

VILLAGE OF MANCELONA
ANTRIM COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
FEBRUARY 29, 2016

VILLAGE OFFICIALS

PRESIDENT

MIKE ALLISON

PRESIDENT PRO-TEM

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CLERK

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ELMER GRODY

TIM MINCH

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JUSTIN MACDONALD

VILLAGE OF MANCERLONA

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INDEPENDENT AUDITOR'S REPORT

May 27, 2016

To the Village Council
Village of Mancelona

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of the Village of Mancelona as of and for the year ended February 29, 2016 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.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 auditor's 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of the Village of Mancelona, as of February 29, 2016 and the respective changes in financial position, for the year then ended in accordance 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 budgetary comparison information on pages 3–5 and 23–28 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 27, 2016, on my consideration of the Village of Mancelona's internal control over financial reporting and on my 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 my 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 of Mancelona's internal control over financial reporting and compliance.

Daniel S. Smith, CPA

VILLAGE OF MANCELONA
120 West State Street
Mancelona, MI 49659

MANAGEMENT'S DISCUSSION & ANALYSIS
YEAR ENDED FEBRUARY 29, 2016

This section of the Village of Mancelona's annual financial report presents our discussion and analysis of the Village's financial performance during the fiscal year ended February 29, 2016. Please read it in conjunction with the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Village assets at February 29, 2016, as reported in the Statement of Net Assets, totaled approximately \$2,307,000 for governmental activities and \$121,000 for our component unit (the Mancelona Downtown Development Authority), compared to \$2,191,000 and \$105,000, respectively, at February 29, 2015. Of the total Village assets, approximately \$1,480,000 represents capital assets net of depreciation.

Overall revenues were approximately \$593,000 (\$199,700 from program revenues and \$393,300 from general revenues). Overall expenses approximated \$603,000.

The Village did incur additional debt during the year, and capitalized purchases were made. Long-term debt and capital asset activity is addressed further in a subsequent section of this letter.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion & analysis, the basic financial statements, and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present the governmental activities of the Village.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data. Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Village as a whole using accounting methods used by private companies. The Statement of Net Assets includes all of the entity's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Village's assets and liabilities; this is one method to measure the Village's financial health or position.

Over time, increases or decreases in an entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of an entity, you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

All of the activities of the Village are reported as governmental activities. These would include the general fund, major streets, and local streets.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds, not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Village has the following types of funds:

Governmental Funds: All of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net Assets: The Village's combined net assets decreased approximately \$9,590 during the year ended February 29, 2016 totaling \$2,053,351. The decrease is primarily due to significant road repairs in the local street fund.

Government Funds: The fund balances for governmental funds decreased approximately \$4,432. The general fund had an increase of \$35,483, while local and major streets had a combined decrease of \$39,915.

FINANCIAL ANALYSIS OF THE VILLAGE 'S FUNDS

General Fund: This fund is used to record all activities of the Village not required to be recorded in a separate fund. This would include parks, building and grounds, legislative, administrative, elections and police activities. The major sources of revenue for the general fund are from the Village tax base and the revenue sharing from the State of Michigan. The major expenses for this fiscal year include the general operating activities of the Village.

Major Streets: This fund is used to record revenues and expenses for major (state-owned) streets located within the Village. The major source of revenue comes from the State of Michigan in the form of transportation taxes. The major expenses for this fund are wages and equipment rental for snow removal and street repair, along with significant debt service expenditures incurred this year.

Local Streets: This fund is used to record revenues and expenses for local (Village-owned) streets. Local street revenue comes from property taxes and from the State in the form of gas and weight taxes. The major expenses incurred this year include street repairs, street light utilities, wages, and equipment rental.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets: Additions to the Village assets for this year include the following: New roof at the park pavilion (\$10,624), village hall improvements (\$5,432), lawnmower (\$8,235), new plow truck (\$154,986).

Long-Term Debt:

- Major Streets Debt: The Village paid \$25,000 in bond principal payments for the fiscal year and \$2,895 of interest.
- Note Payable: The Village financed the new plow truck, borrowing \$127,000. The first principal payment is due January, 2017.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Village anticipates maintaining a conservative fiscal plan. All potential capital improvements will be carefully analyzed before further investments are made.

CONTACTING VILLAGE MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report please contact Maureen Naumcheff, Village Clerk at 120 West State Street, Mancelona, MI 49659.

**VILLAGE OF MANCERONA
STATEMENT OF NET ASSETS
FEBRUARY 28, 2016**

| | PRIMARY GOVERNMENT | COMPONENT UNIT | DOWNTOWN DEVELOPMENT AUTHORITY |
|---|------------------------------------|---------------------------|---|
| | GOVERNMENTAL ACTIVITIES | | |
| ASSETS | | | |
| Current Assets: | | | |
| Cash | \$ 633,186 | \$ | 11,833 |
| Certificates of Deposit | 130,381 | | - |
| Receivables: | | | |
| Delinquent Property Taxes | 47,026 | | 14,405 |
| Due from Other Governments | 17,029 | | - |
| Due from Primary Government | - | | 19,302 |
| Deposit - Outdoor Equipment | - | | 12,495 |
| Total Current Assets | 827,622 | | 58,035 |
| Non-Current Assets: | | | |
| Capital Assets, Net | 1,479,913 | | 62,869 |
| Total Assets | \$ 2,307,535 | \$ | 120,904 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accrued Interest | \$ 1,250 | \$ | - |
| Due to the DDA/MAWSA | 32,434 | | - |
| Due to Homeowner | 12,000 | | - |
| Current Portion of Long-Term Debt | 32,000 | | - |
| Total Current Liabilities | 77,684 | | - |
| Long-Term Debt: | | | |
| Notes/Bonds Payable | 150,000 | | - |
| Compensated Absences | 26,500 | | - |
| Total Long-Term Debt | 176,500 | | - |
| Total Liabilities | 254,184 | | - |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Debt | 1,297,913 | | 62,869 |
| Net Assets, Restricted | 166,199 | | - |
| Net Assets, Unrestricted and Unassigned | 289,239 | | 58,035 |
| Net Assets, Assigned | 300,000 | | - |
| Total Net Assets | \$ 2,053,351 | \$ | 120,904 |

See Auditor's Report and the accompanying notes to the financial statements

**VILLAGE OF MANCERLONA
STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2016**

| | P R O G R A M R E V E N U E S | | | NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS | | |
|---------------------------------------|--------------------------------------|-------------------------------------|---|---|-------------------------------|---------------------------|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS & CONTRI- BUTIONS | CAPITAL GRANTS & CONTRI- BUTIONS | PRIMARY GOVERNMENT | COMPONENT UNIT |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| Village Administration | \$ (74,213) | \$ 510 | \$ - | \$ - | (73,703) | \$ - |
| Buildings and Grounds | (51,983) | 9,000 | - | - | (42,983) | - |
| Streets and Highways | (158,424) | - | 129,821 | - | (28,603) | - |
| Parks and Recreation | (44,644) | 1,473 | - | - | (43,171) | - |
| Law Enforcement | (151,599) | 3,052 | 9,946 | - | (138,601) | - |
| Motor Pool | (80,348) | - | 5,000 | - | (75,348) | - |
| Sewer Assessment | (40,900) | 40,900 | - | - | - | - |
| Unallocated Depreciation | (823) | - | - | - | (823) | - |
| Downtown Development Authority | - | - | - | - | - | (17,405) |
| Total Governmental Activities | (602,934) | 54,935 | 144,767 | - | (403,232) | (17,405) |
| GENERAL REVENUES | | | | | | |
| Property Taxes, Levied for: | | | | | | |
| General Operations | | | | | 185,739 | - |
| Local Streets | | | | | 47,448 | - |
| Downtown Development Authority | | | | | - | 33,707 |
| State Shared Revenue - Not Restricted | | | | | 139,335 | - |
| Franchise Fees | | | | | 16,671 | - |
| Interest Earnings | | | | | 4,152 | 25 |
| Other | | | | | 297 | - |
| Total General Revenues | | | | | 393,642 | 33,732 |
| CHANGE IN NET ASSETS | | | | | (9,590) | 16,327 |
| NET ASSETS - MARCH 1, 2015 | | | | | 2,062,941 | 104,577 |
| NET ASSETS - FEBRUARY 29, 2016 | | | | | \$ 2,053,351 | \$ 120,904 |

See Auditor's Report and the accompanying notes to the financial statements

**VILLAGE OF MANCERLONA
BALANCE SHEET
GOVERNMENTAL FUNDS
FEBRUARY 28, 2016**

| | <u>M A J O R F U N D S</u> | | | <u>TOTAL</u> |
|---|----------------------------|---------------------|---------------------|-------------------|
| | <u>GENERAL</u> | <u>MAJOR STREET</u> | <u>LOCAL STREET</u> | |
| <u>ASSETS</u> | | | | |
| Cash | \$ 442,373 | \$ 65,282 | \$ 125,531 | \$ 633,186 |
| Certificates of Deposit | 104,309 | - | 26,072 | 130,381 |
| Receivables: | | | | |
| Delinquent Taxes | 40,163 | - | 6,863 | 47,026 |
| Accounts | 8,200 | 5,802 | 3,027 | 17,029 |
| Due From Other Funds | 62,418 | - | - | 62,418 |
| Total Assets | 657,463 | 71,084 | 161,493 | 890,040 |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | |
| Liabilities: | | | | |
| Due To Other Funds | - | 31,445 | 30,973 | 62,418 |
| Due to the DDA | 15,342 | - | 3,960 | 19,302 |
| Due to MAWSA | 13,132 | - | - | 13,132 |
| Due to Homeowner | 12,000 | - | - | 12,000 |
| Total Liabilities | 40,474 | 31,445 | 34,933 | 106,852 |
| Fund Equity: | | | | |
| Fund Balance - Restricted | - | 39,639 | 126,560 | 166,199 |
| Fund Balance - Unassigned | 316,989 | - | - | 316,989 |
| Fund Balance - Assigned | 300,000 | - | - | 300,000 |
| Total Fund Equity | 616,989 | 39,639 | 126,560 | 783,188 |
| Total Liabilities and Fund Equity | \$ 657,463 | \$ 71,084 | \$ 161,493 | \$ 890,040 |

See Auditor's Report and the accompanying notes to the financial statements.

**VILLAGE OF MANCERLONA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FEBRUARY 28, 2016**

| | |
|--|---------------------|
| TOTAL FUND BALANCES - GOVERNMENTAL ACTIVITIES (PER THE BALANCE SHEET PAGE 8) | \$ 783,188 |
| Amounts reported for governmental activities in the Statement of Net Assets (page 6) are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore not used in the funds | 1,479,913 |
| Long-term liabilities and accrued interest are not due and payable in the current period and therefore not reported in the funds | (209,750) |
| TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT OF NET ASSETS - PAGE 6) | <u>\$ 2,053,351</u> |

See Auditor's Report and the accompanying notes to the financial statements

VILLAGE OF MANCERLONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED FEBRUARY 28, 2016

| | <u>M A J O R F U N D S</u> | | | <u>TOTAL</u> |
|--|----------------------------|---------------------|---------------------|-------------------|
| | <u>GENERAL</u> | <u>MAJOR STREET</u> | <u>LOCAL STREET</u> | |
| REVENUES | | | | |
| Property Taxes | \$ 185,739 | \$ - | \$ 47,448 | \$ 233,187 |
| State Shared Revenue | 139,335 | 87,596 | 42,225 | 269,156 |
| Equipment Rental and Admin. | 62,937 | - | - | 62,937 |
| Sewer Special Assessment | 40,900 | - | - | 40,900 |
| Franchise Fee - Cable Co. | 16,671 | - | - | 16,671 |
| Police | 12,998 | - | - | 12,998 |
| Charges for Services | 10,983 | - | - | 10,983 |
| Grant Proceeds | 5,000 | - | - | 5,000 |
| Interest Earnings | 3,776 | 10 | 366 | 4,152 |
| Other | 297 | - | - | 297 |
| Total Revenues | 478,636 | 87,606 | 90,039 | 656,281 |
| EXPENDITURES | | | | |
| General Government | 179,145 | - | - | 179,145 |
| Public Safety: | | | | |
| Police | 146,937 | - | - | 146,937 |
| Highways and Streets | - | 76,587 | 140,973 | 217,560 |
| Motor Pool | 203,171 | - | - | 203,171 |
| MAWSA - Sewer Assessment | 40,900 | - | - | 40,900 |
| Total Expenditures | 570,153 | 76,587 | 140,973 | 787,713 |
| Excess (Deficiency) of Revenues Over Expenditures | (91,517) | 11,019 | (50,934) | (131,432) |
| Other Financing Sources (Uses) | | | | |
| Loan Proceeds - Plow Truck | 127,000 | - | - | 127,000 |
| Excess (Deficiency) of Revenues and Other Sources over Expenditures | 35,483 | 11,019 | (50,934) | (4,432) |
| Fund Balance - Beginning of Year | 581,506 | 28,620 | 177,494 | 787,620 |
| Fund Balance - End of Year | \$ 616,989 | \$ 39,639 | \$ 126,560 | \$ 783,188 |

See Auditor's Report and the accompanying notes to the financial statements

**VILLAGE OF MANCERLONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2016**

| | | |
|--|-----------|----------------|
| NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS | \$ | (4,432) |
| Amounts reported for governmental activities in the Statement of Activities (page 8) are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives. | | 179,277 |
| Depreciation expense is reported in the Statement of Activities but not the governmental funds financial statements. | | (81,985) |
| Governmental funds do not report long-term debt; therefore, debt service payments are recorded as an expenditure. However, in the government-wide financial statements, long-term debt is recorded and debt service payments are applied against the outstanding balance or to interest expense. | | 24,550 |
| Proceeds from Long-Term Debt is recorded as an Other Financing Source in the Fund Statements, but recorded as Long-Term Debt in the Government wide Statement of Net Assets | | (127,000) |
| Governmental funds do not record the "Compensated Absences"; However, the Government-wide statements do record the liability and the appropriate change in the liability. | | - |
| CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES PER THE STATEMENT OF ACTIVITIES | \$ | (9,590) |

See Auditor's Report and the accompanying notes to the financial statements

**VILLAGE OF MANCELONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE A: ENTITY

The Village of Mancelona is a General Law Village of the State of Michigan organized in 1879, located in Antrim County, Michigan. It was incorporated under Act 3 of 1895. The criteria for determining the various governmental functions to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of the Village of Mancelona.

DOWNTOWN DEVELOPMENT AUTHORITY

The Village passed Ordinance 74, effective July 27, 1994, creating the Downtown Development Authority (DDA) of the Village of Mancelona. The Authority is a component unit of the Village. The Village Council has the power to dissolve the Authority at will. The Authority may not impose taxes nor obligate the Village in any manner without approval of the Village Council. The activities of the Authority are presented as a discrete component unit of the Village of Mancelona in these financial statements. The DDA is audited under a separate cover, and those financial statements are available for review at the Village offices.

MANCELONA FIRE DISTRICT

This report does not include the financial activity of the Mancelona Fire District. The Mancelona Fire District is part of the Township of Mancelona.

MANCELONA AREA WATER AND SEWER AUTHORITY

The Mancelona Area Water and Sewer Authority was established in 2000 as a joint venture by the Village of Mancelona, the Township of Mancelona, and the Township of Custer. The Authority was established to most effectively meet the water and sewer needs of the Mancelona area. The financial statements of the Authority are audited under separate cover and are not included in this report. The Authority had long-term debt of \$5,532,480 as of December 31, 2014, along with restricted equity for debt service of \$3,121,591.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Village of Mancelona are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Village's financial activities.

The accounting policies of the Village of Mancelona conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**VILLAGE OF MANCELONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On March 1, 2003, the Village of Mancelona adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Village's financial statements has shifted from a fund focus to a government-wide focus.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information for the Village as a whole, excluding fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Village general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. At this time, the Village has no business-type activities.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Village's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included as program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The Village does not maintain any non-major funds.

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**VILLAGE OF MANCERONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED)
FUND TYPES AND MAJOR FUNDS**

Governmental Funds

The Village reports the following major governmental funds:

General Fund – This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

Major Street Fund – This fund is used to account for all financial transactions related to the Village's "major" (state-owned) streets. Revenues are derived primarily from state grants.

Local Street Fund – This fund is used to account for all financial transactions related to the Village's local streets. Revenues are derived primarily from property taxes and state grants.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Village are prepared in accordance with generally accepted accounting principles (GAAP). The Village applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Village does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds).

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

**VILLAGE OF MANCELONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS (CONTINUED)

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Village considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on September 15 with the final collection date of February 29 before they are added to the county delinquent tax rolls. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Village records property tax revenue on the lien date, when it becomes an enforceable legal claim for the Village. Accordingly, taxes levied on July 1, 2015 are recorded as revenue in the current year. Unpaid taxes are recorded as receivables of the respective funds.

Property taxes were levied as follows for the year ended February 29, 2016:

| | |
|--------------|---------------|
| General | 11.6200 mills |
| Local Street | 3.0000 mills |

The taxable value of the Village for the 2015 tax year totaled \$17,193,088.

CAPITAL ASSETS AND DEPRECIATION

The Villages property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Village maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The Village generally capitalizes assets with historical cost of \$1,000 or more as purchase and construction outlays occur.

**VILLAGE OF MANCERLONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|------------------------------------|-------|
| Buildings | 50-75 |
| Improvements, other than buildings | 10-20 |
| Machinery and equipment | 5-10 |
| Vehicles | 5-10 |
| Infrastructure | 20-40 |

For information describing capital assets, see Note F.

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNT/PREMIUMS

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

BUDGETS

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Village for these budgetary funds were adopted on a fund level, using the modified accrual basis of accounting. Amendments are made to the budget

**VILLAGE OF MANCELONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(BUDGETS CONTINUED)**

when determined to be necessary throughout the year. The budget is presented as originally adopted and as amended. There are no carryover budget items.

NOTE C: CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the Village's bank deposits including certificates of deposit was \$763,567. The bank balance was \$766,654. Of the bank balance, \$509,207 was covered by federal depository insurance and \$257,447 was uninsured. The uninsured deposits are held by the bank in the Village's name and collateralized with securities.

Statutory Authority

Act 217, PA 1982, authorizes the Village to deposit and invest in:

- (a) Bonds and other direct obligations of the United States or it agencies
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be the depository of surplus money belonging to the state under section 5 or 6 of Act 105, PA 1855, as amended.
- (c) Commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time.
- (d) United States Government or Federal Agency obligation repurchase agreements.
- (e) Banker's acceptance of United States bank.
- (f) Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

The Village's cash deposits and investments are in accordance with statutory authority.

NOTE D: RECEIVABLES

The Village's receivables as of February 29, 2016 are as follows:
Fund Financial Statements:

| | <u>GENERAL</u> | <u>MAJOR STREET</u> | <u>LOCAL STREET</u> |
|------------------------|------------------|-------------------------|-------------------------|
| Delinquent Taxes | \$ 40,163 | \$ - | \$ 6,863 |
| State Revenue | - | 5,802 | 3,027 |
| Charter Franchise Fees | <u>8,200</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 48,363</u> | <u>\$ 5,802</u> | <u>\$ 9,890</u> |

**VILLAGE OF MANCERONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE E: DUE FROM/TO OTHER FUNDS

The amounts of interfund receivables and payable are as follows:

| <u>FUND</u> | <u>INTERFUND RECEIVABLE</u> | <u>FUND</u> | <u>INTERFUND PAYABLE</u> |
|-------------|---------------------------------|--------------|------------------------------|
| General | \$ 62,418 | Major Street | \$ 31,445 |
| | | Local Street | 30,973 |
| | <u>\$ 62,418</u> | | <u>\$ 62,418</u> |

Interfund receivables are short-term in nature and no interest is charged on the above amounts. Above amounts are the result of fringe benefit allocations, equipment rental and administration.

GASB 34 requires that all interfund receivables and payables are eliminated within each activity type for purposes of the government-wide financial statements.

NOTE F: CAPITAL ASSETS

| | NOT DEPR. | DEPRECIATED | | | | <u>TOTALS</u> |
|--------------------------------|-------------------------------|------------------|----------------------------|--------------------------------------|-----------------------------|--------------------|
| | <u>LAND & IMPROV.</u> | <u>BUILDINGS</u> | <u>POLICE VEHICLES</u> | <u>MACHINERY & EQUIPMENT</u> | <u>INFRA- STRUCTURE</u> | |
| Governmental Activities | | | | | | |
| Balance, March 1, 2015 | \$370,800 | \$560,849 | \$59,547 | \$621,701 | \$452,366 | \$2,065,263 |
| Increases | - | 16,056 | - | 163,221 | - | 179,277 |
| Decreases | - | - | - | (81,392) | - | (81,392) |
| Balance, Feb. 28, 2016 | <u>370,800</u> | <u>576,905</u> | <u>59,547</u> | <u>703,530</u> | <u>452,366</u> | <u>2,163,148</u> |
| Governmental Activities | | | | | | |
| Accumulated Depreciation | | | | | | |
| Balance, March 1, 2015 | - | 166,100 | 50,814 | 328,121 | 137,607 | 682,642 |
| Increases | - | 13,501 | 4,662 | 48,743 | 15,079 | 81,985 |
| Decreases | - | - | - | (81,392) | - | (81,392) |
| Balance, Feb. 28, 2016 | <u>-</u> | <u>179,601</u> | <u>55,476</u> | <u>295,472</u> | <u>152,686</u> | <u>683,235</u> |
| Governmental Activities | | | | | | |
| Capital Assets, Net | <u>\$370,800</u> | <u>\$397,304</u> | <u>\$4,071</u> | <u>\$408,058</u> | <u>\$299,680</u> | <u>\$1,479,913</u> |

Depreciation expense was charged to functions of the Village as follows:

| | |
|-----------------------|------------------|
| Motor Pool | \$ 39,748 |
| Street & Sidewalks | 15,079 |
| Parks | 8,172 |
| Law Enforcement | 4,662 |
| Buildings and Grounds | 13,501 |
| Unallocated | 823 |
| Total | <u>\$ 81,985</u> |

**VILLAGE OF MANCERLONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended February 29, 2016:

| <u>Description and Purpose</u> | <u>Balance March 1 2015</u> | <u>Issued</u> | <u>Retired</u> | <u>Balance February 29 2016</u> | <u>Due Within 1 Year</u> |
|--------------------------------|-------------------------------------|------------------|------------------|---|----------------------------------|
| Governmental Activities | | | | | |
| 2002 MTF Bond | \$ 80,000 | \$ - | \$ 25,000 | \$ 55,000 | \$ 25,000 |
| Note Payable | - | 127,000 | - | 127,000 | 7,000 |
| Total | <u>\$ 80,000</u> | <u>\$127,000</u> | <u>\$ 25,000</u> | <u>\$ 182,000</u> | <u>\$ 32,000</u> |

The 2002 Michigan Transportation Fund Bond is a bond due in annual installments from \$15,000 to \$30,000 payable on June 1, of each year beginning in 2007. Interest is due semi-annually on June 1, and December 1, beginning in 2003, at varying rates from 4.05% - 4.40%. Final payment is due on June 1, 2018. The money was borrowed for the purpose of paying construction costs of East State Street. This obligation is serviced by the Major Street Fund.

Note Payable for Equipment was established in January, 2016. The \$127,000 note was borrowed to pay for a new plow truck. The annual principal payments (\$7,000 - \$10,000) are due January 1st through 2031. The interest payments are due semi-annually on January 1, and July 1 at the rate of 3.25%.

The annual principal and interest requirements, to amortize the bonds and note payable as of February 29, 2016, are as follows:

| | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|---------|-------------------|------------------|-------------------|
| 2017 | 32,000 | 5,820 | 37,820 |
| 2018 | 37,000 | 4,410 | 41,410 |
| 2019 | 7,000 | 3,532 | 10,532 |
| 2020 | 7,000 | 3,312 | 10,312 |
| 2021 | 8,000 | 3,094 | 11,094 |
| 2022-31 | 91,000 | 16,344 | 107,344 |
| | <u>\$ 182,000</u> | <u>\$ 36,512</u> | <u>\$ 218,512</u> |

**VILLAGE OF MANCERLONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE H: COMPENSTATED ABSENCES

All full-time employees (non-elected officials) may accumulate compensated absences (vacation and personal days) in accordance with the employment policies of the Village. Upon termination, employees are either paid one-half their individual accumulated amount or the full amount, depending on the details of each employment contract. At February 29, 2016, the Village was liable for approximately \$26,500 of compensated absences.

NOTE I: RESTRICTED / ASSIGNED FUND BALANCE AND NET ASSETS

The restricted fund balance/restricted net assets related to streets and highways include the ending fund balances of the local and major street funds, which totals \$166,199.

The assigned fund balance and net assets, totaling \$300,000, have been "set-aside" by the Village Council for anticipated future costs. The allocation of the assigned fund balance is as follows: DPW equipment \$200,000, Police equipment \$30,000, unfunded employee benefits \$20,000, Buildings and Grounds Capital Outlay \$50,000.

NOTE J: INTRA/INTER-FUND REVENUE AND EXPENSE

Following is a summary of all equipment rental and administration charges between and within funds (all general fund revenues).

| | |
|--------------|------------------|
| Local Street | \$ 24,218 |
| Major Street | \$ <u>24,797</u> |

| | | | |
|------------------|------------------|---------------------|------------------|
| Motor Pool Equip | | Buildings & Grounds | |
| Rental & Admin. | \$ <u>49,015</u> | and Parks | \$ <u>13,922</u> |

The Local and Major Street Funds incur the above stated expenditures and pay the General Fund accordingly. The Building and Grounds and Parks incur equipment rental expenses, while matching revenue is recorded, however no payments are made for this **intra-fund** activity.

All inter/intra-fund activity has been eliminated in the government-wide financial statements.

**VILLAGE OF MANCELONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE K: PENSION/ 457 PLAN

The Village of Mancelona has a defined contribution pension plan covering substantially all of its (non-elected) employees. Employees are fully vested in the sixth year of employment. A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under the Village's defined contribution pension plan, the benefits a participant will receive depend on the amount contributed to the participant's account and the returns earned on investments of those contributions.

The plan is provided by the Michigan Employers Retirement System (MERS). The total pension expense for the year approximated \$12,965, which meets the contribution requirements of the Village. The Village contributes 7% of eligible employee wages which was approximately \$185,200 for the period. The policy provides for group retirement annuities and contributions to be used for the purchase of annuity benefits, so there are no separate plan assets.

Additionally, the Village offers a deferred compensation "457 Plan", which allows for employees to defer a portion of their taxable wages. No employer contribution is made to the 457 Plan.

NOTE L: TOWNSHIP AMBULANCE AUTHORITY LEASE

In 2011, the Village entered into a lease agreement with the Township Ambulance Authority. The Ambulance Authority paid approximately \$325,000 in leasehold improvements to the "village hall" building. In turn for these improvements, the Authority has "rent free" use of the facility for a period of 40 years. The Village has not recorded the leasehold improvements as a capital asset, nor has it recorded a matching deferred revenue as a liability.

**VILLAGE OF MANCERLONA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2016**

NOTE M: INSURANCE COVERAGES

The Village is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Village participates in the Municipal League Liability and Property Pool, a self-insured group. The pool is considered a public entity risk pool. The Village pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expense for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Village has not been informed of any special assessments being required.

There were no significant changes in coverage, nor were there any significant claims for the year. The Village carries commercial insurance for other types of losses, including employee health and accident insurance.

The Village has the following coverages:

| | <u>COVERAGES</u> |
|------------------------|------------------|
| Property | \$ 1,519,466 |
| Liability | 2,000,000 |
| Errors & Omissions | 2,000,000 |
| Law Enforcement | 2,000,000 |
| Automobile | 2,000,000 |
| Crime | 100,000 |
| Surety Bond | 100,000 |
| Position Fidelity Bond | 8,000 |
| Worker's Compensation | Statutory |

NOTE N: SUBSEQUENT EVENTS

The Village has evaluated subsequent events and transactions for potential recognition and disclosure through May 27, 2016, the date the financial statements were available to be issued.

**VILLAGE OF MANCERLONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED FEBRUARY 29, 2016**

| | ORIGINAL BUDGET | FINAL AMENDED BUDGET | ACTUAL | VARIANCE FROM FINAL AMENDED BUDGET |
|------------------------------------|--------------------|----------------------------|-------------------|---|
| REVENUES: | | | | |
| Property Taxes | \$ 178,000 | \$ 178,000 | \$ 185,739 | \$ 7,739 |
| State Shared Revenue | 133,000 | 133,000 | 135,092 | 2,092 |
| Special Assessment - Sewer | 45,000 | 45,000 | 40,900 | (4,100) |
| Metro Act Funds | 4,750 | 4,750 | 4,243 | (507) |
| Charges for Services | 800 | 800 | 10,983 | 10,183 |
| Grant | - | - | 5,000 | 5,000 |
| Sub - Total | 361,550 | 361,550 | 381,957 | 20,407 |
| Police: | | | | |
| Ordinance Fines | 6,500 | 6,500 | 8,144 | 1,644 |
| PBT Fees | 2,500 | 2,500 | 3,052 | 552 |
| State Rev Training | (250) | (250) | 500 | 250 |
| Liquor License | 1,000 | 1,000 | 1,302 | 302 |
| Total Police | 10,250 | 10,250 | 12,998 | 2,748 |
| Equipment Rental and Admin: | | | | |
| Local and Major Streets | 35,000 | 35,000 | 49,015 | 14,015 |
| Buildings & Grounds/ Parks | 17,000 | 17,000 | 13,922 | (3,078) |
| Total Equipment Rental and Admin. | 52,000 | 52,000 | 62,937 | 10,937 |
| Other: | | | | |
| Franchise Fees/Royalties | 13,000 | 13,000 | 16,671 | 3,671 |
| Interest Earnings | 3,750 | 3,750 | 3,776 | 26 |
| Miscellaneous | 500 | 500 | 297 | (203) |
| Total Other | 17,250 | 17,250 | 20,744 | 3,494 |
| Total Revenues | \$ 441,050 | \$ 441,050 | \$ 478,636 | \$ 37,586 |

**VILLAGE OF MANCERLONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED FEBRUARY 29, 2016**

| | <u>ORIGINAL BUDGET</u> | <u>FINAL AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE FROM FINAL AMENDED BUDGET</u> |
|--------------------------------|----------------------------|-------------------------------------|------------------|---|
| EXPENDITURES: | | | | |
| GENERAL GOVERNMENT | | | | |
| Village Council: | | | | |
| Wages | \$ 15,000 | \$ 15,000 | \$ 11,935 | \$ 3,065 |
| Fringe Benefits | 1,200 | 1,200 | 922 | 278 |
| Insurance | 18,500 | 18,500 | 15,886 | 2,614 |
| Professional Fees | 10,000 | 10,000 | 9,442 | 558 |
| Printing | 1,500 | 1,500 | 1,118 | 382 |
| Zoning Administrator | 500 | 500 | 375 | 125 |
| Miscellaneous | 2,000 | 2,000 | 1,336 | 664 |
| Total Village Council | 48,700 | 48,700 | 41,014 | 7,686 |
| Village Clerk: | | | | |
| Wages | 14,500 | 14,500 | 14,872 | (372) |
| Fringe Benefits | 2,200 | 2,200 | 2,272 | (72) |
| Office Supplies & Other | 5,000 | 5,000 | 4,629 | 371 |
| Telephone | 1,500 | 1,500 | 1,385 | 115 |
| Total Village Clerk | 23,200 | 23,200 | 23,158 | 42 |
| Village Treasurer: | | | | |
| Wages | 8,000 | 8,000 | 7,921 | 79 |
| Fringe Benefits | 1,700 | 1,700 | 1,198 | 502 |
| Tax Roll | 1,000 | 1,000 | 759 | 241 |
| Office Supplies | 500 | 500 | 163 | 337 |
| Total Village Treasurer | \$ 11,200 | \$ 11,200 | \$ 10,041 | \$ 1,159 |

**VILLAGE OF MANCERLONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED FEBRUARY 29, 2016**

| | ORIGINAL BUDGET | FINAL AMENDED BUDGET | ACTUAL | VARIANCE FROM FINAL AMENDED BUDGET |
|------------------------------------|----------------------------|-------------------------------------|-------------------|---|
| Buildings and Grounds: | | | | |
| Wages | \$ 10,000 | \$ 10,000 | \$ 10,242 | \$ (242) |
| Fringe Benefits | 6,000 | 6,000 | 7,276 | (1,276) |
| Equipment Rental | 8,000 | 8,000 | 5,000 | 3,000 |
| Capital Outlay | 17,000 | 17,000 | 16,056 | 944 |
| Contractual Services | 4,500 | 10,000 | 8,986 | 1,014 |
| Utilities | 4,500 | 4,500 | 2,824 | 1,676 |
| Operating Supplies | 2,000 | 2,000 | 2,297 | (297) |
| Sewer Assessment | 5,000 | 5,000 | 5,748 | (748) |
| Building Supplies | 2,000 | 2,000 | 1,625 | 375 |
| Total Buildings and Grounds | 59,000 | 64,500 | 60,054 | 4,446 |
| Parks and Recreation: | | | | |
| Wages | 12,000 | 12,000 | 13,767 | (1,767) |
| Fringe Benefits | 8,000 | 8,000 | 9,780 | (1,780) |
| Equipment Rental | 9,000 | 9,000 | 8,406 | 594 |
| Utilities | 2,500 | 2,500 | 2,602 | (102) |
| Supplies | 4,500 | 4,500 | 3,829 | 671 |
| Contractual Services | 500 | 6,500 | 6,494 | 6 |
| Total Parks and Recreation | 36,500 | 42,500 | 44,878 | (2,378) |
| TOTAL GENERAL GOVERNMENT | \$ 178,600 | \$ 190,100 | \$ 179,145 | \$ 10,955 |

VILLAGE OF MANCERLONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED FEBRUARY 29, 2016

| | ORIGINAL BUDGET | FINAL AMENDED BUDGET | ACTUAL | VARIANCE FROM FINAL AMENDED BUDGET |
|--|--------------------|----------------------------|-------------------|---|
| PUBLIC SAFETY | | | | |
| Police | | | | |
| Wages | \$ 97,000 | \$ 97,000 | \$ 94,582 | \$ 2,418 |
| Fringes | 46,000 | 46,000 | 44,236 | 1,764 |
| Gasoline | 7,000 | 7,000 | 4,474 | 2,526 |
| Contractual Services | 1,000 | 1,000 | 895 | 105 |
| Operating Supplies | 4,000 | 4,000 | 648 | 3,352 |
| Telephone | 1,500 | 1,500 | 1,385 | 115 |
| Training & Mileage | 1,000 | 1,000 | - | 1,000 |
| New Equipment | 1,000 | 1,000 | - | 1,000 |
| Miscellaneous | 750 | 750 | 717 | 33 |
| Total Police | 159,250 | 159,250 | 146,937 | 12,313 |
| MOTOR POOL | | | | |
| Wages | 22,000 | 22,000 | 16,449 | 5,551 |
| Fringe Benefits | 13,000 | 13,000 | 9,852 | 3,148 |
| Gasoline | 10,000 | 10,000 | 5,813 | 4,187 |
| New Equipment | 2,500 | 163,500 | 163,420 | 80 |
| Utilities | 4,000 | 4,000 | 4,361 | (361) |
| Equipment Supplies | 3,500 | 3,500 | 2,245 | 1,255 |
| Operating Supplies | 1,500 | 1,500 | 386 | 1,114 |
| Contractual Services | 1,000 | 1,000 | 171 | 829 |
| Miscellaneous | 500 | 500 | 474 | 26 |
| Total Motor Pool | 58,000 | 219,000 | 203,171 | 15,829 |
| MAWSA - Sewer Assessment | 45,000 | 45,000 | 40,900 | 4,100 |
| Total Expenditures | 440,850 | 613,350 | 570,153 | 43,197 |
| Excess (Deficiency) of Revenues over Expenditures | 200 | (172,300) | (91,517) | 80,783 |
| Other Financing Sources (Uses) | | | | |
| Loan Proceeds - Plow Truck | - | 127,000 | 127,000 | - |
| Excess (Deficiency) of Revenues and Other Sources over Expenditures | 200 | (45,300) | 35,483 | 80,783 |
| Fund Balance - Beginning of Year | 581,506 | 581,506 | 581,506 | - |
| Fund Balance - End of Year | \$ 581,706 | \$ 536,206 | \$ 616,989 | \$ 80,783 |

VILLAGE OF MANCERLONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - MAJOR STREET FUND
YEAR ENDED FEBRUARY 29, 2016

| | ORIGINAL BUDGET | FINAL AMENDED BUDGET | ACTUAL | VARIANCE FROM FINAL AMENDED BUDGET |
|--|----------------------|----------------------------|----------------------|---|
| REVENUES: | | | | |
| State Funds | 68,000 | 68,000 | 83,969 | 15,969 |
| County Funds | 2,500 | 2,500 | 3,627 | (1,127) |
| Interest | 200 | 200 | 10 | (190) |
| Total Revenues | <u>70,700</u> | <u>70,700</u> | <u>87,606</u> | <u>16,906</u> |
| EXPENDITURES: | | | | |
| Reconstruction | 10,000 | 10,000 | 3,251 | 6,749 |
| Traffic Signals | 800 | 800 | 556 | 244 |
| Routine Maintenance: | | | | |
| Wages | 3,000 | 3,000 | 2,856 | 144 |
| Supplies, Equip. Rental, Other | 11,250 | 11,250 | 6,745 | 4,505 |
| Winter Maintenance: | | | | |
| Wages | 6,000 | 6,000 | 4,365 | 1,635 |
| Supplies, Equip. Rental, Other | 16,500 | 16,500 | 17,764 | (1,264) |
| M-88 Maintenance: | | | | |
| Wages | 1,500 | 1,500 | 1,889 | (389) |
| Equipment Rental | 2,500 | 2,500 | 3,867 | (1,367) |
| Fringe Benefits | 5,000 | 5,000 | 6,649 | (1,649) |
| Debt Service: | | | | |
| Principal and Interest Payments | 30,000 | 30,000 | 28,645 | 1,355 |
| Total Expenditures | <u>86,550</u> | <u>86,550</u> | <u>76,587</u> | <u>9,963</u> |
| Excess (Deficiency) of Revenues Over Expenditures | (15,850) | (15,850) | 11,019 | 26,869 |
| Fund Balance - Beginning of Year | <u>28,620</u> | <u>28,620</u> | <u>28,620</u> | <u>-</u> |
| Fund Balance - End of Year | <u><u>12,770</u></u> | <u><u>12,770</u></u> | <u><u>39,639</u></u> | <u><u>26,869</u></u> |

**VILLAGE OF MANCERLONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LOCAL STREET FUND
YEAR ENDED FEBRUARY 29, 2016**

| | ORIGINAL BUDGET | FINAL AMENDED BUDGET | ACTUAL | VARIANCE FROM FINAL AMENDED BUDGET |
|--|----------------------------|-------------------------------------|-------------------|---|
| REVENUES | | | | |
| Property Taxes | \$ 45,000 | \$ 45,000 | \$ 47,448 | \$ 2,448 |
| State Funds | 38,000 | 38,000 | 42,225 | 4,225 |
| Interest | 500 | 500 | 366 | (134) |
| Total Revenues | 83,500 | 83,500 | 90,039 | 6,539 |
| EXPENDITURES | | | | |
| Resurfacing | 30,000 | 73,000 | 72,373 | 627 |
| Sidewalk Installation | 1,000 | 1,000 | - | 1,000 |
| Street Light Utilities | 25,000 | 25,000 | 25,793 | (793) |
| Routine Maintenance: | | | | |
| Wages | 6,000 | 6,000 | 3,250 | 2,750 |
| Supplies, Equip. Rental, Other | 10,750 | 10,750 | 8,370 | 2,380 |
| Winter Maintenance: | | | | |
| Wages | 8,000 | 8,000 | 6,007 | 1,993 |
| Supplies, Equip. Rental, Other | 18,500 | 18,500 | 18,426 | 74 |
| Fringes | 6,000 | 6,000 | 6,754 | (754) |
| Total Expenditures | 105,250 | 148,250 | 140,973 | 7,277 |
| Excess (Deficiency) of Revenues Over Expenditures | (21,750) | (64,750) | (50,934) | 13,816 |
| Fund Balance - Beginning of Year | 177,494 | 177,494 | 177,494 | - |
| Fund Balance - End of Year | \$ 155,744 | \$ 112,744 | \$ 126,560 | \$ 13,816 |

INDEPENDENT AUDITOR'S 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

May 27, 2016

To the Village Council
Village of Mancelona

I 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 discretely presented component units, and each major fund of the Village of Mancelona, as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise the Village of Mancelona's basic financial statements and have issued my report thereon dated May 27, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Village of Mancelona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Mancelona's internal control. Accordingly, I do not express an opinion on the effectiveness of the Village of Mancelona's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section 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.

Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies. Please see items 2016-1 and 2016-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Villages of Mancelona's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-1 and 2016-2.

The Village of Mancelona's Response to Findings

The Village of Mancelona's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The Village of Mancelona's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Daniel S. Smith, CPA

**VILLAGE OF MANCERLONA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED FEBRUARY 29, 2016**

SECTION II – Financial Statement Findings

2016-1

Criteria or Specific Requirement

Establishment and maintenance of internal controls over the financial reporting process.

Condition

Personnel responsible for financial reporting do not possess the skills necessary to monitor and report annual financial activity without auditor intervention.

Criteria

Internal controls should be in place to provide reasonable assurance to the Village that the management possesses the skills necessary to monitor and report annual financial activity without auditor intervention.

Effect

The effect of this condition places a reliance on the independent auditor to be part of the Village's internal controls over financial reporting.

Recommendation

The Village should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Views of the Responsible Officials and Planned Corrective Action

Currently the Village does not feel the auditor intervention with the annual financial reporting is detrimental to the overall internal controls of its fiscal management. However, our Village Clerk does review the financial statements with the Village Council, prior to them becoming available for public use.

**VILLAGE OF MANCERLONA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED FEBRUARY 29, 2016**

SECTION II – Financial Statement Findings (Continued)

2016-2

Criteria or Specific Requirement

Establishment and maintenance of separation of duties over the cash collections and cash disbursements process.

Condition

Due to limited staff size, two individuals are essentially involved with the issuance of billings, collection of cash, check signing, bank reconciliation, transfers between bank accounts and responsibility for general ledger postings.

Criteria

Internal controls should be in place to provide reasonable assurance to the Village Council that the management is correctly recording cash collections and cash disbursements.

Effect

The effect of this condition is that a misstatement would not be detected timely by management or the Village Council.

Recommendation

The Village should review and implement the necessary separation of duties and board oversight to lessen the effects of the lack of separation of duties.

Views of the Responsible Officials and Planned Corrective Action

Currently the Village does not have the funding to hire additional staff in order to have separation of duties. The Village President and Council have become more active in the oversight in the cash collections and cash disbursements as a compensating control for management.