

MACKINAC FINANCIAL CORP /MI/

Form 11-K

June 29, 2015

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 11-K**

**x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2014**

**OR**

**o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from <> to <>**

**Commission file number: 0-20167**

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

**Mackinac Financial Corporation 401(k) Plan**

- B. Name of the issuer of the securities held pursuant to the plan and the address of its principal executive office:

**Mackinac Financial Corporation**

**130 South Cedar Street**

**Manistique, MI 49854**

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**Mackinac Financial Corporation 401(k) Plan**

**Financial Report**

**December 31, 2014**

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**Mackinac Financial Corporation 401(k) Plan**

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**Mackinac Financial Corporation 401(k) Plan**

Report of Independent Registered Public Accounting Firm

To the Plan Administrator

Mackinac Financial Corporation 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of the Mackinac Financial Corporation 401(k) Plan (the Plan ) as of December 31, 2014 and 2013, and the related statement of changes in net assets available for benefits for the year ended December 31, 2014. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of December 31, 2014 and 2013, and the changes in net assets for the year ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held at end of year as of December 31, 2014 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. This supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Plante & Moran, PLLC

Auburn Hills, Michigan

June 29, 2015

Table of Contents**Mackinac Financial Corporation 401(k) Plan****Statement of Net Assets Available for Benefits**

	December 31,	
	2014	2013
<b>Assets</b>		
Participant-directed investments:		
Money market fund	\$ 14,398	\$ 3,366
Pooled separate accounts	4,667,420	3,995,777
Mackinac Financial Corporation stock	426,529	354,367
<b>Total participant-directed investments</b>	<b>5,108,347</b>	<b>4,353,510</b>
Cash	695	8,610
Participant notes receivable	227,960	226,133
Employer contributions receivable	213,280	194,542
Dividends receivable	2,666	
Net assets reflecting all investments at fair value	5,552,948	4,782,795
Adjustments from fair value to contract value for interest in pooled separate account fund relating to benefit-responsive investment contracts	(3,600)	(1,757)
<b>Net assets available for benefits</b>	<b>\$ 5,549,348</b>	<b>\$ 4,781,038</b>

See Notes to Financial Statements

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**Mackinac Financial Corporation 401(k) Plan**

**Statement of Changes in Net Assets Available for Benefits**

**Year Ended December 31, 2014**

<b>Additions to net assets</b>		
Employee	\$	395,955
Rollovers		45,456
Total contributions		654,691
Investment income:		
Net unrealized and realized gains in Mackinac Financial Corporation stock		75,449
Total additions		926,689
<b>Deductions from net assets - Benefits paid directly to participants or beneficiaries</b>		
		(158,379)
<b>Net increase</b>		<b>768,310</b>
<b>Net assets available for benefits</b>		
End of year	\$	5,549,348

See Notes to Financial Statements



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**Mackinac Financial Corporation 401(k) Plan**

**Notes to Financial Statements**

**December 31, 2014 and 2013**

**Note 1 - Plan Description**

The following description of the Mackinac Financial Corporation 401(k) Plan (the Plan) provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

**General** - The Plan is a defined contribution plan covering all employees of Mackinac Financial Corporation (the Corporation) who have completed three months of service and are age 18 or older. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

**Contributions** - Participants may elect to have up to 80 percent of their annual compensation contributed on their behalf as an elective deferral. Amounts contributed are deducted from gross wages for each payroll period and deposited with John Hancock Life Insurance Company (U.S.A.) or Keefe, Bruyette & Woods, Inc., the Plan's investment custodians. The Plan invests in whole shares of the Corporation's stock generally on the last business day of each month. The contributions used to purchase whole shares of Corporation stock are held in a cash account until the Plan's next purchase of whole shares of Corporation stock. Cash dividends, if any, on Corporation stock will be reinvested in accordance with the participant's investment election. Stock dividends, if any, on Corporation stock will be reinvested in Corporation stock unless specifically elected otherwise in writing. Participants may also make contributions to the Plan in the form of a rollover of funds from another qualified plan.

Mackinac Financial Corporation may make a matching contribution equal to a discretionary percentage of the amount of each participant's elective deferral, not to exceed 5 percent of a participant's compensation. Participants that achieve 1,000 hours of service during the plan year and are employed at the Corporation on the last day of the plan year are eligible for the matching contribution. For the year ended December 31, 2014, the board of directors elected to contribute, as a matching contribution, 100 percent of the participant's contribution not to exceed 4 percent of the participant's deferred compensation. The Corporation has the option of making an additional discretionary contribution based on compensation which is determined by its board of directors. There were no additional discretionary contributions made in 2014. The Corporation can automatically direct that up to 35 percent of the discretionary match be invested in Corporation stock, and participants may modify this direction of investments subsequently without restriction.

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**Mackinac Financial Corporation 401(k) Plan**

**Notes to Financial Statements**

**December 31, 2014 and 2013**

**Note 1 - Plan Description (continued)**

**Participant Accounts** - Each participant's account is credited with the participant's contribution(s), allocations of the Corporation's contributions, and plan earnings and charged with an allocation of administrative expenses. Allocations are based on participants' compensation or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Participants may direct the investments of their account balances into various investment options offered by the Plan, including an option to invest up to 25 percent of the participant's account balance in Corporation stock.

**Vesting** - Participants are immediately 100 percent vested in employee salary and rollover contributions and any income or loss thereon. Vesting in the Corporation's discretionary contribution portion of their accounts, plus actual earnings thereon, is based on years of service. For vesting purposes, a year of service is defined as a plan year during which an employee has been credited with at least 1,000 hours of service. Participants vest in discretionary contributions 100 percent after three years of service.

**Participant Notes Receivable** - Participants may borrow from their accounts subject to certain maximum and minimum amounts as prescribed in the Plan and in the Internal Revenue Code. Participant notes receivable are collateralized by the participant's account balance and bear interest at a rate charged for similar loans by lending institutions as determined by the plan administrator.

**Benefit Payments** - Upon termination of employment, the participant or, in the case of death, the surviving spouse can elect to receive the participant's account balance in a single lump sum or in various installment annuities not to exceed 15 years or the life expectancy of the participant. If the account is invested in Corporation stock, the participant may elect to receive an in kind distribution of whole shares.

**Hardship Withdrawals** - Participants may request that all or a portion of their account be distributed in the case of severe financial hardship, as defined in the plan document. The Corporation must approve any such hardship withdrawals.

**Forfeitures** - If a participant is not fully vested on his or her termination date, the non-vested amount of the account is forfeited. Forfeitures are used to reduce future Corporation contributions or to pay administrative expenses of the Plan.

**Termination** - While it has not expressed any intent to do so, the Corporation has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in the plan agreement and ERISA. Upon termination of the Plan, participants become 100 percent vested in their account balances.

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**Mackinac Financial Corporation 401(k) Plan**

**Notes to Financial Statements**

**December 31, 2014 and 2013**

**Note 1 - Plan Description (continued)**

**Party-in-interest Transactions** - Certain plan assets are in investment funds managed by John Hancock Life Insurance Company or its affiliates. John Hancock Life Insurance Company (U.S.A.) is a custodian of the Plan; therefore, these transactions qualify as party-in-interest transactions as defined under ERISA guidelines. Participants can elect to invest in Mackinac Financial Corporation stock. Mackinac Financial Corporation is the plan sponsor; therefore, these transactions qualify as party-in-interest transactions as defined under ERISA guidelines.

**Voting Rights** - Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account. The Plan trustee is required to vote shares of common stock that have been allocated to participants but for which the trustee received no voting instructions in the same manner and in the same proportion as the shares for which the plan trustee received timely voting instructions.

**Note 2 - Summary of Significant Accounting Policies**

**Participant Notes Receivable** Participant notes receivable are recorded at their unpaid principal balances plus any accrued interest. Participant notes receivable are written off when deemed uncollectible.

**Benefit Payments** Benefit distributions are recorded when paid.

**Administrative Expenses** - Various administrative costs are paid by the Corporation and were negligible in 2014.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results

could differ from those estimates.

**Risks and Uncertainties** - The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

Table of Contents**Mackinac Financial Corporation 401(k) Plan****Notes to Financial Statements****December 31, 2014 and 2013****Note 2 - Summary of Significant Accounting Policies (continued)**

**Investment Valuation** - The Plan's investments are stated at fair value, except for the John Hancock Stable Value Fund that invests in fully benefit-responsive investment contracts (commonly referred to as a stable value fund), which is valued at contract value. Contract value represents investments at cost plus accrued income less amounts withdrawn to pay benefits. The fair value of the John Hancock Stable Value Fund is based on discounting the related cash flows of the underlying investment contracts based on current yields of similar instruments with comparable durations. The remaining pooled separate accounts are stated at the net asset value per share (or its equivalent) of the funds, which is based on the fair value of the funds' underlying net assets. The fair value of the money market fund and corporation stock are based on quoted market prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. See Note 6 - Fair Value for additional information.

**Note 3 - Investments**

Significant investments of end of year net assets are as follows:

	2014		2013
Pooled separate accounts, at fair value:			
JH Lifestyle Growth	\$ 956,865	\$	815,559
JH Lifestyle Balanced	729,607		646,017
JH Lifestyle Aggressive	511,737		468,256
JH Retirement Living 2025	460,268		407,522
Mackinac Financial Corporation stock, at fair value	426,529		354,367

**Note 4 - Tax Status**

The Plan, as adopted, is a volume submitter plan, which does not require an application for a determination letter from the Internal Revenue Code (IRC). The volume submitter plan received a favorable notification letter from the IRC dated March 31, 2008. Although, the Plan has been amended since receiving the determination letter, management believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

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**Mackinac Financial Corporation 401(k) Plan**

**Notes to Financial Statements**

**December 31, 2014 and 2013**

**Note 4 - Tax Status (continued)**

In accordance with guidance on accounting for uncertainty in income taxes, management has evaluated the Plan's position and does not believe the Plan has any uncertain tax positions that require disclosure or adjustment to the financial statements. The Plan administrator believes it is no longer subject to tax examinations for years prior to 2011.

**Note 5 Employer Contribution**

For the 2014 plan year, Mackinac Financial Corporation made an employer contribution to the Plan of \$213,280. Mackinac Financial Corporation utilizes plan forfeitures toward the total contribution to the Plan. For 2014, the amount utilized was negligible.

**Note 6 Fair Value**

Accounting standards require certain assets be reported at fair value on the financial statements and provides a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Level 1 - In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Plan has the ability to access.

Level 2 - Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted



cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Table of Contents**Mackinac Financial Corporation 401(k) Plan**

Notes to Financial Statements

December 31, 2014 and 2013

**Note 6 Fair Value (continued)**

The following tables represent the balances of the Plan's financial assets that were measured at fair value on a recurring basis as of December 31, 2014 and 2013:

**Assets Measured at Fair Value on a Recurring Basis at December 31, 2014**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
<b>Assets</b>				
Money market fund - short term investment	\$ 14,398			\$ 14,398
<b>Pooled separate accounts:</b>				
Balanced asset funds (1)		3,523,829		3,523,829
Equity funds (2)		510,056		510,056
International funds (2)		127,644		127,644
Sector funds (2)		138,453		138,453
Fixed income funds (3)		51,379		51,379
Hybrid funds (3)		58,924		58,924
Stable value fund (4)		257,135		257,135
Mackinac Financial Corporation stock	426,529			426,529
<b>Total assets</b>	<b>\$ 440,927</b>	<b>\$ 4,667,420</b>	<b>\$</b>	<b>\$ 5,108,347</b>

**Assets Measured at Fair Value on a Recurring Basis at December 31, 2013**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
<b>Assets</b>				
	\$ 3,366	\$	\$	\$ 3,366

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Money market fund - short term investment

Pooled separate accounts:			
Balanced asset funds (1)		3,108,593	3,108,593
Equity funds (2)		399,232	399,232
International funds (2)		96,116	96,116
Sector funds (2)		99,243	99,243
Fixed income funds (3)		56,595	56,595
Hybrid funds (3)		43,293	43,293
Stable value fund (4)		192,705	192,705
Mackinac Financial Corporation stock	354,367		354,367
<b>Total assets</b>	<b>\$</b>	<b>357,733</b>	<b>\$</b>
		<b>\$</b>	<b>3,995,777</b>
			<b>\$</b>
			<b>4,353,510</b>

(1) This class represents investments in an actively managed pooled separate account fund that invests primarily in both equity and debt securities. The investments may include common stock, corporate bonds, interest rate swaps, options and futures.

(2) This class represents investments in an actively managed pooled separate account fund that invests primarily in equity securities which may include common stocks, options and futures.

(3) This class represents investments in actively managed pooled separate accounts with investments in a variety of fixed income investments which may include corporate bonds, both U.S. and non-U.S. municipal securities, interest rate swaps, options and futures.

(4) This class represents an investment in an actively managed pooled separate account that invests in a collective investment trust that invests primarily in corporate bonds, both U.S. and non-U.S., municipal securities and wrapper contracts.

There were no unfunded commitments or redemption restrictions on the investments described above.

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**Mackinac Financial Corporation 401(k) Plan**

**Notes to Financial Statements**

**December 31, 2014 and 2013**

**Note 6 Fair Value (continued)**

The plan's policy is to recognize transfers between the levels of the fair value hierarchy as of the actual date of the event or change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2014.

**Note 7 Subsequent Event**

On December 5, 2014, the Corporation completed its acquisition of Peninsula Financial Corporation and its wholly owned subsidiary, The Peninsula Bank. As part of the acquisition of Peninsula Financial Corporation, the Corporation amended the plan document to specify the eligibility rules for employees who were employees of The Peninsula Bank prior to that entity's consolidation into the Corporation. Effective January 1, 2015, eligible employees shall be eligible to commence participation in and enter the Plan. As a result of the merger, the assets of eligible participants were transferred to the Mackinac Financial Corporation 401(k) Plan subsequent to year end December 31, 2014.

Table of Contents**Mackinac Financial Corporation 401(k) Plan****Schedule of Assets Held at End of Year****Form 5500, Schedule H, Line 4i****EIN 38-2062816, Plan No. 004****December 31, 2013**

<b>Identity of Issuer</b>	<b>Description of Investment</b>	<b>Cost</b>	<b>Current Value</b>
Bank of New York Mellon	Money market fund - Prime Cash Series		\$ 14,398
John Hancock Life Insurance Company (U.S.A.)	Pooled separate accounts:		
	JH Lifestyle Growth	*	956,865
	JH Lifestyle Balanced	*	729,607
	JH Lifestyle Aggressive	*	511,737
	JH Retirement Living 2025	*	460,268
	John Hancock Stable Value Fund	*	253,535
	JH Retirement Living 2035	*	214,679
	JH Retirement Living 2030	*	182,270
	JH Retirement Living 2045	*	131,639
	JH Retirement Living 2040	*	115,952
	JH Lifestyle Moderate	*	98,462
	JH Retirement Living 2020	*	69,767
	Tocqueville Gold	*	59,587
	JH Davis New York Venture Equity Inc	*	58,925
	500 Index Fund	*	56,578
	JH DFA Emerging Markets Value	*	56,551
	JH American Funds Growth Fund	*	48,591
	JH Retirement Living 2050	*	46,631
	JH Small Cap Value Index	*	41,750
	Utilities Fund	*	39,089
	Blue Chip Growth Fund	*	33,117
	Small Company Value Fund	*	32,526
	Value Fund	*	32,117
	T. Rowe Price Equity Income Fund	*	30,498
	Real Estate Securities Fund	*	28,419
	JH Templeton World	*	26,560
	Templeton Global Bond Fund	*	25,972
	PIMCO All Asset Fund	*	23,685
	Explorer Fund	*	21,319
	T. Rowe Price Health Sciences Fund	*	18,632
	JH Mutual Discovery	*	18,549
	Vanguard Energy Fund	*	17,877
	JH American Funds Wash Mutual	*	17,191
	New Perspective Global Fund	*	14,645
	International Opportunity Fund	*	12,596
			11,783

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Intl Equity Index Fund	*	11,108
Large Cap Fund	*	10,846
JH Lifestyle Conservative	*	10,801
Investment Company of America	*	10,060

Schedule 1

Table of Contents**Mackinac Financial Corporation 401(k) Plan****Schedule of Assets Held at End of Year(Continued)**

Form 5500, Schedule H, Line 4i

EIN 38-2062816, Plan No. 004

December 31, 2014

Identity of Issuer	Description of Investment	Cost	Current Value
	JH American Funds Am Balanced	*	9,320
	JH American Funds EuroPacific	*	8,778
	John Hancock Disciplined Value Fund	*	8,682
	BlackRock Global Allocation Fund	*	8,275
	Federated High Yield Fund	*	7,507
	Dodge & Cox Stock	*	6,147
	The Income Fund of America	*	5,365
	Mid Cap Stock Fund	*	5,120
	PIMCO Total Return	*	4,759
	Mid Cap Value ETF	*	4,539
	Mid Value Fund	*	4,456
	DFA US Small Cap Fund	*	4,358
	PIMCO Global Bond Fund	*	4,129
	JH Mutual Beacon	*	3,840
	Fidelity Contra Fund	*	3,683
	American Century Heritage Fund	*	3,575
	Core Bond Fund	*	3,564
	Keeley Small Cap Value Fund	*	3,562
	DFA Inflation Protected Securities Fund	*	3,403
	Oppenheimer Global Fund	*	3,378
	All Cap Opportunity	*	2,759
	American Fundamental Holdings Fund	*	2,468
	High Yield Fund	*	2,453
	JH Domini Social Equity	*	2,084
	Real Return Bond Fund	*	1,461
	IDX Mid	*	1,452
	Vanguard Small Cap	*	964
	Growth Index	*	962
	New World Fund	*	404
	Active Bond Funds	*	334
	Small Cap Value Fund	*	275
	Science and Tecnology Fund	*	236
	BlackRock Basic Value Fund	*	200
	JPM Mid Cap Value	*	181
	Massachusetts Investors Fund	*	90
	American Funds US Gov Securities	*	84
	Small Cap World Fund	*	82
	Dodge & Cox International Stock	*	75
	JH Retirement Living 2015	*	24

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	JH Retirement Living 2055	*	8
Mackinac Financial Corporation	Corporation Stock - Mackinac Financial Corporation stock	*	426,529
Participants	Participant notes receivable bearing interest rates of 4.25%		227,960
	Total	\$	5,332,707

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\*Cost information not required



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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Mackinac Financial Corporation 401(k) Plan

Date: June 29, 2015

By: /s/ Ernie R. Krueger  
Name: Ernie R. Krueger  
Title: Executive Vice President, Chief Financial Officer  
Mackinac Financial Corporation

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