refunding met the requirements of an in-substance defeasance and the refunded bonds were removed from the City's financial statements.

As a result of the refunding, the City reduced its total debt service requirements by \$259,826 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$180,004.

On May 4, 2007, the City entered into an Installment Purchase Agreement of \$329,500 to settle the costs of the Membrane Replacement Project. The cost of the project was incurred and the related amount due are reported in Accounts Payable in the Department of Public Works Enterprise Fund at March 31, 2007. The Installment Purchase Agreement issued pursuant to the provisions of Act 99, Public Acts of Michigan, requires monthly payment of \$4,070 beginning June 2007, including interest charged at 4.35% with the final installment due in May 2015.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

The City's Sanitary Sewage Disposal and Water Supply System Revenue Refunding Bonds, Series 2006 include the following covenants:

- (1) To maintain an operations and maintenance account equal to the succeeding fiscal quarters expenses for administration, operation and maintenance of the system.
- (2) To maintain a Bond Redemption Fund with a balance equal to 50% of the interest due on the next interest payment date plus 25% of the next principal payment due. This balance, however, should not exceed 100% of the next principal and interest account.
- (3) By March 31, 2008, the City shall have a bond reserve account with a balance of the lesser of 1) the maximum annual debt service of the bond; 2) 125% of the average annual debt service; or 3) 10% of the principal amount outstanding.

As of March 31, 2007, the City's Enterprise Fund was under reserved by approximately \$188,000.

G. Capital Project Fund Designated Fund Balances

The composition of Capital Project Fund designated fund balances is as follows as of March 31, 2007:

Designated for

City Hall and Fire Hall	\$ 66,797
Community Hall	27,601
Boardwalk	162,410
Fire Truck	39,958
Buildings	17,157
Library Building Maintenance	19,785
Courthouse	35,145
Stuart House Maintenance	14,094
Restroom Maintenance	17,028
Housing	17,025
Road Improvements	<u>100,236</u>
Total	<u>\$ 517,236</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION

Risk Management and Litigation

The City 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 City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

CITY OF MACKINAC ISLAND

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

FOR THE YEAR ENDED MARCH 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Legislative				
City council	\$ 47,100	\$ 50,585	\$ 53,911	\$ (3,326)
General government				
Elections	4,000	4,200	4,042	158
Professional services	141,500	248,000	236,003	11,997
Assessor	38,706	37,406	37,954	(548)
Clerk	28,010	27,165	26,671	494
Treasurer	31,224	29,724	27,616	2,108
Board of review	500	-	-	-
City hall and other property	186,019	178,670	174,126	4,544
Total general government	429,959	525,165	506,412	18,753
Public safety				
Police department	510,900	493,121	483,708	9,413
Fire department	58,100	62,875	57,000	5,875
Ambulance	30,000	42,365	25,751	16,614
Traffic greeters	35,100	44,533	43,873	660
Planning commission	43,900	15,296	15,264	32
Medical center	15,000	15,000	15,000	-
Total public safety	693,000	673,190	640,596	32,594
Public works				
Street lighting	10,000	1,000	910	90
Other	199,400	202,855	202,784	71
Total public works	209,400	203,855	203,694	161
Culture and recreation				
Recreation department	42,220	43,160	43,128	32
Parks	35,100	53,975	53,922	53
Total culture and recreation	77,320	97,135	97,050	85

Continued...

CITY OF MACKINAC ISLAND

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

FOR THE YEAR ENDED MARCH 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	Variance With Final Amended Budget Positive (Negative)
Other functions				
Insurance	\$ 234,600	\$ 199,338	\$ 202,302	\$ (2,964)
Other	6,500	15,400	-	15,400
Total other functions	241,100	214,738	202,302	12,436
Total expenditures	1,697,879	1,764,668	1,703,965	60,703
Transfers				
Transfers out	(339,636)	(303,989)	(297,587)	6,402
Total expenditures and transfers	<u>\$ 2,037,515</u>	<u>\$ 2,068,657</u>	<u>\$ 2,001,552</u>	<u>\$ 54,301</u>

Concluded

CITY OF MACKINAC ISLAND
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

MARCH 31, 2007

	Special Revenue Funds	Debt Service Funds	Capital Projects Fund	Permanent Trust Funds	Total
ASSETS					
Cash and cash equivalents	\$ 29,351	\$ -	\$ 466,531	\$ 146,216	\$ 642,098
Taxes receivable	-	1,412	705	-	2,117
Due from other funds	2,294	-	-	-	2,294
Restricted cash and cash equivalents	15,280	56,183	-	-	71,463
Restricted investments	81,114	-	50,000	-	131,114
Total assets	<u>\$ 128,039</u>	<u>\$ 57,595</u>	<u>\$ 517,236</u>	<u>\$ 146,216</u>	<u>\$ 849,086</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 320	\$ -	\$ -	\$ -	\$ 320
Accrued expenses	1,974	-	-	-	1,974
Total liabilities	<u>2,294</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,294</u>
Fund balances					
Reserved					
Capital outlay	96,394	-	-	-	96,394
Debt service	-	57,595	-	-	57,595
Perpetual care	-	-	-	146,216	146,216
Unreserved					
Designated	-	-	517,236	-	517,236
Undesignated	29,351	-	-	-	29,351
Total fund balances	<u>125,745</u>	<u>57,595</u>	<u>517,236</u>	<u>146,216</u>	<u>846,792</u>
Total liabilities and fund balances	<u>\$ 128,039</u>	<u>\$ 57,595</u>	<u>\$ 517,236</u>	<u>\$ 146,216</u>	<u>\$ 849,086</u>

CITY OF MACKINAC ISLAND

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

FOR THE YEAR ENDED MARCH 31, 2007

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Trust Funds	Total
Revenues					
Taxes	\$ -	\$ 34,208	\$ 17,335	\$ -	\$ 51,543
Federal revenue	700	-	-	-	700
State revenue	145,546	-	-	-	145,546
Charges for services	42,762	-	-	19,700	62,462
Fines and forfeits	6,935	-	-	-	6,935
Interest and dividends	8,031	3,127	22,972	7,914	42,044
Contributions	8,367	-	-	-	8,367
Total revenues	212,341	37,335	40,307	27,614	317,597
Expenditures					
General government	16,612	-	-	-	16,612
Public works	387,109	-	-	-	387,109
Culture and recreation	45,200	-	-	-	45,200
Debt service					
Principal payments	-	107,877	-	-	107,877
Interest and paying agent fees	-	24,813	-	-	24,813
Total expenditures	448,921	132,690	-	-	581,611
Revenues over (under) expenditures	(236,580)	(95,355)	40,307	27,614	(264,014)
Transfers					
Transfers in	255,757	61,200	-	-	316,957
Transfers out	(19,370)	-	-	-	(19,370)
Total transfers	236,387	61,200	-	-	297,587
Net change in fund balances	(193)	(34,155)	40,307	27,614	33,573
Fund balances, beginning of year	125,938	91,750	476,929	118,602	813,219
Fund balances, end of year	\$ 125,745	\$ 57,595	\$ 517,236	\$ 146,216	\$ 846,792

CITY OF MACKINAC ISLAND

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS**

MARCH 31, 2007

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Library</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ 29,351
Due from other funds	-	-	645
Restricted cash and cash equivalents	-	-	15,280
Restricted investments	-	-	81,114
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,390</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ 70
Accrued expenses	-	-	575
Total liabilities	<u>-</u>	<u>-</u>	<u>645</u>
Fund balances			
Reserved - capital outlay	-	-	96,394
Unreserved - undesignated	-	-	29,351
Total fund balances	<u>-</u>	<u>-</u>	<u>125,745</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,390</u>

<u>Cemetery</u>	<u>Building Department</u>	<u>Total</u>
\$ -	\$ -	\$ 29,351
-	1,649	2,294
-	-	15,280
-	-	81,114
<u>\$ -</u>	<u>\$ 1,649</u>	<u>\$ 128,039</u>
\$ -	\$ 250	\$ 320
-	1,399	1,974
-	1,649	2,294
-	-	96,394
-	-	29,351
-	-	125,745
<u>\$ -</u>	<u>\$ 1,649</u>	<u>\$ 128,039</u>

CITY OF MACKINAC ISLAND

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

FOR THE YEAR ENDED MARCH 31, 2007

	Major Streets	Local Streets	Library
Revenues			
State revenue	\$ 129,128	\$ 15,833	\$ 585
Federal revenue	-	-	700
Charges for services	-	-	9,251
Fines and forfeits	-	-	6,935
Interest and dividends	-	-	8,031
Contributions	-	-	8,367
Total revenues	129,128	15,833	33,869
Expenditures			
General government	-	-	-
Public works	163,484	144,854	-
Culture and recreation	-	-	45,200
Total expenditures	163,484	144,854	45,200
Revenues (under) over expenditures	(34,356)	(129,021)	(11,331)
Other financing sources (uses)			
Transfers in	50,590	127,456	15,839
Transfers out	(19,370)	-	-
Total other financing sources (uses)	31,220	127,456	15,839
Net change in fund balances	(3,136)	(1,565)	4,508
Fund balances, beginning of year	3,136	1,565	121,237
Fund balances, end of year	\$ -	\$ -	\$ 125,745

<u>Cemetery</u>	<u>Building Department</u>	<u>Total</u>
\$ -	\$ -	\$ 145,546
-	-	700
-	33,511	42,762
-	-	6,935
-	-	8,031
-	-	8,367
-	33,511	212,341
16,612	-	16,612
-	78,771	387,109
-	-	45,200
16,612	78,771	448,921
(16,612)	(45,260)	(236,580)
16,612	45,260	255,757
-	-	(19,370)
16,612	45,260	236,387
-	-	(193)
-	-	125,938
\$ -	\$ -	\$ 125,745

CITY OF MACKINAC ISLAND

**COMBINING BALANCE SHEET
DEBT SERVICE FUNDS**

MARCH 31, 2007

	1997 Building Authority Bonds	1999 Michigan Transportation Fund Bond	2004 Fire Truck	Total
ASSETS				
Taxes receivable	\$ 1,412	\$ -	\$ -	\$ 1,412
Restricted cash and cash equivalents	<u>56,183</u>	<u>-</u>	<u>-</u>	<u>56,183</u>
Total assets	<u>\$ 57,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,595</u>
LIABILITIES AND FUND BALANCES				
Fund balances - reserved	<u>\$ 57,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,595</u>

CITY OF MACKINAC ISLAND

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

FOR THE YEAR ENDED MARCH 31, 2007

	1997 Building Authority Bonds	1999 Michigan Transportation Fund Bond	2004 Fire Truck	Total
Revenues				
Taxes	\$ 34,208	\$ -	\$ -	\$ 34,208
Interest and dividends	3,127	-	-	3,127
Total revenues	37,335	-	-	37,335
Expenditures				
Principal payments	60,000	15,000	32,877	107,877
Interest and paying agent fees	11,490	4,370	8,953	24,813
Total expenditures	71,490	19,370	41,830	132,690
Revenues under expenditures	(34,155)	(19,370)	(41,830)	(95,355)
Transfers				
Transfers in	-	19,370	41,830	61,200
Net change in fund balance	(34,155)	-	-	(34,155)
Fund balances, beginning of year	91,750	-	-	91,750
Fund balances, end of year	\$ 57,595	\$ -	\$ -	\$ 57,595

CITY OF MACKINAC ISLAND

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TAX COLLECTION AGENCY FUND**

FOR THE YEAR ENDED MARCH 31, 2007

	<u>Balance April 1, 2006</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Balance March 31, 2007</u>
ASSETS				
Cash and cash equivalents	<u>\$ 56,629</u>	<u>\$ 4,942,495</u>	<u>\$ (4,988,583)</u>	<u>\$ 10,541</u>
LIABILITIES				
Due to other funds	\$ 8,280	\$ 1,567,707	\$ (1,571,479)	\$ 4,508
Due to other governmental units	<u>48,349</u>	<u>3,374,788</u>	<u>(3,417,104)</u>	<u>6,033</u>
Total liabilities	<u>\$ 56,629</u>	<u>\$ 4,942,495</u>	<u>\$ (4,988,583)</u>	<u>\$ 10,541</u>

CITY OF MACKINAC ISLAND

SCHEDULE OF INDEBTEDNESS

MARCH 31, 2007

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount Outstanding March 31, 2005</u>	<u>Interest Payable if Held to Maturity</u>
Governmental activities bonds					
1997 Building Authority Bond	\$ 630,000	4.85%	6/01/07	\$ 65,000	\$ 8,474
Payments due		4.90	6/01/08	65,000	5,305
Principal and interest - June 1		4.95	6/01/09	<u>75,000</u>	<u>1,856</u>
Interest only - December 1				<u>205,000</u>	<u>\$ 15,635</u>
1999 Michigan Transportation Fund Bond	\$ 170,000	4.90%	08/01/07	20,000	\$ 3,520
Payments due		5.00	08/01/08	20,000	2,530
Principal and interest - August 1		5.05	08/01/09	20,000	1,525
Interest only - February 1		5.10	08/01/10	<u>20,000</u>	<u>510</u>
				<u>80,000</u>	<u>\$ 8,085</u>
Total governmental activities bonded indebtedness				<u>285,000</u>	

Continued...

CITY OF MACKINAC ISLAND

SCHEDULE OF INDEBTEDNESS

MARCH 31, 2007

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount Outstanding March 31, 2005</u>	<u>Interest Payable if Held to Maturity</u>
Business-type activities					
Sanitary Sewage Disposal and Water	\$ 3,000,000	4.50%	03/01/08	\$ 85,000	\$ 141,400
Supply System Revenue Refunding		4.50	03/01/09	90,000	137,575
Bonds, Series 2006		4.50	03/01/10	90,000	133,525
Payments due		4.50	03/01/11	95,000	129,475
Principal and interest - March 1		4.50	03/01/12	100,000	125,200
Interest only - September 1		4.75	03/01/13	105,000	120,700
		4.75	03/01/14	110,000	115,713
		4.75	03/01/15	115,000	110,487
		4.75	03/01/16	125,000	105,025
		5.00	03/01/17	130,000	99,087
		5.00	03/01/18	140,000	92,587
		5.00	03/01/19	140,000	85,587
		4.75	03/01/20	145,000	78,587
		4.75	03/01/21	155,000	71,700
		4.75	03/01/22	165,000	64,337
		5.00	03/01/23	175,000	56,500
		5.00	03/01/24	180,000	47,750
		5.00	03/01/25	190,000	38,750
		5.00	03/01/26	200,000	29,250
		5.00	03/01/27	210,000	19,250
		5.00	03/01/28	175,000	8,750
Total business-type activities bonded indebtedness				<u>2,920,000</u>	<u>\$ 1,811,235</u>
Total bonded indebtedness				<u>\$ 3,205,000</u>	
Governmental activities notes payable					
2003 Fire truck loan	336,286	2.99%	10/31/07	\$ 33,959	\$ 7,871
		2.99	10/31/08	35,076	6,754
Principal and interest - October 31		2.99	10/31/09	36,230	5,600
Interest only - January 31		2.99	10/31/10	37,422	4,408
		2.99	10/31/11	38,653	3,177
		2.99	10/31/12	39,925	1,905
		2.99	10/31/13	17,981	592
				<u>\$ 239,246</u>	<u>\$ 30,307</u>

Concluded