

**City of East Jordan**  
**Downtown Development Authority**

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**BASIC FINANCIAL STATEMENTS**

**June 30, 2015**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
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**INDEPENDENT AUDITOR'S REPORT**

To the Authority Board  
City of East Jordan Downtown Development Authority  
Charlevoix County, Michigan

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of East Jordan Downtown Development Authority, Michigan (a component unit of the City of East Jordan, Michigan) as of and for the year ended June 30, 2015, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Authority Board  
City of East Jordan Downtown Development Authority

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of East Jordan Downtown Development Authority, Michigan, as of June 30, 2015, and the respective changes in financial position 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 and budgetary comparison information on pages 3 through 5 and page 20 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015, on our consideration of City of East Jordan Downtown Development Authority'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 Downtown Development Authority's internal control over financial reporting and compliance.



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

December 11, 2015

## **Management's Discussion and Analysis**

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# City of East Jordan Downtown Development Authority

## Management's Discussion and Analysis June 30, 2015

Our Management's Discussion and Analysis of the City of East Jordan Downtown Development Authority's financial performance provides and overview of the Authority's financial activities for the fiscal year ended June 30, 2015.

### Financial Highlights

- Total net position increased \$199,372 which represents a 77% increase from fiscal year 2014, mainly due to paying down the debt.
- Total revenue increased \$2,179 which represents a 1% increase from fiscal year 2014, due to increases in local revenue.

### Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

### The Authority as a Whole

The City of East Jordan Downtown Development Authority exists to account for property taxes "captured" in the Downtown Development District of the City of East Jordan. These taxes are used to pay administrative expenses and debt service incurred for projects to improve property and infrastructure in the district. The Authority's Board is appointed by the Mayor with the concurrence of the City Commission. The Authority is a Component Unit of the City of East Jordan.

	<u>Governmental Activities</u> <u>2014</u>	<u>Governmental Activities</u> <u>2015</u>
Current Assets	\$ 77,764	\$ 75,796
Capital Assets	-	4,750
Total Assets	<u>\$ 77,764</u>	<u>\$ 80,546</u>
Current Liabilities	\$ 196,796	\$ 42,322
Noncurrent Liabilities	<u>137,789</u>	<u>95,673</u>
Total Liabilities	<u>334,585</u>	<u>137,995</u>
Net Position		
Unrestricted	<u>\$ (256,821)</u>	<u>\$ (57,449)</u>

The current level of unrestricted net position for our governmental activities stands at (57,449) or about 0% of expenditures.

# City of East Jordan Downtown Development Authority

## Management's Discussion and Analysis June 30, 2015

The following table shows the activities of the Authority.

	<u>Governmental Activities</u> <u>2014</u>	<u>Governmental Activities</u> <u>2015</u>
General Revenues		
Property Tax	\$ 220,744	\$ 225,791
Investment Income	88	58
Transfers	(2,000)	-
Local Revenue	<u>5,000</u>	<u>162</u>
Total Revenues	<u>223,832</u>	<u>226,011</u>
Program Expenses		
Public Works	9,363	14,943
Interest on Long-Term Debt	<u>24,581</u>	<u>11,696</u>
Total Expenses	<u>33,944</u>	<u>26,639</u>
Changes in Net Position	189,888	199,372
Net Position - Beginning	<u>(446,709)</u>	<u>(256,821)</u>
Net Position - Ending	<u>\$ (256,821)</u>	<u>\$ (57,449)</u>

### **The Authority's Funds**

Our analysis of the Authority's major funds begins on page 8, following the government-wide financial statements. The fund financial statements provide detailed information about each fund. For clarity, all of the Authority's funds are considered Major Funds. The Authority Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Authority's major funds for 2015 include the TIFA Special Revenue Fund, the 1997A, 1998A, 2003A, and Bike Path Debt Service Funds.

The TIFA Special Revenue Fund collects property taxes "captured" from properties in the Downtown Development District. This money is used to pay administrative expenses of the Authority and is transferred to the Debt Service Funds.

### **Budgetary Highlights**

The revenue budget for 2015 was more than the actual receipts by \$11, while actual expenditures were under budget by \$9,041.

**Capital Asset and Debt Administration**

The Authority has invested significantly in capital assets since its inception. Because the City maintains the capital assets, many of these capital assets are recorded on the financial statements of the City of East Jordan. The Authority paid off \$196,648 of its debt in 2015.

**Economic Factors and Next Year's Budget and Rates**

Significant funding for the Authority comes from property taxes "captured" in the Downtown Development Authority. The Authority has the ability to levy sufficient property tax to make current debt service payments.

**Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's Treasurer at 201 Main Street, East Jordan, Michigan 49727, telephone (231) 536-3381.

## **Basic Financial Statements**

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# City of East Jordan Downtown Development Authority

## Statement of Net Position June 30, 2015

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Cash and Equivalents - Unrestricted	\$ 75,796
Capital Assets (Net of Accumulated Depreciation)	<u>4,750</u>
Total Assets	<u><u>\$ 80,546</u></u>
<b>LIABILITIES:</b>	
Accrued Liabilities	\$ 206
Bonds Payable - Due within one year	20,000
Bonds Payable - Due in more than one year	50,000
Installment Payable - Due within one year	22,116
Installment Payable - Due in more than one year	<u>45,673</u>
Total Liabilities	<u>137,995</u>
<b>NET POSITION:</b>	
Unrestricted	<u>(57,449)</u>
Total Net Position	<u><u>\$ (57,449)</u></u>

**City of East Jordan Downtown Development Authority**

**Statement of Activities  
For the Year Ended June 30, 2015**

	Expenses	General Government Net (Expense) Revenue and Changes in Net Position
<b>Functions/Programs</b>		
General Government:		
Public Works	\$ 14,943	\$ (14,943)
Interest on Long-Term Debt	11,696	(11,696)
Total General Government	\$ 26,639	(26,639)
 <b>General Revenues</b>		
Property Taxes		225,791
Investment Income		58
Local Revenue		162
Total General Revenues		226,011
		<b>Changes in Net Position</b> 199,372
		Net Position - Beginning <u>(256,821)</u>
		Net Position - Ending <u><u>\$ (57,449)</u></u>

# City of East Jordan Downtown Development Authority

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

	Special Revenue Fund	Debt Service Funds				Total
	TIFA	1997A	1998A	2003A	Bike Path	
<b>Assets:</b>						
Cash and Equivalents - Unrestricted	\$ 75,399	\$ 98	\$ 100	\$ 99	\$ 100	\$ 75,796
Total Assets	<u>\$ 75,399</u>	<u>\$ 98</u>	<u>\$ 100</u>	<u>\$ 99</u>	<u>\$ 100</u>	<u>\$ 75,796</u>
<b>Liabilities:</b>						
Accrued Liabilities	\$ 206	\$ -	\$ -	\$ -	\$ -	\$ 206
Total Liabilities	<u>206</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206</u>
<b>Fund Balance:</b>						
Restricted	-	98	100	99	100	397
Assigned	75,193	-	-	-	-	75,193
Total Fund Balance	<u>75,193</u>	<u>98</u>	<u>100</u>	<u>99</u>	<u>100</u>	<u>75,590</u>
Total Liabilities and Fund Balances	<u>\$ 75,399</u>	<u>\$ 98</u>	<u>\$ 100</u>	<u>\$ 99</u>	<u>\$ 100</u>	<u>\$ 75,796</u>

# City of East Jordan Downtown Development Authority

## Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position June 30, 2015

Total fund balances – governmental fund \$ 75,590

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 4,750

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Bonds Payable	(70,000)
Installment Purchase Contracts Payable	<u>(67,789)</u>
Net Position of General Government	<u>\$ (57,449)</u>

**City of East Jordan Downtown Development Authority**

**Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Governmental Funds  
For the Year Ended June 30, 2015**

	Special Revenue Fund	Debt Service Funds				Total
	TIFA	1997A	1998A	2003A	Bike Path	
<b>REVENUES:</b>						
Current Property Taxes	\$ 225,791	\$ -	\$ -	\$ -	\$ -	\$ 225,791
Contributions from Local Units	162	-	-	-	-	162
Interest	58	-	-	-	-	58
<b>TOTAL REVENUES</b>	<b>226,011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>226,011</b>
<b>EXPENDITURES:</b>						
Public Works	19,693	-	-	-	-	19,693
Debt Service	25,041	82,215	66,678	24,185	10,225	208,344
<b>TOTAL EXPENDITURES</b>	<b>44,734</b>	<b>82,215</b>	<b>66,678</b>	<b>24,185</b>	<b>10,225</b>	<b>228,037</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>181,277</b>	<b>(82,215)</b>	<b>(66,678)</b>	<b>(24,185)</b>	<b>(10,225)</b>	<b>(2,026)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating Transfers In	-	82,215	66,678	24,185	10,225	183,303
Operating Transfers Out	(183,303)	-	-	-	-	(183,303)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(183,303)</b>	<b>82,215</b>	<b>66,678</b>	<b>24,185</b>	<b>10,225</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(2,026)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,026)</b>
<b>FUND BALANCES, JULY 1</b>	<b>77,219</b>	<b>98</b>	<b>100</b>	<b>99</b>	<b>100</b>	<b>77,616</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 75,193</b>	<b>\$ 98</b>	<b>\$ 100</b>	<b>\$ 99</b>	<b>\$ 100</b>	<b>\$ 75,590</b>

# City of East Jordan Downtown Development Authority

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## 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, 2015

Net Change in Fund Balance – Total Governmental Funds \$ (2,026)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$5,000) exceeded depreciation expense (\$250) in the current period. 4,750

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Principal Payments 196,648

Changes in Net Position of Governmental Activities \$ 199,372

## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A – Financial Reporting Entity:**

The City of East Jordan Downtown Development Authority (the “Authority”) was incorporated under the provisions of Act 197, P.A. 1975 as amended (the “DDA Act”). The Authority is organized to collect tax increment revenue and to implement improvements in a designated geographic area of the City of East Jordan. The Authority has a nine member board this is appointed by the City of East Jordan Commission. The Authority is considered a component unit of the City of East Jordan.

**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 Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property tax revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. The Authority has no business-type funds or component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are 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 revenue.

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 proprietary funds are reported as separate columns in the fund financial statements. The Authority has no proprietary or fiduciary funds.

**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

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

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

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

The City of East Jordan Downtown Development Authority’s property tax is levied on each July 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the City of East Jordan Downtown Development Authority District as of the preceding December 31<sup>st</sup>.

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of East Jordan bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by the County of Charlevoix.

Although the City of East Jordan Downtown Development Authority’s 2014 ad valorem tax is levied and collectible on each July 1<sup>st</sup>, it is the City of East Jordan Downtown Development Authority’s policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made “available” for the financing of operations. “Available” means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The Authority reports the following major governmental funds:

**Special Revenue Fund:**

*TIFA Fund* – This fund accounts for the general operation of the Authority

**Debt Service Funds:**

*1997 Series A* – This fund accounts for the repayment of debt.

*1998 Series A* – This fund accounts for the repayment of debt.

*2003 Series A* – This fund accounts for the repayment of debt.

*Bike Path* – This fund accounts for the repayment of debt.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**D - Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance:**

Cash and Equivalents – Cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Deposits are recorded at cost.

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advance to/from other funds.” Residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivable are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on February 14<sup>th</sup>, at which time penalties and interest are assessed.

Capital Assets – Capital assets acquired by the Authority are recorded in the financial statements of the City of East Jordan.

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 Authority has no items that qualify for reporting in this category.

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

Long-Term Obligations – In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of the net position as a governmental activity. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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 Authority 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 Authority has classified no items as being Nonspendable.

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

- 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 Authority had \$397 in restricted fund balance for debt service funds at year end.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Authority. These amounts cannot be used for any other purpose unless the Authority 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.
- Assigned: This classification includes amounts that are constrained by the Authority's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Authority through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Authority has assigned funds in the amount of \$75,193.
- 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 Authority 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.

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 – Annual budgets are adopted by the City on a basis consistent with U.S. generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

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

- a. On or before May 1<sup>st</sup>, the City Administrator and the Authority submits to the City Commission, a proposed operating budget for the fiscal period commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A Public hearing is conducted at the City Hall to obtain taxpayer comments.
- c. On or before May 15<sup>th</sup> of each year, the budget is adopted by ordinance.

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

- d. The transfer of budgeted amounts between departments within any fund or any revisions that alter the total expenditures of any fund must be approved by the City Commission.
- e. Budgeted amounts are presented as originally adopted, or as amended by the City Commission before June 30<sup>th</sup>.
- f. Budgets as presented for the Special Revenue Fund and Debt Service Funds are prepared on the modified accrual basis of accounting on the activity level. Encumbrances are not recorded at year end. Budget appropriations lapse at the end of each fiscal year.
- g. Budgetary amounts reported herein are as originally adopted, or as amended by the City Commission throughout the operating year.
- h. The City Commission legally adopts budgets for the Special Revenue Fund and Debt Service Funds.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved as amended by the Authority's board.

The legal level of control is the fund expenditure totals for all funds.

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.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**NOTE 3 - CASH AND EQUIVALENTS**

State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally insured banks, credit unions, and saving and loan associations that have an office in Michigan; the Authority is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, mutual funds, and investment pools that are composed of authorized investment vehicles. The Authority's deposits are in accordance with statutory authority.

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

	<u>Governmental Activities</u>
Cash and Equivalents:	
- Unrestricted	\$ <u>75,796</u>
Total	\$ <u><u>75,796</u></u>

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

The breakdowns for deposits are as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ <u>75,796</u>
Total	\$ <u>75,796</u>

**Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Authority’s investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Authority’s investment policy does not have specific limits in excess of state law on investment credit risk. The Authority has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, the amount exposed to custodial credit risk cannot be determined because the Authority’s cash is pooled with the City’s funds.

**Statutory Authority:**

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

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

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

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

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

**NOTE 4 - CAPITAL ASSETS**

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

Depreciation expense in the amount of \$250 was charged to the City of East Jordan DDA.

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

<b>TRANSFERS OUT</b>		<b>TRANSFERS IN</b>				
		Debt Service	Debt Service	Debt Service	Debt Service	
		<u>Series 1997A</u>	<u>Series 1998A</u>	<u>Series 2003A</u>	<u>Bike Path</u>	<u>Totals</u>
	TIFA Special					
	Revenue Fund	\$ 82,215	\$ 66,678	\$ 24,185	\$ 10,225	\$ 183,303

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 6 - LONG-TERM DEBT**

The Authority 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 Authority and of the City of East Jordan.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>							
General Obligation Bonds							
\$915,000 1997 Series A	5.1000%	2015	\$ 80,000	\$ -	\$ 80,000	\$ -	\$ -
\$785,000 1998 Series A	4.6250%	2015	65,000	-	65,000	-	-
\$210,000 2003 Series A	4.6500%	2018	90,000	-	20,000	70,000	20,000
\$90,000 2004 Series Bonds Bike Path	4.5000%	2014	10,000	-	10,000	-	-
Installment Purchases							
\$210,000 Land	4.3000%	2018	<u>89,437</u>	<u>-</u>	<u>21,648</u>	<u>67,789</u>	<u>22,116</u>
Total Governmental Activities			<u>\$ 334,437</u>	<u>\$ -</u>	<u>\$ 196,648</u>	<u>\$ 137,789</u>	<u>\$ 42,116</u>

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

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	42,116	5,724
2017	47,589	3,825
2018	<u>48,084</u>	<u>1,661</u>
Total	<u>\$ 137,789</u>	<u>\$ 11,210</u>

**NOTE 7 - RISK MANAGEMENT**

The City of East Jordan Downtown Development Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City of East Jordan Downtown Development Authority, as a component unit of the City of East Jordan, participates in the Michigan Municipal Risk Management Authority for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

## **Required Supplementary Information**

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# City of East Jordan Downtown Development Authority

## Required Supplementary Information Budgetary Comparison Schedule TIFA Fund For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Current Property Taxes	\$ 211,000	\$ 226,000	\$ 225,791	\$ (209)
Contributions from Local Units	-	-	162	162
Interest	-	-	58	58
<b>TOTAL REVENUES</b>	<b>211,000</b>	<b>226,000</b>	<b>226,011</b>	<b>11</b>
EXPENDITURES:				
Public Works	13,227	28,227	19,693	8,534
Debt Service	25,548	25,548	25,041	507
<b>TOTAL EXPENDITURES</b>	<b>38,775</b>	<b>53,775</b>	<b>44,734</b>	<b>9,041</b>
EXCESS OF REVENUES OVER EXPENDITURES	172,225	172,225	181,277	9,052
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(183,303)	(183,303)	(183,303)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (11,078)</u>	<u>\$ (11,078)</u>	(2,026)	<u>\$ 9,052</u>
FUND BALANCE, JULY 1			<u>77,219</u>	
FUND BALANCE, JUNE 30			<u>\$ 75,193</u>	

# **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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

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**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 Authority Board  
City of East Jordan Downtown Development Authority  
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 and each major fund of the City of East Jordan Downtown Development Authority, Michigan, (a component unit of the City of East Jordan, Michigan), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of East Jordan Downtown Development Authority, Michigan's basic financial statements and have issued our report thereon dated December 11, 2015.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency listed as 2015-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of East Jordan Downtown Development Authority, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of East Jordan Downtown Development Authority, Michigan's Response to Findings**

The City of East Jordan Downtown Development Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City of East Jordan Downtown Development Authority, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 11, 2015

*Significant Deficiency*

**Internal Control Over Financial Reporting**

**Preparation of Financial Statements in Accordance with GAAP**

***Finding 2015-001***

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

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

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

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

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

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

- *Contact Person(s) Responsible for Correction:*  
Heather Jackson, Treasurer



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

To the Authority Board  
City of East Jordan Downtown Development Authority  
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities and each major fund of the City of East Jordan Downtown Development Authority for the year ended June 30, 2015, and have issued our report thereon dated December 11, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information about our audit.

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

As stated in our engagement letter dated October 5, 2015, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and which supplement 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.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on October 5, 2015.

### **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 Downtown Development Authority 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. There were no major sensitive estimates affecting the financial statements.

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

#### ***Difficulties Encountered in Performing the Audit***

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

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the 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 11, 2015.

***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***

There were no 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.

**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.

**Conclusion**

This information is intended solely for the use of the Authority Board, federal awarding agencies, pass through entities, and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.



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

December 11, 2015