

City of East Jordan, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2014

CITY OF EAST JORDAN, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

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TOM CANNON

TREASURER

HEATHER JACKSON

CLERK

CHELTZI WILSON

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Commission
City of East Jordan
Charlevoix County, 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 the City of East Jordan, Michigan, as of and for the year ending June 30, 2014, 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 did not audit the financial statements of the East Jordan Housing Commission, a component unit of the City of East Jordan, Michigan, which represents 81 percent, 100 percent, and 40 percent, respectively, of the assets, net position, and revenue of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Jordan Housing Commission, is based solely on the report of the other auditors. 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.

To the City Commission
City of East Jordan

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, based on our audit and the report of other auditors, 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 the City of East Jordan, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 10, page 41, and pages 42 through 45 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 and other auditors 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.

To the City Commission
City of East Jordan

Other Information

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

The combining 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 nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014 on our consideration of the City of East Jordan, Michigan'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of East Jordan, Michigan's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

November 13, 2014

Management's Discussion and Analysis

As management of the City of East Jordan, Michigan (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 June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year 2014 by \$12,879,003 (*net position*). Of this, \$1,963,027 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$116,752 or 7% of the total General Fund expenditures and transfers, which was a decrease of \$223,728 or 65%.
- The current level of unrestricted net position of the governmental activities stands at \$238,055, or about 13% of expenses. This is within the targeted range set by the City Council during its last budget process.
- Net position of the governmental activities decreased \$269,683 or 5%. Net position of the business-type activities increased \$460,648 or 6%.

Overview of the Financial Statements

This discussion and analysis is intended to be an easily readable analysis of the City of East Jordan's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

Report Layout

This report consists of the Management's Discussion and Analysis (MD&A), government-wide financial statements, fund financial statements, notes to the financial statements, required supplementary information and other information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as police, fire, public works, parks and recreations, community development and general government administration. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

Basic Financial Statements

- The *Statement of Net Position* focuses on resources available for future operations. In simple terms, this statement presents a snap-shot view of the assets the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. Governmental activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities report capital assets and long-term liabilities. Governmental activities are reported on the accrual basis of accounting.
- The *Statement of Activities* focuses gross and net costs of City programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- *Fund Financial Statements* focus separately on major governmental fund and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The city's major government funds are present in their own column and the remaining funds are combined into a column titled "Other Governmental Funds". A budgetary comparison is presented for the general fund which is the only fund for which a budget is legally adopted. Statements for the City's proprietary funds follow the governmental funds and include net position, revenue, expenses, and changes in net position, and cash flows.
- The *Notes to Financial Statements* provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.
- *The Required Supplementary Information* provides information related to the City's pension plan and budgetary comparison information related to the City's major governmental.
- The *Other Information* provide in addition to the basic financial statements and accompanying notes, certain other supplementary information including the combining statements referred to earlier in connection with nonmajor governmental funds which are presented following the required supplementary information.

Discretely Presented Component Units

The Downtown Development Authority (DDA) and the Housing Commission (Housing) are reported in a separate column to emphasize that they are legally separate from the City. The members of the governing Boards are appointed by the City Commission and the budgets and expenditures must be approved by the City Commission. The City also has the ability to significantly influence operations of these organizations. Separate financial statements of the DDA are available at the Downtown Development Authority, 201 Main Street, East Jordan, MI 49727. Separate financial statements of the Housing Commission are available at East Jordan Housing Commission, 451 Water Street, East Jordan, MI 49727.

City as Whole

Government-wide Financial Statements

A condensed version of the Statement of Net Position at June 30, 2014 follows:

**City of East Jordan
Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current Assets	\$ 550,429	\$ 706,133	\$ 2,193,040	\$ 1,624,780	\$ 2,743,469	\$ 2,330,913
Capital Assets	5,196,534	5,409,250	8,935,890	9,064,802	14,132,424	14,474,052
Total Assets	\$ 5,746,963	\$ 6,115,383	\$ 11,128,930	\$ 10,689,582	\$ 16,875,893	\$ 16,804,965
Liabilities						
Current Liabilities	\$ 130,740	\$ 187,671	\$ 403,199	\$ 321,393	\$ 533,939	\$ 509,064
Noncurrent Liabilities	380,864	422,670	3,082,087	3,185,193	3,462,951	3,607,863
Total Liabilities	511,604	610,341	3,485,286	3,506,586	3,996,890	4,116,927
Net Position						
Net Investment in Capital Assets	4,785,949	4,922,403	5,918,672	5,885,584	10,704,621	10,807,987
Restricted	211,355	145,820	-	-	211,355	145,820
Unrestricted	238,055	436,819	1,724,972	1,297,412	1,963,027	1,734,231
Total Net Position	\$ 5,235,359	\$ 5,505,042	\$ 7,643,644	\$ 7,182,996	\$ 12,879,003	\$ 12,688,038

Business-type Activities. The City's business-type activities consist of the Water, Sewer, Tourist Park, Harbor, Ambulance, and Transfer Station funds.

Water and Sewer Funds

Operation of the water and sewer system is paid through user fees based upon amount of metered water used. A comparison of revenues and expenditures is evaluated every year to determine whether rates are providing the necessary revenue to meet expenses of the system. The last rate increase went into effect for the quarter beginning July 1, 2010.

Tourist Park Fund

Operation of the Tourist Park is paid through user fees based upon camper rent. A comparison of revenues and expenditures is evaluated every year to determine whether rates are providing the necessary revenue to meet expenses of the park. The last rate increase went into effect for the season beginning January 1, 2011.

Harbor Fund

Operation of the Harbor Fund is paid through user fees based upon seasonal and transient dock rents. The rates are set through the Michigan Department of Natural Resources Parks and Recreation Bureau (Michigan State Waterways Commission). The last rate increase went into effect for the season beginning April 15, 2011.

Ambulance Fund

Operation of the Ambulance Fund is paid through user fees based upon basic and advanced life support services provided. A comparison of revenues and expenditures is evaluated every year to determine whether rates are providing the necessary revenue to meet expenses of the ambulance fund. The last rate increase was July 1, 2009.

Transfer Station Fund

Operation of the Transfer Station Fund is paid through user fees based upon the disposal of garbage. A comparison of revenues and expenditures is evaluated every year to determine whether rates are providing the necessary revenue to meet expenses of the transfer station fund. The last rate increase went into effect for the season beginning January 1, 2003.

A condensed version of the Statement of Activities follows:

**City of East Jordan
Condensed Statement of Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues						
Charges for Services	\$ 158,853	\$ 141,292	\$ 2,296,382	\$ 1,664,805	\$ 2,455,235	\$ 1,806,097
Operating Grants and Contributions	277,638	222,699	-	-	277,638	222,699
General Revenues						
Property Taxes	1,039,940	1,105,619	-	-	1,039,940	1,105,619
State Shared Revenues	228,524	222,086	-	-	228,524	222,086
Investment Earnings	6,050	6,117	1,706	154,891	7,756	161,008
Miscellaneous	113,450	241,034	54,460	175,733	167,910	416,767
Total Revenues	1,824,455	1,938,847	2,352,548	1,995,429	4,177,003	3,934,276
Expenses						
Legislative	28,160	32,788	-	-	28,160	32,788
General Government	331,821	438,663	-	-	331,821	438,663
Public Safety	609,732	617,280	-	-	609,732	617,280
Public Works	557,246	540,512	-	-	557,246	540,512
Community and Economic Development	68,717	73,870	-	-	68,717	73,870
Recreation and Culture	185,211	183,418	-	-	185,211	183,418
Sewer	-	-	345,916	325,537	345,916	325,537
Water	-	-	421,984	417,791	421,984	417,791
Ambulance	-	-	918,399	939,596	918,399	939,596
EJ Harbor Marina	-	-	307,097	423,100	307,097	423,100
Other Nonmajor	-	-	208,110	248,792	208,110	248,792
Interest Exense - Unallocated	5,645	48,857	-	-	5,645	48,857
Total Expenses	1,786,532	1,935,388	2,201,506	2,354,816	3,988,038	4,290,204
Changes in Net Position before Transfers	37,923	3,459	151,042	(359,387)	188,965	(355,928)
Transfers	(307,606)	(140,410)	309,606	113,816	2,000	(26,594)
Changes in Net Position	(269,683)	(136,951)	460,648	(245,571)	190,965	(382,522)
Net Position - Beginning	5,505,042	5,795,829	7,182,996	7,428,567	12,688,038	13,224,396
Prior Period Adjustment	-	(153,836)	-	-	-	(153,836)
Restated Net Position - Beginning	-	5,641,993	-	7,428,567	-	13,070,560
Net Position - Ending	\$ 5,235,359	\$ 5,505,042	\$ 7,643,644	\$ 7,182,996	\$ 12,879,003	\$ 12,688,038

General Fund Budgetary Highlights

Tax revenues, state sources and charges for services were below expected budgetary levels. Many of the capital project related grants that are still in the General Fund fell short of budget, however this is not unusual for capital projects and there is an offsetting expense account that is under budget as well. Charges for services, interest and rents, and other revenue came in over budget.

Capital Asset and Debt Administration

Capital Assets

The City’s net investment in capital assets as of June 30, 2014, amounted to \$14,132,424. This investment, detailed in the following table, is invested in a broad range of capital assets including land, buildings, land improvements, machinery and equipment, streets, and business-type infrastructure.

**City of East Jordan
Capital Assets
(net of depreciation, where applicable)
June 30, 2014**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 301,450	\$ 301,450	\$ 355,002	\$ 355,002	\$ 656,452	\$ 656,452
Construction in Progress	-	-	173,907	-	173,907	-
Buildings	1,154,682	1,193,254	804,644	822,621	1,959,326	2,015,875
Land Improvements	75,344	80,727	989,604	1,044,805	1,064,948	1,125,532
Machinery and Equipment	1,174,743	1,166,346	244,748	288,149	1,419,491	1,454,495
Sewer Lagoons	-	-	1,189,762	1,232,662	1,189,762	1,232,662
Mains	-	-	5,178,223	5,321,563	5,178,223	5,321,563
Infrastructure	2,490,315	2,667,473	-	-	2,490,315	2,667,473
Total Capital Assets	\$ 5,196,534	\$ 5,409,250	\$ 8,935,890	\$ 9,064,802	\$ 14,132,424	\$ 14,474,052

Debt Outstanding

The significant long-term debt has been incurred in the DDA for the Main Street Center. The DDA sold bonds to fund the public improvements. The tax increment from the Main Street Center will service the debt. The bonds were purchased by Charlevoix State Bank, the majority owner of the Main Street Center.

**City of East Jordan
Debt Outstanding
June 30, 2014**

	Governmental Activities		Business-type Activities		Component Unit	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ 165,000	\$ 225,000	\$ 2,269,000	\$ 2,317,000	\$ 245,000	\$ 415,000
Revenue Bonds	-	-	748,218	862,218	-	-
Installment Purchase Agreement	245,585	261,847	265,982	171,247	89,437	110,077
Compensated Absences	62,462	61,252	13,442	14,579	-	-
Total Debt Outstanding	\$ 473,047	\$ 548,099	\$ 3,296,642	\$ 3,365,044	\$ 334,437	\$ 525,077

The City is not rated by Moody’s and Standard and Poor’s since our borrowing is not at their rating threshold. More detailed information of the City’s long-term liabilities is presented in the notes to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

- The State of Michigan is projecting significant budget deficits.

To deal with swings in the economy and to plan for future capital expansion, the City routinely puts aside resources. The City has also attempted to keep expenditures to a minimum because of anticipated revenue questions.

The City’s Downtown Development Authority (DDA) continues to work with outside investors to build a new motel in the City. In addition, the DDA is pursuing a “Main Street” designation through the Michigan “Main Street” Program for the downtown area.

Request for Information

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the City’s finances. Questions concerning any of the information provided in this report or requests for additional financial information, please contact the City Administrator at 201 Main Street, PO Box 499, East Jordan, Michigan, 49727.

Basic Financial Statements

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 202,094	\$ 1,471,992	\$ 1,674,086	\$ 198,978
Cash and Equivalents - Restricted	211,555	192,099	403,654	-
Investments - Unrestricted	-	-	-	56,918
Accounts Receivable - Net	14,139	513,997	528,136	10
Due From Governmental Units	111,379	-	111,379	-
Internal Loans	6,233	(6,233)	-	-
Prepays and Inventory	5,029	21,185	26,214	2,259
Capital Assets Not Depreciated	301,450	528,910	830,360	137,185
Capital Assets (Net of Accumulated Depreciation)	4,895,084	8,406,980	13,302,064	20,777
TOTAL ASSETS	<u>\$ 5,746,963</u>	<u>\$ 11,128,930</u>	<u>\$ 16,875,893</u>	<u>\$ 416,127</u>
LIABILITIES:				
Accounts Payable	\$ 1,654	\$ 78,526	\$ 80,180	\$ 25,563
Accrued Liabilities	27,064	30,268	57,332	12,176
Accrued Interest	3,739	33,205	36,944	-
Customer Deposits	6,100	46,645	52,745	2,250
Unearned Revenue	-	-	-	268
Installment Loans Payable - Due within one year	52,183	49,555	101,738	21,648
Installment Loans Payable - Due in more than one year	193,402	216,427	409,829	67,789
Bonds Payable - Due within one year	40,000	165,000	205,000	175,000
Bonds Payable - Due in more than one year	125,000	2,852,218	2,977,218	70,000
Compensated Absences - Due in more than one year	62,462	13,442	75,904	-
TOTAL LIABILITIES	<u>511,604</u>	<u>3,485,286</u>	<u>3,996,890</u>	<u>374,694</u>
NET POSITION:				
Net Investment in Capital Assets	4,785,949	5,918,672	10,704,621	157,962
Restricted	211,355	-	211,355	-
Unrestricted	238,055	1,724,972	1,963,027	(116,529)
TOTAL NET POSITION	<u>\$ 5,235,359</u>	<u>\$ 7,643,644</u>	<u>\$ 12,879,003</u>	<u>\$ 41,433</u>

City of East Jordan, Michigan

Statement of Activities For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Governmental Activities:								
Legislative	\$ 28,160	\$ -	\$ -	\$ -	\$ (28,160)	\$ -	\$ (28,160)	\$ -
General Government	331,821	39,093	2,603	-	(290,125)	-	(290,125)	-
Public Safety	609,732	119,191	-	-	(490,541)	-	(490,541)	-
Public Works	557,246	418	274,810	-	(282,018)	-	(282,018)	-
Community and Economic Development	68,717	-	-	-	(68,717)	-	(68,717)	-
Recreation and Culture	185,211	151	225	-	(184,835)	-	(184,835)	-
Interest Expense - Unallocated	5,645	-	-	-	(5,645)	-	(5,645)	-
Total Governmental Activities	<u>1,786,532</u>	<u>158,853</u>	<u>277,638</u>	<u>-</u>	<u>(1,350,041)</u>	<u>-</u>	<u>(1,350,041)</u>	<u>-</u>
Business-type activities:								
Sewer	345,916	405,368	-	-	-	59,452	59,452	-
Water	421,984	549,697	-	-	-	127,713	127,713	-
Ambulance	918,399	947,184	-	-	-	28,785	28,785	-
EJ Harbor Marine	307,097	192,079	-	-	-	(115,018)	(115,018)	-
Other Non-Major	208,110	202,054	-	-	-	(6,056)	(6,056)	-
Total Business-type Activities	<u>2,201,506</u>	<u>2,296,382</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,876</u>	<u>94,876</u>	<u>-</u>
Total Primary Government	<u>\$ 3,988,038</u>	<u>\$ 2,455,235</u>	<u>\$ 277,638</u>	<u>\$ -</u>	<u>(1,350,041)</u>	<u>94,876</u>	<u>(1,255,165)</u>	<u>-</u>
Component Units:								
Public Works:								
East Jordan Housing Commission	\$ 182,323	\$ 87,974	\$ 52,149	\$ 5,157	-	-	-	(37,043)
Economic Development:								
Downtown Development Authority	33,944	-	-	-	-	-	-	(33,944)
Total Component Units	<u>216,267</u>	<u>87,974</u>	<u>52,149</u>	<u>5,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,987)</u>
Total	<u>\$ 4,204,305</u>	<u>\$ 2,543,209</u>	<u>\$ 329,787</u>	<u>\$ 5,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
General Revenues and Transfers:								
Property Taxes								
Operating					976,830	-	976,830	220,744
Debt					63,110	-	63,110	-
State Shared Revenue					228,524	-	228,524	-
Investment Earnings					6,050	1,706	7,756	920
Miscellaneous					113,450	54,460	167,910	10,347
Loss on Disposal					-	-	-	(68,036)
Transfers					(307,606)	309,606	2,000	(2,000)
Total General Revenues and Transfers					<u>1,080,358</u>	<u>365,772</u>	<u>1,446,130</u>	<u>161,975</u>
Changes in Net Position					(269,683)	460,648	190,965	90,988
Net Position - Beginning					<u>5,505,042</u>	<u>7,182,996</u>	<u>12,688,038</u>	<u>(49,555)</u>
Net Position - Ending					<u>\$ 5,235,359</u>	<u>\$ 7,643,644</u>	<u>\$ 12,879,003</u>	<u>\$ 41,433</u>

City of East Jordan, Michigan

**Balance Sheet
Governmental Funds
June 30, 2014**

	General	Major Street	Local Street	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 48,622	\$ 988	\$ 4,195	\$ 26,572	\$ 80,377
Cash and Equivalents - Restricted	-	-	-	211,555	211,555
Accounts Receivable	14,127	-	-	-	14,127
Due from Other Funds	6,233	-	-	-	6,233
Due from Governmental Units	80,159	22,781	8,439	-	111,379
Prepays and Inventory	4,133	403	493	-	5,029
TOTAL ASSETS	\$ 153,274	\$ 24,172	\$ 13,127	\$ 238,127	\$ 428,700
LIABILITIES:					
Accounts Payable	\$ 1,654	\$ -	\$ -	\$ -	\$ 1,654
Accrued Liabilities	24,835	436	497	-	25,768
Customer Deposits	5,900	-	-	200	6,100
TOTAL LIABILITIES	32,389	436	497	200	33,522
FUND BALANCES:					
Nonspendable	4,133	403	493	-	5,029
Restricted	-	-	-	211,355	211,355
Assigned	-	23,333	12,137	26,572	62,042
Unassigned	116,752	-	-	-	116,752
TOTAL FUND BALANCES	120,885	23,736	12,630	237,927	395,178
TOTAL LIABILITIES AND FUND BALANCES	\$ 153,274	\$ 24,172	\$ 13,127	\$ 238,127	

Reconciliation to amounts reported for governmental activities in the statement of net position:

Capital assets used by governmental activities	4,658,275
Compensated absences liability	(62,462)
Long-term notes & bonds payable for governmental activities	(258,861)
Accrued interest expense	(3,739)
Internal service funds included in governmental activities	506,968
Net position of governmental activities	\$ 5,235,359

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2014**

	General	Major Street	Local Street	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:					
Taxes	\$ 976,830	\$ -	\$ -	\$ 63,110	\$ 1,039,940
Licenses and Permits	30,886	-	-	-	30,886
State Revenues	231,127	195,307	79,503	-	505,937
Local Revenues	-	-	-	225	225
Charges for Services	127,967	-	-	-	127,967
Interest and Rents	5,943	5	2	100	6,050
Other Revenue	93,647	114	125	19,564	113,450
TOTAL REVENUES	1,466,400	195,426	79,630	82,999	1,824,455
EXPENDITURES:					
Legislative	28,160	-	-	-	28,160
General Government	371,110	-	-	11,047	382,157
Public Safety	526,103	-	-	-	526,103
Public Works	104,361	142,530	128,469	-	375,360
Community and Economic Development	68,717	-	-	-	68,717
Recreation & Cultural	153,534	-	-	-	153,534
Debt Service	-	-	-	109,362	109,362
TOTAL EXPENDITURES	1,251,985	142,530	128,469	120,409	1,643,393
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	214,415	52,896	(48,839)	(37,410)	181,062
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	21,000	56,000	109,348	186,348
Operating Transfers Out	(438,143)	(55,708)	-	(103)	(493,954)
TOTAL OTHER FINANCING SOURCES (USES)	(438,143)	(34,708)	56,000	109,245	(307,606)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(223,728)	18,188	7,161	71,835	(126,544)
FUND BALANCES, JULY 1	344,613	5,548	5,469	166,092	521,722
FUND BALANCES, JUNE 30	\$ 120,885	\$ 23,736	\$ 12,630	\$ 237,927	\$ 395,178

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2014**

Net changes in fund balances - total governmental funds \$ (126,544)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$310,033) exceeded capital outlay \$10,433 in the current period. (299,600)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments 99,789

An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 53,954

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

Compensated absences (1,210)
Accrued Interest 3,928

Changes in net position of governmental activities \$ (269,683)

Statement of Net Position
Proprietary Funds
June 30, 2014

	Business - type Activities Enterprise Funds					Total	Governmental
	Sewer	Water	Ambulance	EJ Harbor Marina	Nonmajor Enterprise Funds		Internal Service Fund
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 945,641	\$ 373,058	\$ 53,912	\$ 64,407	\$ 34,974	\$ 1,471,992	\$ 121,717
Accounts Receivable - Net	96,575	130,995	286,427	-	-	513,997	12
Prepays and Inventory	-	1,531	-	19,155	499	21,185	-
Capital Assets Not Depreciated	21,626	103,977	106,253	289,285	7,769	528,910	-
Capital Assets (Net of Accumulated Depreciation)	2,778,294	3,704,823	891,523	897,087	135,253	8,406,980	538,259
Cash and Equivalents-Restricted							
Bond Reserve	76,299	115,800	-	-	-	192,099	-
TOTAL ASSETS	\$ 3,918,435	\$ 4,430,184	\$ 1,338,115	\$ 1,269,934	\$ 178,495	\$ 11,135,163	\$ 659,988
LIABILITIES:							
Accounts Payable	\$ -	\$ 67,655	\$ -	\$ 10,871	\$ -	\$ 78,526	\$ -
Accrued Liabilities	5,675	2,995	10,235	4,332	7,031	30,268	1,296
Accrued Interest	7,055	20,475	1,342	4,333	-	33,205	-
Due to Other Funds	-	-	-	-	6,233	6,233	-
Customer Deposits	-	1,692	-	11,666	33,287	46,645	-
Compensated Absences - Due in more than one year	-	-	13,442	-	-	13,442	-
Installment Loans Payable - Due within one year	-	-	37,177	12,378	-	49,555	34,992
Installment Loans Payable - Due in more than one year	-	-	147,409	69,018	-	216,427	116,732
Bonds Payable - Due within one year	11,000	138,000	-	16,000	-	165,000	-
Bonds Payable - Due in more than one year	634,000	2,067,218	-	151,000	-	2,852,218	-
TOTAL LIABILITIES	657,730	2,298,035	209,605	279,598	46,551	3,491,519	153,020
NET POSITION:							
Net Investment in Capital Assets	2,154,920	1,603,582	997,776	1,019,372	143,022	5,918,672	386,535
Unrestricted	1,105,785	528,567	130,734	(29,036)	(11,078)	1,724,972	120,433
TOTAL NET POSITION	\$ 3,260,705	\$ 2,132,149	\$ 1,128,510	\$ 990,336	\$ 131,944	\$ 7,643,644	\$ 506,968

**Statement of Revenues, Expenses, and
Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2014**

	Business - type Activities Enterprise Funds					Governmental Activities	
	Sewer	Water	Ambulance	EJ Harbor Marina	Nonmajor Enterprise Funds	Total	Internal Service Fund
OPERATING REVENUES:							
Charges for Services	\$ 405,368	\$ 549,697	\$ 947,184	\$ 192,079	\$ 202,054	\$ 2,296,382	\$ 290,991
Total Operating Revenues	405,368	549,697	947,184	192,079	202,054	2,296,382	290,991
OPERATING EXPENSES:							
Personal Services	124,681	125,967	384,081	46,044	85,966	766,739	110,878
Contracted Services	7,025	32,616	2,881	47,263	36,694	126,479	2,204
Insurance	751	1,099	4,930	2,305	320	9,405	9,017
Equipment Rental	36,760	47,758	2,449	1,022	9,881	97,870	-
Supplies	17,002	19,521	33,171	132,639	22,785	225,118	14,220
Utilities	34,930	36,520	49,862	7,985	30,681	159,978	54,476
Bad Debt	-	-	346,092	-	-	346,092	-
Repair and Maintenance	20,108	16,896	32,376	8,000	10,288	87,668	21,907
Depreciation	94,125	96,941	46,197	56,575	10,204	304,042	54,486
Miscellaneous	613	2,100	11,372	245	1,291	15,621	3,473
Total Operating Expenses	335,995	379,418	913,411	302,078	208,110	2,139,012	270,661
OPERATING INCOME (LOSS)	69,373	170,279	33,773	(109,999)	(6,056)	157,370	20,330
NON-OPERATING REVENUES (EXPENSES):							
Interest and Rents	872	179	638	-	17	1,706	61
Miscellaneous Revenue	1,570	2,171	35,612	5,593	9,514	54,460	34,143
Interest Expense	(9,921)	(42,566)	(4,988)	(5,019)	-	(62,494)	(580)
Total Non-Operating Revenues (Expenses)	(7,479)	(40,216)	31,262	574	9,531	(6,328)	33,624
Income (Loss) Before Transfers	61,894	130,063	65,035	(109,425)	3,475	151,042	53,954
Operating Transfers In	-	103	5,000	289,503	15,000	309,606	-
CHANGES IN NET POSITION	61,894	130,166	70,035	180,078	18,475	460,648	53,954
NET POSITION, JULY 1	3,198,811	2,001,983	1,058,475	810,258	113,469	7,182,996	453,014
NET POSITION, JUNE 30	\$ 3,260,705	\$ 2,132,149	\$ 1,128,510	\$ 990,336	\$ 131,944	\$ 7,643,644	\$ 506,968

**Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2014**

	Business - type Activities Enterprise Funds					Total	Governmental
	Sewer	Water	Ambulance	EJ Harbor Marina	Nonmajor Enterprise Funds		Internal
							Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers	\$ 413,508	\$ 556,230	\$ 890,840	\$ 256,498	\$ 219,754	\$ 2,336,830	\$ -
Payments to Suppliers	(124,462)	(106,144)	(480,146)	(208,664)	(118,574)	(1,037,990)	(105,297)
Payments to Employees	(122,195)	(124,966)	(386,446)	(44,949)	(85,778)	(764,334)	(112,775)
Internal Activity - Payments/Receipts with Other Funds	-	-	(7,031)	(201,904)	(42,147)	(251,082)	290,991
Net Cash Provided (Used) by Operating Activities	<u>166,851</u>	<u>325,120</u>	<u>17,217</u>	<u>(199,019)</u>	<u>(26,745)</u>	<u>283,424</u>	<u>72,919</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:							
Other Revenue	1,570	2,171	35,612	5,593	9,514	54,460	34,143
Operating Transfers In	-	103	5,000	289,503	15,000	309,606	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>1,570</u>	<u>2,274</u>	<u>40,612</u>	<u>295,096</u>	<u>24,514</u>	<u>364,066</u>	<u>34,143</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Debt Proceeds	-	-	127,886	-	-	127,886	49,167
Purchase of Capital Assets	(611)	(68,266)	(106,253)	-	-	(175,130)	(230,195)
Disposal(Adjustments) of Capital Assets	-	-	-	-	-	-	88,155
Interest Payments	(9,921)	(42,566)	(4,988)	(5,019)	-	(62,494)	(580)
Principal Payments	(10,000)	(137,000)	(21,300)	(26,851)	-	(195,151)	(25,640)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(20,532)</u>	<u>(247,832)</u>	<u>(4,655)</u>	<u>(31,870)</u>	<u>-</u>	<u>(304,889)</u>	<u>(119,093)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Interest Income	872	179	638	-	17	1,706	61
Net Cash Provided (Used) by Investing Activities	<u>872</u>	<u>179</u>	<u>638</u>	<u>-</u>	<u>17</u>	<u>1,706</u>	<u>61</u>
Net Increase (Decrease) in Cash and Equivalents	148,761	79,741	53,812	64,207	(2,214)	344,307	(11,970)
Balances - Beginning of the Year	873,179	409,117	100	200	37,188	1,319,784	133,687
Balances - End of the Year	<u>\$ 1,021,940</u>	<u>\$ 488,858</u>	<u>\$ 53,912</u>	<u>\$ 64,407</u>	<u>\$ 34,974</u>	<u>\$ 1,664,091</u>	<u>\$ 121,717</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	\$ 69,373	\$ 170,279	\$ 33,773	\$ (109,999)	\$ (6,056)	\$ 157,370	\$ 20,330
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation Expense	94,125	96,941	46,197	56,575	10,204	304,042	54,486
Change in Assets and Liabilities:							
(Increase) Decrease in Assets:							
Accounts Receivable	8,140	5,914	(56,344)	-	-	(42,290)	-
Prepays and Inventory	-	-	-	1,536	-	1,536	-
Due from Other Governmental Units	-	-	3,675	64,208	-	67,883	-
Increase (Decrease) in Liabilities:							
Accounts Payable	-	67,655	(568)	(8,431)	(6,634)	52,022	-
Accrued Liabilities	2,486	1,001	(1,228)	1,095	188	3,542	(1,897)
Accrued Interest	(7,273)	(17,289)	(120)	(2,310)	-	(26,992)	-
Due to Other Funds	-	-	(7,031)	(201,904)	(42,147)	(251,082)	-
Customer Deposits	-	619	-	211	17,700	18,530	-
Compensated Absences	-	-	(1,137)	-	-	(1,137)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 166,851</u>	<u>\$ 325,120</u>	<u>\$ 17,217</u>	<u>\$ (199,019)</u>	<u>\$ (26,745)</u>	<u>\$ 283,424</u>	<u>\$ 72,919</u>

**Statement of Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014**

	Perpetual Care	Police Dept Trust	Ambulance Trust	Fire Dept Trust	Totals
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 15,629	\$ 3,863	\$ 25	\$ 348	\$ 19,865
Cash and Equivalents - Restricted	175,414	-	-	-	175,414
Other Assets	-	-	-	987	987
TOTAL ASSETS	<u>\$ 191,043</u>	<u>\$ 3,863</u>	<u>\$ 25</u>	<u>\$ 1,335</u>	<u>\$ 196,266</u>
NET POSITION:					
Held in Trust for Fund Purposes	<u>\$ 191,043</u>	<u>\$ 3,863</u>	<u>\$ 25</u>	<u>\$ 1,335</u>	<u>\$ 196,266</u>
TOTAL NET POSITION	<u>\$ 191,043</u>	<u>\$ 3,863</u>	<u>\$ 25</u>	<u>\$ 1,335</u>	<u>\$ 196,266</u>

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014**

	Perpetual Care	Police Dept Trust	Ambulance Trust	Fire Dept Trust	Totals
ADDITIONS:					
Fees	\$ 600	\$ 4,352	\$ -	\$ -	\$ 4,952
Interest Income	356	4	-	-	360
TOTAL ADDITIONS	<u>956</u>	<u>4,356</u>	<u>-</u>	<u>-</u>	<u>5,312</u>
DEDUCTIONS:					
Supplies	-	5,865	-	-	5,865
Other	355	2,391	-	-	2,746
TOTAL DEDUCTIONS	<u>355</u>	<u>8,256</u>	<u>-</u>	<u>-</u>	<u>8,611</u>
CHANGES IN NET POSITION	601	(3,900)	-	-	(3,299)
NET POSITION, JULY 1	<u>190,442</u>	<u>7,763</u>	<u>25</u>	<u>1,335</u>	<u>199,565</u>
NET POSITION, JUNE 30	<u><u>\$ 191,043</u></u>	<u><u>\$ 3,863</u></u>	<u><u>\$ 25</u></u>	<u><u>\$ 1,335</u></u>	<u><u>\$ 196,266</u></u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Jordan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of East Jordan.

A. Reporting Entity

The City of East Jordan is governed by an elected seven-member Commission. The accompanying financial statements present the government and its component units, and entity for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Discretely Presented Component Units

The City of East Jordan Downtown Development Authority (the “DDA”) accounts for property tax and bond proceeds that are earmarked for improvements in a downtown area of the City and repayment of DDA issued bonds. The component unit column in the combined financial statements includes the financial data of the City’s Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing board of the DDA are appointed by the Mayor. The budgets and expenditures of the DDA must be approved by the City Commission. The City also has the ability to significantly influence operations of the DDA. Complete financial statements of the Downtown Development Authority can be obtained at the City of East Jordan, 201 Main Street, East Jordan, Michigan, 49727.

The East Jordan Housing Commission is a Public Housing Agency created by the City of East Jordan on February 7, 1967. The Commission was established to provide low-rent housing, under the low rent program Annual Contributions Contract, for qualified individuals in accordance with rules and regulation prescribed by the Department of Housing and Urban Development and other Federal agencies.

B. Government-Wide and Fund Financial Statements

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

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

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statutes for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street purposes.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for the activities of the sewage collection system.

The *Water Fund* accounts for the activities of the water distribution system.

The *Ambulance Fund* accounts for the activities of the City owned paramedic service.

The *EJ Harbor Marina Fund* accounts for the activities of the City owned marina.

Additionally, the City reports the following fund types:

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

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

Capital Project Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Agency Funds. These funds account for assets held for others in an agency capacity.

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

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

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

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. Property taxes, state revenue, and interest are considered to be susceptible to accrual.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary funds distinguish operating revenues and expenses from 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 City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/fund Balance

Cash and Equivalents

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

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

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

Receivables and Payables

All receivables are reported at their gross value. The City has not established an allowance for uncollectible accounts since, in the opinion of management the amount is not significant.

Interfund Receivables and Payables

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through July 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

Property taxes for the DDA are derived by capturing the taxes assessed on the increase in taxable value of the property located within the DDA districts.

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

Inventories and Prepaids Items

Inventories are valued at the lower of cost or market using the average cost method for proprietary fund types. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories consist primarily of paper and office supplies. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both governmental-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Buildings	40 to 60 years
Land Improvements	15 to 30 years
Machinery and Equipment	
Sewer Lagoons	
Mains	50 to 75 years
Infrastructure	10 to 30 years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Unused vacation and sick leave are paid to employees upon termination under limits that vary by employee group.

All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee's terminations as of year end.

Deferred Outflows 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 has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has no items that qualify for reporting in this category.

Long-Term Obligations

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Fund Balance Classification***

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year. The City has \$5,029 in Nonspendable fund balance.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has \$211,355 in restricted fund balance for debt service and capital project funds.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City. These amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City has \$0 classified as committed fund balance.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned funds in the amount of \$62,042.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each June, after receiving input from the individual departments, the City Manager prepares a proposed operating budget for the fiscal period commencing July 1 and lapses on June 30. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through an ordinance passed by the City Commission.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the City Commission. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The City does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - CASH AND EQUIVALENTS

At year end, the City’s cash and equivalents were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents - Unrestricted	\$ 202,094	\$ 1,471,992	\$ 1,674,086	\$ 19,865	\$ 198,978
Cash and Equivalents – Restricted	211,555	192,099	403,654	175,414	-
Investments – Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,918</u>
Total	<u>\$ 413,649</u>	<u>\$ 1,664,091</u>	<u>\$ 2,077,740</u>	<u>\$ 195,279</u>	<u>\$ 255,896</u>

Cash and equivalents are restricted in the amount of \$579,068 for the following: \$2,934 for Debt Service Funds, \$175,414 for Perpetual Care, \$208,621 for Capital Project Funds, and \$192,099 for Bond Reserves of Water and Sewer Funds.

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 2,076,723	\$ 195,279	\$ 255,896
Petty Cash and Cash on Hand	<u>1,017</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,077,740</u>	<u>\$ 195,279</u>	<u>\$ 255,896</u>

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. Credit quality ratings of future money funds were not available from the financial institutions or are unrated.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,686,419 of the City's bank balance of \$2,361,104 was exposed to credit risk because it was uninsured and uncollateralized.

Custodial investment credit risk. Custodial investment credit risk is the risk that in the event of the failure of the counterparty, the Housing Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the Housing Commission's \$56,918 in investments, \$56,918 is in the name of the Housing Commission.

Statutory Authority:

Public Act 152, entitled "An act relative to the investment of funds of public corporations of the state; and to validate certain investments," by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The City’s deposits and investment policy are in accordance with statutory authority.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending</u> <u>Balances</u>
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 301,450	\$ -	\$ -	-	\$ 301,450
<i>Capital assets being depreciated:</i>					
Buildings	1,798,403	-	-	(99)	1,798,304
Land Improvements	200,310	-	-	-	200,310
Machinery and Equipment	3,324,122	240,672	(158,568)	-	3,406,226
Infrastructure	4,428,957	-	-	-	4,428,957
Subtotal	<u>9,751,792</u>	<u>240,672</u>	<u>(158,568)</u>	<u>(99)</u>	<u>9,833,797</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation for:</i>					
Buildings	(605,149)	(38,473)	-	-	(643,622)
Land Improvements	(119,583)	(5,383)	-	-	(124,966)
Machinery and Equipment	(2,157,776)	(143,505)	69,743	55	(2,231,483)
Infrastructure	<u>(1,761,484)</u>	<u>(177,158)</u>	<u>-</u>	<u>-</u>	<u>(1,938,642)</u>
Subtotal	<u>(4,643,992)</u>	<u>(364,519)</u>	<u>69,743</u>	<u>55</u>	<u>(4,938,713)</u>
Net Capital Assets Being Depreciated	<u>5,107,800</u>	<u>(123,847)</u>	<u>(88,825)</u>	<u>(44)</u>	<u>4,895,084</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 5,409,250</u>	<u>\$ (123,847)</u>	<u>\$ (88,825)</u>	<u>\$ (44)</u>	<u>\$ 5,196,534</u>

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

Governmental Activities

General government	\$ 12,974
Public Safety	81,833
Public Works	184,602
Recreation and Culture	30,624
Internal Service	<u>54,486</u>

**Total Depreciation Expense -
Governmental Activities**

\$ 364,519

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balances</u>
Business-type Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 355,002	\$ -	\$ -	\$ -	\$ 355,002
Construction in Progress	<u>-</u>	<u>173,908</u>	<u>-</u>	<u>-</u>	<u>173,908</u>
Subtotal	<u>355,002</u>	<u>173,908</u>	<u>-</u>	<u>-</u>	<u>528,910</u>
<i>Capital assets being depreciated:</i>					
Sewer Lagoons	2,144,991	-	-	-	2,144,991
Buildings	1,008,287	-	-	-	1,008,287
Mains	7,604,698	-	-	-	7,604,698
Land Improvements	2,141,884	-	-	-	2,141,884
Machinery and Equipment	<u>812,791</u>	<u>1,222</u>	<u>(92,640)</u>	<u>-</u>	<u>721,373</u>
Subtotal	<u>13,712,651</u>	<u>1,222</u>	<u>(92,640)</u>	<u>-</u>	<u>13,621,233</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation for:</i>					
Sewer Lagoons	(912,329)	(42,900)	-	-	(955,229)
Buildings	(185,666)	(17,977)	-	-	(203,643)
Mains	(2,283,135)	(143,341)	-	-	(2,426,476)
Land Improvements	(1,097,079)	(55,201)	-	-	(1,152,280)
Machinery and Equipment	<u>(524,642)</u>	<u>(44,623)</u>	<u>92,640</u>	<u>-</u>	<u>(476,625)</u>
Subtotal	<u>(5,002,851)</u>	<u>(304,042)</u>	<u>92,640</u>	<u>-</u>	<u>(5,214,253)</u>
Net Capital Assets Being Depreciated	<u>8,709,800</u>	<u>(302,820)</u>	<u>-</u>	<u>-</u>	<u>8,406,980</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 9,064,802</u>	<u>\$ (128,912)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,935,890</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type Activities

Sewer	\$ 94,125
Water	96,941
Tourist Park	9,063
Marina	56,575
Solid Waste Transfer Station	1,141
Ambulance	<u>46,197</u>

**Total Depreciation Expense -
Business-type Activities**

\$ 304,042

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
East Jordan Housing Commission:				
<i>Capital assets not being depreciated:</i>				
Land	<u>\$ 170,343</u>	<u>\$ -</u>	<u>\$ (33,158)</u>	<u>\$ 137,185</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,008,897	-	(100,226)	908,671
Furniture, Equipment & Machinery - Dwelling	18,217	-	-	18,217
Furniture, Equipment & Machinery - Administration	<u>25,381</u>	<u>2,242</u>	<u>-</u>	<u>27,623</u>
Subtotal	<u>1,052,495</u>	<u>2,242</u>	<u>(100,226)</u>	<u>954,511</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation</i>	(907,348)	(31,631)	5,245	(933,734)
Net Capital Assets Being Depreciated	145,147	(29,389)	(94,981)	20,777
Governmental Activities Capital Assets, Net of Depreciation	\$ 315,490	\$ (29,389)	\$ (128,139)	\$ 157,962

Depreciation expense in the amount of \$31,631 was charged to Low Rent Programs of the Business-type activities.

NOTE 5 - PROPERTY TAXES

City property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are transferred to Charlevoix County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

The taxable value of real and personal property located in the City at December 31, 2013 totaled \$59,623,433. The tax levy for that year was based on the following rates:

	<u>Millage Rate Used</u>
General Operating	17.7953

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payables are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	
	<u>Nonmajor Enterprise</u>	<u>Total</u>
General Fund	\$ 6,233	\$ 6,233

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

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

		TRANSFERS IN							
TRANSFERS OUT		Major Street	Local Street	Nonmajor Governmental	Water	Ambulance	EJ Harbor Marina	Nonmajor Enterprise	Totals
	General Fund	\$	20,000	\$ 55,000	\$ 53,640	\$ -	\$ 5,000	\$ 289,503	\$ 15,000
Major Street		-	-	55,708	-	-	-	-	55,708
Nonmajor Governmental		-	-	-	103	-	-	-	103
Component Unit		1,000	1,000	-	-	-	-	-	2,000
Total	\$	21,000	\$ 56,000	\$ 109,348	\$ 103	\$ 5,000	\$ 289,503	\$ 15,000	\$ 495,954

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to 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.

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. City contractual agreements and installment purchase agreements are also general obligations of the City. Revenue bonds involve a pledge of specified income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities							
General Obligation Bonds:							
\$345,000 Michigan Transportation Bonds	4.9% to 5.35%	2014	\$ 30,000	\$ -	\$ 30,000	\$ -	\$ -
\$245,000 Michigan Transportation Bonds	3.4% to 5.05%	2016	70,000	-	20,000	50,000	25,000
\$175,000 Capital Improvement Bonds for Streets	4.3%	2021	125,000	-	10,000	115,000	15,000
Installment Purchase Agreements:							
\$49,167 Caterpillar	2.5000%	2019	-	49,167	-	49,167	9,353
\$27,000 Police Car	4.3750%	2014	6,750	-	6,750	-	-
\$214,446 Fire Truck	4.4000%	2018	110,321	-	16,460	93,861	17,191
\$153,836 Dump Truck	2.7500%	2017	128,197	-	25,640	102,557	25,639
\$33,157 Fire Truck	2.2500%	2013	<u>16,579</u>	<u>-</u>	<u>16,579</u>	<u>-</u>	<u>-</u>
Total Governmental Activities – Long-Term Debt			<u>486,847</u>	<u>49,167</u>	<u>125,429</u>	<u>410,585</u>	<u>92,183</u>
Business-type Activities							
General Obligation Bonds:							
\$834,218 Water Bonds	2.5000%	2020	337,218	-	44,000	293,218	44,000
\$1,290,000 Water Bonds	2.5000%	2020	525,000	-	70,000	455,000	70,000
\$250,000 2007B Harbor Bonds	4.2000%	2023	182,000	-	15,000	167,000	16,000
\$1,525,000 Water Capital Improvement Bonds	2.0% to 3.55%	2051	1,480,000	-	23,000	1,457,000	24,000
\$675,000 Sewer Capital Improvement Bonds	2.0% to 3.55%	2051	655,000	-	10,000	645,000	11,000
Installment Purchase Agreements:							
\$103,000 2009 Electric	4.4500%	2020	93,247	-	11,851	81,396	12,378
\$98,000 2009 Ambulance	4.5000%	2023	78,000	-	6,000	72,000	6,000
\$127,886 Ambulance Chassis			<u>-</u>	<u>127,886</u>	<u>15,300</u>	<u>112,586</u>	<u>31,177</u>
Total Business-type Activities – Long-Term Debt			<u>3,350,465</u>	<u>127,886</u>	<u>195,151</u>	<u>3,283,200</u>	<u>214,555</u>

NOTE 7 - LONG-TERM DEBT (Continued)

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Within One Year</u>
Component Unit Activities							
General Obligation Bonds:							
\$915,000 1997 Series A	5.1000%	2015	155,000	-	75,000	80,000	80,000
\$785,000 1998 Series A	4.6250%	2015	130,000	-	65,000	65,000	65,000
\$210,000 2003 Series A	4.6500%	2018	110,000	-	20,000	90,000	20,000
\$90,000 Bike Path Bonds, Series 2004	4.5000%	2015	20,000	-	10,000	10,000	10,000
Installment Purchase Agreement:							
\$210,000 Land	4.3000%	2018	<u>110,077</u>	<u>-</u>	<u>20,640</u>	<u>89,437</u>	<u>21,648</u>
Total Component Unit Activities – Long-Term Debt			<u>525,077</u>	<u>-</u>	<u>190,640</u>	<u>334,437</u>	<u>196,648</u>
Governmental Compensated Absences			61,252	1,210	-	62,462	-
Business-type Compensated Absences			<u>14,579</u>	<u>-</u>	<u>1,137</u>	<u>13,442</u>	<u>-</u>
Total Long-Term Debt			<u>\$4,438,220</u>	<u>\$ 178,263</u>	<u>\$ 512,357</u>	<u>\$4,104,126</u>	<u>\$ 503,386</u>

Annual debt service requirements to maturity for the above obligations are as follows:

	<u>Governmental Activities Bonds/Installments Payable</u>		<u>Business-type Activities Bonds/Installments Payable</u>		<u>Component Units Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	Fiscal:					
2015	\$ 92,183	\$ 15,520	\$ 214,555	\$ 89,494	\$ 196,648	\$ 14,900
2016	93,175	11,926	226,108	83,383	42,116	5,724
2017	69,204	8,283	230,269	77,007	47,589	3,825
2018	70,274	5,858	217,788	70,508	48,084	1,661
2019	45,749	3,394	208,733	64,483	-	-
2020-2024	40,000	2,580	470,747	257,352	-	-
2025-2029	-	-	234,000	213,073	-	-
2030-2034	-	-	267,000	180,705	-	-
2035-2039	-	-	304,000	143,771	-	-
2040-2044	-	-	345,000	101,771	-	-
2045-2049	-	-	393,000	53,996	-	-
2050-2052	-	-	<u>172,000</u>	<u>6,826</u>	-	-
TOTALS	<u>\$ 410,585</u>	<u>\$ 47,561</u>	<u>\$ 3,283,200</u>	<u>\$ 1,342,369</u>	<u>\$ 334,437</u>	<u>\$ 26,110</u>

NOTE 7 - LONG-TERM DEBT (Continued)**Accumulated Sick and Vacation Pay**

Employees of the City earn sick and vacation time at varying rates based on the following:

Under terms of the Police union contract employees may accumulate as much as fifty (50) sick days credit, forty-three (43) earned but not used sick days plus eight (8) days pre-credited on January 1 of each new calendar year. Upon separation of employment, the Employer will pay at one-half (1/2) the earned rate of pay for all then unused accrued sick days, except if separation is discharge for cause, in which case unused accrued sick day pay will be forfeited. Vacation pay will be paid out, along with the employee's final paycheck, the vacation pay for which they qualify as of their anniversary date. Vacation is awarded based on years of service and is as follows for the Police union: 1 year – one week (40 hours); 2 years but less than five – two weeks (80 hours); after the fifth year eligible for one day of paid vacation for each succeeding year, with a maximum of 25 days of paid vacation time (200 hours).

Under terms of the DPW union contract each employee shall have the option of retaining not more than twenty-five (25) days of his or her sick leave for future use. The employer shall have no obligation to purchase any sick leave that may be subsequently banked by an employee. January 1 of each year all regular full-time employees shall be credited with eight (8) sick leave days. Employees may use these sick leave days, and those banked from the preceding year pursuant to Section 4 of the union contract. Effective with the first pay periods in January of each year, regular full-time employees will have the option for all unused sick leave that was credited to him/her in that calendar year of: a. placing those days into his/her sick leave bank, provided the bank will not exceed twenty-five (25) days; and/or b. having the employer pay him/her for those days not placed in the bank, at the rate of 100% his/her regular rate of pay after 12 days banked and 50% his/her regular rate of pay for less than 12 days banked. Vacation is earned as follows: 1 year but less than 8 – 2 weeks vacation; 7 years but less than 15 – 3 weeks vacation; 15 years of continuous employment 4 weeks. Employees shall be entitled to one additional day of paid vacation for each year of continuous service after 15 years of continuous service to a maximum of five (5) weeks (200 hours).

The accumulated sick and vacation pay liability is \$75,904 at June 30, 2014.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Plan Description

The City of East Jordan participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers some employees of the City of East Jordan. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 9.34% to 18.78% of annual covered payroll. The obligation to contribute to and maintain the system for these employees was established by negotiation with the City of East Jordan’s competitive bargaining units and requires a contribution from the employees of 3 percent from Department Heads and General employees and 6 percent of gross wages from Police and Public Works employees.

Annual Pension Cost

For the year ended June 30, 2014, the City’s annual pension cost of \$115,514 for the plan equaled the required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2013, using the entry normal cost method. Significant actuarial assumptions used included (a) an 8% investment rate of return; (b) projected salary increases of 4.50% per year; and (c) 0.00 to 8.40% per year merit and longevity increases. Both determined using techniques that smooth the effect of short-term volatility over a four-year period. The City’s unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 29 years.

Three-year Trend Information			
Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 121,897	100%	0
2013	119,729	100%	0
2014	115,514	100%	0

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

The City has no post employment benefit plans at this time other than its pension plan.

NOTE 11 - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 2 of 1968, as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City’s actual expenditures were in excess of amounts appropriated as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General Fund:			
Community & Economic Development	-	68,717	(68,717)
Operating Transfers Out	165,038	438,143	(273,105)

NOTE 12 - DEFICIT UNRESTRICTED NET POSITION

An unrestricted net position deficit existed in the following funds as indicated:

EJ Harbor Marina	\$	29,036
Tourist Park		45,593

Required Supplementary Information

Pension:

Three year trend information as of December 31st follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Actuarial Value of Assets	\$ 3,398,458	\$ 3,430,346	\$ 3,510,550
Actuarial Accrued Liability	4,274,195	4,428,246	4,521,168
Unfunded AAL	875,737	997,900	1,010,618
Funded Ratio	80%	78%	78%
Covered Payroll	822,353	831,162	906,514
UAAL as a Percentage of Covered Payroll	106%	120%	111%

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 975,200	\$ 975,200	\$ 976,830	\$ 1,630
Licenses and Permits	28,000	28,000	30,886	2,886
State Sources	230,100	230,100	231,127	1,027
Local Sources	5,000	5,000	-	(5,000)
Charges for Services	110,110	110,110	127,967	17,857
Interest and Rents	10,513	10,513	5,943	(4,570)
Other Revenue	40,000	40,000	93,647	53,647
TOTAL REVENUES	1,398,923	1,398,923	1,466,400	67,477
EXPENDITURES:				
Legislative:				
City Council	26,535	28,735	28,160	575
General Government:				
Administrator	66,055	72,055	71,154	901
Clerk	74,310	74,310	57,649	16,661
Attorney	28,596	27,596	18,351	9,245
Treasurer	96,887	96,887	91,038	5,849
Building and Grounds	63,650	51,650	50,029	1,621
Elections	5,200	5,200	3,178	2,022
Assessor	27,940	28,440	28,323	117
Cemetery	27,486	30,486	30,601	(115)
Data Processing	17,415	20,915	19,206	1,709
Board of Review	1,835	1,835	1,581	254
Total General Government	409,374	409,374	371,110	38,264
Public Safety:				
Police Department	397,575	397,575	367,711	29,864
Fire Department	164,638	164,638	146,453	18,185
Zoning Board/Commission	26,288	26,288	11,939	14,349
Total Public Safety	588,501	588,501	526,103	62,398
Public Works:				
Public Works	51,103	42,403	24,488	17,915
Sidewalks	9,300	16,300	15,115	1,185
Street Lighting	59,000	57,000	53,437	3,563
Airport	9,930	11,930	11,321	609
Total Public Works	129,333	127,633	104,361	23,272
Community and Economic Development:				
Housing Commission and Paying Agents	-	-	68,717	(68,717)
Total Community and Economic Development	-	-	68,717	(68,717)
Recreation and Culture:				
Parks and Recreation	58,586	54,586	56,853	(2,267)
Community and Skate Park	43,711	48,211	47,733	478
Civic Center Recreation Facility	29,554	24,554	22,677	1,877
Elm Pointe Recreation Facility	27,602	26,602	26,271	331
Total Recreation and Culture	159,453	153,953	153,534	419
TOTAL EXPENDITURES	1,313,196	1,308,196	1,251,985	56,211

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	85,727	90,727	214,415	123,688
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	2,750	2,750	-	(2,750)
Operating Transfers Out	<u>(160,038)</u>	<u>(165,038)</u>	<u>(438,143)</u>	<u>(273,105)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (71,561)</u>	<u>\$ (71,561)</u>	(223,728)	<u>\$ (152,167)</u>
FUND BALANCE, JULY 1			<u>344,613</u>	
FUND BALANCE, JUNE 30			<u>\$ 120,885</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 144,200	\$ 144,200	\$ 195,307	\$ 51,107
Interest	200	200	5	(195)
Other Revenue	200	200	114	(86)
	<u>144,600</u>	<u>144,600</u>	<u>195,426</u>	<u>50,826</u>
TOTAL REVENUES				
EXPENDITURES:				
Public Works	<u>165,324</u>	<u>165,324</u>	<u>142,530</u>	<u>22,794</u>
EXCESS OF REVENUES OVER EXPENDITURES	(20,724)	(20,724)	52,896	73,620
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	3,718	23,718	21,000	(2,718)
Operating Transfers Out	<u>(55,608)</u>	<u>(55,608)</u>	<u>(55,708)</u>	<u>(100)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (72,614)</u>	<u>\$ (52,614)</u>	18,188	<u>\$ 70,802</u>
FUND BALANCE, JULY 1			<u>5,548</u>	
FUND BALANCE, JUNE 30			<u>\$ 23,736</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 48,000	\$ 68,000	\$ 79,503	\$ 11,503
Interest	100	100	2	(98)
Other Revenue	1,000	1,000	125	(875)
	<u>49,100</u>	<u>69,100</u>	<u>79,630</u>	<u>10,530</u>
TOTAL REVENUES				
EXPENDITURES:				
Public Works	<u>131,030</u>	<u>131,030</u>	<u>128,469</u>	<u>2,561</u>
EXCESS OF REVENUES OVER EXPENDITURES	(81,930)	(61,930)	(48,839)	13,091
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	<u>71,532</u>	<u>61,532</u>	<u>56,000</u>	<u>(5,532)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (10,398)</u>	<u>\$ (398)</u>	7,161	<u>\$ 7,559</u>
FUND BALANCE, JULY 1			<u>5,469</u>	
FUND BALANCE, JUNE 30			<u>\$ 12,630</u>	

Other Information

	Special Revenue Funds				Debt Service Funds		
	Fire Equipment	Rehab I and II	D.A.R.E.	Drug Law Enforcement	2007A GO Cap.	2002 Cap.	2007B GO Cap.
ASSETS:							
Cash and Equivalents - Unrestricted	\$ -	\$ 20,275	\$ 2,394	\$ 3,903	\$ -	\$ -	\$ -
Cash and Equivalents - Restricted	-	-	-	-	1,737	-	1,000
TOTAL ASSETS	\$ -	\$ 20,275	\$ 2,394	\$ 3,903	\$ 1,737	\$ -	\$ 1,000
LIABILITIES:							
Customer Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES:							
Restricted	-	-	-	-	1,737	-	1,000
Assigned	-	20,275	2,394	3,903	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 20,275	\$ 2,394	\$ 3,903	\$ 1,737	\$ -	\$ 1,000

	Debt Service Funds		Capital Project Funds			Totals
	1999 Mi Trans	2001 Mi Trans	Street Improvement Tax	Bandshell	Industrial Complex	
ASSETS:						
Cash and Equivalents - Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,572
Cash and Equivalents - Restricted	104	93	193,658	11,309	3,654	211,555
TOTAL ASSETS	<u>\$ 104</u>	<u>\$ 93</u>	<u>\$ 193,658</u>	<u>\$ 11,309</u>	<u>\$ 3,654</u>	<u>\$ 238,127</u>
LIABILITIES:						
Customer Deposits	\$ -	\$ -	\$ -	\$ 200	\$ -	\$ 200
FUND BALANCES:						
Restricted	104	93	193,658	11,109	3,654	211,355
Assigned	-	-	-	-	-	26,572
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 104</u>	<u>\$ 93</u>	<u>\$ 193,658</u>	<u>\$ 11,309</u>	<u>\$ 3,654</u>	<u>\$ 238,127</u>

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2014**

	Special Revenue Funds				Debt Service Funds		
	Fire Equipment	Rehab I and II	D.A.R.E.	Drug Law Enforcement	2007A GO Cap.	2002 Cap.	2007B GO Cap.
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local Sources	-	-	-	-	-	-	-
Other Revenues	-	-	3,725	8,334	-	-	-
Interest and Rents	4	13	1	3	-	-	-
TOTAL REVENUES	4	13	3,726	8,337	-	-	-
EXPENDITURES:							
General Government	-	-	1,332	4,434	-	-	-
Debt Service	38,279	-	-	-	15,375	-	-
TOTAL EXPENDITURES	38,279	-	1,332	4,434	15,375	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(38,275)	13	2,394	3,903	(15,375)	-	-
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	38,265	-	-	-	15,375	-	-
Operating Transfers Out	-	-	-	-	-	(103)	-
TOTAL OTHER FINANCING SOURCES (USES)	38,265	-	-	-	15,375	(103)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(10)	13	2,394	3,903	-	(103)	-
FUND BALANCES, JULY 1	10	20,262	-	-	1,737	103	1,000
FUND BALANCES, JUNE 30	\$ -	\$ 20,275	\$ 2,394	\$ 3,903	\$ 1,737	\$ -	\$ 1,000

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2014**

	Debt Service Funds		Capital Project Funds			Totals
	1999 Mi Trans	2001 Mi Trans	Street Improvement Tax	Bandshell	Industrial Complex	
REVENUES:						
Taxes	\$ -	\$ -	\$ 63,110	\$ -	\$ -	\$ 63,110
Local Sources	-	-	-	225	-	225
Other Revenues	-	-	-	7,505	-	19,564
Interest and Rents	-	-	74	3	2	100
TOTAL REVENUES	-	-	63,184	7,733	2	82,999
EXPENDITURES:						
General Government	-	-	-	5,281	-	11,047
Debt Service	31,743	23,965	-	-	-	109,362
TOTAL EXPENDITURES	31,743	23,965	-	5,281	-	120,409
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(31,743)	(23,965)	63,184	2,452	2	(37,410)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	31,743	23,965	-	-	-	109,348
Operating Transfers Out	-	-	-	-	-	(103)
TOTAL OTHER FINANCING SOURCES (USES)	31,743	23,965	-	-	-	109,245
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	-	63,184	2,452	2	71,835
FUND BALANCES, JULY 1	104	93	130,474	8,657	3,652	166,092
FUND BALANCES, JUNE 30	\$ 104	\$ 93	\$ 193,658	\$ 11,109	\$ 3,654	\$ 237,927

**Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2014**

	Solid Waste Transfer Station	Tourist Park	Totals
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 34,974	\$ -	\$ 34,974
Prepays and Inventory	-	499	499
Capital Assets Not Depreciated	-	7,769	7,769
Capital Assets (Net of Accumulated Depreciation)	36,145	99,108	135,253
TOTAL ASSETS	\$ 71,119	\$ 107,376	\$ 178,495
LIABILITIES:			
Accrued Liabilities	\$ 459	\$ 6,572	\$ 7,031
Due to Other Funds	-	6,233	6,233
Customer Deposits	-	33,287	33,287
TOTAL LIABILITIES	459	46,092	46,551
NET POSITION:			
Net Investment in Capital Assets	36,145	106,877	143,022
Unrestricted	34,515	(45,593)	(11,078)
TOTAL NET POSITION	70,660	61,284	131,944
TOTAL LIABILITIES AND NET POSITION	\$ 71,119	\$ 107,376	\$ 178,495

**Combining Statement of Revenues, Expenses, and
Changes in Net Position - Nonmajor Enterprise Funds
For the Year Ended June 30, 2014**

	Solid Waste Transfer Station	Tourist Park	Totals
OPERATING REVENUES:			
Charges for Services	\$ 49,039	\$ 153,015	\$ 202,054
TOTAL OPERATING REVENUES	<u>49,039</u>	<u>153,015</u>	<u>202,054</u>
OPERATING EXPENSES:			
Personal Services	13,627	72,339	85,966
Contracted Services	28,590	8,104	36,694
Insurance	-	320	320
Equipment Rental	5,327	4,554	9,881
Supplies	417	22,368	22,785
Utilities	1,091	29,590	30,681
Repair and Maintenance	2,186	8,102	10,288
Depreciation	1,141	9,063	10,204
Miscellaneous	-	1,291	1,291
Total Operating Expenses	<u>52,379</u>	<u>155,731</u>	<u>208,110</u>
OPERATING INCOME (LOSS)	<u>(3,340)</u>	<u>(2,716)</u>	<u>(6,056)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest & Rents	17	-	17
Miscellaneous Revenue	60	9,454	9,514
Total Non-Operating Revenues (Expenses)	<u>77</u>	<u>9,454</u>	<u>9,531</u>
Income (Loss) Before Transfers	<u>(3,263)</u>	<u>6,738</u>	<u>3,475</u>
Operating Transfers In	<u>-</u>	<u>15,000</u>	<u>15,000</u>
CHANGES IN NET POSITION	<u>(3,263)</u>	<u>21,738</u>	<u>18,475</u>
NET POSITION, JULY 1	<u>73,923</u>	<u>39,546</u>	<u>113,469</u>
NET POSITION, JUNE 31	<u>\$ 70,660</u>	<u>\$ 61,284</u>	<u>\$ 131,944</u>

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2014**

	Solid Waste Transfer Station	Tourist Park	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 49,039	\$ 170,715	\$ 219,754
Payments to Suppliers	(37,611)	(80,963)	(118,574)
Payments to Employees	(13,502)	(72,276)	(85,778)
Internal Activity - Payments/Receipts with Other Funds	-	(42,147)	(42,147)
	(2,074)	(24,671)	(26,745)
Net Cash Provided (Used) by Operating Activities			
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
Operating Transfers In	-	15,000	15,000
Other Revenue	60	9,454	9,514
	60	24,454	24,514
Net Cash Provided (Used) by Noncapital and Related Financing Activities			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	17	-	17
	17	-	17
Net Cash Provided (Used) by Investing Activities			
Net Increase (Decrease) in Cash and Cash Equivalents	(1,997)	(217)	(2,214)
Balances - Beginning of the Year	36,971	217	37,188
Balances - End of the Year	\$ 34,974	\$ -	\$ 34,974
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (3,340)	\$ (2,716)	\$ (6,056)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	1,141	9,063	10,204
Increase (Decrease) in Liabilities:			
Accounts Payable	-	(6,634)	(6,634)
Accrued Liabilities	125	63	188
Due to Other Funds	-	(42,147)	(42,147)
Customer Deposits	-	17,700	17,700
	(2,074)	(24,671)	(26,745)
Net Cash Provided (Used) by Operating Activities	\$ (2,074)	\$ (24,671)	\$ (26,745)

City of East Jordan, Michigan

Combining Balance Sheet Component Units June 30, 2014

	Downtown Development Authority	East Jordan Housing Commission 12/31/2013	Totals
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 77,764	\$ 121,214	\$ 198,978
Investments - Unrestricted	-	56,918	56,918
Accounts Receivable	-	10	10
Prepays and Inventory	-	2,259	2,259
Capital Assets Not Depreciated	-	137,185	137,185
Capital Assets (Net of Accumulated Depreciation)	-	20,777	20,777
TOTAL ASSETS	\$ 77,764	\$ 338,363	\$ 416,127
LIABILITIES:			
Accounts Payable	\$ -	\$ 25,563	\$ 25,563
Accrued Liabilities	148	12,028	12,176
Customer Deposits	-	2,250	2,250
Unearned Revenue	-	268	268
Bonds Payable - Due within one year	175,000	-	175,000
Bonds Payable - Due in more than one year	70,000	-	70,000
Installment Loans Payable - Due within one year	21,648	-	21,648
Installment Loans Payable - Due in more than one year	67,789	-	67,789
TOTAL LIABILITIES	334,585	40,109	374,694
NET POSITION:			
Net Investment in Capital Assets	-	157,962	157,962
Unrestricted	(256,821)	140,292	(116,529)
TOTAL NET POSITION	(256,821)	298,254	41,433
TOTAL LIABILITIES AND NET POSITION	\$ 77,764	\$ 338,363	\$ 416,127

**Combining Statement of Revenues, Expenditures
and Changes in Net Position
Component Units
For the Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	East Jordan Housing Commission 12/31/2013	Total
Public Works:							
East Jordan Housing Commission	\$ 182,323	\$ 87,974	\$ 52,149	\$ 5,157	\$ -	\$ (37,043)	\$ (37,043)
Economic Development:							
Downtown Development Authority	33,944	-	-	-	(33,944)	-	(33,944)
Total Component Units	<u>\$ 216,267</u>	<u>\$ 87,974</u>	<u>\$ 52,149</u>	<u>\$ 5,157</u>	<u>(33,944)</u>	<u>(37,043)</u>	<u>(70,987)</u>
General Revenues:							
Taxes					220,744	-	220,744
Interest Income					88	832	920
Miscellaneous					5,000	5,347	10,347
Loss on Disposal					-	(68,036)	(68,036)
Transfers					(2,000)	-	(2,000)
Total General Revenues					<u>223,832</u>	<u>(61,857)</u>	<u>161,975</u>
Changes in Net Position					189,888	(98,900)	90,988
Net Position - Beginning					<u>(446,709)</u>	<u>397,154</u>	<u>(49,555)</u>
Net Position - Ending					<u>\$ (256,821)</u>	<u>\$ 298,254</u>	<u>\$ 41,433</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**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 Commission
City of East Jordan
Charlevoix County, 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 the City of East Jordan, Michigan, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of East Jordan, Michigan's basic financial statements and have issued our report thereon dated November 13, 2014. Our report includes a reference to other auditors who audited the financial statements of the East Jordan Housing Commission, as described in or report on the City of East Jordan, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of East Jordan, Michigan'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 the City of East Jordan, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of East Jordan, Michigan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the City Commission
City of East Jordan

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies listed as 2014-001 and 2014-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of East Jordan, Michigan's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-003 and 2014-004.

City of East Jordan, Michigan's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

November 13, 2014

Significant Deficiency

Internal Control Over Financial Reporting

Preparation of Financial Statements in Accordance with GAAP

Finding 2014-001

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

Condition: As many small and medium-sized governmental entities do, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the City's auditors, who cannot by definition, be considered to be a part of the City's internal controls.

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

Effect: The City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

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

Planned Corrective Action: The City will continue to monitor the cost effectiveness of hiring/training staff to comply with proper financial statement preparation in accordance with GAAP.

- *Contact Person(s) Responsible for Correction:*
Heather Jackson, Treasurer
- *Anticipated Completion Date:*
In process of review.

Significant Deficiency

Internal Control Over Financial Reporting

Material Audit Adjustments

Finding 2014-002

Criteria: Management is responsible for maintaining the City's accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: As noted in prior audits, we identified and proposed numerous material adjustments, which were approved and posted by management, to reconcile the City's general ledger to the audited balances. These adjustments included recording current year accruals for receivables and payables, long-term debt accounts, capital assets, inventory and prepaids, and accrued payroll.

Cause: The City has historically relied on its independent external auditors to assist with the process of making necessary year end adjustments to present its financial statements in accordance with GAAP.

Effect: As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.

Recommendation: The Treasurer makes many adjustments and accruals. We recommend the treasurer meet with the auditors to understand the remaining entries to be made.

Planned Corrective Action: The Treasurer will meet with the auditor to learn to make the remaining accruals.

- *Contact Person(s) Responsible for Correction:*
Heather Jackson, Treasurer
- *Anticipated Completion Date:*
As soon as possible.

Significant Deficiency

Noncompliance with State Statutes

Deficit Unrestricted Fund Balance

Finding 2014-003

Criteria: The deficit in unrestricted net position is contrary to the provisions of Section 15(2) of Public Act 2 of 1968, as amended.

Condition: The City's Harbor Marina and Tourist Park Funds have a deficit in unrestricted net position.

Cause: The Marina Fund has a negative unrestricted net position balance of \$29,036 and the Tourist Park has a negative unrestricted net position balance of \$45,593.

Effect: The City is in noncompliance with Public Act 2 of 1968, as amended.

Recommendation: We recommend that the City develop a plan to eliminate the deficits as soon as possible.

Planned Corrective Action: The City contacted the State and was told at that time a deficit reduction plan should not be filed until the State contacted them, through a letter, to submit a deficit reduction plan.

- *Contact Person(s) Responsible for Correction:*
Heather Jackson, Treasurer
- *Anticipated Completion Date:*
As soon as possible.

Significant Deficiency

Noncompliance with State Statues

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 2014-004

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 18(3) of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

Condition: Our examination of procedures used by the City of East Jordan to adopt and maintain operating budgets for the City’s budgetary funds revealed the following instance of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The City’s 2013-2014 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2013-2014 expenditures exceeded the board’s approved budget allocations for two general fund activities.

During the fiscal year ended June 30, 2014, expenditures were incurred in excess of amounts appropriated in the amended budget for the general fund community and economic development and operating transfers out on pages 42-43 of the financial statements.

Cause: Unknown.

Effect: Condition violates State Law.

Recommendation: We recommend that the City and personnel responsible for administering the activities of the various funds of the City, develop budgetary control procedures for the general fund and major street fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Planned Corrective Action: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

- *Contact Person(s) Responsible for Correction:*
Heather Jackson, Treasurer
- *Anticipated Completion Date:*
2014-2015 fiscal year.



ANDERSON, TACKMAN & COMPANY, PLC
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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the City Commission
City of East Jordan
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of East Jordan, Michigan, for the year ended June 30, 2014, and have issued our report thereon dated November 13, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information about our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated August 14, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of East Jordan, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of East Jordan, Michigan's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on combining fund financial statements, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on August 14, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of East Jordan, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. 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 estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. 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.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$0.

The financial statements 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. However, some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole (See Finding 2014-002).

Disagreement 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 November 13, 2014.

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 governmental unit'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 governmental 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.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

Check Signatures (Prior Year)

It was noted that checks only have one authorized signature on them. It is recommended that all checks require two signatures to help ensure proper approval.

Status: Corrected.

Payroll (Prior Year)

It was noted during the testing of payroll that some pre-tax deductions were not deducted on a pre-tax basis. We recommend that taxes be calculated using gross earnings minus pre-tax deductions.

Status: Corrected.

Allowance for Doubtful Accounts (Prior Year)

During our testing of the ambulance system, it was noted that an allowance for doubtful accounts is not recorded. We recommend that the ambulance implement an appropriate method for computing and recording the allowance for doubtful accounts.

Status: Uncorrected.

Pay Rate (Prior Year)

During testing of payroll, it was noted that when a pay increase went into effect for an employee the first pay period reflecting this change was not accurate. It is recommended that care be taken to ensure that all pay periods related to pay rate changes are correctly paid out.

Status: Corrected.

Credit Cards

During testing, it was noted that not all supporting documentation could be supplied for all credit card purchases. We recommend all supporting documentation be retained for credit card purchases to help ensure proper record keeping.

EMS Billing

During testing, it was noted that EMS A/R could not be completely reconciled to department records because the appropriate aging and payment reports could not be created. We recommend that the EMS communicate with the software developer to create the appropriate reports or change to a more user friendly billing software.

Tourist Park

During testing, it was noted that a detailed listing by customer could not be provided for the camper rent deferred revenue. We recommend that a listing be created showing the deferred camper rent balances by customer to help ensure accuracy of accounting records.

Budgets

During the year a fund balance deficit was budgeted for in the major streets fund. We recommend the budget be properly amended when necessary to help ensure fund balance never reaches a negative balance.

Pension Reporting

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that implement substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements. These requirements include a provision for reporting net pension liabilities on the accrual based statement of net position and measuring investments at fair value as well as additional footnote and required supplementary information disclosures.

The Board and Management should review the procedures for implementation of these new standards effective in fiscal 2014 and assess the impact on the local unit of government's financial reporting.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Conclusion

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

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

November 13, 2014