

City of East Jordan, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2018

CITY OF EAST JORDAN, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the City of East Jordan, Michigan, as of and for the year ending June 30, 2018, 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 57 percent, 52 percent, and 37 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 units, each major fund, and the aggregate remaining fund information of the City of East Jordan, Michigan, as of June 30, 2018, 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 46 through 47, and pages 48 through 52 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. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniformed Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

To the City Commission
City of East Jordan, Michigan

The combining nonmajor fund financial statements and schedule of expenditures of federal awards 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 and the schedule of expenditures of federal awards 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 December 3, 2018 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

December 3, 2018

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, 2018. 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 and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year 2018 by \$12,855,383 (*net position*). Of this, \$447,796 (*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 \$280,703 or 19% of the total General Fund expenditures and transfers, which was an increase of \$12,958 or 5%.
- The current level of unrestricted net position of the governmental activities stands at (\$724,704), or about (13)% of expenses.
- Net position of the governmental activities decreased \$584,360 or 12%. Net position of the business-type activities increased \$2,116,865 or 34%.

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 presented in their own columns 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, as well as the schedule of federal expenditures and related notes.

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, 2018 follows:

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

	Governmental Activities		Business-type Activities		Total	
	2017	2018	2017	2018	2017	2018
Assets						
Current Assets	\$ 1,026,614	\$ 995,624	\$ 1,424,342	\$ 1,763,509	\$ 2,450,956	\$ 2,759,133
Capital Assets	5,700,874	5,342,625	7,695,671	11,128,899	13,396,545	16,471,524
Total Assets	6,727,488	6,338,249	9,120,013	12,892,408	15,847,501	19,230,657
Deferred Outflows of Resources	226,745	96,357	63,957	27,179	290,702	123,536
Liabilities						
Current Liabilities	136,384	394,903	315,306	361,402	451,690	756,305
Noncurrent Liabilities	1,578,218	1,431,483	2,818,828	4,138,259	4,397,046	5,569,742
Total Liabilities	1,714,602	1,826,386	3,134,134	4,499,661	4,848,736	6,326,047
Deferred Inflows of Resources	181,807	134,756	51,280	38,007	233,087	172,763
Net Position						
Net Investment in Capital Assets	5,284,360	5,033,477	5,154,086	7,209,419	10,438,446	12,242,896
Restricted	545,536	164,691	-	-	545,536	164,691
Unrestricted	(772,072)	(724,704)	844,470	1,172,500	72,398	447,796
Total Net Position	\$ 5,057,824	\$ 4,473,464	\$ 5,998,556	\$ 8,381,919	\$ 11,056,380	\$ 12,855,383

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, E.J. Harbor Marina and Solid Waste Transfer 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 expenses 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 expenses 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		Business-type		Total	
	Activities		Activities		Total	
	2017	2018	2017	2018	2017	2018
Revenues						
Program Revenues						
Charges for Services	\$ 178,413	\$ 192,452	\$ 1,427,860	\$ 1,600,186	\$ 1,606,273	\$ 1,792,638
Operating Grants and Contributions	462,824	3,447,489	-	51,705	462,824	3,499,194
Capital Grants and Contributions	-	-	-	1,788,736	-	1,788,736
General Revenues						
Property Taxes	1,039,843	1,046,031	-	-	1,039,843	1,046,031
State Shared Revenues	243,030	249,939	-	-	243,030	249,939
Investment Earnings	20,994	13,408	65,260	1,228	86,254	14,636
Miscellaneous	131,224	44,802	2,408	33,831	133,632	78,633
Total Revenues	2,076,328	4,994,121	1,495,528	3,475,686	3,571,856	8,469,807
Expenses						
Legislative	23,392	25,395	-	-	23,392	25,395
General Government	538,561	550,058	-	-	538,561	550,058
Public Safety	661,487	766,878	-	-	661,487	766,878
Public Works	538,642	3,867,288	-	-	538,642	3,867,288
Community and Economic Development	51,005	48,101	-	-	51,005	48,101
Health and Welfare	19,958	13,892	-	-	19,958	13,892
Recreation and Culture	243,015	270,486	-	-	243,015	270,486
Sewer	-	-	641,950	477,613	641,950	477,613
Water	-	-	410,498	419,201	410,498	419,201
EJ Harbor Marina	-	-	210,460	232,101	210,460	232,101
Tourist Park	-	-	182,538	212,149	182,538	212,149
Other Nonmajor	-	-	60,004	49,449	60,004	49,449
Interest Expense - Unallocated	29,879	4,691	-	-	29,879	4,691
Total Expenses	2,105,939	5,546,789	1,505,450	1,390,513	3,611,389	6,937,302
Changes in Net Position before Transfers	(29,611)	(552,668)	(9,922)	2,085,173	(39,533)	1,532,505
Transfers	433,502	(31,692)	(433,502)	31,692	-	-
Changes in Net Position	403,891	(584,360)	(443,424)	2,116,865	(39,533)	1,532,505
Net Position - Beginning (as restated see Note 7)	4,653,933	5,057,824	6,441,980	6,265,054	11,095,913	11,322,878
Net Position - Ending	\$ 5,057,824	\$ 4,473,464	\$ 5,998,556	\$ 8,381,919	\$ 11,056,380	\$ 12,855,383

General Fund Budgetary Highlights

Licenses & Permits and federal sources 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. Taxes, state, local sources, charges for services, interest and rents, and other revenue came in over budget. Expenditures that exceeded budget are discussed in note 11.

Capital Asset and Debt Administration

Capital Assets

The City’s net investment in capital assets as of June 30, 2018, amounted to \$16,471,524. 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	
	2017	2018	2017	2018	2017	2018
Land	\$ 301,450	\$ 301,450	\$ 355,002	\$ 4,010,246	\$ 656,452	\$ 4,311,696
Buildings	1,764,615	1,717,009	83,851	80,845	1,848,466	1,797,854
Land Improvements	245,397	239,156	1,048,905	1,001,405	1,294,302	1,240,561
Machinery and Equipment	1,319,152	1,196,249	65,560	75,520	1,384,712	1,271,769
Sewer Lagoons	-	-	1,061,062	1,018,162	1,061,062	1,018,162
Mains	-	-	5,081,291	4,942,721	5,081,291	4,942,721
Infrastructure	2,070,260	1,888,761	-	-	2,070,260	1,888,761
Total Capital Assets	\$ 5,700,874	\$ 5,342,625	\$ 7,695,671	\$ 11,128,899	\$ 13,396,545	\$ 16,471,524

Debt Outstanding

Significant long-term debt has been incurred for City infrastructure and equipment. The City sold bonds to fund the public improvements.

**City of East Jordan
Debt Outstanding**

	Governmental Activities		Business-type Activities		Component Unit	
	2017	2018	2017	2018	2017	2018
General Obligation Bonds	\$ 70,000	\$ 19,000	\$ 2,499,000	\$ 3,891,000	\$ 2,569,000	\$ 3,910,000
Installment Purchase Agreement	346,514	254,148	42,585	28,480	389,099	282,628
Net Pension Liability	1,240,193	1,161,389	458,995	436,768	1,699,188	1,598,157
Compensated Absences	28,877	55,564	12,353	11,744	41,230	67,308
Total Debt Outstanding	\$ 1,685,584	\$ 1,490,101	\$ 3,012,933	\$ 4,367,992	\$ 4,698,517	\$ 5,858,093

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.

Component Units

Complete financial statement and management’s discussion and analysis may be obtained from the Downtown Development Authority and East Jordan Housing Commission.

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	\$ 555,446	\$ 1,035,056	\$ 1,590,502	\$ 305,139
Cash and Equivalents - Restricted	19,736	656,637	676,373	29,301
Accounts Receivable - Net	12	112,170	112,182	18,807
Due From Governmental Units	366,098	-	366,098	-
Internal Loans	50,408	(50,408)	-	-
Prepays and Inventory	3,924	10,054	13,978	2,582
Capital Assets Not Depreciated	301,450	4,010,236	4,311,686	160,245
Capital Assets (Net of Accumulated Depreciation)	5,041,175	7,118,653	12,159,828	66,600
TOTAL ASSETS	6,338,249	12,892,398	19,230,647	582,674
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Investment Experience and Contributions	96,357	27,179	123,536	9,980
LIABILITIES:				
Accounts Payable	264,913	26,324	291,237	12,513
Accrued Liabilities	25,437	9,080	34,517	34,296
Accrued Interest	4,785	15,399	20,184	-
Customer Deposits	5,150	80,866	86,016	6,304
Unearned Revenue	-	-	-	1,615
Net Pension Liability - Due in more than one year	1,161,389	436,768	1,598,157	10,848
Installment Loans Payable - Due within one year	79,618	14,733	94,351	-
Installment Loans Payable - Due in more than one year	174,530	13,747	188,277	-
Bonds Payable - Due within one year	15,000	215,000	230,000	-
Bonds Payable - Due in more than one year	40,000	3,676,000	3,716,000	-
Compensated Absences - Due in more than one year	55,564	11,744	67,308	-
TOTAL LIABILITIES	1,826,386	4,499,661	6,326,047	65,576
DEFERRED INFLOWS OF RESOURCES:				
Pension Assumptions and Experience	134,756	38,007	172,763	5,640
NET POSITION:				
Net Investment in Capital Assets	5,033,477	7,209,409	12,242,886	223,230
Restricted	164,691	-	164,691	-
Unrestricted	(724,704)	1,172,500	447,796	298,208
TOTAL NET POSITION	\$ 4,473,464	\$ 8,381,909	\$ 12,855,373	\$ 521,438

Statement of Activities
For the Year Ended June 30, 2018

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	\$ 25,395	\$ -	\$ -	\$ -	\$ (25,395)	\$ -	\$ (25,395)	\$ -
General Government	447,787	44,202	38,410	-	(365,175)	-	(365,175)	-
Public Safety	708,214	148,100	22,355	-	(537,759)	-	(537,759)	-
Public Works	4,035,358	-	3,317,450	-	(717,908)	-	(717,908)	-
Community and Economic Development	48,101	-	47,920	-	(181)	-	(181)	-
Health and Welfare	13,892	-	13,561	-	(331)	-	(331)	-
Recreation and Culture	263,351	150	7,793	-	(255,408)	-	(255,408)	-
Interest Expense - Unallocated	4,691	-	-	-	(4,691)	-	(4,691)	-
Total Governmental Activities	5,546,789	192,452	3,447,489	-	(1,906,848)	-	(1,906,848)	-
Business-type activities:								
Sewer	477,613	538,217	51,705	1,788,736	-	1,901,045	1,901,045	-
Water	419,211	614,293	-	-	-	195,082	195,082	-
EJ Harbor Marina	232,101	197,544	-	-	-	(34,557)	(34,557)	-
Tourist Park	212,149	211,796	-	-	-	(353)	(353)	-
Nonmajor - Solid Waste	49,449	38,336	-	-	-	(11,113)	(11,113)	-
Total Business-type Activities	1,390,523	1,600,186	51,705	1,788,736	-	2,050,104	2,050,104	-
Total Primary Government	\$ 6,937,312	\$ 1,792,638	\$ 3,499,194	\$ 1,788,736	(1,906,848)	2,050,104	143,256	-
Component Units:								
Public Works:								
East Jordan Housing Commission	\$ 143,360	\$ 95,126	\$ 23,834	\$ 23,059	-	-	-	(1,341)
Economic Development:								
Downtown Development Authority	113,337	-	167,193	-	-	-	-	53,856
Total Component Units	256,697	95,126	191,027	23,059	-	-	-	52,515
Total	\$ 7,194,009	\$ 1,887,764	\$ 3,690,221	\$ 1,811,795	-	-	-	-
General Revenues and Transfers:								
Property Taxes								
Operating	-	-	-	-	989,716	-	989,716	51,840
Debt	-	-	-	-	56,315	-	56,315	-
State Shared Revenue	-	-	-	-	249,939	-	249,939	-
Investment Earnings	-	-	-	-	13,408	1,228	14,636	386
Miscellaneous	-	-	-	-	44,802	33,831	78,633	33,019
Transfers	-	-	-	-	(31,692)	31,692	-	-
Total General Revenues and Transfers	-	-	-	-	1,322,488	66,751	1,389,239	85,245
Changes in Net Position	-	-	-	-	(584,360)	2,116,855	1,532,495	137,760
Net Position - Beginning AS RESTATED (see Note 7)	-	-	-	-	5,057,824	6,265,054	11,322,878	383,678
Net Position - Ending	-	-	-	-	\$ 4,473,464	\$ 8,381,909	\$ 12,855,373	\$ 521,438

City of East Jordan, Michigan

Balance Sheet Governmental Funds June 30, 2018

	General	Major Street	Local Street	Sewer USDA Construction	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 191,289	\$ 78,316	\$ 10,207	\$ -	\$ 192,829	\$ 472,641
Cash and Equivalents - Restricted	16,800	-	-	199	2,737	19,736
Due from Other Funds	50,408	-	-	-	-	50,408
Due from Governmental Units	59,114	36,982	13,002	257,000	-	366,098
Prepays and Inventory	3,924	-	-	-	-	3,924
TOTAL ASSETS	\$ 321,535	\$ 115,298	\$ 23,209	\$ 257,199	\$ 195,566	\$ 912,807
LIABILITIES:						
Accounts Payable	\$ 8,280	\$ -	\$ -	\$ 256,633	\$ -	\$ 264,913
Accrued Liabilities	23,678	310	185	-	-	24,173
Customer Deposits	4,950	-	-	-	200	5,150
TOTAL LIABILITIES	36,908	310	185	256,633	200	294,236
FUND BALANCES:						
Nonspendable	3,924	-	-	-	-	3,924
Restricted	-	-	-	566	164,125	164,691
Assigned	-	114,988	23,024	-	31,241	169,253
Unassigned	280,703	-	-	-	-	280,703
TOTAL FUND BALANCES	284,627	114,988	23,024	566	195,366	618,571
TOTAL LIABILITIES AND FUND BALANCES	\$ 321,535	\$ 115,298	\$ 23,209	\$ 257,199	\$ 195,566	

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

Capital assets used by governmental activities	4,785,476
Deferred outflow - pension items	96,357
Net pension obligation	(1,161,389)
Compensated absences liability	(47,958)
Long-term notes & bonds payable for governmental activities	(89,386)
Accrued interest expense	(1,208)
Deferred inflows - pension items	(134,756)
Internal service funds included in governmental activities	407,757
Net position of governmental activities	\$ 4,473,464

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2018**

	General	Major Street	Local Street	Sewer USDA Construction	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:						
Taxes	\$ 989,716	\$ -	\$ -	\$ -	\$ 56,315	\$ 1,046,031
Licenses and Permits	3,020	-	-	-	-	3,020
Federal Sources	-	-	-	2,973,000	-	2,973,000
State Revenues	292,329	231,682	112,768	-	-	636,779
Local Revenues	87,649	-	-	-	-	87,649
Charges for Services	189,432	-	-	-	-	189,432
Interest and Rents	13,341	18	2	-	47	13,408
Other Revenue	23,833	-	-	-	20,969	44,802
TOTAL REVENUES	1,599,320	231,700	112,770	2,973,000	77,331	4,994,121
EXPENDITURES:						
Legislative	25,395	-	-	-	-	25,395
General Government	432,210	-	-	-	7,853	440,063
Public Safety	607,947	-	-	-	-	607,947
Public Works	84,320	173,371	145,752	-	-	403,443
Community and Economic Development	47,920	-	-	-	-	47,920
Health and Welfare	13,892	-	-	-	-	13,892
Recreation and Cultural	231,860	-	-	-	-	231,860
Capital Outlay	29,857	-	-	3,405,948	-	3,435,805
Debt Service	15,938	-	-	-	39,331	55,269
TOTAL EXPENDITURES	1,489,339	173,371	145,752	3,405,948	47,184	5,261,594
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	109,981	58,329	(32,982)	(432,948)	30,147	(267,473)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	-	7,971	43,205	-	39,331	90,507
Operating Transfers Out	(97,023)	(7,809)	-	-	(17,367)	(122,199)
TOTAL OTHER FINANCING SOURCES (USES)	(97,023)	162	43,205	-	21,964	(31,692)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	12,958	58,491	10,223	(432,948)	52,111	(299,165)
FUND BALANCES, JULY 1	271,669	56,497	12,801	433,514	143,255	917,736
FUND BALANCES, JUNE 30	<u>\$ 284,627</u>	<u>\$ 114,988</u>	<u>\$ 23,024</u>	<u>\$ 566</u>	<u>\$ 195,366</u>	<u>\$ 618,571</u>

**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, 2018**

Net changes in fund balances - total governmental funds \$ (299,165)

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 (\$320,282) and loss on disposal (\$1,226) exceeded capital outlay \$29,857 in the current period. (291,651)

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 49,922

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. (14,352)

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. (4,533)

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 (25,237)
Accrued Interest 656

Changes in net position of governmental activities \$ (584,360)

**Statement of Net Position
Proprietary Funds
June 30, 2018**

	Business - type Activities Enterprise Funds					Total	Governmental Activities
	Sewer	Water	Tourist Park	EJ Harbor Marina	Non major Solid Waste Transfer Station		Internal Service Fund
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 531,049	\$ 424,334	\$ 79,473	\$ 200	\$ -	\$ 1,035,056	\$ 82,805
Cash and Equivalents-Restricted	385,822	270,815	-	-	-	656,637	-
Accounts Receivable - Net	47,726	54,952	1,873	7,475	144	112,170	12
Prepays and Inventory	-	-	1,838	8,216	-	10,054	-
Capital Assets Not Depreciated	3,676,860	36,322	7,769	289,285	-	4,010,236	-
Capital Assets (Net of Accumulated Depreciation)	2,451,763	3,637,816	70,867	905,655	52,552	7,118,653	557,149
TOTAL ASSETS	7,093,220	4,424,239	161,820	1,210,831	52,696	12,942,806	639,966
DEFERRED OUTFLOWS OF RESOURCES:							
Pension Investment Experience and Contributions	12,354	11,119	3,706	-	-	27,179	-
LIABILITIES:							
Accounts Payable	25,829	-	9	-	486	26,324	-
Accrued Liabilities	2,869	902	2,769	2,306	234	9,080	1,264
Accrued Interest	4,922	7,566	-	2,911	-	15,399	3,577
Due to Other Funds	-	-	-	41,970	8,438	50,408	-
Customer Deposits	-	100	55,589	25,177	-	80,866	-
Compensated Absences - Due in more than one year	5,620	5,496	466	43	119	11,744	7,606
Net Pension Obligation - Due in more than one year	194,725	178,043	64,000	-	-	436,768	-
Installment Loans Payable - Due within one year	-	-	-	14,733	-	14,733	45,232
Installment Loans Payable - Due in more than one year	-	-	-	13,747	-	13,747	174,530
Bonds Payable - Due within one year	40,000	156,000	-	19,000	-	215,000	-
Bonds Payable - Due in more than one year	2,133,000	1,462,000	-	81,000	-	3,676,000	-
TOTAL LIABILITIES	2,406,965	1,810,107	122,833	200,887	9,277	4,550,069	232,209
DEFERED INFLOWS OF RESOURCES:							
Pension Assumptions and Experience	17,276	15,548	5,183	-	-	38,007	-
NET POSITION:							
Net Investment in Capital Assets	3,955,623	2,056,138	78,636	1,066,460	52,552	7,209,409	337,387
Unrestricted	725,710	553,565	(41,126)	(56,516)	(9,133)	1,172,500	70,370
TOTAL NET POSITION	\$ 4,681,333	\$ 2,609,703	\$ 37,510	\$ 1,009,944	\$ 43,419	\$ 8,381,909	\$ 407,757

City of East Jordan, Michigan

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds For the Year Ended June 30, 2018

	Business - type Activities Enterprise Funds					Total	Governmental Activities
	Sewer	Water	Tourist Park	EJ Harbor Marina	Nonmajor Solid Waste Transfer Station		Internal Service Fund
OPERATING REVENUES:							
Charges for Services	\$ 538,217	\$ 614,293	\$ 211,796	\$ 197,544	\$ 38,336	\$ 1,600,186	\$ 356,885
Total Operating Revenues	538,217	614,293	211,796	197,544	38,336	1,600,186	356,885
OPERATING EXPENSES:							
Personnel Services	141,645	130,300	78,097	43,041	15,610	408,693	159,614
Contracted Services	85,675	24,702	9,695	5,070	24,020	149,162	1,177
Insurance	957	1,467	405	2,491	17	5,337	9,519
Equipment Rental	41,427	37,102	13,467	633	3,884	96,513	-
Supplies	2,317	6,361	11,223	96,567	687	117,155	43,572
Utilities	49,773	39,018	27,679	15,902	1,156	133,528	12,596
Repair and Maintenance	34,678	24,006	48,255	6,570	1,939	115,448	55,024
Depreciation	83,886	103,111	10,086	46,883	1,980	245,946	87,239
Miscellaneous	11,724	8,553	13,242	8,330	156	42,005	5,319
Total Operating Expenses	452,082	374,620	212,149	225,487	49,449	1,313,787	374,060
OPERATING INCOME (LOSS)	86,135	239,673	(353)	(27,943)	(11,113)	286,399	(17,175)
NON-OPERATING REVENUES (EXPENSES):							
Interest and Rents	722	483	23	-	-	1,228	16
State Grants	51,705	-	-	-	-	51,705	-
Miscellaneous Revenue	30,951	2,495	60	325	-	33,831	9,998
Interest Expense	(25,531)	(44,591)	-	(6,614)	-	(76,736)	(7,191)
Total Non-Operating Revenues (Expenses)	57,847	(41,613)	83	(6,289)	-	10,028	2,823
Income (Loss) Before Transfers & Capital Contributions	143,982	198,060	(270)	(34,232)	(11,113)	296,427	(14,352)
Capital Contributions	1,788,736	-	-	-	-	1,788,736	-
Operating Transfer In	-	-	-	29,407	2,285	31,692	-
CHANGES IN NET POSITION	1,932,718	198,060	(270)	(4,825)	(8,828)	2,116,855	(14,352)
NET POSITION, JULY 1 AS RESTATED (See Note 7)	2,748,615	2,411,643	37,780	1,014,769	52,247	6,265,054	422,109
NET POSITION, JUNE 30	<u>\$ 4,681,333</u>	<u>\$ 2,609,703</u>	<u>\$ 37,510</u>	<u>\$ 1,009,944</u>	<u>\$ 43,419</u>	<u>\$ 8,381,909</u>	<u>\$ 407,757</u>

Statement of Cash Flows
 Proprietary Fund Types
 For the Year Ended June 30, 2018

	Business - type Activities Enterprise Funds					Governmental Activities	
	Sewer	Water	Tourist Park	EJ Harbor Marina	Nonmajor Solid Waste Transfer Station	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers	\$ 532,820	\$ 618,354	\$ 215,940	\$ 197,328	\$ 38,192	\$ 1,602,634	\$ -
Payments to Suppliers	(216,204)	(141,948)	(123,440)	(138,831)	(31,373)	(651,796)	(126,535)
Payments to Employees	(140,871)	(130,228)	(77,956)	(41,754)	(15,562)	(406,371)	(158,328)
Internal Activity - Payments/Receipts with Other Funds	-	-	-	(8,116)	6,458	(1,658)	356,885
Net Cash Provided (Used) by Operating Activities	175,745	346,178	14,544	8,627	(2,285)	542,809	72,022
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:							
Other Revenue	30,951	2,495	60	325	-	33,831	9,998
State Grants	51,705	-	-	-	-	51,705	-
Operating Transfers In/(Out)	-	-	-	29,407	2,285	31,692	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	82,656	2,495	60	29,732	2,285	117,228	9,998
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Purchase of Capital Assets	(24,002)	-	-	-	-	(24,002)	(20,642)
Disposal(Adjustments) of Capital Assets	-	-	-	360	-	360	-
Asset Adjustment	-	1,050	-	-	-	1,050	-
Interest Payments	(25,531)	(44,591)	-	(6,614)	-	(76,736)	(7,191)
Principal Payments	(39,000)	(150,000)	-	(32,105)	-	(221,105)	(57,445)
Net Cash Provided (Used) by Capital and Related Financing Activities	(88,533)	(193,541)	-	(38,359)	-	(320,433)	(85,278)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Interest Income	722	483	23	-	-	1,228	16
Net Cash Provided (Used) by Investing Activities	722	483	23	-	-	1,228	16
Net Increase (Decrease) in Cash and Equivalents	170,590	155,615	14,627	-	-	340,832	(3,242)
Balances - Beginning of the Year	746,281	539,534	64,846	200	-	1,350,861	86,047
Balances - End of the Year	\$ 916,871	\$ 695,149	\$ 79,473	\$ 200	\$ -	\$ 1,691,693	\$ 82,805
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	\$ 86,135	\$ 239,673	\$ (353)	\$ (27,943)	\$ (11,113)	\$ 286,399	\$ (17,175)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation Expense	83,886	103,111	10,086	46,883	1,980	245,946	87,239
Change in Assets and Liabilities:							
(Increase) Decrease in Assets:							
Accounts Receivable	(5,397)	4,061	1,118	(4,904)	(144)	(5,266)	-
Prepays and Inventory	-	-	517	6,407	-	6,924	-
Increase (Decrease) in Liabilities:							
Accounts Payable	8,829	-	9	(9,816)	486	(492)	-
Accrued Liabilities	774	57	1	1,277	96	2,205	(165)
Accrued Interest	2,244	(739)	-	141	-	1,646	672
Due to Other Funds	-	-	-	(8,116)	6,458	(1,658)	-
Customer Deposits	-	-	3,026	4,688	-	7,714	-
Compensated Absences	(726)	15	140	10	(48)	(609)	1,451
Net Cash Provided (Used) by Operating Activities	\$ 175,745	\$ 346,178	\$ 14,544	\$ 8,627	\$ (2,285)	\$ 542,809	\$ 72,022

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Agency	Expendable Trust			Totals	
	Tax Collection	Perpetual Care	Police Dept Trust	Ambulance Trust		Fire Dept Trust
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 26,333	\$ 381	\$ 12,158	\$ 25	\$ 1,337	\$ 40,234
TOTAL ASSETS	<u>\$ 26,333</u>	<u>\$ 381</u>	<u>\$ 12,158</u>	<u>\$ 25</u>	<u>\$ 1,337</u>	<u>\$ 40,234</u>
LIABILITIES:						
Due to Others	\$ 26,333	-	-	-	-	\$ 26,333
TOTAL LIABILITIES	<u>\$ 26,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,333</u>
NET POSITION:						
Held in Trust for Fund Purposes		\$ 381	\$ 12,158	\$ 25	\$ 1,337	\$ 13,901
TOTAL NET POSITION		<u>\$ 381</u>	<u>\$ 12,158</u>	<u>\$ 25</u>	<u>\$ 1,337</u>	<u>\$ 13,901</u>

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018**

	Expendable Trust				Totals
	Perpetual Care	Police Dept Trust	Ambulance Trust	Fire Dept Trust	
ADDITIONS:					
Fees	\$ 1,120	\$ 5,045	\$ -	\$ -	\$ 6,165
Contributions/Donations	-	1,300	-	-	1,300
Interest Income	331	3	-	1	335
TOTAL ADDITIONS	1,451	6,348	-	1	7,800
DEDUCTIONS:					
Supplies	-	1,409	-	-	1,409
Other	199,731	-	-	-	199,731
TOTAL DEDUCTIONS	199,731	1,409	-	-	201,140
CHANGES IN NET POSITION	(198,280)	4,939	-	1	(193,340)
NET POSITION, JULY 1	198,661	7,219	25	1,336	207,241
NET POSITION, JUNE 30	\$ 381	\$ 12,158	\$ 25	\$ 1,337	\$ 13,901

Component Units

City of East Jordan, Michigan

Combining Balance Sheet Component Units June 30, 2018

	Downtown Development Authority	East Jordan Housing Commission 12/31/2017	Totals
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 245,709	\$ 59,430	\$ 305,139
Cash and Equivalents - Restricted	-	29,301	29,301
Accounts Receivable	-	18,807	18,807
Prepays and Inventory	-	2,582	2,582
Capital Assets Not Depreciated	-	160,245	160,245
Capital Assets (Net of Accumulated Depreciation)	3,250	63,350	66,600
TOTAL ASSETS	248,959	333,715	582,674
DEFERRED OUTFLOWS OF RESOURCES:			
Pension investment experience and contributions	-	9,980	9,980
LIABILITIES:			
Accounts Payable	-	12,513	12,513
Accrued Liabilities	63	34,233	34,296
Customer Deposits	-	6,304	6,304
Unearned Revenue	-	1,615	1,615
Net Pension Liability	-	10,848	10,848
TOTAL LIABILITIES	63	65,513	65,576
DEFERRED INFLOWS OF RESOURCES:			
Pension experience	-	5,640	5,640
NET POSITION:			
Net Investment in Capital Assets	3,250	219,980	223,230
Restricted	-	-	-
Unrestricted	245,646	52,562	298,208
TOTAL NET POSITION	248,896	272,542	521,438
TOTAL LIABILITIES AND NET POSITION	\$ 248,959	\$ 338,055	\$ 587,014

**Combining Statement of Revenues, Expenditures
and Changes in Net Position
Component Units
For the Year Ended June 30, 2018**

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 12/31/2017	Total
Public Works:							
East Jordan Housing Commission	\$ 143,360	\$ 95,126	\$ 23,834	\$ 23,059	\$ -	\$ (1,341)	\$ (1,341)
Economic Development:							
Downtown Development Authority	113,337	-	167,193	-	53,856	-	53,856
Total Component Units	<u>\$ 256,697</u>	<u>\$ 95,126</u>	<u>\$ 191,027</u>	<u>\$ 23,059</u>	<u>53,856</u>	<u>(1,341)</u>	<u>52,515</u>
General Revenues:							
Taxes					51,840	-	51,840
Interest Income					67	319	386
Miscellaneous					29,661	3,358	33,019
Total General Revenues					<u>81,568</u>	<u>3,677</u>	<u>85,245</u>
Changes in Net Position					135,424	2,336	137,760
Net Position - Beginning (As restated)					<u>113,472</u>	<u>270,206</u>	<u>383,678</u>
Net Position - Ending					<u>\$ 248,896</u>	<u>\$ 272,542</u>	<u>\$ 521,438</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 taxes that are earmarked for improvements in a downtown area of the City. 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 inter fund 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 *Sewer USDA Construction Fund* accounts for the use of USDA loan and grant funds for the construction of a new waste water treatment plant.

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 \$3,924 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 \$164,691 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 \$169,253.
- 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	\$ 555,446	\$ 1,035,056	\$ 1,590,502	\$ 40,234	\$ 305,139
Cash and Equivalents – Restricted	<u>19,736</u>	<u>656,637</u>	<u>676,373</u>	-	<u>29,301</u>
Total	<u>\$ 575,182</u>	<u>\$ 1,691,693</u>	<u>\$ 2,266,875</u>	<u>\$ 40,234</u>	<u>\$ 334,440</u>

Cash and equivalents are restricted in the amount of \$676,373 for the following: \$2,936 for Special Revenue Funds, \$16,800 for General Fund, and \$656,637 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)	\$ 2,265,758	\$ 40,234	\$ 334,440
Petty Cash and Cash on Hand	<u>1,117</u>	-	-
Total	<u>\$ 2,266,875</u>	<u>\$ 40,234</u>	<u>\$ 334,440</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, \$2,108,027 of the City's bank balance of \$2,620,548 was exposed to credit risk because it was uninsured and uncollateralized.

Fair value measurement. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the measurements required judgement and considers factors specific to each asset or liability.

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.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

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

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

NOTE 4 - CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</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	2,626,284	6,648	(1,541)	2,631,391
Land Improvements	381,343	-	-	381,343
Machinery and Equipment	3,864,469	43,851	(161,165)	3,747,155
Infrastructure	<u>4,546,175</u>	<u>-</u>	<u>-</u>	<u>4,546,175</u>
Subtotal	<u>11,418,271</u>	<u>50,499</u>	<u>(162,706)</u>	<u>11,306,064</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(861,669)	(54,254)	1,541	(914,382)
Land Improvements	(135,946)	(6,241)	-	(142,187)
Machinery and Equipment	(2,545,317)	(165,527)	159,938	(2,550,906)
Infrastructure	<u>(2,475,915)</u>	<u>(181,499)</u>	<u>-</u>	<u>(2,657,414)</u>
Subtotal	<u>(6,018,847)</u>	<u>(407,521)</u>	<u>161,479</u>	<u>(6,264,889)</u>
Net Capital Assets Being Depreciated	<u>5,399,424</u>	<u>(357,022)</u>	<u>(1,227)</u>	<u>5,041,175</u>
Capital Assets, Net	<u>\$ 5,700,874</u>	<u>\$ (357,022)</u>	<u>\$ (1,227)</u>	<u>\$ 5,342,625</u>

NOTE 4 - CAPITAL ASSETS (Continued)

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

Governmental Activities	
General Government	\$ 3,911
Public Safety	94,611
Public Works	191,722
Recreation and Culture	30,038
Internal Service	<u>87,239</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 407,521</u>

	<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
Construction in Progress	<u>-</u>	<u>3,655,234</u>	<u>-</u>	<u>-</u>	<u>3,655,234</u>
Subtotal	<u>355,002</u>	<u>3,655,234</u>	<u>-</u>	<u>-</u>	<u>4,010,236</u>
<i>Capital assets being depreciated:</i>					
Sewer Lagoons	2,144,991	-	-	-	2,144,991
Buildings	238,962	-	-	-	238,962
Mains	7,945,348	-	-	-	7,945,348
Land Improvements	2,335,174	-	-	(241,316)	2,093,858
Machinery and Equipment	<u>216,744</u>	<u>24,002</u>	<u>-</u>	<u>(16,765)</u>	<u>223,981</u>
Subtotal	<u>12,881,219</u>	<u>24,002</u>	<u>-</u>	<u>(258,081)</u>	<u>12,647,140</u>
<i>Less accumulated depreciation for:</i>					
Sewer Lagoons	(1,083,929)	(42,900)	-	-	(1,126,829)
Buildings	(155,111)	(3,006)	-	-	(158,117)
Mains	(2,864,057)	(138,570)	-	-	(3,002,627)
Land Improvements	(1,286,269)	(47,500)	-	241,316	(1,092,453)
Machinery and Equipment	<u>(151,184)</u>	<u>(13,969)</u>	<u>-</u>	<u>16,692</u>	<u>(148,461)</u>
Subtotal	<u>(5,540,550)</u>	<u>(245,945)</u>	<u>-</u>	<u>258,008</u>	<u>(5,528,487)</u>
Net Capital Assets Being Depreciated	<u>7,340,669</u>	<u>(221,943)</u>	<u>-</u>	<u>(73)</u>	<u>7,118,653</u>
Capital Assets, Net	<u>\$ 7,695,671</u>	<u>\$ 3,433,291</u>	<u>\$ -</u>	<u>\$ (73)</u>	<u>\$ 11,128,889</u>

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

Business-type Activities	
Sewer	\$ 83,886
Water	103,111
Tourist Park	10,086
E.J. Harbor Marina	46,882
Solid Waste Transfer Station	<u>1,980</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 245,945</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances 01/01/17</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances 12/31/17</u>
East Jordan Housing Commission:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 49,307	\$ 87,879	\$ -	\$ 137,186
Construction in Progress	<u>-</u>	<u>23,059</u>	<u>-</u>	<u>23,059</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,110,406	-	(85,541)	1,024,865
Furniture, Equipment & Machinery - Dwelling	20,511	76	-	20,587
Furniture, Equipment & Machinery - Administration	<u>16,627</u>	<u>853</u>	<u>-</u>	<u>17,480</u>
Subtotal	<u>1,147,544</u>	<u>929</u>	<u>(85,541)</u>	<u>1,062,932</u>
<i>Less accumulated depreciation</i>	<u>(990,196)</u>	<u>(17,323)</u>	<u>7,937</u>	<u>(999,582)</u>
Net Capital Assets Being Depreciated	<u>157,348</u>	<u>(16,394)</u>	<u>(77,604)</u>	<u>63,350</u>
Capital Assets, Net	<u>\$ 206,655</u>	<u>\$ 94,544</u>	<u>\$ (77,604)</u>	<u>\$ 223,595</u>

Depreciation expense in the amount of \$17,323 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>	<u>(1,250)</u>	<u>(500)</u>	<u>-</u>	<u>(1,750)</u>
Net Capital Assets Being Depreciated	<u>3,750</u>	<u>(500)</u>	<u>-</u>	<u>3,250</u>
Capital Assets, Net	<u>\$ 3,750</u>	<u>\$ (500)</u>	<u>\$ -</u>	<u>\$ 3,250</u>

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, 2017 totaled \$54,209,238. The tax levy for that year was based on the following rates:

	Millage Rate <u>Used</u>
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 TO OTHER FUNDS		
		E.J. Harbor Marine	Solid Waste Transfer Station	Totals
DUE FROM OTHER FUNDS	General Fund	\$ 41,970	\$ 8,438	\$ 50,408

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			
		General Fund	Major Street	Nonmajor Governmental	Totals
TRANSFERS IN	Local Street	\$ 26,000	\$ 7,809	\$ 9,396	\$ 43,205
	Major Street	-	-	7,971	7,971
	Nonmajor Governmental	39,331	-	-	39,331
	EJ Harbor Marina	29,407	-	-	29,407
	Nonmajor Enterprise	2,285	-	-	2,285
	Total	\$ 97,023	\$ 7,809	\$ 17,367	\$ 122,199

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 - RESTATEMENT

	Business-type Activities	
	Sewer Fund	Business Type Fund
Beginning net position as previously reported at July 1, 2017	\$ 2,482,117	\$ 5,998,556
Restatement of beginning net position:		
To recognize prior year waste water treatment plant work	266,498	266,498
Net position as restated, July 1, 2017	\$ 2,748,615	\$ 6,265,054

NOTE 8 - 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:

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General Obligation Bonds:							
\$175,000 Capital Improvement Bonds for Streets	4.30%	2021	70,000	-	15,000	55,000	15,000
Installment Purchase Agreements:							
\$49,167 Caterpillar	2.50%	2019	20,399	-	10,073	10,326	10,326
\$214,446 Fire Truck	4.40%	2018	39,985	-	19,562	20,423	20,423
\$153,836 Dump Truck	2.75%	2017	25,639	-	25,639	-	-
\$51,250 Tractor	2.25%	2017	17,084	-	17,084	-	-
\$37,528 Police Vehicle	2.00%	2019	25,019	-	12,509	12,510	12,510
\$214,084 Street Sweeper	2.50%	2021	214,084	-	4,648	209,436	34,906
\$8,364 2016 Toro Workman	3.35%	2019	4,304	-	2,851	1,453	1,453
Total Governmental Activities – Long-Term Debt			<u>416,514</u>		<u>107,366</u>	<u>309,148</u>	<u>94,618</u>
Business-type Activities							
General Obligation Bonds:							
\$1,600,000 USDA WWTP Bonds	1.75%	2057	-	1,600,000	28,000	1,572,000	28,000
\$834,218 Water Bonds	2.50%	2020	150,000	-	50,000	100,000	50,000
\$1,290,000 Water Bonds	2.50%	2020	235,000	-	75,000	160,000	80,000
\$250,000 2007B Harbor Bonds	4.20%	2023	118,000	-	18,000	100,000	19,000
\$1,525,000 Water Capital Improvement Bonds	2.0% to 3.55%	2051	1,384,000	-	26,000	1,358,000	26,000
\$675,000 Sewer Capital Improvement Bonds	2.0% to 3.55%	2051	612,000	-	11,000	601,000	12,000
Installment Purchase Agreements:							
\$103,000 2009 Harbor	4.45%	2020	42,585	-	14,105	28,480	14,733
Total Business-type Activities – Long-Term Debt			<u>2,541,585</u>	<u>1,600,000</u>	<u>222,105</u>	<u>3,919,480</u>	<u>229,733</u>
Governmental Compensated Absences			28,877	26,687	-	55,564	-
Business-type Compensated Absences			<u>12,353</u>	-	<u>609</u>	<u>11,744</u>	-
Total Long-Term Debt			<u>\$2,999,329</u>	<u>\$1,626,687</u>	<u>\$ 330,080</u>	<u>\$4,295,936</u>	<u>\$ 324,351</u>

NOTE 8 - LONG-TERM DEBT (Continued)

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
2019	\$ 94,618	\$ 8,884	\$ 229,733	\$ 89,877
2020	54,906	6,083	230,747	83,686
2021	54,906	4,351	89,000	78,099
2022	34,906	2,618	93,000	75,681
2023	34,906	1,745	94,000	73,171
2024-2028	34,906	873	389,000	338,196
2029-2033	-	-	435,000	292,110
2034-2038	-	-	487,000	240,284
2039-2043	-	-	545,000	182,035
2044-2048	-	-	611,000	116,568
2049-2053	-	-	500,000	45,361
2054-2057	-	-	216,000	9,450
Total	<u>\$ 309,148</u>	<u>\$ 24,554</u>	<u>\$ 3,919,480</u>	<u>\$ 1,624,518</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).

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 \$67,308 at June 30, 2018.

NOTE 9 - 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 10 - 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, 2017.

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.

01 – DPW: Open Division	
	<u>2017 Valuation</u>
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)

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

02 – Police: Open Division	
	<u>2017 Valuation</u>
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	
	<u>2017 Valuation</u>
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	
	<u>2017 Valuation</u>
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)

Employees Covered by Benefit Terms

At December 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>17</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.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

The contribution rate as a percentage of payroll at June 30, 2018 is as follows:

DPW	13.70%
Police	23.04%
Dept Hds	28.16%
Gnl Other	11.11%

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.75 percent in the long-term
Investment rate of return	7.75 percent net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% 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.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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:

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 2016 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, 2016	\$ 4,921,457	\$ 3,222,269	\$ 1,699,188
Service cost	91,207	-	91,207
Interest on total pension liability	384,902	-	384,902
Changes in benefits	-	-	-
Difference between expected and actual experience	8,030	-	8,030
Changes in assumptions	-	-	-
Employer contributions	-	136,924	(136,924)
Employee contributions	-	35,360	(35,360)
Net investment income	-	419,538	(419,538)
Benefit payments, including employee refunds	(311,564)	(311,564)	-
Administrative expense	-	(6,652)	6,652
Other changes	1	1	-
Net changes	172,576	273,607	(101,031)
Balances as of December 31, 2017	\$ 5,094,033	\$ 3,495,876	\$ 1,598,157

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 8.00%, 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 (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$2,162,742	\$1,598,157	\$1,118,395

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, 2018, the City recognized pension expense of \$151,689. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 111,189
Changes in assumptions	51,051	-
Net difference between projected and actual earnings on pension plan investments	-	61,574
Contributions subsequent to the measurement date	72,485	-
Total	\$ 123,536	\$ 172,763

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

Year Ended June 30:

2019	\$ 51,051	\$ 94,817
2020	-	(9,506)
2021	-	53,933
2022	-	33,519

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% for employees times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2016.

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 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Open Division	2016 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

Net Pension Liability

The employer’s Net Pension Liability was measured as of December 31, 2016, 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 <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
\$119,022	\$108,175	\$10,848

Actuarial assumptions

The total pension liability in the December 31, 2016 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 2015, 2016 and 2017, respectively). Investment rate of return: 8.25%, net of investment expense, including inflation.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 116,589	\$ 97,849	\$ 18,740
Service cost	2,047	-	2,047
Interest on total pension liability	(81)	-	(81)
Changes in benefits	-	-	-
Difference between expected and actual experience	(2,414)	-	(2,414)
Changes in assumptions	-	-	-
Employer contributions	-	2,297	(2,297)
Employee contributions	-	573	(573)
Net investment income	-	11,230	(11,230)
Benefit payments, including employee refunds	(4,061)	(4,061)	-
Administrative expense	-	(222)	222
Other changes	6,942	508	6,434
Net changes	2,433	10,325	(7,892)
Balances as of December 31, 2016	\$ 119,022	\$ 108,174	\$ 10,848

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 8.0%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.0%) or 1% higher (9.0%) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9.25%)
Housing Commission's net change in pension liability	\$561,341	10,848	\$(456,055)

Deferred Outflows

Deferred outflows of \$16,566 exists as of December 31, 2017; the outflows consist of contributions since the measurement date December 31, 2016 thru the calendar year, and, the unamortized difference between the projected and actual investment earnings, and the deferred outflow due to a difference in assumptions. The following summarizes these amounts:

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	2,472	5,640
Net difference between projected and actual earnings on pension plan investments	4,104	-
Contributions subsequent to the measurement date	<u>3,404</u>	<u>-</u>
 Total	 <u>\$ 9,980</u>	 <u>\$ 5,640</u>

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 12 - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City’s actual expenditures were in excess of amounts appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Community & Economic Development	\$ -	\$ 47,920	\$ (47,920)
Health and Welfare	-	13,892	(13,892)
Recreation & Culture	204,048	231,860	(27,812)
Transfers Out	87,909	97,023	(9,114)
Sewer USDA Construction Capital Outlay	2,716,306	3,405,948	(689,642)

NOTE 13 - DEFICIT UNRESTRICTED NET POSITION

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

EJ Harbor Marina	\$ 56,516
Tourist Park	41,126
Solid Waste Transfer Station	9,133

Required Supplementary Information

Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2018

	Actuarial Date as of December 31			
	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 91,207	\$ 84,621	\$ 85,816	\$ 100,345
Interest	384,902	379,944	388,061	373,084
Difference between expected and actual experience	8,030	(99,810)	(333,095)	-
Change in assumptions	-	-	204,201	-
Benefit payments, including refund of member contributions	(311,564)	(300,566)	(297,158)	(272,084)
Other Changes	1	-	-	-
Net change in total pension liability	172,576	64,189	47,825	201,345
Total pension liability - beginning	4,921,457	4,857,268	4,809,443	4,608,098
Total pension liability - ending	<u>\$ 5,094,033</u>	<u>\$ 4,921,457</u>	<u>\$ 4,857,268</u>	<u>\$ 4,809,443</u>
Plan fiduciary net position				
Contributions - employer	\$ 136,924	\$ 129,081	\$ 118,460	\$ 139,018
Contributions - employee	35,360	34,980	35,048	40,838
Net investment income	419,538	338,499	(44,225)	207,543
Benefit payments, including refunds of member contributions	(311,564)	(300,566)	(297,159)	(272,084)
Administrative expense	(6,652)	(6,688)	(7,036)	(7,612)
Other changes	1	-	(191,928)	-
Net change in plan fiduciary net position	273,607	195,306	(386,840)	107,703
Plan fiduciary net position - beginning	3,222,269	3,026,963	3,413,803	3,306,100
Plan fiduciary net position - ending	<u>\$ 3,495,876</u>	<u>\$ 3,222,269</u>	<u>\$ 3,026,963</u>	<u>\$ 3,413,803</u>
City's net pension liability - ending	<u>\$ 1,598,157</u>	<u>\$ 1,699,188</u>	<u>\$ 1,830,305</u>	<u>\$ 1,395,640</u>
Plan fiduciary net position as a percentage of the total pension liability	69%	65%	62%	71%
Covered - employee payroll	\$ 783,364	\$ 724,325	\$ 745,195	\$ 882,986
City's net pension liability as a percentage of covered-employee payroll	204%	235%	246%	158%

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2018**

	Actuarial Date as of December 31			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 136,924	\$ 129,081	\$ 118,460	\$ 139,018
Contributions in relation to the actuarially determined contribution	<u>136,924</u>	<u>129,081</u>	<u>118,460</u>	<u>139,018</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 783,364	\$ 724,325	\$ 745,195	\$ 882,986
Contributions as a percentage of covered-employee payroll	17%	18%	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	22 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.75% in the long-term
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, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 976,000	\$ 976,000	\$ 989,716	\$ 13,716
Licenses and Permits	3,000	3,000	3,020	20
State Sources	244,500	290,000	292,329	2,329
Local Sources	25,000	25,000	87,649	62,649
Charges for Services	172,100	172,100	189,432	17,332
Interest and Rents	16,100	16,100	13,341	(2,759)
Other Revenue	35,475	35,475	23,833	(11,642)
TOTAL REVENUES	1,472,175	1,517,675	1,599,320	81,645
EXPENDITURES:				
Legislative:				
City Council	27,685	25,685	25,395	290
General Government:				
Administrator	72,436	73,036	72,132	904
Clerk	76,078	73,278	71,493	1,785
Attorney	32,836	32,836	30,561	2,275
Treasurer	57,970	58,570	58,230	340
Building and Grounds	129,932	124,432	118,702	5,730
Elections	4,900	3,600	3,432	168
Assessor	28,638	28,138	27,997	141
Cemetery	34,682	38,682	37,698	984
Data Processing	20,510	12,310	10,641	1,669
Board of Review	1,917	1,517	1,324	193
Total General Government	459,899	446,399	432,210	14,189
Public Safety:				
Police Department	426,040	418,040	408,524	9,516
Fire Department	182,611	193,611	190,474	3,137
Zoning Board/Commission	10,014	9,414	8,949	465
Total Public Safety	618,665	621,065	607,947	13,118
Public Works:				
Public Works	38,030	34,230	31,473	2,757
Sidewalks	9,792	19,792	18,213	1,579
Street Lighting	44,000	22,500	22,147	353
Airport	18,350	13,350	12,487	863
Total Public Works	110,172	89,872	84,320	5,552
Community and Economic Development:				
Housing Commission and Paying Agents	-	-	47,920	(47,920)
Health and Welfare				
Emergency Medical Facility	-	-	13,892	(13,892)
Recreation and Culture:				
Parks and Recreation	59,338	117,238	136,915	(19,677)
Community and Skate Park	28,092	31,092	31,130	(38)
Civic Center Recreation Facility	28,214	31,566	30,572	994
Elm Pointe Recreation Facility	16,152	24,152	33,243	(9,091)
Total Recreation and Culture	131,796	204,048	231,860	(27,812)
Capital Outlay	23,209	29,857	29,857	-
Debt Service	15,938	15,938	15,938	-
TOTAL EXPENDITURES	1,387,364	1,432,864	1,489,339	(56,475)

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	84,811	84,811	109,981	25,170
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	400	400	-	(400)
Operating Transfers (Out)	<u>(87,909)</u>	<u>(87,909)</u>	<u>(97,023)</u>	<u>(9,114)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (2,698)</u>	<u>\$ (2,698)</u>	12,958	<u>\$ 15,656</u>
FUND BALANCE, JULY 1			<u>271,669</u>	
FUND BALANCE, JUNE 30			<u>\$ 284,627</u>	

City of East Jordan, Michigan

Required Supplementary Information Budgetary Comparison Schedule Major Street Fund For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 213,276	\$ 247,276	\$ 231,682	\$ (15,594)
Interest	-	-	18	18
TOTAL REVENUES	213,276	247,276	231,700	(15,576)
EXPENDITURES:				
Public Works	192,573	226,573	173,371	53,202
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	20,703	20,703	58,329	37,626
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	7,971	7,971	7,971	-
Operating Transfers Out	(7,809)	(7,809)	(7,809)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 20,865	\$ 20,865	58,491	\$ 37,626
FUND BALANCE, JULY 1			56,497	
FUND BALANCE, JUNE 30			\$ 114,988	

City of East Jordan, Michigan

Required Supplementary Information Budgetary Comparison Schedule Local Street Fund For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 117,309	\$ 135,309	\$ 112,768	\$ (22,541)
Interest	-	-	2	2
TOTAL REVENUES	117,309	135,309	112,770	(22,539)
EXPENDITURES:				
Public Works	135,705	153,705	145,752	7,953
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(18,396)	(18,396)	(32,982)	(14,586)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	43,205	43,205
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (18,396)	\$ (18,396)	10,223	\$ 28,619
FUND BALANCE, JULY 1			12,801	
FUND BALANCE, JUNE 30			\$ 23,024	

**Required Supplementary Information
Budgetary Comparison Schedule
Sewer USDA Construction
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ -	\$ 2,716,306	\$ 2,973,000	\$ 256,694
TOTAL REVENUES	<u>-</u>	<u>2,716,306</u>	<u>2,973,000</u>	<u>256,694</u>
EXPENDITURES:				
Capital Outlay		2,716,306	3,405,948	(689,642)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (432,948)</u>	<u>\$ (432,948)</u>
FUND BALANCE, JULY 1			<u>433,514</u>	
FUND BALANCE, JUNE 30			<u>\$ 566</u>	

Other Information

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue Funds			Debt Service Funds		
	Fire Equipment	Rehab I and II	D.A.R.E.	2007A GO Cap.	2001 Mi Trans	2007B GO Cap.
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 151	\$ 28,326	\$ 2,764	\$ -	\$ -	\$ -
Cash and Equivalents - Restricted	-	-	-	1,737	-	1,000
TOTAL ASSETS	\$ 151	\$ 28,326	\$ 2,764	\$ 1,737	\$ -	\$ 1,000
LIABILITIES:						
Customer Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES:						
Restricted	-	-	-	1,737	-	1,000
Assigned	151	28,326	2,764	-	-	-
TOTAL FUND BALANCES	151	28,326	2,764	1,737	-	1,000
TOTAL LIABILITIES AND FUND BALANCES	\$ 151	\$ 28,326	\$ 2,764	\$ 1,737	\$ -	\$ 1,000

	Capital Project Funds			Totals
	Street Improvement Tax	Bandshell	Industrial Complex	
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 131,880	\$ 14,078	\$ 15,630	\$ 192,829
Cash and Equivalents - Restricted	-	-	-	2,737
TOTAL ASSETS	<u>\$ 131,880</u>	<u>\$ 14,078</u>	<u>\$ 15,630</u>	<u>\$ 195,566</u>
LIABILITIES:				
Customer Deposits	\$ -	\$ 200	\$ -	\$ 200
FUND BALANCES:				
Restricted	131,880	13,878	15,630	164,125
Assigned	-	-	-	31,241
TOTAL FUND BALANCES	<u>131,880</u>	<u>13,878</u>	<u>15,630</u>	<u>195,366</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 131,880</u>	<u>\$ 14,078</u>	<u>\$ 15,630</u>	<u>\$ 195,566</u>

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2018**

	Special Revenue Funds			Debt Service Funds		
	Fire Equipment	Rehab I and II	D.A.R.E.	2007A GO Cap.	2001 MI Trans	2007B GO Cap.
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Revenues	-	-	-	-	-	-
Interest and Rents	-	7	1	-	-	-
TOTAL REVENUES	-	7	1	-	-	-
EXPENDITURES:						
General Government	-	-	-	-	-	-
Debt Service	21,321	-	-	18,010	-	-
TOTAL EXPENDITURES	21,321	-	-	18,010	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,321)	7	1	(18,010)	-	-
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	21,321	-	-	18,010	-	-
Operating Transfers Out	-	-	-	-	(93)	-
TOTAL OTHER FINANCING SOURCES (USES)	21,321	-	-	18,010	(93)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	7	1	-	(93)	-
FUND BALANCES, JULY 1	151	28,319	2,763	1,737	93	1,000
FUND BALANCES, JUNE 30	\$ 151	\$ 28,326	\$ 2,764	\$ 1,737	\$ -	\$ 1,000

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2018**

	Capital Project Funds			Totals
	Street Improvement Tax	Bandshell	Industrial Complex	
REVENUES:				
Taxes	\$ 56,315	\$ -	\$ -	\$ 56,315
Other Revenues	-	6,593	14,376	20,969
Interest and Rents	32	3	4	47
TOTAL REVENUES	56,347	6,596	14,380	77,331
EXPENDITURES:				
General Government	-	7,723	130	7,853
Debt Service	-	-	-	39,331
TOTAL EXPENDITURES	-	7,723	130	47,184
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	56,347	(1,127)	14,250	30,147
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	39,331
Operating Transfers Out	(17,274)	-	-	(17,367)
TOTAL OTHER FINANCING SOURCES (USES)	(17,274)	-	-	21,964
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	39,073	(1,127)	14,250	52,111
FUND BALANCES, JULY 1	92,807	15,005	1,380	143,255
FUND BALANCES, JUNE 30	\$ 131,880	\$ 13,878	\$ 15,630	\$ 195,366

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**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, 2018, 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 December 3, 2018. 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 weakness may exist that has not been identified.

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 questioned costs as items 2018-001 and 2018-002.

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 questioned costs. 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

December 3, 2018



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORMED GUIDANCE**

To the City Commission
City of East Jordan, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of East Jordan, Michigan's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City of East Jordan, Michigan's major federal programs for the year ended June 30, 2018. City of East Jordan, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Managements Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of the City of East Jordan, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of East Jordan, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of East Jordan, Michigan's compliance.

To the City Commission
City of East Jordan, Michigan's

Opinion on Each Major Federal Program

In our opinion, the City of East Jordan, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the City of East Jordan, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of East Jordan, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of East Jordan, Michigan's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

December 3, 2018

**Schedule of Expenditures of Federal
For the Year Ended June 30, 2018**

	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	<u>Federal</u>	<u>Prior Year's Expend.</u>	<u>Award Amount Remaining</u>
U.S. Department of Agriculture						
Water and Waste Disposal Systems for Rural Communities Grant	10.760	NA	3,400,000	1,373,000	-	2,027,000
Water and Waste Disposal Systems for Rural Communities Loan	10.760	NA	1,600,000	1,600,000	-	-
Total Federal Expenditures				<u>\$ 2,973,000</u>	<u>\$ -</u>	<u>\$ 2,027,000</u>

This schedule is prepared on an accrual basis of accounting as described in the summary of significant accounting policies in Note 1 of the Notes to Financial Statements.

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of City of East Jordan, Michigan under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of East Jordan, Michigan it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of East Jordan, Michigan.

NOTE B - COGNIZANT AGENCY

The City has not been assigned a cognizant agency. Therefore, the City is under the general oversight of the U.S. Department of Agriculture which provided the greatest amount of direct federal funding to the City during 2018.

NOTE C - INDIRECT COST

For purposes of charging indirect costs to federal awards, the City has elected to use the 10% de minimus cost rate as permitted by CFR Section 200.414 of the Uniform Guidance, though in all federal grant received in the current fiscal year no indirect costs were charged to the grants.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs: Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2 (CFR) part 200, Uniform Guidance?	No

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

10.760	Water and Waste Disposal Systems for Rural Communities
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Noncompliance with State Statutes

Deficit Unrestricted Net Position

Finding 2018-001

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, Tourist Park, and Solid Waste Transfer Station Funds have a deficit in unrestricted net position.

Cause: The E.J. Harbor Marina, Tourist Park, and Solid Waste Transfer Station Funds have a negative unrestricted net position balance of \$56,516, 41,126 and \$9,133 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.

Section II – Financial Statement Findings

Noncompliance with State Statues

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 2018-002

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 621 of 1978, Section 18(1), 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 Public Act 621 of 1978, Section 18(1), as amended, the Uniform Budgeting and Accounting Act.

The City’s 2017/2018 General Appropriations Act (budget) provided for expenditures of the General Fund, and USDA Sewer Construction fund to be controlled to the activity level. As detailed, actual 2017/2018 expenditures exceeded the Board’s approved budget allocations for three general fund activities.

During the fiscal year ended June 30, 2018, expenditures were incurred in excess of amounts appropriated in the amended budget for the general fund on page 45 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:*
2017-2018 fiscal year.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.



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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, 2018, and have issued our report thereon dated December 3, 2018. 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 July 30, 2018, 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.

In planning and performing our audit, we will consider the City of East Jordan, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the City of East Jordan, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the City of East Jordan, Michigan's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City of East Jordan, Michigan's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it does not provide a legal determination on the City of Jordan, Michigan's compliance with those requirements.

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 and schedule of federal awards, 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 July 30, 2018.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion units, financial statements taken as a whole.

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 December 3, 2018.

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.

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: Uncorrected.

Debt Payments

It was noted during our review of debt payments that the city is currently performing a transfer out of the general fund to a debt service fund for the purposes of making a debt payment, but that the associated debt is in an enterprise type fund. We recommend that this transfer and the subsequent payments be made out of the enterprise fund where the related debt is recorded.

Disbursements

It was noted during our testing of controls in regards to disbursements that 2 checks did not have dual signatures. Upon inquiry, it was discovered that there was not another authorized signer available at the time checks were sent out. We recommend to wait until another authorized signer is available to sign checks before checks are issued to ensure compliance with City policy.

Upcoming Standards

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City. For the complete text of these and other GASB standards, visit www.gasb.org. If you have questions regarding the applicability, timing, or implementation, please contact us.

GASB 83 – Certain Asset Retirement Obligations

Effective 06/15/19 (your FY 2019)

This statement addresses accounting and financial reporting for certain asset retirement obligations—legally enforceable liabilities associated with the retirement of a tangible capital assets.

GASB 84 – Fiduciary Activities

Effective 12/15/2019 (your FY 2019)

This standard establishes new criteria for determine how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, management should assess the degree to which this standard may impact the City.

GASB 86 – Certain Debt Extinguishment Issues

Effective 06/15/2018 (your FY 2018)

This standard provides guidance for reporting the in-substance defeasance of outstanding debt obligations using existing resources. Qualifying transactions will remove both the assets placed into trust and the related debt obligation from the government's statement of net position.

Single Approach for Reporting Leases

The Governmental Accounting Standards Board (GASB) issued guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The single approach is based on the principle that leases are financing of the right to use an underlying asset.

GASB Statement No. 87, *Leases*, provides guidance for lease contracts for nonfinancial assets – including vehicles heavy equipment, and buildings – but excludes nonexchange transactions, including donates assets, and leases of intangible assets.

Under the new Statement a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements.

A lease also will report the following in its financial statements:

- Amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset.
- Interest expense on the lease liability
- Note disclosures about the lease, including a general description of the leasing arrangement, the amount of the lease assets recognized, and a schedule of future lease payment to be made.

Limited exceptions to the single-approach guidance are provided for:

- Short-term leases, defined as lasting a maximum of 12 months at inception, including any options to extend.
- Financial purchases
- Certain regulated leases, such as between municipal airports and air carries.

The full text of Statement 87 is available on the GASB website, www.gasb.org.

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 and schedule of federal awards, which accompany the financial statements but are not RSI. With respect to this other 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 other 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.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC". The signature is written in a cursive, flowing style.

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

December 3, 2018