

CITY OF MCBAIN, MICHIGAN

APRIL 30, 2013



Baird, Cotter & Bishop, P.C.
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CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
www.bcbcpa.com

CITY OF MCBAIN, MICHIGAN

APRIL 30, 2013

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www.bcbcpa.com

July 12, 2013

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of McBain
Missaukee County
McBain, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of McBain, Missaukee County, McBain, Michigan as of and for the year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise the City'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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of McBain, Missaukee County, McBain, Michigan as of April 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iv through xii and page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McBain, Michigan's basic financial statements. The combining and individual major fund financial statements, major proprietary fund financial statements, nonmajor fund financial statements, and component unit financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States

of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2013, on our consideration of City of McBain's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of McBain's internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2013

Management's Discussion and Analysis

As management of the City of McBain ("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 April 30, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

- ❖ The assets of the City of McBain exceeded its liabilities at the close of the most recent fiscal year by \$3,409,325 (*net position*). Of this amount, \$682,399 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the City of McBain's governmental funds reported combined fund balances of \$448,133 an increase of \$41,008 in comparison with the prior year. Approximately 59% of this amount (\$263,559) is available for spending at the government's discretion (*unassigned fund balance*).
- ❖ At the end of the current fiscal year, unrestricted fund balance (the total of *committed, assigned, and unassigned* components of fund balance) for the general fund was \$263,559.

Overview of the Financial Statements

This discussion and analysis provided here are intended to serve as an introduction to the City of McBain's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also includes supplementary information intended to furnish additional detail to support 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 Position* presents financial information on all of the City's assets, and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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 significant portion of their costs through user fees and charges (*business-type*

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2013

activities). The governmental activities of the City include general government, public safety, public works, Planning, culture and recreation, economic development, and capital outlay. The business-type activities of the City include water and sewer utility services.

The government-wide financial statements include not only the City of McBain itself (known as the *primary government*), but also a legally separate Downtown Development Authority and the Tax Increment Finance Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 1-2 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 of McBain, 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 assessing 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 fund balance sheet and the governmental fund 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 seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund and Fire Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

The City of McBain adopts an annual appropriated budget for all major funds. A budgetary comparison has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2013

Proprietary Funds The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activity.

Proprietary funds provide the same type of information as the governmental-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water and sewer activity, both of which are considered to be major funds of the City of McBain.

The basic proprietary fund financial statements can be found on pages 7-9 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 City of McBain maintains one fiduciary fund. The Agency Fund reports resources held by the Township in a custodial capacity for other governments.

The fiduciary fund financial statements can be found on page 10 of this report.

Notes to Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 13-26 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of McBain, assets exceed liabilities by \$3,409,325, at the close of the most recent fiscal year.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2013

*City of McBain
Net Position*

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 462,106	\$ 425,545	\$ 344,527	\$ 299,747	\$ 806,633	\$ 725,292
Capital Assets	1,551,267	1,668,250	1,075,734	1,119,028	2,627,001	2,787,278
Total Assets	2,013,373	2,093,795	1,420,261	1,418,775	3,433,634	3,512,570
Current and Other Liabilities	12,596	16,645	11,713	745	24,309	17,390
Net Position:						
Net Investment						
in Capital Assets	1,551,267	1,668,250	1,075,734	1,119,028	2,627,001	2,787,278
Restricted	99,925	69,141	0	0	99,925	69,141
Unrestricted	349,585	339,759	332,814	299,002	682,399	638,761
Total Net Position	\$ 2,000,777	\$ 2,077,150	\$ 1,408,548	\$ 1,418,030	\$ 3,409,325	\$ 3,495,180

By far, the largest portion of the City's net position (77%) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, infrastructure, and others), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used 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 position (2.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$682,399 is unrestricted may be used to meet the government's ongoing obligations to its citizens and creditors.

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

However, the City of McBain's overall net position decreased by \$85,855 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for the governmental activities and business-type activities.

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2013

City of McBain
Change in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 237,898	\$ 258,092	\$ 118,734	\$ 95,251	\$ 356,632	\$ 353,343
Operating Grants and Contributions	108,036	99,475	0	845	108,036	100,320
Capital Grants and Contributions	0	187,773	1,582	66,718	1,582	254,491
General Revenues						
Property Taxes and Assessments	123,105	123,408	0	0	123,105	123,408
State and Federal Grant	51,276	42,902	0	0	51,276	42,902
Investment Earnings	342	599	338	653	680	1,252
Other	15,308	26,737	25,003	2,177	40,311	28,914
Total Revenues	535,965	738,986	145,657	165,644	681,622	904,630
<u>Expenses</u>						
General Government	212,950	237,847	0	0	212,950	237,847
Public Safety	83,577	100,825	0	0	83,577	100,825
Public Works	162,117	203,996	0	0	162,117	203,996
Planning	9,500	10,441	0	0	9,500	10,441
Culture and Recreation	24,486	17,996	0	0	24,486	17,996
Economic Development/Assistance	575	475	0	0	575	475
Capital Outlay	28,838	136,054	0	0	28,838	136,054
Water and Sewer	0	0	155,139	155,268	155,139	155,268
Other Functions	90,295	85,850	0	0	90,295	85,850
Total Expenses	612,338	793,484	155,139	155,268	767,477	948,752
Increase (Decrease) in Net Position	(76,373)	(54,498)	(9,482)	10,376	(85,855)	(44,122)
Beginning Net Position	2,077,150	2,207,530	1,418,030	1,386,262	3,495,180	3,593,792
Ending Net Position	\$ 2,000,777	\$ 2,153,032	\$ 1,408,548	\$ 1,396,638	\$ 3,409,325	\$ 3,549,670

Governmental Activities. The most significant portion of the revenue for all governmental activities of the City of McBain comes from Charges for Services. This figure includes refuse collection fees, charges to other funds and component units for use of City-owned equipment, and charges to other funds and component units for labor.

The City's governmental activities expenses are dominated by the General Government and Public Works expenses. The City spent \$212,950 in FY2013 on General Government. Public Works represented the

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2013

next largest expense at \$162,117. Expenses in the Major Street Fund and Local Street Fund represent a large part of the Public Works expenditures.

Business-Type Activities. The Business-type activities of the City include the Water Fund and Sewer Fund, which provide water and sewer utility services to City residents as well as commercial customers. These activities accounted for a decrease of \$9,482 in the City's Net Position.

Financial Analysis of the Governmental Funds

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

Governmental Funds The focus of the City of McBain'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, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At April 30, 2013, the City of McBain's governmental funds reported combined fund balances of \$448,133, an increase of \$41,008 in comparison with the prior year. Approximately 59% of this amount (\$263,559) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes (\$99,925), 4) committed for particular purposes, or 5) assigned for particular purposes (\$84,649).

General Fund – The General Fund is the main operating fund of the City. The General Fund increased its fund balance in this fiscal year by \$14,062, bringing the balance to \$263,559.

Major Street Fund – The fund balance of the Major Street Fund ended the year at \$81,090. This was an increase of \$23,980 from the previous year.

Local Street Fund – The fund balance of the Local Street fund is \$18,835, an increase of \$6,804 from the previous year.

Fire Fund – The Fire Fund ended the year with a \$29,270 fund balance. This is an increase of \$2,913 over last year.

Proprietary Funds The City's proprietary funds provide virtually the same information as the government-wide statements; however, more detail may be found in the fund financial statements.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2013

Water Fund – The Water Fund ended this fiscal year with \$362,037 in net position. The net position of the fund decreased by \$3,625 in 2013. This fund has no long-term debt and remains in sound fiscal condition moving forward.

Sewer Fund – The Sewer Fund ended this fiscal year with \$1,046,511 in net position. The net position of the fund decreased by \$5,857 in 2013.

General Fund Budgetary Highlights

During the year, there was a \$350 increase in appropriations between the original budget and final amended budget. Following is the reason for the increase:

- \$175 decrease in General Government expenditures.
- \$6,500 decrease in Public Works expenditures.
- \$700 increase in Community and Economic Development expenditures.
- \$2,025 increase in Culture and Recreation expenditures.
- \$7,600 increase in Other Functions expenditures.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 429,350	\$ 429,350	\$ 417,693
Total Expenditures	\$ 403,390	\$ 407,040	\$ 350,131

The significant difference between the final budget and actual revenues was due to receiving less rental income than anticipated. The significant difference between final budget and actual expenses was due to no fire safety expenses incurred.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2013

Capital Assets and Debt Administration

Capital Assets The City's investment in capital assets for the governmental and business-type activities as of April 30, 2013 amounted to \$2,627,001 (net of accumulated depreciation). Capital assets of the City include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The City has invested in a broad range of capital assets, as detailed below:

*City of McBain
Capital Assets as of April 30, 2013*

	Governmental Activities	Business-Type Activities	Total Primary Government
Land and Land Improvements	\$ 823,076	\$ 88,703	\$ 911,779
Infrastructure	959,408	0	959,408
Buildings	295,325	157,255	452,580
Improvements Other Than Buildings	0	2,760,713	2,760,713
Machinery and Equipment	1,312,739	228,541	1,541,280
Total Assets	3,390,548	3,235,212	6,625,760
Less Accumulated Depreciation	1,839,281	2,159,478	3,998,759
Capital Assets, Net of Depreciation	\$ 1,551,267	\$ 1,075,734	\$ 2,627,001

Major capital asset events during the 2012-2013 fiscal year included the following:

- Purchase of an E-draulic combination tool package at a cost of \$12,000.
- Replaced a pump at a cost of \$20,727.

Additional information regarding the City's capital assets can be found in the Notes to Financial Statements section.

Economic Outlook for the City of McBain

In the 2012-2013 fiscal year the following were significant developments:

1. A modern Reedy's Restaurant opened in the completely remodeled former McBain Pharmacy building in downtown McBain.
2. A new machine shop named Tooling 123 opened in the TIFA owned incubator Action Tool building.
3. Burkholder Family Funeral Home opened in the remodeled former Fireside restaurant.
4. The City added to and upgraded its security camera system.

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2013

5. The City of McBain purchased new and refurbished equipment for its Department of Public Works.

For the next fiscal year the following projects are under way:

1. The new McBain Family Pharmacy is completing its remodeling of a former physicians building in preparation for its August opening in downtown McBain.
2. A new Mercy Physicians primary care group is opening its facility in the McBain Professional Building in downtown McBain.
3. City officials are working with a new manufacturing company to locate a new building in the McBain Industrial Park to fabricate school buses and related parts.
4. City officials are continuing to work on the development of the City's renewable energy park as a synthetic diesel company and Greek yogurt companies are considering new facilities there.
5. A new downtown planning committee is being formed.

Contacting the City's Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the City of McBain, 508 West Maple Street, McBain, Michigan 49657, or call us at (231) 825-2322.

CITY OF MCBAIN, MICHIGAN

STATEMENT OF NET POSITION

APRIL 30, 2013

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	
<u>ASSETS</u>				
Cash	\$ 419,813	\$ 341,708	\$ 761,521	\$ 727,070
Receivables				
Taxes	1,377	0	1,377	3,699
Accounts	8,916	2,525	11,441	0
Mortgages and Notes	0	0	0	65,967
External Parties (Fiduciary Funds)	1,595	0	1,595	0
Internal Balances	(294)	294	0	0
Due from Other Governments	30,699	0	30,699	6,603
 Total Current Assets	 462,106	 344,527	 806,633	 803,339
<u>CAPITAL ASSETS</u>				
Land and Land Improvements	823,076	88,703	911,779	180,951
Buildings	295,325	157,255	452,580	230,000
Improvements Other Than Buildings	0	2,760,713	2,760,713	0
Machinery and Equipment	1,312,739	228,541	1,541,280	79,622
Infrastructure	959,408	0	959,408	62,309
	3,390,548	3,235,212	6,625,760	552,882
Less Accumulated Depreciation	1,839,281	2,159,478	3,998,759	37,340
Net Capital Assets	1,551,267	1,075,734	2,627,001	515,542
 TOTAL ASSETS	 2,013,373	 1,420,261	 3,433,634	 1,318,881
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	5,186	11,713	16,899	13,539
Salaries Payable	3,618	0	3,618	0
Payroll Liabilities	3,755	0	3,755	0
Due to Other Governments	37	0	37	7,262
 TOTAL LIABILITIES	 12,596	 11,713	 24,309	 20,801
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,551,267	1,075,734	2,627,001	515,542
Restricted for Street Improvements	99,925	0	99,925	0
Unrestricted	349,585	332,814	682,399	782,538
 TOTAL NET POSITION	 \$ 2,000,777	 \$ 1,408,548	 \$ 3,409,325	 \$ 1,298,080

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

CITY OF MCBAIN, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2013

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION				COMPONENT UNITS
	EXPENSES	OPERATING		CAPITAL	PRIMARY GOVERNMENT				
		CHARGES FOR SERVICES	GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS		
<u>GOVERNMENTAL ACTIVITIES</u>									
General Government	\$ 212,950	\$ 157,466	\$ 0	\$ 0	\$ (55,484)	\$ 0	\$ (55,484)	\$ 0	
Public Safety	83,577	0	43,000	0	(40,577)	0	(40,577)	0	
Public Works	162,117	80,272	65,036	0	(16,809)	0	(16,809)	0	
Planning	9,500	0	0	0	(9,500)	0	(9,500)	0	
Culture and Recreation	24,486	0	0	0	(24,486)	0	(24,486)	0	
Economic Development and Assistance	575	160	0	0	(415)	0	(415)	0	
Capital Outlay	28,838	0	0	0	(28,838)	0	(28,838)	0	
Other Functions	90,295	0	0	0	(90,295)	0	(90,295)	0	
Total Governmental Activities	612,338	237,898	108,036	0	(266,404)	0	(266,404)	0	
<u>BUSINESS-TYPE ACTIVITIES</u>									
Water System	72,243	66,830	1,582	0	0	(3,831)	(3,831)	0	
Sewer System	82,896	51,904	0	0	0	(30,992)	(30,992)	0	
Total Business-Type Activities	155,139	118,734	1,582	0	0	(34,823)	(34,823)	0	
TOTAL PRIMARY GOVERNMENT	\$ 767,477	\$ 356,632	\$ 109,618	\$ 0	(266,404)	(34,823)	(301,227)	0	
<u>COMPONENT UNITS</u>									
Downtown Development Authority	\$ 26,667	\$ 0	\$ 0	\$ 0	0	0	0	(26,667)	
Tax Increment Finance Authority	336,536	6,000	0	0	0	0	0	(330,536)	
TOTAL COMPONENT UNITS	\$ 363,203	\$ 6,000	\$ 0	\$ 0	0	0	0	(357,203)	
<u>GENERAL REVENUES</u>									
Property Taxes and Assessments					123,105	0	123,105	272,936	
State Grants					51,276	0	51,276	0	
Investment Earnings					342	338	680	2,172	
Gain on Sale of Capital Assets					0	0	0	0	
Other					15,308	25,003	40,311	2,370	
Total General Revenues					190,031	25,341	215,372	277,478	
Change in Net Position					(76,373)	(9,482)	(85,855)	(79,725)	
<u>NET POSITION</u> - Beginning of Year					2,077,150	1,418,030	3,495,180	1,377,805	
<u>NET POSITION</u> - End of Year					\$ 2,000,777	\$ 1,408,548	\$ 3,409,325	\$ 1,298,080	

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

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

BALANCE SHEET
APRIL 30, 2013

	GENERAL	MAJOR STREET	LOCAL STREET	FIRE FUND	NON-MAJOR FUNDS	TOTALS
<u>ASSETS</u>						
Cash	\$ 237,218	\$ 73,526	\$ 23,844	\$ 30,346	\$ 54,879	\$ 419,813
Receivables						
Taxes	1,377	0	0	0	0	1,377
Accounts	8,916	0	0	0	0	8,916
Due from Other Funds	9,834	150	0	0	0	9,984
Due from Other Governments	20,286	7,414	2,499	0	500	30,699
TOTAL ASSETS	\$ 277,631	\$ 81,090	\$ 26,343	\$ 30,346	\$ 55,379	\$ 470,789
<u>LIABILITIES</u>						
Accounts Payable	\$ 4,966	\$ 0	\$ 0	\$ 220	\$ 0	\$ 5,186
Salaries Payable	3,618	0	0	0	0	3,618
Payroll Liabilities	3,755	0	0	0	0	3,755
Due to Other Funds	319	0	7,508	856	0	8,683
Due to Other Governments	37	0	0	0	0	37
Total Liabilities	12,695	0	7,508	1,076	0	21,279
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Unavailable Revenue - Property Taxes	1,377	0	0	0	0	1,377
<u>FUND BALANCE</u>						
Restricted for:						
Street Improvements	0	81,090	18,835	0	0	99,925
Assigned for:						
Specific Purposes	0	0	0	0	55,379	55,379
Fire Protection	0	0	0	29,270	0	29,270
Unassigned	263,559	0	0	0	0	263,559
Total Fund Balance	263,559	81,090	18,835	29,270	55,379	448,133
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 277,631	\$ 81,090	\$ 26,343	\$ 30,346	\$ 55,379	\$ 470,789

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

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
APRIL 30, 2013

Total Fund Balances for Governmental Funds \$ 448,133

Amounts reported for governmental activities in the
Statement of Net Position are different because:

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

Capital Assets	\$ 3,390,548	
Accumulated Depreciation	<u>(1,839,281)</u>	1,551,267

Receivables not expected to be collected within sixty days are treated
as unavailable revenue in the governmental funds.

Personal Property Taxes Receivable	<u>1,377</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,000,777</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED APRIL 30, 2013

	GENERAL	MAJOR STREET	LOCAL STREET	FIRE FUND	NON-MAJOR FUNDS	TOTALS
<u>REVENUES</u>						
Taxes	\$ 123,503	\$ 0	\$ 0	\$ 0	\$ 0	\$ 123,503
Licenses and Permits	160	0	0	0	0	160
State Grants	54,239	46,426	15,647	0	0	116,312
Contributions from Local Units	0	0	0	43,000	0	43,000
Charges for Services	225,908	0	0	0	1,825	227,733
Interest and Rents	10,148	74	27	31	67	10,347
Other Revenue	3,735	0	0	11,023	550	15,308
Total Revenues	417,693	46,500	15,674	54,054	2,442	536,363
<u>EXPENDITURES</u>						
General Government	196,630	0	0	0	14,420	211,050
Public Safety	0	0	0	50,001	0	50,001
Public Works	46,013	30,520	20,870	0	0	97,403
Planning and Zoning	9,500	0	0	0	0	9,500
Culture and Recreation	7,693	0	0	0	0	7,693
Economic Development and Assistance	0	0	0	0	575	575
Capital Outlay	0	0	0	22,640	6,198	28,838
Other Functions	90,295	0	0	0	0	90,295
Total Expenditures	350,131	30,520	20,870	72,641	21,193	495,355
Excess (Deficiency) of Revenues Over Expenditures	67,562	15,980	(5,196)	(18,587)	(18,751)	41,008
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In	0	8,000	12,000	21,500	12,000	53,500
Transfers Out	(53,500)	0	0	0	0	(53,500)
Total Other Financing Sources (Uses)	(53,500)	8,000	12,000	21,500	12,000	0
Net Change in Fund Balance	14,062	23,980	6,804	2,913	(6,751)	41,008
FUND BALANCE - Beginning of Year	249,497	57,110	12,031	26,357	62,130	407,125
FUND BALANCE - End of Year	\$ 263,559	\$ 81,090	\$ 18,835	\$ 29,270	\$ 55,379	\$ 448,133

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

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2013

Net Change in Fund Balance - Total Governmental Funds \$ 41,008

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(128,983)
Capital Outlay	12,000

Under the modified accrual basis of accounting, revenue is recognized when measurable and available. The entity-wide statements recognize revenue when earned.

PPT Receivable at the Beginning of the Year	(1,775)
PPT Receivable at the End of the Year	<u>1,377</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (76,373)

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

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS

STATEMENT OF NET POSITION
APRIL 30, 2013

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>MAJOR FUNDS</u>		<u>TOTALS</u>
	<u>WATER FUND</u>	<u>SEWER FUND</u>	
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 204,176	\$ 137,532	\$ 341,708
Receivables			
Accounts	733	1,792	2,525
Due from Other Funds	3,650	319	3,969
Total Current Assets	208,559	139,643	348,202
<u>CAPITAL ASSETS</u>			
Land	0	88,703	88,703
Buildings	22,616	134,639	157,255
Improvements Other Than Buildings	945,480	1,815,233	2,760,713
Machinery and Equipment	37,818	190,723	228,541
	1,005,914	2,229,298	3,235,212
Less Accumulated Depreciation	845,691	1,313,787	2,159,478
Net Capital Assets	160,223	915,511	1,075,734
TOTAL ASSETS	368,782	1,055,154	1,423,936
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	6,720	4,993	11,713
Due to Other Funds	25	3,650	3,675
TOTAL LIABILITIES	6,745	8,643	15,388
<u>NET POSITION</u>			
Invested in Capital Assets	160,223	915,511	1,075,734
Unrestricted	201,814	131,000	332,814
TOTAL NET POSITION	\$ 362,037	\$ 1,046,511	\$ 1,408,548

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

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED APRIL 30, 2013

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>MAJOR FUNDS</u>		<u>TOTALS</u>
	<u>WATER FUND</u>	<u>SEWER FUND</u>	
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 66,830	\$ 51,904	\$ 118,734
<u>OPERATING EXPENSES</u>			
Contractual Services	9,524	11,116	20,640
Heat, Light and Power	11,570	10,836	22,406
Labor and Equipment Rental	5,972	2,895	8,867
Depreciation and Amortization	19,988	44,033	64,021
Repairs and Maintenance	25,189	13,516	38,705
Miscellaneous	0	500	500
Total Operating Expenses	72,243	82,896	155,139
Operating Income (Loss)	(5,413)	(30,992)	(36,405)
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Interest Revenue	206	132	338
Wellhead Protection Grant	1,582	0	1,582
Miscellaneous	0	25,003	25,003
Total Nonoperating Revenues (Expenses)	1,788	25,135	26,923
Change in Net Position	(3,625)	(5,857)	(9,482)
<u>TOTAL NET POSITION</u> - Beginning of Year	365,662	1,052,368	1,418,030
<u>TOTAL NET POSITION</u> - End of Year	\$ 362,037	\$ 1,046,511	\$ 1,408,548

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

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2013

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>MAJOR FUNDS</u>		<u>TOTALS</u>
	<u>WATER FUND</u>	<u>SEWER FUND</u>	
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>			
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 67,347	\$ 51,753	\$ 119,100
Cash Payments to Suppliers for Goods and Services	(46,280)	(33,870)	(80,150)
Net Cash Provided (Used) by Operating Activities	21,067	17,883	38,950
Cash Flows from Noncapital Financing Activities			
Miscellaneous	1,582	20,477	22,059
Cash Flows from Capital and Related Financing Activities			
Acquisition of Capital Assets	0	(20,727)	(20,727)
Miscellaneous Revenue	0	4,526	4,526
Net Cash Provided (Used) for Capital and Related Financing Activities	0	(16,201)	(16,201)
Cash Flows from Investing Activities			
Interest Received	206	132	338
Net Increase (Decrease) in Cash and Cash Equivalents	22,855	22,291	45,146
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	181,321	115,241	296,562
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 204,176	\$ 137,532	\$ 341,708
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>			
Operating Income (Loss)	\$ (5,413)	\$ (30,992)	\$ (36,405)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	19,988	44,033	64,021
(Increase) Decrease in Current Assets			
Accounts Receivable	517	(151)	366
Increase (Decrease) in Current Liabilities			
Accounts Payable	5,975	4,993	10,968
Total Adjustments	26,480	48,875	75,355
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 21,067	\$ 17,883	\$ 38,950

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

CITY OF MCBAIN, MICHIGAN
FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION
APRIL 30, 2013

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash	\$ 1,595
<u>LIABILITIES</u>	
Due to Other Funds	<u>1,595</u>
<u>NET POSITION</u>	<u>\$ 0</u>

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

CITY OF MCBAIN, MICHIGAN
COMPONENT UNITS

STATEMENT OF NET POSITION
APRIL 30, 2013

	DOWNTOWN DEVELOPMENT AUTHORITY	TAX INCREMENT FINANCE AUTHORITY	TOTALS
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 191,428	\$ 535,642	\$ 727,070
Receivables			
Taxes	1,433	2,266	3,699
Loans	46,717	19,250	65,967
Due from Other Governments	2,587	4,016	6,603
	<hr/>	<hr/>	<hr/>
Total Current Assets	242,165	561,174	803,339
<u>NONCURRENT ASSETS</u>			
<u>CAPITAL ASSETS</u>			
Land	109,288	71,663	180,951
Buildings	0	230,000	230,000
Machinery and Equipment	7,305	72,317	79,622
Infrastructure	17,645	44,664	62,309
	<hr/>	<hr/>	<hr/>
	134,238	418,644	552,882
Less Accumulated Depreciation	4,629	32,711	37,340
	<hr/>	<hr/>	<hr/>
Net Capital Assets	129,609	385,933	515,542
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	371,774	947,107	1,318,881
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	3,000	10,539	13,539
Due to Other Governments	0	7,262	7,262
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	3,000	17,801	20,801
<u>NET POSITION</u>			
Net Position			
Net Investment in Capital Assets	129,609	385,933	515,542
Unrestricted	239,165	543,373	782,538
	<hr/>	<hr/>	<hr/>
TOTAL NET POSITION	\$ 368,774	\$ 929,306	\$ 1,298,080
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

CITY OF MCBAIN, MICHIGAN
COMPONENT UNITS

STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2013

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
<u>Downtown Development Authority</u>				
Economic Development and Assistance	\$ 26,667	\$ 0	\$ 0	\$ (26,667)
<u>Tax Increment Finance Authority</u>				
Economic Development and Assistance	336,536	6,000	0	(330,536)
TOTAL COMPONENT UNITS	\$ 363,203	\$ 6,000	\$ 0	(357,203)
<u>GENERAL REVENUES</u>				
Property Taxes				272,936
Investment Earnings				2,172
Other				2,370
Total General Revenues				<u>277,478</u>
Change in Net Position				(79,725)
<u>NET POSITION</u> - Beginning of Year				<u>1,377,805</u>
<u>NET POSITION</u> - End of Year				<u>\$ 1,298,080</u>

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

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The City of McBain, Michigan, was incorporated under the laws of the State of Michigan and operates under an elected Mayor-Council form of government. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the governmental-wide financial statements to emphasize that it is legally separate from the government.

BLENDED COMPONENT UNITS

City of McBain Fire Department – The Fire Department of McBain, Michigan, an entity legally separate from the City, is governed by a board appointed by the City council. For financial reporting purposes, the Fire Department is reported as if it were part of the City's operations because its purpose is to provide fire protection to the citizens of the City and the townships of Riverside and Richland.

DISCRETELY PRESENTED COMPONENT UNITS

Downtown Development Authority (DDA) – The members of the governing board of the Downtown Development Authority are appointed by the McBain City council. The Authority's operational and capital budgets and bonded debt must be approved by the City council.

Tax Increment Finance Authority (TIFA) – The members of the governing board of the Tax Increment Finance Authority are appointed by the McBain City council. The Authority's operational and capital budgets and bonded debt must be approved by the City council.

Financial statements of the individual component units are included as supplemental information in the annual financial report of the City of McBain, Michigan. The component units do not issue separate financial reports.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

C. Basis of Presentation - Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the government has two discretely presented component units. While neither the Downtown Development Authority nor the Tax Increment Finance Authority is considered to be a major component unit, they are nevertheless shown in separate columns in the government-wide financial statements.

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 where the amounts are reasonably equivalent in value to the interfund services provided and other charges between government's water and sewer functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. 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 and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City of McBain reports the following major governmental funds:

The *General Fund* is the government'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 *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the city by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The *Fire Fund* is a blended component unit used to account for the financial activity of the City of McBain fire department.

The City of McBain reports the following major proprietary funds:

The *Water Fund and Sewer Fund* record financial activity of the water system which provides water to customers and the operations of the City's wastewater collection and treatment System.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

Additionally the City of McBain reports the following fund types:

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds are not included in the government-wide statements.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

- Prior to April 30, the City Clerk submits to the City Council a proposed operating budget for all governmental funds for the fiscal year commencing the following May 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to April 30, the budget is legally enacted through passage of a budget ordinance. Budgets are submitted on a line-item basis but adopted by the Council on a major function basis.
- All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed budgeted appropriations at the major function level. Expenditures in all other governmental funds may not exceed appropriations at the total fund level.
- Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- Budgets for the General, Special Revenue, and Capital Project Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end.
- Encumbrance accounting is not used by the City.

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2013

2. Excess of Expenditures over Appropriations

	<u>Appropriations</u>	<u>Expenditures</u>
Land Development Fund	\$ 500	\$ 575
Capital Outlay Equipment Fund	\$ 3,685	\$ 6,198
Fire Fund		
Capital Outlay	\$ 14,285	\$ 22,640

The overages in the Land Development Fund, Capital Outlay Equipment Fund, and Fire Fund were funded by available fund balance.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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

2. Investments

The City's investment policy is in compliance with state law and authorizes the City to invest in passbook savings accounts, certificates of deposit, and money market funds. The City does not have any investments other than interest bearing bank accounts.

3. Inventories and Prepaid Items

Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase. There were no material inventories at year end.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2013

capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	40-50
Building Improvements	20
Public Domain Infrastructure	50
System Infrastructure	30

5. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues with one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. *Net Position Flow Assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. *Fund Balance Flow Assumptions*

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further,

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2013

when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an addition action is essential to either remove or revise a commitment.

9. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Revenues and Expenditures/Expenses

1. *Program Revenues*

Amounts reported as program revenue 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. *Property Taxes*

Property taxes attach as an enforceable lien on the property as of the date they are levied. County and State Education taxes are levied and due July 1, and become delinquent after August 14. The

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

remaining millages are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. City property tax revenues are recognized when they become both measurable and available for use to finance City operations. Amounts which are not expected to be collected within sixty days are treated as unavailable revenues.

3. *Proprietary Funds Operating and Nonoperating Revenues and Expenses*

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note I.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended April 30, 2013. It also explains the provision provided by law that was used to remedy the violation.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Investments are separately held by several of the City's funds. The City's deposits and investments are all on deposit with Chemical Bank West. Other than interest bearing bank accounts, the City has no investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of April 30, 2013, \$409,375 of the City's bank balances of \$769,118 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of April 30, 2013, \$285,913 of the component units' bank balances of \$727,411 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the City's investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the City's deposits.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

B. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the primary government and component units, including the applicable allowances for uncollectible accounts: Receivables as of year end for the government's individual major funds and component units are as follows:

	General	Major Street	Local Street	Fire Fund	Water	Sewer	Nonmajor Funds	Total Government	Component Units
Receivables									
Taxes and									
Assessments	\$ 1,377	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,377	\$ 3,699
Accounts	8,916	0	0	0	733	1,792	0	11,441	0
Mortgages and									
Notes	0	0	0	0	0	0	0	0	65,967
Grants	0	0	0	0	0	0	0	0	0
Due from Other									
Governments	20,286	7,414	2,499	0	0	0	500	30,699	6,603
Total Receivables	<u>\$30,579</u>	<u>\$7,414</u>	<u>\$2,499</u>	<u>\$ 0</u>	<u>\$ 733</u>	<u>\$ 1,792</u>	<u>\$ 500</u>	<u>\$ 43,517</u>	<u>\$ 76,269</u>

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

C. Capital Assets

Capital assets activity for the year ended April 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 320,656	\$ 0	\$ 0	\$ 320,656
Capital assets, being depreciated				
Buildings	295,325	0	0	295,325
Land Improvements	502,420	0	0	502,420
Machinery and Equipment	1,300,739	12,000	0	1,312,739
Infrastructure	959,408	0	0	959,408
			0	
Total capital assets, being depreciated	3,057,892	12,000	0	3,069,892
			0	
Less accumulated depreciation for:				
Buildings	119,719	7,383	0	127,102
Land Improvements	289,210	20,786	0	309,996
Machinery and Equipment	790,676	59,771	0	850,447
Infrastructure	510,693	41,043	0	551,736
			0	
Total accumulated depreciation	1,710,298	128,983	0	1,839,281
			0	
Total capital assets, being depreciated, net	1,347,594	(116,983)	0	1,230,611
			0	
Governmental activities capital assets, net	\$ 1,668,250	\$ (116,983)	\$ 0	\$ 1,551,267

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2013

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 88,703	\$ 0	\$ 0	\$ 88,703
Capital assets, being depreciated				
Buildings	157,255	0	0	157,255
Improvements Other Than Buildings	2,760,713	0	0	2,760,713
Machinery and Equipment	207,814	20,727	0	228,541
Total capital assets, being depreciated	3,125,782	20,727	0	3,146,509
Less accumulated depreciation for:				
Buildings	79,951	3,413	0	83,364
Improvements Other Than Buildings	1,860,568	56,997	0	1,917,565
Machinery and Equipment	154,938	3,611	0	158,549
Total accumulated depreciation	2,095,457	64,021	0	2,159,478
Total capital assets, being depreciated, net	1,030,325	(43,294)	0	987,031
Business-type activities capital assets, net	\$ 1,119,028	\$ (43,294)	\$ 0	\$ 1,075,734
<u>Component Units</u>				
Capital assets, not being depreciated				
Land	\$ 180,951	\$ 0	\$ 0	\$ 180,951
Capital assets, being depreciated				
Buildings	230,000	0	0	230,000
Machinery and Equipment	0	79,622	0	79,622
Infrastructure	62,309	0	0	62,309
Total capital assets, being depreciated	292,309	79,622	0	371,931
Less accumulated depreciation for:				
Buildings	13,417	5,750	0	19,167
Machinery and Equipment	0	5,186	0	5,186
Infrastructure	10,615	2,372	0	12,987
Total accumulated depreciation	24,032	13,308	0	37,340
Total capital assets, being depreciated, net	268,277	66,314	0	334,591
Component Unit capital assets, net	\$ 449,228	\$ 66,314	\$ 0	\$ 515,542

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

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

Governmental Activities:	
General Government	\$ 1,900
Public Safety	45,576
Public Works	64,714
Culture and Recreation	<u>16,793</u>
Total Governmental Activities	<u>\$ 128,983</u>
Business-Type Activities:	
Water Fund	\$ 19,988
Sewer Fund	<u>44,033</u>
Total Business-Type Activities	<u>\$ 64,021</u>

D. Accrued Liabilities

Accrued liabilities reported by governmental funds at April 30, 2013, were as follows:

	General Fund	Fire Fund	Nonmajor Governmental Funds	Total Governmental Funds
Salary and Employee Benefits	\$ 7,373	\$ 0	\$ 0	\$ 7,373
Other	4,966	220	0	5,186
Total Accrued Liabilities	<u>\$ 12,339</u>	<u>\$ 220</u>	<u>\$ 0</u>	<u>\$ 12,559</u>

E. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which City carries commercial insurance.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

F. Interfund Receivables and Payables

The composition of interfund balances as of April 30, 2013 is as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 9,834	\$ 319
Major Street Fund	150	0
Local Street Fund	0	7,508
Fire Fund	0	856
Water Fund	3,650	25
Sewer Fund	319	3,650
Tax Collection Fund	0	1,595
	<u>\$ 13,953</u>	<u>\$ 13,953</u>

The outstanding balances between funds result mainly from the time lag between 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. All interfund balances outstanding at April 30, 2013, are expected to be repaid within one year.

G. Interfund Transfers

The composition of interfund transfers for the year ended April 30, 2013 is as follows:

	<u>TRANSFERS</u>	
	<u>IN</u>	<u>OUT</u>
<u>Primary Government</u>		
General Fund	\$ 0	\$ 53,500
Major Street Fund	8,000	
Local Street Fund	12,000	0
Fire Fund	21,500	0
Cemetery Fund	12,000	0
	<u>\$ 53,500</u>	<u>\$ 53,500</u>

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

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2013

IV. OTHER INFORMATION

A. Mortgages and Notes Receivable

Mortgages and Notes Receivable as reported in the component units consist of the following:

Mortgages and notes made to private businesses to encourage development within the boundaries of the Downtown Development Authority and Tax Increment Finance Authority.

B. Retirement Benefits

The City funds retirement benefits by making direct contributions to a Money Purchase Plan. These accounts are the property of the employees and, therefore, are not treated as part of the City's reporting entity. The total pension cost for the year was \$9,734 and covered payroll was \$99,621.

C. Commitments and Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the City.

D. New GASB Standards

Effective May 1, 2012 the City adopted GASB Statement 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and GASB Statement 65, "Items Previously Recognized as Assets and Liabilities". These statements establish and clarify new components of the statement of position, "Deferred Inflows of Resources" and "Deferred Outflows of Resources". At April 30, 2013, the City did not have items that fit the criteria for a deferred outflow of resources. GASB 63 also changes the term "net assets", which was previously made up of assets less liabilities, to "net position", which is now made up of assets, deferred outflows of resources, liabilities and deferred inflows of resources. Accordingly any reference to "net assets" has been changed to "net position".

CITY OF MCBAIN, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

YEAR ENDED APRIL 30, 2013

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND			FIRE FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>												
Taxes	\$ 129,000	\$ 129,000	\$ 123,503	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and Permits	50	50	160	0	0	0	0	0	0	0	0	0
State Grants	45,000	45,000	54,239	38,000	38,000	46,426	12,000	12,000	15,647	0	0	0
Contributions from Local Units	0	0	0	0	0	0	0	0	0	64,500	64,500	43,000
Charges for Services	158,000	158,000	225,908	0	0	0	0	0	0	0	0	0
Interest and Rents	85,300	85,300	10,148	50	50	74	25	25	27	30	30	31
Other Revenue	12,000	12,000	3,735	0	0	0	0	2	0	0	0	11,023
Total Revenues	429,350	429,350	417,693	38,050	38,050	46,500	12,025	12,027	15,674	64,530	64,530	54,054
<u>EXPENDITURES</u>												
General Government	214,040	213,865	196,630	0	0	0	0	0	0	0	0	0
Public Safety	22,000	22,000	0	0	0	0	0	0	0	50,245	57,545	50,001
Public Works	60,350	53,850	46,013	45,150	44,150	30,520	23,000	22,700	20,870	0	0	0
Planning and Zoning	9,500	10,200	9,500	0	0	0	0	0	0	0	0	0
Culture and Recreation	8,000	10,025	7,693	0	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0	0	14,285	14,285	22,640
Other Functions	89,500	97,100	90,295	0	0	0	0	0	0	0	0	0
Total Expenditures	403,390	407,040	350,131	45,150	44,150	30,520	23,000	22,700	20,870	64,530	71,830	72,641
Excess (Deficiency) of Revenues Over Expenditures	25,960	22,310	67,562	(7,100)	(6,100)	15,980	(10,975)	(10,673)	(5,196)	0	(7,300)	(18,587)
<u>OTHER FINANCING SOURCES (USES)</u>												
Transfers In	15,200	15,200	0	8,000	7,000	8,000	12,000	10,000	12,000	0	0	21,500
Transfers Out	(41,000)	(37,000)	(53,500)	0	0	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	(25,800)	(21,800)	(53,500)	8,000	7,000	8,000	12,000	10,000	12,000	0	0	21,500
Net Change in Fund Balance	160	510	14,062	900	900	23,980	1,025	(673)	6,804	0	(7,300)	2,913
<u>FUND BALANCE</u> - Beginning of Year	88,805	88,805	249,497	54,203	54,203	57,110	8,276	8,276	12,031	25,000	17,700	26,357
<u>FUND BALANCE</u> - End of Year	\$ 88,965	\$ 89,315	\$ 263,559	\$ 55,103	\$ 55,103	\$ 81,090	\$ 9,301	\$ 7,603	\$ 18,835	\$ 25,000	\$ 10,400	\$ 29,270

CITY OF MCBAIN, MICHIGAN
GENERAL FUND

COMPARATIVE BALANCE SHEET
APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash	\$ 237,218	\$ 234,831
Receivables		
Taxes	1,377	1,775
Accounts	8,916	993
Due from Other Funds		
Local Street Fund	7,358	7,358
Fire Fund	856	778
Current Tax Collection Fund	1,595	1,579
Water Fund	25	25
Due from Other Governments	20,286	20,543
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 277,631</u>	<u>\$ 267,882</u>
 <u>LIABILITIES</u>		
Accounts Payable	\$ 4,966	\$ 9,692
Salaries Payable	3,618	3,014
Payroll Liabilities	3,755	3,548
Due to Other Funds		
Sewer Fund	319	319
Due to Other Governments	37	37
	<hr/>	<hr/>
Total Liabilities	<u>12,695</u>	<u>16,610</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Unavailable Revenue - Property Taxes	<u>1,377</u>	<u>1,775</u>
 <u>FUND BALANCE</u>		
Unassigned	<u>263,559</u>	<u>249,497</u>
	<hr/>	<hr/>
Total Fund Balance	<u>263,559</u>	<u>249,497</u>
	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 277,631</u>	<u>\$ 267,882</u>

CITY OF MCBAIN, MICHIGAN
GENERAL FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>REVENUES</u>		
Taxes	\$ 123,503	\$ 124,988
Licenses and Permits	160	140
State Grants	54,239	53,990
Contributions from Local Units	0	36,013
Charges for Services	225,908	211,945
Interest and Rents	10,148	531
Other Revenue	3,735	3,911
Total Revenues	417,693	431,518
 <u>EXPENDITURES</u>		
General Government		
Mayor and City Council	12,120	10,023
Assessor	8,359	7,912
Elections	2,450	2,377
Professional Fees	5,085	5,085
Clerk	21,900	21,892
Board of Review	731	336
Treasurer	14,819	15,529
City Hall and Grounds	131,166	156,188
Public Works	46,013	67,070
Planning and Zoning	9,500	9,340
Culture and Recreation	7,693	5,888
Other Functions	90,295	91,694
Total Expenditures	350,131	393,334
Excess (Deficiency) of Revenues Over Expenditures	67,562	38,184
 <u>OTHER FINANCING SOURCES (USES)</u>		
Transfers Out	(53,500)	(53,500)
Net Change in Fund Balance	14,062	(15,316)
<u>FUND BALANCE</u> - Beginning of Year	249,497	264,813
<u>FUND BALANCE</u> - End of Year	\$ 263,559	\$ 249,497

CITY OF MCBAIN, MICHIGAN
GENERAL FUND

COMPARATIVE ANALYSIS OF REVENUES
YEAR ENDED APRIL 30.

	<u>2013</u>	<u>2012</u>
<u>TAXES</u>		
Property Tax	\$ 112,806	\$ 114,171
Property Tax Administration Fee	10,697	10,817
Total Taxes	123,503	124,988
<u>LICENSES AND PERMITS</u>		
Nonbusiness Licenses and Permits	160	140
<u>STATE GRANTS</u>		
Sales Tax	51,276	51,357
Public Act 48	2,963	2,633
Total State Grants	54,239	53,990
<u>CONTRIBUTIONS FROM LOCAL UNITS</u>		
Tax Increment Finance Authority	0	21,820
Downtown Development Authority	0	14,193
Total Contributions from Local Units	0	36,013
<u>CHARGES FOR SERVICES</u>		
Refuse Collection	32,219	33,810
Summer Tax Collection Fee	980	978
Industrial Park Maintenance	137,516	123,810
Equipment Rental	17,725	28,594
Labor Rental	30,328	24,154
Other Charges for Services	7,140	599
Total Charges for Services	225,908	211,945
<u>INTEREST AND RENTS</u>		
Interest	143	281
Rents	10,005	250
Total Interest and Rents	10,148	531
<u>OTHER REVENUE</u>		
Refunds and Miscellaneous	3,735	3,911
TOTAL REVENUES	\$ 417,693	\$ 431,518

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>GENERAL GOVERNMENT</u>		
Mayor and City Council		
Salaries	\$ 7,287	\$ 7,005
Professional Services	4,733	2,918
Dues	100	100
	<u>12,120</u>	<u>10,023</u>
Assessor		
Contract Services	7,149	7,122
Supplies	1,210	790
	<u>8,359</u>	<u>7,912</u>
Elections		
Wages	1,973	2,168
Supplies	477	209
	<u>2,450</u>	<u>2,377</u>
Professional Fees		
Independent Audit	5,085	5,085
	<u>5,085</u>	<u>5,085</u>
City Clerk's Office		
Salaries and Wages	17,649	17,894
Office Supplies	2,150	2,378
Printing and Publication	959	939
Miscellaneous	1,142	681
	<u>21,900</u>	<u>21,892</u>
Board of Review		
Salaries and Wages	731	336
	<u>731</u>	<u>336</u>
Treasurer's Office		
Salaries and Wages	11,740	13,063
Office Supplies	3,079	2,466
	<u>14,819</u>	<u>15,529</u>
City Hall and Grounds		
Salaries and Wages	81,154	79,590
Supplies	2,716	4,319
Repairs and Maintenance	30,559	36,777
Utilities	14,562	12,596
Telephone	2,175	1,886
Capital Outlay	0	21,020
	<u>131,166</u>	<u>156,188</u>
Total General Government	<u>196,630</u>	<u>219,342</u>

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>PUBLIC WORKS</u>		
Department of Public Works		
Refuse Disposal	28,969	34,721
Street Lighting	16,754	21,785
Storm Sewer	0	10,280
Recycling	290	284
	<u>46,013</u>	<u>67,070</u>
<u>PLANNING</u>		
Planning and Zoning Commission		
Contracted Services	9,500	9,340
	<u>9,500</u>	<u>9,340</u>
<u>CULTURE AND RECREATION</u>		
Christmas Decorations	1,015	1,017
Parks and Downtown	915	190
Trees and Flowers	4,288	4,681
Engineering	1,475	0
	<u>7,693</u>	<u>5,888</u>
<u>OTHER FUNCTIONS</u>		
Miscellaneous	1,813	3,527
Employee Benefits		
Social Security	8,531	9,582
Retirement	9,962	10,007
Health and Life Insurance	38,398	32,431
Unemployment	2,413	3,267
Uniforms	2,517	2,630
Insurance and Bonds	26,661	30,250
	<u>90,295</u>	<u>91,694</u>
TOTAL EXPENDITURES	<u>\$ 350,131</u>	<u>\$ 393,334</u>

CITY OF MCBAIN, MICHIGAN
MAJOR STREET FUND

COMPARATIVE BALANCE SHEET
APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash	\$ 73,526	\$ 49,630
Due from Other Funds	150	150
Due from Other Governments	7,414	7,484
	<hr/>	<hr/>
TOTAL ASSETS	\$ 81,090	\$ 57,264
	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 0	\$ 154
 <u>FUND BALANCE</u>		
Restricted for Street Improvements	81,090	57,110
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 81,090	\$ 57,264
	<hr/> <hr/>	<hr/> <hr/>

CITY OF MCBAIN, MICHIGAN
MAJOR STREET FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>REVENUES</u>		
State Grants		
Act 51	\$ 46,426	\$ 45,870
Interest and Rents		
Interest	74	82
Other Revenue		
Miscellaneous	0	382
Total Revenues	46,500	46,334
<u>EXPENDITURES</u>		
Public Works		
Sidewalks	2,000	0
Legal and Professional	885	885
Repair and Maintenance	18,027	21,269
Snow Removal and Ice Control	7,223	7,910
Traffic Services	1,385	264
Miscellaneous	1,000	0
Total Expenditures	30,520	30,328
Excess (Deficiency) of Revenues Over Expenditures	15,980	16,006
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In (Out)		
General Fund	8,000	0
Net Change in Fund Balance	23,980	16,006
<u>FUND BALANCE</u> - Beginning of Year	57,110	41,104
<u>FUND BALANCE</u> - End of Year	\$ 81,090	\$ 57,110

CITY OF MCBAIN, MICHIGAN
LOCAL STREET FUND

COMPARATIVE BALANCE SHEET
APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash	\$ 23,844	\$ 17,017
Due from Other Governments	2,499	2,522
	<hr/>	
TOTAL ASSETS	\$ 26,343	\$ 19,539
	<hr/> <hr/>	
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 7,508	\$ 7,508
<u>FUND BALANCE</u>		
Restricted for Street Improvements	18,835	12,031
	<hr/>	
TOTAL LIABILITIES AND FUND BALANCE	\$ 26,343	\$ 19,539
	<hr/> <hr/>	

CITY OF MCBAIN, MICHIGAN
LOCAL STREET FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	2013	2012
<u>REVENUES</u>		
State Grants		
Act 51	\$ 15,647	\$ 15,138
Interest and Rents		
Interest	27	17
Other Revenue		
Miscellaneous	0	132
	15,674	15,287
Total Revenues		
<u>EXPENDITURES</u>		
Public Works		
Legal and Professional	885	885
Repair and Maintenance	15,264	9,326
Snow Removal and Ice Control	4,571	4,306
Traffic Services	150	0
	20,870	14,517
Total Expenditures		
Excess (Deficiency) of Revenues Over Expenditures	(5,196)	770
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In		
General Fund	12,000	10,000
	6,804	10,770
Net Change in Fund Balance		
<u>FUND BALANCE</u> - Beginning of Year	12,031	1,261
<u>FUND BALANCE</u> - End of Year	\$ 18,835	\$ 12,031

CITY OF MCBAIN, MICHIGAN
FIRE FUND

COMPARATIVE BALANCE SHEET
APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash	\$ 30,346	\$ 25,431
Accounts Receivable	0	1,904
	<hr/>	<hr/>
TOTAL ASSETS	\$ 30,346	\$ 27,335
	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 220	\$ 0
Salaries Payable	0	200
Due to Other Funds	856	778
	<hr/>	<hr/>
Total Liabilities	1,076	978
 <u>FUND BALANCE</u>		
Assigned for Fire Protection	29,270	26,357
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 30,346	\$ 27,335
	<hr/> <hr/>	<hr/> <hr/>

CITY OF MCBAIN, MICHIGAN

FIRE FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>REVENUES</u>		
Federal Grant Revenue		
FEMA Federal Grant	\$ 0	\$ 11,920
Contributions from Local Units		
Yearly Assessment	43,000	43,000
Interest and Rents		
Interest	31	22
Other Revenues		
Contributions and Donations	9,200	50
Refunds, Reimbursements and Miscellaneous	1,823	910
	<hr/>	<hr/>
Total Revenues	54,054	55,902
	<hr/>	<hr/>
<u>EXPENDITURES</u>		
Public Safety		
Fire Protection		
Salaries	1,400	1,306
Board Meeting	60	35
Fire Runs and Meetings	6,794	8,270
Legal and Professional	700	700
Communications	1,616	1,206
Gas and Oil	1,901	2,100
Foam	1,073	1,036
Postage	9	52
Lunch	0	150
Insurance	14,112	14,140
Supplies	272	189
Repairs and Maintenance	20,232	12,065
Education and Training	912	807
Health and Safety	385	478
Miscellaneous	535	514
Capital Outlay		
FEMA Grant	0	11,920
Equipment	22,640	11,367
	<hr/>	<hr/>
Total Expenditures	72,641	66,335
	<hr/>	<hr/>

CITY OF MCBAIN, MICHIGAN
FIRE FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	2013	2012
Excess (Deficiency) of Revenues Over Expenditures	(18,587)	(10,433)
 <u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In General Fund	21,500	21,500
Net Change in Fund Balance	2,913	11,067
<u>FUND BALANCE</u> - Beginning of Year	26,357	15,290
<u>FUND BALANCE</u> - End of Year	\$ 29,270	\$ 26,357

CITY OF MCBAIN, MICHIGAN
WATER FUND

COMPARATIVE STATEMENT OF NET POSITION
APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 204,176	\$ 181,321
Receivables		
Accounts	733	1,250
Due from Other Funds	3,650	3,650
	<hr/>	<hr/>
Total Current Assets	208,559	186,221
 <u>NONCURRENT ASSETS</u>		
<u>CAPITAL ASSETS</u>		
Buildings	22,616	22,616
Machinery and Equipment	37,818	37,818
Water Wells and Distribution System	945,480	945,480
	<hr/>	<hr/>
Total Capital Assets	1,005,914	1,005,914
Less Accumulated Depreciation	(845,691)	(825,703)
	<hr/>	<hr/>
Net Capital Assets	160,223	180,211
	<hr/>	<hr/>
TOTAL ASSETS	368,782	366,432
 <u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	6,720	745
Due to Other Funds	25	25
	<hr/>	<hr/>
TOTAL LIABILITIES	6,745	770
 <u>NET POSITION</u>		
Invested in Capital Assets	160,223	180,211
Unrestricted	201,814	185,451
	<hr/>	<hr/>
TOTAL NET POSITION	\$ 362,037	\$ 365,662
	<hr/> <hr/>	<hr/> <hr/>

CITY OF MCBAIN, MICHIGAN
WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED APRIL 30.

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 66,830	\$ 46,828
<u>OPERATING EXPENSES</u>		
Lab Fees	3,562	2,233
Legal and Professional	4,207	3,378
Engineering	931	3,201
Printing and Publishing	824	0
Public Utilities	11,570	9,957
Repairs and Maintenance	25,189	4,319
Labor and Equipment Rental	5,972	4,475
Depreciation	19,988	20,385
Total Operating Expenses	<u>72,243</u>	<u>47,948</u>
Operating Income (Loss)	<u>(5,413)</u>	<u>(1,120)</u>
<u>NONOPERATING REVENUES AND (EXPENSES)</u>		
Interest Revenue	206	259
Wellhead Protection Grant	1,582	0
Total Nonoperating Revenues and (Expenses)	<u>1,788</u>	<u>259</u>
Net Income (Loss)	<u>(3,625)</u>	<u>(861)</u>
<u>TOTAL NET POSITION - Beginning of Year</u>	<u>365,662</u>	<u>366,523</u>
<u>TOTAL NET POSITION - End of Year</u>	<u>\$ 362,037</u>	<u>\$ 365,662</u>

CITY OF MCBAIN
WATER FUND

COMPARATIVE STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 67,347	\$ 46,336
Cash Payments to Suppliers for Goods and Services	(46,280)	(31,196)
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	21,067	15,140
Cash Flows from Noncapital Financing Activities		
Wellhead Protection Grant	1,582	0
Cash Flows from Investing Activities		
Interest Received	206	259
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	22,855	15,399
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<hr/> 181,321	<hr/> 165,922
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<hr/> <u>\$ 204,176</u>	<hr/> <u>\$ 181,321</u>
 <u>RECONCILIATION OF OPERATING INCOME</u> <u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating Income (Loss)	<hr/> \$ (5,413)	<hr/> \$ (1,120)
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation and Amortization	19,988	20,385
(Increase) Decrease in Current Assets		
Accounts Receivable	517	(492)
Due from Other Funds	0	(3,650)
Increase (Decrease) in Current Liabilities		
Accounts Payable	5,975	17
	<hr/>	<hr/>
Total Adjustments	26,480	16,260
	<hr/>	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<hr/> <u>\$ 21,067</u>	<hr/> <u>\$ 15,140</u>

CITY OF MCBAIN, MICHIGAN
SEWER FUND

COMPARATIVE STATEMENT OF NET POSITION
APRIL 30,

	2013	2012
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 137,532	\$ 115,241
Receivables		
Accounts	1,792	1,641
Due from Other Funds	319	319
Total Current Assets	139,643	117,201
 <u>CAPITAL ASSETS</u>		
Land	88,703	88,703
Land Improvements	1,815,233	1,815,233
Buildings	134,639	134,639
Machinery and Equipment	190,723	169,996
Total Capital Assets	2,229,298	2,208,571
Less Accumulated Depreciation	(1,313,787)	(1,269,754)
Net Capital Assets	915,511	938,817
TOTAL ASSETS	1,055,154	1,056,018
 <u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	4,993	0
Due to Other Funds	3,650	3,650
TOTAL LIABILITIES	8,643	3,650
 <u>NET POSITION</u>		
Invested in Capital Assets	915,511	938,817
Unrestricted	131,000	113,551
TOTAL NET POSITION	\$ 1,046,511	\$ 1,052,368

CITY OF MCBAIN, MICHIGAN
SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 51,904	\$ 50,535
<u>OPERATING EXPENSES</u>		
Legal and Professional	985	985
Lab Fees	6,638	7,814
Engineering	3,493	0
Public Utilities	10,836	10,141
Repairs and Maintenance	9,866	11,825
Labor and Equipment Rental	2,895	5,973
Permits	3,650	3,650
Miscellaneous	500	600
Depreciation	44,033	42,109
Total Operating Expenses	<u>82,896</u>	<u>83,097</u>
Operating Income (Loss)	<u>(30,992)</u>	<u>(32,562)</u>
<u>NONOPERATING REVENUES AND (EXPENSES)</u>		
Capital Contribution from Tax Increment Financing Authority	0	52,866
Sale of Hay	4,526	1,700
Interest Revenue	132	203
Miscellaneous	20,477	46
Total Nonoperating Revenues and (Expenses)	<u>25,135</u>	<u>54,815</u>
Net Income (Loss)	<u>(5,857)</u>	<u>22,253</u>
<u>TOTAL NET POSITION</u> - Beginning of Year	<u>1,052,368</u>	<u>1,030,115</u>
<u>TOTAL NET POSITION</u> - End of Year	<u>\$ 1,046,511</u>	<u>\$ 1,052,368</u>

CITY OF MCBAIN, MICHIGAN
SEWER FUND

COMPARATIVE STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 51,753	\$ 49,980
Cash Payments to Suppliers for Goods and Services	(33,870)	(38,838)
Net Cash Provided (Used) by Operating Activities	<u>17,883</u>	<u>11,142</u>
Cash Flows from Noncapital Financing Activities		
Miscellaneous	<u>20,477</u>	<u>46</u>
Cash Flows from Capital and Related Financing Activities		
Capital Contributions	0	52,866
Acquisition of Capital Assets	(20,727)	(52,866)
Sale of Hay	4,526	1,700
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(16,201)</u>	<u>1,700</u>
Cash Flows from Investing Activities		
Interest Received	<u>132</u>	<u>203</u>
Net Increase (Decrease) in Cash and Cash Equivalents	22,291	13,091
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<u>115,241</u>	<u>102,150</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 137,532</u>	<u>\$ 115,241</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating Income (Loss)	<u>\$ (30,992)</u>	<u>\$ (32,562)</u>
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities		
Depreciation and Amortization	44,033	42,109
(Increase) Decrease in Current Assets		
Accounts Receivable	(151)	(555)
Increase (Decrease) in Current Liabilities		
Accounts Payable	4,993	(1,500)
Due to Other Funds	0	3,650
Total Adjustments	<u>48,875</u>	<u>43,704</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 17,883</u>	<u>\$ 11,142</u>

CITY OF MCBAIN, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
APRIL 30, 2013

	CEMETERY FUND	LAND DEVELOPMENT FUND	CAPITAL OUTLAY EQUIPMENT FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 5,721	\$ 11,472	\$ 37,686	\$ 54,879
Due from Other Governments	0	0	500	500
 TOTAL ASSETS	 \$ 5,721	 \$ 11,472	 \$ 38,186	 \$ 55,379
 <u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>	\$ 0	\$ 0	\$ 0	\$ 0
 <u>FUND BALANCE</u>				
Assigned for:				
City Hall Equipment	0	0	38,186	38,186
Land Development	0	11,472	0	11,472
Cemetery Operations	5,721	0	0	5,721
 Total Fund Balance	 5,721	 11,472	 38,186	 55,379
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 5,721	 \$ 11,472	 \$ 38,186	 \$ 55,379

CITY OF MCBAIN, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED APRIL 30, 2013

	CEMETERY FUND	LAND DEVELOPMENT FUND	CAPITAL OUTLAY EQUIPMENT FUND	TOTALS
<u>REVENUES</u>				
Charges for Services	\$ 1,825	\$ 0	\$ 0	\$ 1,825
Interest and Rents	7	13	47	67
Other Revenue	550	0	0	550
 Total Revenues	 2,382	 13	 47	 2,442
<u>EXPENDITURES</u>				
General Government	14,420	0	0	14,420
Economic Development and Assistance	0	575	0	575
Capital Outlay	0	0	6,198	6,198
 Total Expenditures	 14,420	 575	 6,198	 21,193
 Excess (Deficiency) of Revenues Over Expenditures	 (12,038)	 (562)	 (6,151)	 (18,751)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In (Out)	12,000	0	0	12,000
 Net Change in Fund Balance	 (38)	 (562)	 (6,151)	 (6,751)
<u>FUND BALANCE - Beginning of Year</u>	<u>5,759</u>	<u>12,034</u>	<u>44,337</u>	<u>62,130</u>
<u>FUND BALANCE - End of Year</u>	<u>\$ 5,721</u>	<u>\$ 11,472</u>	<u>\$ 38,186</u>	<u>\$ 55,379</u>

CITY OF MCBAIN, MICHIGAN
CEMETERY FUND

COMPARATIVE BALANCE SHEET
APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash	\$ 5,721	\$ 5,759
	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Assigned for Cemetery Operations	5,721	5,759
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 5,721</u>	<u>\$ 5,759</u>

CITY OF MCBAIN, MICHIGAN
CEMETERY FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	2013	2012
<u>REVENUES</u>		
Charges for Services		
Grave Openings	\$ 1,825	\$ 1,150
Interest and Rents		
Interest	7	12
Other Revenues		
Sale of Cemetery Lots	550	1,650
	2,382	2,812
 <u>EXPENDITURES</u>		
General Government		
Utilities	255	222
Legal and Professional	475	475
Repairs and Maintenance	13,030	14,277
Miscellaneous	660	200
	14,420	15,174
Excess (Deficiency) of		
Revenues Over Expenditures	(12,038)	(12,362)
 <u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In		
General Fund	12,000	12,000
	(38)	(362)
 <u>FUND BALANCE</u> - Beginning of Year	 5,759	 6,121
 <u>FUND BALANCE</u> - End of Year	 \$ 5,721	 \$ 5,759

CITY OF MCBAIN, MICHIGAN
LAND DEVELOPMENT FUND

COMPARATIVE BALANCE SHEET
APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash	\$ 11,472	\$ 12,034
	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Assigned for Land Development	11,472	12,034
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 11,472	\$ 12,034
	<hr/>	<hr/>

CITY OF MCBAIN, MICHIGAN
LAND DEVELOPMENT FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	<u>2013</u>	<u>2012</u>
<u>REVENUES</u>		
Interest and Rents		
Interest	\$ 13	\$ 22
 <u>EXPENDITURES</u>		
Economic Development		
Legal and Professional	<u>575</u>	<u>475</u>
Excess (Deficiency) of Revenues Over Expenditures	(562)	(453)
 <u>FUND BALANCE</u> - Beginning of Year	 <u>12,034</u>	 <u>12,487</u>
 <u>FUND BALANCE</u> - End of Year	 <u>\$ 11,472</u>	 <u>\$ 12,034</u>

CITY OF MCBAIN, MICHIGAN
CAPITAL OUTLAY EQUIPMENT FUND

COMPARATIVE BALANCE SHEET
APRIL 30,

	2013	2012
<u>ASSETS</u>		
Cash	\$ 37,686	\$ 43,837
Due from Other Governments	500	500
	\$ 38,186	\$ 44,337
TOTAL ASSETS	\$ 38,186	\$ 44,337
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 0	\$ 0
 <u>FUND BALANCE</u>		
Assigned for City Hall Equipment	38,186	44,337
	\$ 38,186	\$ 44,337
TOTAL LIABILITIES AND FUND BALANCE	\$ 38,186	\$ 44,337

CITY OF MCBAIN, MICHIGAN
CAPITAL OUTLAY EQUIPMENT FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	2013	2012
<u>REVENUES</u>		
Interest and Rents		
Interest	\$ 47	\$ 65
Other Revenue		
Miscellaneous	0	150
Total Revenues	47	215
 <u>EXPENDITURES</u>		
Capital Outlay	6,198	1,068
Excess (Deficiency) of Revenues Over Expenditures	(6,151)	(853)
 <u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In (Out)		
General Fund	0	10,000
Net Change in Fund Balance	(6,151)	9,147
 <u>FUND BALANCE</u> - Beginning of Year	44,337	35,190
<u>FUND BALANCE</u> - End of Year	\$ 38,186	\$ 44,337

CITY OF MCBAIN, MICHIGAN
COMPONENT UNITS

COMBINING BALANCE SHEET
APRIL 30, 2013

WITH COMPARATIVE TOTALS FOR APRIL 30, 2012

	DOWNTOWN DEVELOPMENT AUTHORITY	TAX INCREMENT FINANCE AUTHORITY	TOTALS	
			2013	2012
<u>ASSETS</u>				
Cash	\$ 191,428	\$ 535,642	\$ 727,070	\$ 847,574
Receivables				
Property Taxes	1,433	2,266	3,699	8,581
Mortgage and Notes	46,717	19,250	65,967	84,597
Due from Other Governments	2,587	4,016	6,603	6,603
TOTAL ASSETS	\$ 242,165	\$ 561,174	\$ 803,339	\$ 947,355
<u>LIABILITIES</u>				
Accounts Payable	\$ 3,000	\$ 10,539	\$ 13,539	\$ 11,516
Due to Other Governments	0	7,262	7,262	7,262
Total Liabilities	3,000	17,801	20,801	18,778
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable Revenue - Loans	46,717	19,250	65,967	84,597
Unavailable Revenue - Property Taxes	1,433	2,266	3,699	8,581
Total Deferred Inflows of Resources	48,150	21,516	69,666	93,178
<u>FUND BALANCE</u>				
Assigned	191,015	521,857	712,872	835,399
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 242,165	\$ 561,174	\$ 803,339	\$ 947,355

CITY OF MCBAIN, MICHIGAN
COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED APRIL 30, 2013
WITH COMPARATIVE TOTALS FOR YEAR ENDED APRIL 30, 2012

	DOWNTOWN DEVELOPMENT AUTHORITY CONSTRUCTION FUND	TAX INCREMENT FINANCE AUTHORITY	<u>TOTALS</u>	
			2013	2012
<u>REVENUES</u>				
Taxes	\$ 50,531	\$ 227,287	\$ 277,818	\$ 283,272
Federal Grants	0	0	0	26,269
Interest and Rents	2,692	8,090	10,782	18,720
Other Revenue	9,150	9,240	18,390	173,554
Total Revenues	<u>62,373</u>	<u>244,617</u>	<u>306,990</u>	<u>501,815</u>
<u>EXPENDITURES</u>				
Economic Development	32,724	280,476	313,200	286,351
Capital Outlay	0	72,317	72,317	0
Aid to Local Governments	0	44,000	44,000	90,235
Total Expenditures	<u>32,724</u>	<u>396,793</u>	<u>429,517</u>	<u>376,586</u>
Excess (Deficiency) of Revenues Over Expenditures	29,649	(152,176)	(122,527)	125,229
<u>FUND BALANCE</u> - Beginning of Year	<u>161,366</u>	<u>674,033</u>	<u>835,399</u>	<u>710,170</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 191,015</u>	<u>\$ 521,857</u>	<u>\$ 712,872</u>	<u>\$ 835,399</u>

CITY OF MCBAIN, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY

COMPARATIVE BALANCE SHEET
APRIL 30,

	2013	2012
<u>ASSETS</u>		
Cash	\$ 191,428	\$ 161,279
Receivables		
Property Taxes	1,433	1,661
Loans Receivable	46,717	56,107
Due from Other Governments	2,587	2,587
	\$ 242,165	\$ 221,634
 <u>LIABILITIES</u>		
Accounts Payable	\$ 3,000	\$ 2,500
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Unavailable Revenue - Loans	46,717	56,107
Unavailable Revenue - Property Taxes	1,433	1,661
	48,150	57,768
 <u>FUND BALANCE</u>		
Assigned for DDA	191,015	161,366
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 242,165	\$ 221,634

CITY OF MCBAIN, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	2013	2012
<u>REVENUES</u>		
Taxes		
Property Taxes	\$ 50,531	\$ 50,069
Interest and Rents		
Interest Income	2,692	2,498
Other Revenue		
Loan Principal Collections	9,150	9,260
Total Revenues	62,373	61,827
 <u>EXPENDITURES</u>		
Economic Development		
Secretary/Treasurer	3,500	2,500
Bank Fees	0	53
Insurance	1,667	2,527
Legal and Professional	2,045	1,429
Maintenance	7,578	1,965
Contracted Administrative Services	6,840	0
Public Improvements	7,305	0
Property Taxes	1,193	1,157
Business Development	596	2,075
Miscellaneous	2,000	0
Aid to Local Governments	0	14,193
Total Expenditures	32,724	25,899
Excess (Deficiency) of Revenues Over Expenditures	29,649	35,928
<u>FUND BALANCE</u> - Beginning of Year	161,366	125,438
<u>FUND BALANCE</u> - End of Year	\$ 191,015	\$ 161,366

CITY OF MCBAIN, MICHIGAN
TAX INCREMENT FINANCE AUTHORITY

COMPARATIVE BALANCE SHEET
APRIL 30,

	2013	2012
<u>ASSETS</u>		
Cash	\$ 535,642	\$ 686,295
Receivables		
Property Taxes	2,266	6,920
Loans Receivable	19,250	28,490
Due from Other Governments	4,016	4,016
	\$ 561,174	\$ 725,721
TOTAL ASSETS	\$ 561,174	\$ 725,721
<u>LIABILITIES</u>		
Accounts Payable	\$ 10,539	\$ 9,016
Due to Other Governments	7,262	7,262
	17,801	16,278
Total Liabilities	17,801	16,278
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Unavailable Revenue - Loans	19,250	28,490
Unavailable Revenue - Property Taxes	2,266	6,920
	21,516	35,410
Total Deferred Inflows of Resources	21,516	35,410
<u>FUND BALANCE</u>		
Assigned for TIFA	521,857	674,033
	521,857	674,033
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 561,174	\$ 725,721

CITY OF MCBAIN, MICHIGAN
TAX INCREMENT FINANCE AUTHORITY

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED APRIL 30,

	2013	2012
<u>REVENUES</u>		
Taxes		
Property Taxes	\$ 227,287	\$ 233,203
Federal Grants		
USDA Rural Business Enterprise Grant	0	26,269
Interest and Rents		
Rent	6,000	12,400
Interest	2,090	3,822
Other Revenue		
Revolving Loan Payments	9,240	9,240
Sale of Capital Assets	0	155,054
Total Revenues	244,617	439,988
<u>EXPENDITURES</u>		
Economic Development		
Salaries and Wages	5,000	5,000
Contracted Administrative Services	61,610	61,560
Legal and Professional	4,140	5,037
Insurance	4,914	3,087
Taxes	5,152	7,453
Business Development	1,786	27,269
Security Cameras	9,240	9,240
Industrial Park Maintenance	121,516	123,810
Maintenance	44,610	3,067
Public Improvements	22,449	7,929
Stewart Park	0	1,393
Signs	0	389
Miscellaneous	59	2,051
Property Taxes Abated	0	17,360
Capital Outlay	72,317	0
Aid to Local Governments	44,000	76,042
Total Expenditures	396,793	350,687
Excess (Deficiency) of Revenues Over Expenditures	(152,176)	89,301
<u>FUND BALANCE</u> - Beginning of Year	674,033	584,732
<u>FUND BALANCE</u> - End of Year	\$ 521,857	\$ 674,033



Baird, Cotter & Bishop, P.C.

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134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749

www.bcbcpa.com

July 12, 2013

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

To the City Council
City of McBain
McBain, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of McBain for the year ended April 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 29, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of McBain are described in Note I to the financial statements. Starting in 2012-2013, the City has implemented GASB 63 and GASB 65, new standards that rename, redefine, and clarify components of net position. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City of McBain's financial statements was:

Management's estimates of the useful lives of capital assets which is based on previous history. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 12, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the government unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of City of McBain for the year ended April 30, 2013, we noted the following items which we feel deserve comment:

Utility Billing Reconciliation

In the course of our examination it was not apparent that a reconciliation of utility billing receivables from the subsidiary ledger to the general ledger was being performed. We recommend a monthly reconciliation of the amounts in the general ledger to the amounts in the utility billing subsidiary ledger be prepared.

Due To and Due From Balances Between Funds

Some of the funds have balances owed to other funds at the end of the fiscal year. These interfund balances should be paid annually.

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

This information is intended solely for the use of the Board and management of City of McBain and is not intended to be, and should not be, used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

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July 12, 2013

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

To the City Council
City of McBain
McBain, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of McBain, Missaukee County, McBain, Michigan as of and for the year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise City of McBain, Missaukee County, McBain, Michigan's basic financial statements and have issued our report thereon dated July 12, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material

misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

1) *Lack of Segregation of Duties*

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of duties.

Condition: The government has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities may be occurring on a routine basis, but are not being documented.

Effect: As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

2) *Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.*

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

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

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

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and noted prior to approving them and accepting responsibility for their content and presentation.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of McBain in a separate letter dated July 12, 2013.

City of McBain's Response to Findings

City of McBain's response to the findings identified in our audit is described above. We did not audit City of McBain's response and, accordingly, we express no opinion on it.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

BAIRD, COTTER AND BISHOP, P.C.

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