

City of East Jordan, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2016

CITY OF EAST JORDAN, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR

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TRACEY JOHNSON

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APPOINTED OFFICERS

CITY ADMINISTRATOR

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 unit, 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, 2016, 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 79 percent, 77 percent, and 43 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, Michigan

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 unit, each major fund, and the aggregate remaining fund information of the City of East Jordan, Michigan, as of June 30, 2016, 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, pages 47 through 48, and pages 49 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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.

To the City Commission
City of East Jordan, Michigan

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 4, 2016 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 4, 2016

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, 2015. 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 2016 by \$11,095,913 (*net position*). Of this, \$387,295 (*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 \$239,678 or 15% of the total General Fund expenditures and transfers, which was an increase of \$37,769 or 19%.
- The current level of unrestricted net position of the governmental activities stands at (\$862,618), or about (38)% of expenses.
- Net position of the governmental activities increased \$216,373 or 5%. Net position of the business-type activities decreased \$261,662 or 4%.

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 recreation, 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, deferred outflows, the liabilities it owes, deferred inflows 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 funds.
- 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, 2016 follows:

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current Assets	\$ 595,035	\$ 641,097	\$ 1,929,812	\$ 1,703,302	\$ 2,524,847	\$ 2,344,399
Capital Assets	5,962,272	5,059,559	7,925,156	8,746,317	13,887,428	13,805,876
Total Assets	6,557,307	5,700,656	9,854,968	10,449,619	16,412,275	16,150,275
Deferred Outflows of Resources	381,337	61,383	114,584	48,230	495,921	109,613
Liabilities						
Current Liabilities	227,418	220,743	448,241	329,013	675,659	549,756
Noncurrent Liabilities	1,862,433	1,103,736	3,024,370	3,465,194	4,886,803	4,568,930
Total Liabilities	2,089,851	1,324,479	3,472,611	3,794,207	5,562,462	5,118,686
Deferred Inflows of Resources	194,860	61,383	54,961	48,230	249,821	109,613
Net Position						
Net Investment in Capital Assets	5,348,484	4,689,907	5,192,067	5,677,672	10,540,551	10,367,579
Restricted	168,067	216,614	-	-	168,067	216,614
Unrestricted	(862,618)	(468,961)	1,249,913	1,025,970	387,295	557,009
Total Net Position	\$ 4,653,933	\$ 4,437,560	\$ 6,441,980	\$ 6,703,642	\$ 11,095,913	\$ 11,141,202

Governmental Activities. Most of the City's basic services are reported here, such as legislative, general government, public safety, public works, community and economic development, health and welfare, recreation and culture, and debt service. Property tax and state and federal grants finance most of these activities.

Business-type Activities. The City's business-type activities consist of the Water, Sewer, Tourist Park, and E.J. Harbor Marina 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, 2015.

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, 2015.

E.J. Harbor Marina 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 January 1, 2015.

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	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$ 121,416	\$ 193,988	\$ 1,442,558	\$ 1,913,869	\$ 1,563,974	\$ 2,107,857
Operating Grants and Contributions	331,262	258,086	-	-	331,262	258,086
Capital Grants and Contributions	-	71,644	-	-	-	71,644
General Revenues						
Property Taxes	1,030,422	1,070,485	-	-	1,030,422	1,070,485
State Shared Revenues	232,715	232,888	-	-	232,715	232,888
Investment Earnings	18,587	8,775	1,050	25,579	19,637	34,354
Other Grants	-	-	159,800	13,640	159,800	13,640
Miscellaneous	238,805	113,121	17,888	42,174	256,693	155,295
Total Revenues	1,973,207	1,948,987	1,621,296	1,995,262	3,594,503	3,944,249
Expenses						
Legislative	25,572	28,992	-	-	25,572	28,992
General Government	495,123	468,573	-	-	495,123	468,573
Public Safety	668,966	666,381	-	-	668,966	666,381
Public Works	622,219	534,509	-	-	622,219	534,509
Community and Economic Development	66,438	69,077	-	-	66,438	69,077
Health and Welfare	98,033	-	-	-	98,033	-
Recreation and Culture	251,280	222,036	-	-	251,280	222,036
Sewer	-	-	506,058	413,922	506,058	413,922
Water	-	-	471,390	419,447	471,390	419,447
Ambulance	-	-	-	1,119,444	-	1,119,444
EJ Harbor Marina	-	-	229,064	250,006	229,064	250,006
Other Nonmajor	-	-	206,645	227,827	206,645	227,827
Interest Expense - Unallocated	31,972	29,346	-	-	31,972	29,346
Total Expenses	2,259,603	2,018,914	1,413,157	2,430,646	3,672,760	4,449,560
Changes in Net Position before Transfers	(286,396)	(69,927)	208,139	(435,384)	(78,257)	(505,311)
Transfers	469,801	(37,678)	(469,801)	37,678	-	-
Changes in Net Position	183,405	(107,605)	(261,662)	(397,706)	(78,257)	(505,311)
Net Position - Beginning	4,437,560	5,235,359	6,703,642	7,643,644	11,141,202	12,879,003
Prior Period Adjustment	32,968	(690,194)	-	(542,296)	32,968	(1,232,490)
Restated Net Position - Beginning	4,470,528	4,545,165	6,703,642	7,101,348	11,174,170	11,646,513
Net Position - Ending	\$ 4,653,933	\$ 4,437,560	\$ 6,441,980	\$ 6,703,642	\$ 11,095,913	\$ 11,141,202

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, 2016, amounted to \$13,887,428. 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)**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 301,450	\$ 301,450	\$ 355,002	\$ 355,002	\$ 656,452	\$ 656,452
Buildings	1,818,801	1,116,471	64,186	786,668	1,882,987	1,903,139
Land Improvements	160,903	103,251	1,096,405	946,749	1,257,308	1,050,000
Machinery and Equipment	1,462,328	1,202,095	79,612	252,317	1,541,940	1,454,412
Sewer Lagoons	-	-	1,103,962	1,146,862	1,103,962	1,146,862
Mains	-	-	5,225,989	5,258,719	5,225,989	5,258,719
Infrastructure	2,218,790	2,336,292	-	-	2,218,790	2,336,292
Total Capital Assets	\$ 5,962,272	\$ 5,059,559	\$ 7,925,156	\$ 8,746,317	\$ 13,887,428	\$ 13,805,876

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**

	Governmental Activities		Business-type Activities		Component Unit	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 132,000	\$ 125,000	\$ 2,677,000	\$ 2,852,218	\$ -	\$ 70,000
Installment Purchase Agreement	481,788	244,652	56,089	216,427	-	67,789
Net Pension Obligation	1,357,856	781,558	472,449	614,082	18,425	-
Compensated Absences	48,106	62,784	10,336	8,575	-	-
Total Debt Outstanding	\$ 2,019,750	\$ 1,213,994	\$ 3,215,874	\$ 3,691,302	\$ 18,425	\$ 137,789

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.

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	\$ 441,379	\$ 1,343,213	\$ 1,784,592	\$ 167,420
Cash and Equivalents - Restricted	11,714	320,265	331,979	-
Investments - Unrestricted	-	-	-	28,906
Accounts Receivable - Net	14	268,241	268,255	5,066
Due From Governmental Units	113,332	-	113,332	-
Internal Loans	24,060	(24,060)	-	-
Prepays and Inventory	4,536	22,153	26,689	2,509
Capital Assets Not Depreciated	301,450	355,002	656,452	49,307
Capital Assets (Net of Accumulated Depreciation)	5,660,822	7,570,154	13,230,976	139,368
TOTAL ASSETS	6,557,307	9,854,968	16,412,275	392,576
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Investment Experience and Contributions	381,337	114,584	495,921	5,045
LIABILITIES:				
Accounts Payable	51,389	157,458	208,847	12,950
Accrued Liabilities	9,154	4,873	14,027	16,107
Accrued Interest	5,808	25,618	31,426	-
Customer Deposits	3,750	68,788	72,538	4,620
Unearned Revenue	-	-	-	739
Net Pension Obligation - Due in more than one year	1,357,856	472,449	1,830,305	18,425
Installment Loans Payable - Due within one year	119,317	13,504	132,821	-
Installment Loans Payable - Due in more than one year	362,471	42,585	405,056	-
Bonds Payable - Due within one year	38,000	178,000	216,000	-
Bonds Payable - Due in more than one year	94,000	2,499,000	2,593,000	-
Compensated Absences - Due in more than one year	48,106	10,336	58,442	-
TOTAL LIABILITIES	2,089,851	3,472,611	5,562,462	52,841
DEFERRED INFLOWS OF RESOURCES:				
Pension Assumptions and Experience	194,860	54,961	249,821	-
NET POSITION:				
Net Investment in Capital Assets	5,348,484	5,192,067	10,540,551	188,675
Restricted	168,067	-	168,067	-
Unrestricted	(862,618)	1,249,913	387,295	156,105
TOTAL NET POSITION	\$ 4,653,933	\$ 6,441,980	\$ 11,095,913	\$ 344,780

Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Governmental Activities:								
Legislative	\$ 25,572	\$ -	\$ -	\$ -	\$ (25,572)	\$ -	\$ (25,572)	\$ -
General Government	495,123	15,212	24,319	-	(455,592)	-	(455,592)	-
Public Safety	668,966	104,720	56,381	-	(507,865)	-	(507,865)	-
Public Works	622,219	300	250,562	-	(371,357)	-	(371,357)	-
Community and Economic Development	66,438	-	-	-	(66,438)	-	(66,438)	-
Health and Welfare	98,033	-	-	-	(98,033)	-	(98,033)	-
Recreation and Culture	251,280	1,184	-	-	(250,096)	-	(250,096)	-
Interest Expense - Unallocated	31,972	-	-	-	(31,972)	-	(31,972)	-
Total Governmental Activities	2,259,603	121,416	331,262	-	(1,806,925)	-	(1,806,925)	-
Business-type activities:								
Sewer	506,058	484,810	-	-	-	(21,248)	(21,248)	-
Water	471,390	558,382	-	-	-	86,992	86,992	-
EJ Harbor Marina	229,064	186,066	-	-	-	(42,998)	(42,998)	-
Tourist Park	150,106	162,737	-	-	-	12,631	12,631	-
Other Nonmajor	56,539	50,563	-	-	-	(5,976)	(5,976)	-
Total Business-type Activities	1,413,157	1,442,558	-	-	-	29,401	29,401	-
Total Primary Government	\$ 3,672,760	\$ 1,563,974	\$ 331,262	\$ -	(1,806,925)	29,401	(1,777,524)	-
Component Units:								
Public Works:								
East Jordan Housing Commission	\$ 171,579	\$ 103,722	\$ 38,007	\$ 26,154	-	-	-	(3,696)
Economic Development:								
Downtown Development Authority	93,505	-	-	-	-	-	-	(93,505)
Total Component Units	265,084	103,722	38,007	26,154	-	-	-	(97,201)
Total	\$ 3,937,844	\$ 1,667,696	\$ 369,269	\$ 26,154	-	-	-	-
General Revenues and Transfers:								
Property Taxes								
Operating					967,514	-	967,514	223,803
Debt					62,908	-	62,908	-
State Shared Revenue					232,715	-	232,715	-
Investment Earnings					18,587	1,050	19,637	704
Miscellaneous					238,805	17,888	256,693	16,106
Other Grants					-	159,800	159,800	-
Transfers					469,801	(469,801)	-	-
Total General Revenues and Transfers					1,990,330	(291,063)	1,699,267	240,613
Changes in Net Position					183,405	(261,662)	(78,257)	143,412
Net Position - Beginning					4,437,560	6,703,642	11,141,202	220,585
Prior Period Adjustment					32,968	-	32,968	(19,217)
Restated Net Position - Beginning					4,470,528	6,703,642	11,174,170	201,368
Net Position - Ending					\$ 4,653,933	\$ 6,441,980	\$ 11,095,913	\$ 344,780

City of East Jordan, Michigan

**Balance Sheet
Governmental Funds
June 30, 2016**

	General	Major Street	Local Street	Ambulance	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 165,035	\$ 24,650	\$ 911	\$ -	\$ 195,663	\$ 386,259
Cash and Equivalents - Restricted	7,892	-	-	-	3,822	11,714
Due from Other Funds	40,867	-	-	-	-	40,867
Due from Governmental Units	53,702	25,803	17,020	16,807	-	113,332
Prepays and Inventory	3,640	403	493	-	-	4,536
TOTAL ASSETS	\$ 271,136	\$ 50,856	\$ 18,424	\$ 16,807	\$ 199,485	\$ 556,708
LIABILITIES:						
Accounts Payable	\$ 16,439	\$ 34,950	\$ -	\$ -	\$ -	\$ 51,389
Accrued Liabilities	7,829	159	29	-	-	8,017
Due to Other Funds	-	-	-	16,807	-	16,807
Customer Deposits	3,550	-	-	-	200	3,750
TOTAL LIABILITIES	27,818	35,109	29	16,807	200	79,963
FUND BALANCES:						
Nonspendable	3,640	403	493	-	-	4,536
Restricted	-	-	-	-	168,067	168,067
Assigned	-	15,344	17,902	-	31,218	64,464
Unassigned	239,678	-	-	-	-	239,678
TOTAL FUND BALANCES	243,318	15,747	18,395	-	199,285	476,745
TOTAL LIABILITIES AND FUND BALANCES	\$ 271,136	\$ 50,856	\$ 18,424	\$ 16,807	\$ 199,485	

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

Capital assets used by governmental activities	5,260,526
Deferred outflow - pension items	381,337
Net pension obligation	(1,357,856)
Compensated absences liability	(43,033)
Long-term notes & bonds payable for governmental activities	(284,032)
Accrued interest expense	(4,734)
Deferred inflows - pension items	(194,860)
Internal service funds included in governmental activities	419,840
Net position of governmental activities	\$ 4,653,933

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2016**

	General	Major Street	Local Street	Ambulance	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:						
Taxes	\$ 967,514	\$ -	\$ -	\$ -	\$ 62,908	\$ 1,030,422
Licenses and Permits	3,360	-	-	-	-	3,360
Federal Sources	4,924	-	-	-	-	4,924
State Revenues	257,537	159,185	91,377	-	-	508,099
Local Revenues	50,954	-	-	-	-	50,954
Charges for Services	118,056	-	-	-	-	118,056
Interest and Rents	18,426	25	4	-	132	18,587
Other Revenue	115,221	11,986	650	83,019	27,929	238,805
TOTAL REVENUES	1,535,992	171,196	92,031	83,019	90,969	1,973,207
EXPENDITURES:						
Legislative	25,572	-	-	-	-	25,572
General Government	416,062	-	-	-	13,197	429,259
Public Safety	663,836	-	-	-	-	663,836
Public Works	108,800	233,525	170,987	-	-	513,312
Community and Economic Development	57,493	-	-	-	-	57,493
Health and Welfare	-	-	-	520,331	-	520,331
Recreation and Cultural	214,052	-	-	-	-	214,052
Debt Service	-	-	-	101,495	67,259	168,754
TOTAL EXPENDITURES	1,485,815	233,525	170,987	621,826	80,456	2,592,609
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	50,177	(62,329)	(78,956)	(538,807)	10,513	(619,402)
OTHER FINANCING SOURCES (USES):						
Bond & Installement Proceeds	45,892	-	-	47,000	-	92,892
Operating Transfers In	-	60,950	86,760	491,807	67,259	706,776
Operating Transfers Out	(87,627)	(26,638)	-	-	(122,710)	(236,975)
TOTAL OTHER FINANCING SOURCES (USES)	(41,735)	34,312	86,760	538,807	(55,451)	562,693
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	8,442	(28,017)	7,804	-	(44,938)	(56,709)
FUND BALANCES, JULY 1	201,908	43,764	10,591	-	244,223	500,486
Prior Period Adjustment	32,968	-	-	-	-	32,968
Restated Beinning Fund Balance	234,876	43,764	10,591	-	244,223	533,454
FUND BALANCES, JUNE 30	\$ 243,318	\$ 15,747	\$ 18,395	\$ -	\$ 199,285	\$ 476,745

**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, 2016**

Net changes in fund balances - total governmental funds \$ (56,709)

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 (\$340,412) and loss (\$3,366) exceeded capital outlay \$226,074 in the current period. (117,704)

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 899,049
Debt proceeds (92,892)

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. (15,707)

Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. (451,204)

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 19,751
Accrued Interest (1,179)

Changes in net position of governmental activities \$ 183,405

**Statement of Net Position
Proprietary Funds
June 30, 2016**

	Business - type Activities Enterprise Funds					Total	Governmental Activities
	Sewer	Water	Tourist Park	EJ Harbor Marina	Nonmajor Enterprise Funds		Internal Service Fund
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 1,065,463	\$ 213,243	\$ 32,617	\$ -	\$ 31,890	\$ 1,343,213	\$ 55,120
Cash and Equivalents-Restricted	127,215	193,050	-	-	-	320,265	-
Accounts Receivable - Net	124,305	140,552	-	3,384	-	268,241	14
Prepays and Inventory	-	1,531	1,678	18,944	-	22,153	-
Capital Assets Not Depreciated	21,626	36,322	7,769	289,285	-	355,002	-
Capital Assets (Net of Accumulated Depreciation)	2,599,106	3,845,015	91,079	1,001,141	33,813	7,570,154	701,746
TOTAL ASSETS	3,937,715	4,429,713	133,143	1,312,754	65,703	9,879,028	756,880
DEFERRED OUTFLOWS OF RESOURCES:							
Pension Investment Experience and Contributions	51,784	46,825	15,975	-	-	114,584	-
LIABILITIES:							
Accounts Payable	30,177	114,603	-	12,678	-	157,458	-
Accrued Liabilities	1,019	1,151	1,394	1,181	128	4,873	1,137
Accrued Interest	5,451	15,516	-	4,651	-	25,618	1,074
Due to Other Funds	-	-	-	24,060	-	24,060	-
Customer Deposits	-	100	48,653	20,035	-	68,788	-
Compensated Absences - Due in more than one year	5,229	4,518	269	160	160	10,336	5,073
Net Pension Obligation - Due in more than one year	210,943	192,640	68,866	-	-	472,449	-
Installment Loans Payable - Due within one year	-	-	-	13,504	-	13,504	52,550
Installment Loans Payable - Due in more than one year	-	-	-	42,585	-	42,585	277,206
Bonds Payable - Due within one year	11,000	150,000	-	17,000	-	178,000	-
Bonds Payable - Due in more than one year	612,000	1,769,000	-	118,000	-	2,499,000	-
TOTAL LIABILITIES	875,819	2,247,528	119,182	253,854	288	3,496,671	337,040
DEFERED INFLOWS OF RESOURCES:							
Pension Assumptions and Experience	24,982	22,484	7,495	-	-	54,961	-
NET POSITION:							
Net Investment in Capital Assets	1,997,732	1,962,337	98,848	1,099,337	33,813	5,192,067	371,990
Unrestricted	1,090,966	244,189	(76,407)	(40,437)	31,602	1,249,913	47,850
TOTAL NET POSITION	\$ 3,088,698	\$ 2,206,526	\$ 22,441	\$ 1,058,900	\$ 65,415	\$ 6,441,980	\$ 419,840

**Statement of Revenues, Expenses, and
Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2016**

	Business - type Activities Enterprise Funds					Total	Governmental Activities
	Sewer	Water	Tourist Park	EJ Harbor Marina	Nonmajor Enterprise Funds		Internal Service Fund
OPERATING REVENUES:							
Charges for Services	\$ 484,810	\$ 558,382	\$ 162,737	\$ 186,066	\$ 50,563	\$ 1,442,558	\$ 291,281
Total Operating Revenues	<u>484,810</u>	<u>558,382</u>	<u>162,737</u>	<u>186,066</u>	<u>50,563</u>	<u>1,442,558</u>	<u>291,281</u>
OPERATING EXPENSES:							
Personnel Services	170,505	156,642	73,335	47,725	14,793	463,000	138,662
Contracted Services	97,564	20,319	3,015	4,507	29,905	155,310	1,369
Insurance	892	1,362	380	2,407	16	5,057	8,891
Equipment Rental	49,135	46,266	5,270	395	8,050	109,116	-
Supplies	2,754	12,439	5,840	96,997	452	118,482	36,626
Utilities	49,356	37,939	26,650	11,636	958	126,539	12,064
Repair and Maintenance	15,432	38,890	11,123	4,783	1,204	71,432	40,126
Depreciation	93,721	100,846	9,594	45,008	1,141	250,310	86,788
Miscellaneous	10,153	4,817	14,899	7,461	20	37,350	6,733
Total Operating Expenses	<u>489,512</u>	<u>419,520</u>	<u>150,106</u>	<u>220,919</u>	<u>56,539</u>	<u>1,336,596</u>	<u>331,259</u>
OPERATING INCOME (LOSS)	<u>(4,702)</u>	<u>138,862</u>	<u>12,631</u>	<u>(34,853)</u>	<u>(5,976)</u>	<u>105,962</u>	<u>(39,978)</u>
NON-OPERATING REVENUES (EXPENSES):							
Interest and Rents	942	94	1	-	13	1,050	9
State Grants	-	3,200	-	156,600	-	159,800	-
Miscellaneous Revenue	-	1,476	5,256	1,171	9,985	17,888	27,807
Interest Expense	(16,546)	(51,870)	-	(8,145)	-	(76,561)	(3,545)
Total Non-Operating Revenues (Expenses)	<u>(15,604)</u>	<u>(47,100)</u>	<u>5,257</u>	<u>149,626</u>	<u>9,998</u>	<u>102,177</u>	<u>24,271</u>
Income (Loss) Before Transfers	<u>(20,306)</u>	<u>91,762</u>	<u>17,888</u>	<u>114,773</u>	<u>4,022</u>	<u>208,139</u>	<u>(15,707)</u>
Operating Transfer Out	-	-	-	-	(491,807)	(491,807)	-
Operating Transfers In	-	-	-	22,006	-	22,006	-
CHANGES IN NET POSITION	<u>(20,306)</u>	<u>91,762</u>	<u>17,888</u>	<u>136,779</u>	<u>(487,785)</u>	<u>(261,662)</u>	<u>(15,707)</u>
NET POSITION, JULY 1	<u>3,109,004</u>	<u>2,114,764</u>	<u>4,553</u>	<u>922,121</u>	<u>553,200</u>	<u>6,703,642</u>	<u>435,547</u>
NET POSITION, JUNE 30	<u>\$ 3,088,698</u>	<u>\$ 2,206,526</u>	<u>\$ 22,441</u>	<u>\$ 1,058,900</u>	<u>\$ 65,415</u>	<u>\$ 6,441,980</u>	<u>\$ 419,840</u>

**Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2016**

	Business - type Activities Enterprise Funds						Governmental Activities
	Sewer	Water	Tourist Park	EJ Harbor Marina	Nonmajor Enterprise Funds	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers	\$ 455,890	\$ 556,659	\$ 170,651	\$ 187,952	\$ 50,563	\$ 1,421,715	\$ -
Payments to Suppliers	(193,786)	(48,195)	(67,460)	(122,995)	(40,605)	(473,041)	(106,301)
Payments to Employees	(143,841)	(131,515)	(68,321)	(50,342)	(15,074)	(409,093)	(134,207)
Internal Activity - Payments/Receipts with Other Funds	-	-	-	24,060	-	24,060	291,281
Net Cash Provided (Used) by Operating Activities	118,263	376,949	34,870	38,675	(5,116)	563,641	50,773
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:							
Other Revenue	-	1,476	5,256	1,171	9,985	17,888	27,807
State Grants	-	3,200	-	156,600	-	159,800	-
Operating Transfers In	-	-	-	22,006	-	22,006	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	4,676	5,256	179,777	9,985	199,694	27,807
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Debt Proceeds	-	-	-	-	-	-	214,084
Purchase of Capital Assets	-	(114,603)	(10,629)	(193,290)	-	(318,522)	(219,084)
Disposal(Adjustments) of Capital Assets	-	(400)	-	-	-	(400)	400
Interest Payments	(16,546)	(51,870)	-	(8,145)	-	(76,561)	(3,545)
Principal Payments	(11,000)	(148,218)	-	(28,929)	-	(188,147)	(52,280)
Net Cash Provided (Used) by Capital and Related Financing Activities	(27,546)	(315,091)	(10,629)	(230,364)	-	(583,630)	(60,425)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Interest Income	942	94	1	-	13	1,050	9
Net Cash Provided (Used) by Investing Activities	942	94	1	-	13	1,050	9
Net Increase (Decrease) in Cash and Equivalents	91,659	66,628	29,498	(11,912)	4,882	180,755	18,164
Balances - Beginning of the Year	1,101,019	339,665	3,119	11,912	27,008	1,482,723	36,956
Balances - End of the Year	\$ 1,192,678	\$ 406,293	\$ 32,617	\$ -	\$ 31,890	\$ 1,663,478	\$ 55,120
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	\$ (4,702)	\$ 138,862	\$ 12,631	\$ (34,853)	\$ (5,976)	\$ 105,962	\$ (39,978)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation Expense	93,721	100,846	9,594	45,008	1,141	250,310	86,788
Pension Expense	29,818	26,836	8,945	-	-	65,599	-
Change in Assets and Liabilities:							
(Increase) Decrease in Assets:							
Accounts Receivable	(28,920)	(1,723)	-	(3,509)	-	(34,152)	-
Prepays and Inventory	-	1	(283)	(6,680)	-	(6,962)	-
Increase (Decrease) in Liabilities:							
Accounts Payable	30,177	114,823	-	12,678	-	157,678	-
Accrued Liabilities	(3,154)	(2,237)	(3,704)	(2,777)	(286)	(12,158)	(618)
Accrued Interest	(97)	(987)	-	(807)	-	(1,891)	(492)
Due to Other Funds	-	-	-	24,060	-	24,060	-
Customer Deposits	-	-	7,914	5,395	-	13,309	-
Compensated Absences	1,420	528	(227)	160	5	1,886	5,073
Net Cash Provided (Used) by Operating Activities	\$ 118,263	\$ 376,949	\$ 34,870	\$ 38,675	\$ (5,116)	\$ 563,641	\$ 50,773

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Expendable Trust				Totals
	Perpetual Care	Police Dept Trust	Ambulance Trust	Fire Dept Trust	
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 196,585	\$ 11,864	\$ 25	\$ 1,336	\$ 209,810
TOTAL ASSETS	<u>\$ 196,585</u>	<u>\$ 11,864</u>	<u>\$ 25</u>	<u>\$ 1,336</u>	<u>\$ 209,810</u>
NET POSITION:					
Held in Trust for Fund Purposes	\$ 196,585	\$ 11,864	\$ 25	\$ 1,336	\$ 209,810
TOTAL NET POSITION	<u>\$ 196,585</u>	<u>\$ 11,864</u>	<u>\$ 25</u>	<u>\$ 1,336</u>	<u>\$ 209,810</u>

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2016**

	Expendable Trust				Totals
	Perpetual Care	Police Dept Trust	Ambulance Trust	Fire Dept Trust	
ADDITIONS:					
Fees	\$ 1,280	\$ 5,969	\$ -	\$ -	\$ 7,249
Interest Income	362	5	-	1	368
TOTAL ADDITIONS	<u>1,642</u>	<u>5,974</u>	<u>-</u>	<u>1</u>	<u>7,617</u>
DEDUCTIONS:					
Supplies	-	1,038	-	-	1,038
Other	360	-	-	-	360
TOTAL DEDUCTIONS	<u>360</u>	<u>1,038</u>	<u>-</u>	<u>-</u>	<u>1,398</u>
CHANGES IN NET POSITION	1,282	4,936	-	1	6,219
NET POSITION, JULY 1	<u>195,303</u>	<u>6,928</u>	<u>25</u>	<u>1,335</u>	<u>203,591</u>
NET POSITION, JUNE 30	<u><u>\$ 196,585</u></u>	<u><u>\$ 11,864</u></u>	<u><u>\$ 25</u></u>	<u><u>\$ 1,336</u></u>	<u><u>\$ 209,810</u></u>

Component Units

City of East Jordan, Michigan

Combining Balance Sheet Component Units June 30, 2016

	Downtown Development Authority	East Jordan Housing Commission 12/31/2015	Totals
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 76,245	\$ 91,175	\$ 167,420
Investments - Unrestricted	-	28,906	28,906
Accounts Receivable	-	5,066	5,066
Prepays and Inventory	-	2,509	2,509
Capital Assets Not Depreciated	-	49,307	49,307
Capital Assets (Net of Accumulated Depreciation)	4,250	135,118	139,368
TOTAL ASSETS	80,495	312,081	392,576
DEFERRED OUTFLOWS OF RESOURCES:			
Pension investment experience and contributions	-	5,045	5,045
LIABILITIES:			
Accounts Payable	-	12,950	12,950
Accrued Liabilities	-	16,107	16,107
Customer Deposits	-	4,620	4,620
Unearned Revenue	-	739	739
Net Pension Liability	-	18,425	18,425
TOTAL LIABILITIES	-	52,841	52,841
NET POSITION:			
Net Investment in Capital Assets	4,250	184,425	188,675
Unrestricted	76,245	79,860	156,105
TOTAL NET POSITION	80,495	264,285	344,780
TOTAL LIABILITIES AND NET POSITION	\$ 80,495	\$ 317,126	\$ 397,621

**Combining Statement of Revenues, Expenditures
and Changes in Net Position
Component Units
For the Year Ended June 30, 2016**

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 12/31/2015	Total
Public Works:							
East Jordan Housing Commission	\$ 171,579	\$ 103,722	\$ 38,007	\$ 26,154	\$ -	\$ (3,696)	\$ (3,696)
Economic Development:							
Downtown Development Authority	93,505	-	-	-	(93,505)	-	(93,505)
Total Component Units	<u>\$ 265,084</u>	<u>\$ 103,722</u>	<u>\$ 38,007</u>	<u>\$ 26,154</u>	<u>(93,505)</u>	<u>(3,696)</u>	<u>(97,201)</u>
General Revenues:							
Taxes					223,803	-	223,803
Interest Income					50	654	704
Miscellaneous					7,596	8,510	16,106
Total General Revenues					<u>231,449</u>	<u>9,164</u>	<u>240,613</u>
Changes in Net Position					137,944	5,468	143,412
Net Position - Beginning					<u>(57,449)</u>	<u>278,034</u>	<u>220,585</u>
Prior Period Adjustment					-	(19,217)	(19,217)
Restated Beginning Net Position					<u>(57,449)</u>	<u>258,817</u>	<u>201,368</u>
Net Position - Ending					<u>\$ 80,495</u>	<u>\$ 264,285</u>	<u>\$ 344,780</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*.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 *Ambulance Fund* accounts for the expenditures and reimbursements related to ambulance operations of the Jordan Valley EMS Authority's use of city assets.

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 *Tourist Park Fund* accounts for the activities of the City owned park.

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.

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 expendable trust.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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."

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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	3 to 15 years
Sewer Lagoons	25 years
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 pension 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 pension items that qualify for reporting in this category.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***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.

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 \$4,536 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 \$168,067 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 \$64,464.
- **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)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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	\$ 441,379	\$ 1,343,213	\$ 1,784,592	\$ 209,810	\$ 167,420
Cash and Equivalents – Restricted	11,714	320,265	331,979	-	-
Investments – Unrestricted	-	-	-	-	<u>28,906</u>
Total	<u>\$ 453,093</u>	<u>\$ 1,663,478</u>	<u>\$ 2,116,571</u>	<u>\$ 209,810</u>	<u>\$ 196,326</u>

Cash and equivalents are restricted in the amount of \$331,979 for the following: \$3,822 for Special Revenue Funds, \$7,892 for General Fund, and \$320,265 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)	\$ 2,115,454	\$ 209,810	\$ 196,301
Petty Cash and Cash on Hand	<u>1,117</u>	<u>-</u>	<u>25</u>
Total	<u>\$ 2,116,571</u>	<u>\$ 209,810</u>	<u>\$ 196,326</u>

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.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

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, \$1,870,826 of the City's bank balance of \$2,545,927 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 \$28,906 in investments, \$28,906 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.
- 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.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

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 Balances</u>	<u>Increases</u>	<u>Adjustments</u>	<u>Disposals</u>	<u>Ending Balances</u>
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 301,450	\$ -	\$ -	\$ -	\$ 301,450
<i>Capital assets being depreciated:</i>					
Buildings	1,798,304	36,400	791,580	-	2,626,284
Land Improvements	231,130	60,950	-	-	292,080
Machinery and Equipment	3,595,994	286,048	269,856	(173,864)	3,978,034
Infrastructure	<u>4,452,092</u>	<u>61,760</u>	<u>-</u>	<u>-</u>	<u>4,513,852</u>
Subtotal	<u>10,077,520</u>	<u>445,158</u>	<u>1,061,436</u>	<u>(173,864)</u>	<u>11,410,250</u>
<i>Less accumulated depreciation for:</i>					
Buildings	(681,833)	(54,407)	(71,243)	-	(807,483)
Land Improvements	(127,879)	(3,298)	-	-	(131,177)
Machinery and Equipment	(2,393,899)	(190,233)	(101,674)	170,100	(2,515,706)
Infrastructure	<u>(2,115,800)</u>	<u>(179,262)</u>	<u>-</u>	<u>-</u>	<u>(2,295,062)</u>
Subtotal	<u>(5,319,411)</u>	<u>(427,200)</u>	<u>(172,917)</u>	<u>170,100</u>	<u>(5,749,428)</u>
Net Capital Assets Being Depreciated	<u>4,758,109</u>	<u>17,958</u>	<u>888,519</u>	<u>(3,764)</u>	<u>5,660,822</u>
Capital Assets, Net	<u>\$ 5,059,559</u>	<u>\$ 17,958</u>	<u>\$ 888,519</u>	<u>\$ (3,764)</u>	<u>\$ 5,962,272</u>

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

Governmental Activities	
General government	\$ 10,122
Public Safety	18,019
Public Works	183,294
Health and Welfare	100,187
Recreation and Culture	28,790
Internal Service	<u>86,788</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 427,200</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments</u>	<u>Disposals</u>	<u>Ending Balances</u>
Business-type Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 355,002	\$ -	\$ -	\$ -	\$ 355,002
<i>Capital assets being depreciated:</i>					
Sewer Lagoons	2,144,991	-	-	-	2,144,991
Buildings	1,008,287	-	(791,580)	-	216,707
Mains	7,830,745	114,603	-	-	7,945,348
Land Improvements	2,141,884	193,290	-	-	2,335,174
Machinery and Equipment	<u>480,474</u>	<u>10,629</u>	<u>(269,856)</u>	<u>(4,503)</u>	<u>216,744</u>
Subtotal	<u>13,606,381</u>	<u>318,522</u>	<u>(1,061,436)</u>	<u>(4,503)</u>	<u>12,858,964</u>
<i>Less accumulated depreciation for:</i>					
Sewer Lagoons	(998,129)	(42,900)	-	-	(1,041,029)
Buildings	(221,619)	(2,145)	71,243	-	(152,521)
Mains	(2,572,025)	(147,334)	-	-	(2,719,359)
Land Improvements	(1,195,135)	(43,634)	-	-	(1,238,769)
Machinery and Equipment	<u>(228,157)</u>	<u>(14,297)</u>	<u>101,674</u>	<u>3,648</u>	<u>(137,132)</u>
Subtotal	<u>(5,215,065)</u>	<u>(250,310)</u>	<u>172,917</u>	<u>3,648</u>	<u>(5,288,810)</u>
Net Capital Assets Being Depreciated	<u>8,391,316</u>	<u>68,212</u>	<u>(888,519)</u>	<u>(855)</u>	<u>7,570,154</u>
Capital Assets, Net	<u>\$ 8,746,318</u>	<u>\$ 68,212</u>	<u>\$ (888,519)</u>	<u>\$ (855)</u>	<u>\$ 7,925,156</u>

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

Business-type Activities	
Sewer	\$ 93,721
Water	100,846
Tourist Park	9,594
E.J. Harbor Marina	45,008
Solid Waste Transfer Station	<u>1,141</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 250,310</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances 01/01/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances 12/31/15</u>
East Jordan Housing Commission:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 49,307	\$ -	\$ -	\$ 49,307
<i>Capital assets being depreciated:</i>				
Buildings	1,021,774	45,179	-	1,066,953
Furniture, Equipment & Machinery - Dwelling	19,030	300	-	19,330
Furniture, Equipment & Machinery - Administration	30,991	10,934	(25,298)	16,627
Subtotal	1,071,795	56,413	(25,298)	1,102,910
<i>Less accumulated depreciation</i>	(964,912)	(28,178)	25,298	(967,792)
Net Capital Assets Being Depreciated	106,883	28,235	-	135,118
Capital Assets, Net	\$ 156,190	\$ 28,235	\$ -	\$ 184,425

Depreciation expense in the amount of \$28,178 was charged to Public Works of the Business-type activities.

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
City of East Jordan DDA:				
<i>Capital assets being depreciated:</i>				
Furniture and Equipment	\$ 5,000	\$ -	\$ -	\$ 5,000
<i>Less accumulated depreciation</i>	(250)	(500)	-	(750)
Net Capital Assets Being Depreciated	4,750	(500)	-	4,250
Capital Assets, Net	\$ 4,750	\$ (500)	\$ -	\$ 4,250

Depreciation expense in the amount of \$500 was charged to the City of East Jordan DDA.

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, 2015 totaled \$60,664,710. The tax levy for that year was based on the following rates:

	Millage Rate Used
General Operating	17.7953 mills

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			
		Ambulance	E.J. Harbor Marina	Totals
	General Fund	\$ 16,807	\$ 24,060	\$ 40,867

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 OUT	TRANSFERS IN					
	Major Street	Local Street	Ambulance	Nonmajor Governmental	E.J. Harbor Marina	Totals
General Fund	\$ -	\$ 25,000	\$ -	\$ 40,621	\$ 22,006	\$ 87,627
Major Street	-	-	-	26,638	-	26,638
Nonmajor Governmental	60,950	61,760	-	-	-	122,710
Nonmajor Enterprise	-	-	491,807	-	-	491,807
Total	\$ 60,950	\$ 86,760	\$ 491,807	\$ 67,259	\$ 22,006	\$ 728,782

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:							
\$245,000 Michigan Transportation Bonds	3.4% to 5.05%	2016	\$ 25,000	\$ -	\$ 25,000	\$ -	\$ -
\$175,000 Capital Improvement Bonds for Streets	4.30%	2021	100,000	-	15,000	85,000	15,000
\$47,000 Refunding Bond Series 2015	2.00%	2018	-	47,000	-	47,000	23,000
Installment Purchase Agreements:							
\$49,167 Caterpillar	2.50%	2019	39,814	-	9,588	30,226	9,827
\$214,446 Fire Truck	4.40%	2018	76,670	-	17,948	58,722	18,737
\$153,836 Dump Truck	2.75%	2017	76,918	-	25,639	51,279	25,640
\$51,250 Tractor	2.25%	2017	51,250	-	17,083	34,167	17,083
\$37,528 Police Vehicle	2.00%	2019	-	37,528	-	37,528	12,509
\$214,084 Street Sweeper	2.50%	2021	-	214,084	-	214,084	-
\$98,000 2009 Ambulance	4.50%	2023	66,000	-	66,000	-	-
\$127,886 Ambulance Chassis	4.50%	2023	81,409	-	31,961	49,448	32,765
\$8,364 2016 Toro Workman	3.35%	2019	-	8,364	2,030	6,334	2,756
Total Governmental Activities – Long-Term Debt			<u>517,061</u>	<u>306,976</u>	<u>210,249</u>	<u>613,788</u>	<u>157,317</u>
Business-type Activities							
General Obligation Bonds:							
\$834,218 Water Bonds	2.50%	2020	249,218	-	49,218	200,000	50,000
\$1,290,000 Water Bonds	2.50%	2020	385,000	-	75,000	310,000	75,000
\$250,000 2007B Harbor Bonds	4.20%	2023	151,000	-	16,000	135,000	17,000
\$1,525,000 Water Capital Improvement Bonds	2.0% to 3.55%	2051	1,433,000	-	24,000	1,409,000	25,000
\$675,000 Sewer Capital Improvement Bonds	2.0% to 3.55%	2051	634,000	-	11,000	623,000	11,000
Installment Purchase Agreements:							
\$103,000 2009 Harbor	4.45%	2020	69,018	-	12,929	56,089	13,504
Total Business-type Activities – Long-Term Debt			<u>2,921,236</u>	<u>-</u>	<u>188,147</u>	<u>2,733,089</u>	<u>191,504</u>
Component Unit Activities							
General Obligation Bonds:							
\$210,000 2003 Series A	4.65%	2018	70,000	-	70,000	-	-

NOTE 7 - LONG-TERM DEBT (Continued)

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
Component Unit Activities – (Continued)							
Installment Purchase Agreement:							
\$210,000 Land	4.3000%	2018	67,789	-	67,789	-	-
Total Component Unit Activities – Long-Term Debt			<u>137,789</u>	-	<u>137,789</u>	-	-
Governmental Compensated Absences			62,784	-	14,678	48,106	-
Business-type Compensated Absences			<u>8,575</u>	<u>1,761</u>	-	<u>10,336</u>	-
Total Long-Term Debt			<u>\$3,647,445</u>	<u>\$ 308,738</u>	<u>\$ 550,863</u>	<u>\$3,405,319</u>	<u>\$ 348,821</u>

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

Year End June 30	Governmental Activities		Business-type Activities	
	Bonds/Installments Payable		Bonds/Installments Payable	
	Principal	Interest	Principal	Interest
2017	\$ 157,317	\$ 13,317	\$ 191,504	\$ 73,274
2018	148,049	12,189	194,105	67,869
2019	93,893	8,884	201,733	62,367
2020	54,906	6,083	201,747	56,666
2021	54,906	4,351	60,000	51,587
2022-2026	104,717	5,236	260,000	232,370
2027-2031	-	-	246,000	200,629
2032-2036	-	-	281,000	166,504
2037-2041	-	-	320,000	127,628
2042-2046	-	-	364,000	83,396
2047-2051	-	-	<u>413,000</u>	<u>33,129</u>
Total	<u>\$ 613,788</u>	<u>\$ 50,060</u>	<u>\$ 2,733,089</u>	<u>\$ 1,155,419</u>

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).

NOTE 7 - LONG-TERM DEBT (Continued)

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 \$58,442 at June 30, 2016.

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

PRIMARY GOVERNMENT

Description of Plan and Plan Assets

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.00% and 2.5% for employees times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2015.

General Information about the Pension Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

01 – DPW: Open Division	
	2015 Valuation
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 years
Employee Contributions	6%
Act 88:	Yes (Adopted 1/3/1967)
02 – Police: Open Division	
	2015 Valuation
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	5 years
Employee Contributions	6%
Act 88:	Yes (Adopted 1/3/1967)
10 – Dept Hds: Open Division	
	2015 Valuation
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 Years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	3 years
Employee Contributions	3%
Act 88:	Yes (Adopted 1/3/1967)
12 – Gnl Other: Open Division	
	2015 Valuation
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	5 years
Employee Contributions	3%
Act 88:	Yes (Adopted 1/3/1967)

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>21</u>
	43

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at June 30, 2016 is as follows:

DPW	6.0%
Police	6.0%
Dept Hds	3.0%
Gnl Other	3.0%

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 to 4.0 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate. The discount rate used to measure the total pension liability is 8.0% for 2015 and thereafter. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 4,809,443	\$ 3,413,803	\$ 1,395,640
Service cost	85,816	-	85,816
Interest on total pension liability	388,061	-	388,061
Changes in benefits	-	-	-
Difference between expected and actual experience	(333,095)	-	(333,095)
Changes in assumptions	204,201	-	204,201
Employer contributions	-	118,460	(118,460)
Employee contributions	-	35,048	(35,048)
Net investment income	-	(44,225)	44,225
Benefit payments, including employee refunds	(297,159)	(297,159)	-
Administrative expense	-	(7,036)	7,036
Other changes	-	(191,929)	191,929
Net changes	47,824	(386,841)	434,665
Balances as of December 31, 2015	\$ 4,857,267	\$ 3,026,962	\$ 1,830,305

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.25% , as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25%) or 1-percentage-point higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City’s net pension liability	\$2,379,806	\$1,830,305	\$1,365,499

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued MERS financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the City recognized pension expense of \$418,964. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 249,821
Changes in assumptions	153,151	-
Net difference between projected and actual earnings on pension plan investments	279,706	-
Contributions subsequent to the measurement date	63,064	-
Total	\$ 495,921	\$ 249,821

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

<u>Year Ended June 30:</u>			
2016	\$	124,031	\$ 83,274
2017		124,031	83,274
2018		124,031	83,273
2019		60,764	-

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

For the year ended June 30, 2016, the City’s annual pension cost of \$118,460 for the plan equaled the required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2015, 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 26 years.

EAST JORDAN HOUSING COMMISSION

Description of Plan and Plan Assets

The Housing Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.00% and 2.5% for employees times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2015.

General Information about the Pension Plan

Plan Description. The employer’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Open Division	2014 Valuation
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	5 years
Employee Contributions	3%
Act 88:	Yes (Adopted 1/3/1967)

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
\$111,199	\$92,774	\$18,425

Actuarial assumptions

The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 3%-4%, Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively). Investment rate of return: 8.25%, net of investment expense, including inflation.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2013	\$ 106,543	\$ 87,326	\$ 19,217
Service cost	2,318	-	2,318
Interest on total pension liability	8,701	-	8,701
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer contributions	-	3,369	(3,369)
Employee contributions	-	1,216	(1,216)
Net investment income	-	5,537	(5,537)
Benefit payments, including employee refunds	(4,471)	(4,471)	-
Administrative expense	-	(204)	204
Other changes	(1,893)	-	(1,893)
Net changes	4,655	5,447	(792)
Balances as of December 31, 2014	\$ 111,198	\$ 92,773	\$ 18,425

Sensitivity of the Net Pension Liability to changes in the discount rate

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

	1% Decrease	Current Discount Rate	1% Increase
	(7.25%)	(8.25%)	(9.25%)
Housing Commission's net pension liability	\$30,712	\$18,425	\$7,983

Deferred Outflows

Deferred outflows of \$ 5,045 exists as of December 31, 2015; the outflows consist of contributions since the measurement date December 31, 2014 thru the calendar year, and, the unamortized difference between the projected and actual investment earnings. The following summarizes these amounts:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,331	-
Contributions subsequent to the measurement date	3,714	-
Total	\$ 5,045	\$ -

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:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund:			
Public Safety	\$ 632,420	\$ 663,836	\$ (31,416)
Community & Economic Development	\$ -	\$ 57,493	(57,493)
Recreation & Culture	\$ 212,472	\$ 214,052	(1,580)

NOTE 12 - DEFICIT UNRESTRICTED NET POSITION

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

EJ Harbor Marina	\$	40,437
Tourist Park		76,407

NOTE 13 - PRIOR PERIOD ADJUSTMENTS

PRIMARY GOVERNMENT

	<u>Governmental Activities</u>
Beginning net position as previously reported at July 1, 2016	\$ 4,437,560
Prior period adjustment – removal of stale accounts payable	<u>32,968</u>
Net position as restated, July 1, 2016	<u>\$ 4,470,528</u>

COMPONENT UNIT

	<u>Housing Commission</u>
Beginning net position as previously reported at January 1, 2015	\$ 278,034
Prior period adjustment – implementation of GASB 68: Net pension liability (measurement date) and Contributions to beginning of fiscal year	<u>(19,217)</u>
Net position as restated, January 1, 2015	<u>\$ 258,817</u>

Required Supplementary Information

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2016**

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 85,816	\$ 100,345
Interest	388,061	373,084
Difference between expected and actual experience	(333,095)	-
Change in assumptions	204,201	-
Benefit payments, including refund of member contributions	<u>(297,159)</u>	<u>(272,084)</u>
Net change in total pension liability	47,824	201,345
Total pension liability - beginning	<u>4,809,443</u>	<u>4,608,098</u>
Total pension liability - ending	<u><u>\$ 4,857,267</u></u>	<u><u>\$ 4,809,443</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 118,460	\$ 139,018
Contributions - employee	35,048	40,838
Net investment income	(44,225)	207,543
Benefit payments, including refunds of member contributions	(297,159)	(272,084)
Administrative expense	(7,036)	(7,612)
Other changes	<u>(191,929)</u>	<u>-</u>
Net change in plan fiduciary net position	(386,841)	107,703
Plan fiduciary net position - beginning	<u>3,413,803</u>	<u>3,306,100</u>
Plan fiduciary net position - ending	<u><u>\$ 3,026,962</u></u>	<u><u>\$ 3,413,803</u></u>
City's net pension liability - ending	<u><u>\$ 1,830,305</u></u>	<u><u>\$ 1,395,640</u></u>
Plan fiduciary net position as a percentage of the total pension liability	62%	71%
Covered - employee payroll	\$ 745,195	\$ 882,986
City's net pension liability as a percentage of covered-employee payroll	246%	158%
Annual money-weighted rate of return, net of investment expense	6%	6%

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2016**

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 118,460	\$ 139,018
Contributions in relation to the actuarially determined contribution	<u>118,460</u>	<u>139,018</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 745,195	\$ 882,986
Contributions as a percentage of covered-employee payroll	16%	16%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26 years
Asset valuation method	5-years smoothed market
Inflation	4.50%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%
Retirement age	In the 2014 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the 1994 Group Annuity Mortality Table - Blended 50% Male / 50% Female

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 965,350	\$ 965,350	\$ 967,514	\$ 2,164
Licenses and Permits	3,000	3,000	3,360	360
Federal Sources	9,000	9,000	4,924	(4,076)
State Sources	647,600	247,600	257,537	9,937
Local Sources	120,000	120,000	50,954	(69,046)
Charges for Services	7,800	7,800	118,056	110,256
Interest and Rents	8,013	8,013	18,426	10,413
Other Revenue	88,319	106,819	115,221	8,402
TOTAL REVENUES	1,849,082	1,467,582	1,535,992	68,410
EXPENDITURES:				
Legislative:				
City Council	26,985	26,085	25,572	513
General Government:				
Administrator	466,230	92,730	102,741	(10,011)
Clerk	68,773	68,773	63,548	5,225
Attorney	29,591	29,591	26,979	2,612
Treasurer	99,981	100,981	99,321	1,660
Building and Grounds	56,780	53,780	51,335	2,445
Elections	4,800	4,800	4,797	3
Assessor	28,040	28,040	27,609	431
Cemetery	28,002	28,002	26,528	1,474
Data Processing	16,910	11,910	11,516	394
Other Governmental	-	-	-	-
Board of Review	2,042	2,042	1,688	354
Total General Government	801,149	420,649	416,062	4,587
Public Safety:				
Police Department	411,260	455,787	466,951	(11,164)
Fire Department	163,271	163,271	183,710	(20,439)
Zoning Board/Commission	12,962	13,362	13,175	187
Total Public Safety	587,493	632,420	663,836	(31,416)
Public Works:				
Public Works	51,688	59,688	38,676	21,012
Sidewalks	29,732	10,732	10,180	552
Street Lighting	55,000	49,000	48,430	570
Airport	19,760	13,760	11,514	2,246
Total Public Works	156,180	133,180	108,800	24,380
Community and Economic Development:				
Housing Commission and Paying Agents	-	-	57,493	(57,493)
Recreation and Culture:				
Parks and Recreation	60,942	95,942	97,833	(1,891)
Community and Skate Park	38,632	53,632	56,655	(3,023)
Civic Center Recreation Facility	29,134	37,134	36,076	1,058
Elm Pointe Recreation Facility	29,764	25,764	23,488	2,276
Total Recreation and Culture	158,472	212,472	214,052	(1,580)
TOTAL EXPENDITURES	1,730,279	1,424,806	1,485,815	(61,009)

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	118,803	42,776	50,177	7,401
OTHER FINANCING SOURCES (USES):				
Bond Installment loan Proceeds	-	37,527	45,892	8,365
Operating Transfers In	-	38,500	-	(38,500)
Operating Transfers (Out)	<u>(108,506)</u>	<u>(108,506)</u>	<u>(87,627)</u>	<u>20,879</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 10,297</u>	<u>\$ 10,297</u>	8,442	<u>\$ (1,855)</u>
FUND BALANCE, JULY 1			<u>201,908</u>	
Prior Period Adjustment			32,968	
Restated Beginning Fund Balance			<u>234,876</u>	
FUND BALANCE, JUNE 30			<u>\$ 243,318</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
State Sources	\$ 153,000	\$ 153,000	\$ 159,185	\$ 6,185
Interest	10	10	25	15
Other Revenue	50,500	50,500	11,986	(38,514)
	<u>203,510</u>	<u>203,510</u>	<u>171,196</u>	<u>(32,314)</u>
TOTAL REVENUES				
EXPENDITURES:				
Public Works	285,179	263,179	233,525	29,654
	<u>285,179</u>	<u>263,179</u>	<u>233,525</u>	<u>29,654</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(81,669)	(59,669)	(62,329)	(2,660)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	90,500	68,500	60,950	(7,550)
Operating Transfers Out	(26,920)	(26,920)	(26,638)	282
	<u>63,580</u>	<u>41,580</u>	<u>34,312</u>	<u>(29,238)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (18,089)</u>	<u>\$ (18,089)</u>	<u>(28,017)</u>	<u>\$ (9,928)</u>
FUND BALANCE, JULY 1			<u>43,764</u>	
FUND BALANCE, JUNE 30			<u>\$ 15,747</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 53,000	\$ 77,000	\$ 91,377	\$ 14,377
Interest	5	-	4	4
Other Revenue	1,000	-	650	650
	<u>54,005</u>	<u>77,000</u>	<u>92,031</u>	<u>15,031</u>
TOTAL REVENUES				
EXPENDITURES:				
Public Works	<u>157,314</u>	<u>179,314</u>	<u>170,987</u>	<u>8,327</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(103,309)	(102,314)	(78,956)	23,358
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	<u>90,679</u>	<u>88,679</u>	<u>86,760</u>	<u>(1,919)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (12,630)</u>	<u>\$ (13,635)</u>	7,804	<u>\$ 21,439</u>
FUND BALANCE, JULY 1			<u>10,591</u>	
FUND BALANCE, JUNE 30			<u>\$ 18,395</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Ambulance Fund
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Other Revenue	\$ 42,768	\$ 42,768	\$ 83,019	\$ 40,251
TOTAL REVENUES	<u>42,768</u>	<u>42,768</u>	<u>83,019</u>	<u>40,251</u>
EXPENDITURES:				
Health and Welfare	42,768	520,331	520,331	-
Debt Service	-	101,495	101,495	-
TOTAL EXPENDITURES	<u>42,768</u>	<u>621,826</u>	<u>621,826</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(579,058)	(538,807)	40,251
OTHER FINANCING SOURCES (USES):				
Debt Proceeds	\$ -	\$ -	47,000	47,000
Operating Transfers In	-	-	491,807	491,807
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ (579,058)</u>	<u>-</u>	<u>\$ 532,058</u>
FUND BALANCE, JULY 1			<u>-</u>	
FUND BALANCE, JUNE 30			<u>\$ -</u>	

Other Information

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016**

	Special Revenue Funds				Debt Service Funds		
	Fire Equipment	Rehab I and II	D.A.R.E.	Drug Law Enforcement	2007A GO Cap.	2001 Mi Trans	2007B GO Cap.
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 151	\$ 24,483	\$ 2,762	\$ -	\$ 1,737	\$ 93	\$ 1,000
Cash and Equivalents - Restricted	-	3,822	-	-	-	-	-
TOTAL ASSETS	\$ 151	\$ 28,305	\$ 2,762	\$ -	\$ 1,737	\$ 93	\$ 1,000
LIABILITIES:							
Customer Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES:							
Restricted	-	-	-	-	1,737	93	1,000
Assigned	151	28,305	2,762	-	-	-	-
TOTAL FUND BALANCES	151	28,305	2,762	-	1,737	93	1,000
TOTAL LIABILITIES AND FUND BALANCES	\$ 151	\$ 28,305	\$ 2,762	\$ -	\$ 1,737	\$ 93	\$ 1,000

	Capital Project Funds			Totals
	Street Improvement Tax	Bandshell	Industrial Complex	
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 139,041	\$ 21,384	\$ 5,012	\$ 195,663
Cash and Equivalents - Restricted	-	-	-	3,822
TOTAL ASSETS	<u>\$ 139,041</u>	<u>\$ 21,384</u>	<u>\$ 5,012</u>	<u>\$ 199,485</u>
LIABILITIES:				
Customer Deposits	\$ -	\$ 200	\$ -	\$ 200
FUND BALANCES:				
Restricted	139,041	21,184	5,012	168,067
Assigned	-	-	-	31,218
TOTAL FUND BALANCES	<u>139,041</u>	<u>21,184</u>	<u>5,012</u>	<u>199,285</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 139,041</u>	<u>\$ 21,384</u>	<u>\$ 5,012</u>	<u>\$ 199,485</u>

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2016**

	Special Revenue Funds				Debt Service Funds		
	Fire Equipment	Rehab I and II	D.A.R.E.	Drug Law Enforcement	2007A GO Cap.	2001 MI Trans	2007B GO Cap.
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Revenues	-	8,000	1,001	3	-	-	-
Interest and Rents	-	16	1	1	-	-	-
TOTAL REVENUES	-	8,016	1,002	4	-	-	-
EXPENDITURES:							
General Government	-	-	1,490	3,923	-	-	-
Debt Service	21,321	-	-	-	19,300	26,638	-
TOTAL EXPENDITURES	21,321	-	1,490	3,923	19,300	26,638	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,321)	8,016	(488)	(3,919)	(19,300)	(26,638)	-
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	21,321	-	-	-	19,300	26,638	-
Operating Transfers Out	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	21,321	-	-	-	19,300	26,638	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	8,016	(488)	(3,919)	-	-	-
FUND BALANCES, JULY 1	151	20,289	3,250	3,919	1,737	93	1,000
FUND BALANCES, JUNE 30	\$ 151	\$ 28,305	\$ 2,762	\$ -	\$ 1,737	\$ 93	\$ 1,000

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2016**

	Capital Project Funds			
	Street Improvement Tax	Bandshell	Industrial Complex	Totals
	Tax	Bandshell	Complex	Totals
REVENUES:				
Taxes	\$ 62,908	\$ -	\$ -	\$ 62,908
Other Revenues	-	15,965	2,960	27,929
Interest and Rents	108	4	2	132
TOTAL REVENUES	63,016	15,969	2,962	90,969
EXPENDITURES:				
General Government	-	6,179	1,605	13,197
Debt Service	-	-	-	67,259
TOTAL EXPENDITURES	-	6,179	1,605	80,456
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	63,016	9,790	1,357	10,513
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	67,259
Operating Transfers Out	(122,710)	-	-	(122,710)
TOTAL OTHER FINANCING SOURCES (USES)	(122,710)	-	-	(55,451)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(59,694)	9,790	1,357	(44,938)
FUND BALANCES, JULY 1	198,735	11,394	3,655	244,223
FUND BALANCES, JUNE 30	\$ 139,041	\$ 21,184	\$ 5,012	\$ 199,285

**Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2016**

	Solid Waste Transfer Station	Ambulance	Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 31,890	\$ -	\$ 31,890
Capital Assets (Net of Accumulated Depreciation)	33,813	-	33,813
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	65,703	-	65,703
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES:			
Accrued Liabilities	128	-	128
Compensated Absences - Due in more than one year	160	-	160
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	288	-	288
	<u> </u>	<u> </u>	<u> </u>
NET POSITION:			
Net Investment in Capital Assets	33,813	-	33,813
Unrestricted	31,602	-	31,602
	<u> </u>	<u> </u>	<u> </u>
TOTAL NET POSITION	65,415	-	65,415
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 65,703</u>	<u>\$ -</u>	<u>\$ 65,703</u>

**Combining Statement of Revenues, Expenses, and
Changes in Net Position - Nonmajor Enterprise Funds
For the Year Ended June 30, 2016**

	Solid Waste Transfer Station	Ambulance	Totals
OPERATING REVENUES:			
Charges for Services	\$ 50,563	\$ -	\$ 50,563
TOTAL OPERATING REVENUES	<u>50,563</u>	<u>-</u>	<u>50,563</u>
OPERATING EXPENSES:			
Personnel Services	14,793	-	14,793
Contracted Services	29,905	-	29,905
Insurance	16	-	16
Equipment Rental	8,050	-	8,050
Supplies	452	-	452
Utilities	958	-	958
Repair and Maintenance	1,204	-	1,204
Depreciation	1,141	-	1,141
Miscellaneous	20	-	20
Total Operating Expenses	<u>56,539</u>	<u>-</u>	<u>56,539</u>
OPERATING INCOME (LOSS)	<u>(5,976)</u>	<u>-</u>	<u>(5,976)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest & Rents	13	-	13
Miscellaneous Revenue	9,985	-	9,985
Total Non-Operating Revenues (Expenses)	<u>9,998</u>	<u>-</u>	<u>9,998</u>
Income (Loss) Before Transfers	4,022	-	4,022
Operating Transfer Out	-	(491,807)	(491,807)
CHANGES IN NET POSITION	4,022	(491,807)	(487,785)
NET POSITION, JULY 1	<u>61,393</u>	<u>491,807</u>	<u>553,200</u>
NET POSITION, JUNE 30	<u>\$ 65,415</u>	<u>\$ -</u>	<u>\$ 65,415</u>

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2016**

	Solid Waste Transfer Station	Ambulance	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 50,563	\$ -	\$ 50,563
Payments to Suppliers	(40,605)	-	(40,605)
Payments to Employees	(15,074)	-	(15,074)
	(5,116)	-	(5,116)
Net Cash Provided (Used) by Operating Activities			
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
Other Revenue	9,985	-	9,985
	9,985	-	9,985
Net Cash Provided (Used) by Noncapital and Related Financing Activities			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Income	13	-	13
	13	-	13
Net Cash Provided (Used) by Investing Activities			
Net Increase (Decrease) in Cash and Cash Equivalents	4,882	-	4,882
Balances - Beginning of the Year	27,008	-	27,008
Balances - End of the Year	\$ 31,890	\$ -	\$ 31,890
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (5,976)	\$ -	\$ (5,976)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	1,141	-	1,141
Increase (Decrease) in Liabilities:			
Accrued Liabilities	(286)	-	(286)
Compensated Absences	5	-	5
	(5,116)	-	(5,116)
Net Cash Provided (Used) by Operating Activities	\$ (5,116)	\$ -	\$ (5,116)

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, 2016, 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 4, 2016. Our report includes a reference to other auditors who audited the financial statements of the East Jordan Housing Commission, as described in our 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 2016-001 and 2016-002.

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 2016-003 and 2016-004.

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 4, 2016

Significant Deficiency

Internal Control Over Financial Reporting

Preparation of Financial Statements in Accordance with GAAP

Finding 2016-001

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

Significant Audit Adjustments

Finding 2016-002

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 significant 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 significant 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 2016-003

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

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

Cause: The E.J. Harbor Marina and Tourist Park Funds have a negative unrestricted net position balance of \$40,437 and \$76,407 respectively.

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 2016-004

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 2015/2016 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2015/2016 expenditures exceeded the Board’s approved budget allocations for one general fund activity.

During the fiscal year ended June 30, 2016, expenditures were incurred in excess of amounts appropriated in the amended budget for the general fund on page 47 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, 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:*
2015-2016 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, 2016, and have issued our report thereon dated November 4, 2016. 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 October 10, 2016, 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 other information, as described by professional standards, is to evaluate the presentation of the other information in relation to the financial statements as a whole and to report on whether the other 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 October 10, 2016.

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.
- Management's estimate of the Annual Required Contribution for pension benefits was based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates.

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 significant, either individually or in the aggregate, to the financial statements taken as a whole (See Finding 2016-002).

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 4, 2016.

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.

Accounting (Prior Year)

It was noted during our audit, not all accounts payables and receivable were recored in the proper period at year end. We recommend that all receipt and disbursement be reocred in the proper period before year end.

Status: Uncorrected.

Inventory (Prior Year)

It was noted during our examination of the inventory's that general ledger accounts are not updated to represent amounts recorded in monthly and daily inventory reports. We recommend that general ledger records be updated on at least a monthly basis to ensure accurate accounting records.

Status: Corrected.

Fair Value of Investments

The Governmental Accounting Standards Board has issued final guidance on accounting and financial reporting issues related to fair value measurements, which primarily apply to investments made by state and local governments. GASB Statement No. 72 – *Fair Value Measurement and Application* defines fair value and describes how fair value should be determined and recorded, what assets and liabilities should be measured by fair value and presented in the government's statement of net position or balance sheet and required disclosures of fair value in the footnotes to the financial statements. Management should be aware of the requirements and valuation techniques as applicable to the governmental entity. The statement is effective for periods beginning after June 15, 2016.

Public Act 298 of 2012 “Performance Audit”

Public Act 298 of 2012 allows the Department of Transportation to request the local agency (road commission, county, city or village expending Act 51 monies) to engage an auditor to conduct a “performance audit” of whether it has expended funds in compliance with Act 51 of 1951, as amended (Act 51). A “performance audit” is different in scope than a “financial audit”. A “performance audit” by definition is an independent examination of a program, function, operation or the management systems and procedures of a governmental entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources. All local agencies will be required to have a Performance Audit for periods beginning October 1, 2016. The performance audit under Public Act 298 of 2012 must be performed by an independent certified public accountant that is currently licensed to practice in the State of Michigan or by an employee of the Department of Transportation.

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 inquires 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, Michigan 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 4, 2016