

**City of East Jordan, Michigan**

---

**BASIC FINANCIAL STATEMENTS**

**June 30, 2013**

**CITY OF EAST JORDAN, MICHIGAN**

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR	RUSS PECK
DEPUTY MAYOR	TONY CUTLER
COMMISSIONER	JOHN DOEBEL
COMMISSIONER	PAUL TIMMONS
COMMISSIONER	MARK PENZIEN
COMMISSIONER	MICHAEL BURR
COMMISSIONER	THOMAS BREAKEY

APPOINTED OFFICERS

CITY ADMINISTRATOR	CHRIS YONKER
TREASURER	HEATHER JACKSON
CLERK	CHELTZI WILSON

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	4
<b>BASIC FINANCIAL STATEMENTS:</b>	
Government-Wide Financial Statements:	
Statement of Net Position.....	11
Statement of Activities .....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds .....	14
Reconciliation of Governmental Funds:	
Statement of Revenues, Expenditures, and Changes in in Fund Balances to the Statement of Activities .....	15
Proprietary Funds:	
Statement of Net Position.....	16
Statement of Revenues, Expenses, and Changes in Net Position .....	17
Statement of Cash Flows.....	18
Fiduciary Funds:	
Statement of Fiduciary Net Position .....	19
Statement of Changes in Fiduciary Net Position .....	20
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	21
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Employee Retirement and Benefit Systems:	
Schedule of Funding Progress.....	42
Major Funds:	
Budgetary Comparison Schedule – General Fund .....	43
Budgetary Comparison Schedule – Major Street Fund.....	45
Budgetary Comparison Schedule – Local Street Fund .....	46

## TABLE OF CONTENTS

	<u>Page</u>
<b>OTHER INFORMATION:</b>	
Combining Balance Sheet – Nonmajor Governmental Funds .....	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	49
Combining Statement of Net Position – Nonmajor Enterprise Funds .....	51
Combining Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Funds .....	52
Combining Statement of Cash Flows – Nonmajor Enterprise Funds .....	53
<b>COMPONENT UNITS:</b>	
Combining Balance Sheet .....	54
Combining Statement of Revenues, Expenditures, and Changes in Net Position.....	55
<b>REPORTS ON COMPLIANCE:</b>	
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 <i>Government Auditing Standards</i> .....	56
Schedule of Findings and Responses .....	58



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

**KINROSS OFFICE**

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

ROBERT L. HASKE, CPA  
AMBER N. MACK, CPA, EA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**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, 2013, 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, which represents 84 percent, 801 percent, and 39 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

To the City Commission  
City of East Jordan

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

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

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of East Jordan, Michigan, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 10, page 42, and pages 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the City Commission  
City of East Jordan

*Other Information*

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

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 on our consideration of the City of East Jordan'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's internal control over financial reporting and compliance.



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

November 15, 2013

## **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, 2013. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year 2013 by \$12,688,038 (*net position*). Of this, \$1,734,231 (*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 \$339,586 or 22% of the total General Fund expenditures and transfers, which was an increase of \$96,128 or 39%.
- The current level of unrestricted net position of the governmental activities stands at \$436,819, or about 21% of expenses. This is within the targeted range set by the City Council during its last budget process.
- Net position of the governmental activities decreased \$290,787 or 5%. Net position of the business-type activities decreased \$245,571 or 3%.

### Overview of the Financial Statements

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

### Report Layout

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

### Basic Financial Statements

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

**Discretely Presented Component Units**

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

**City as Whole**

**Government-wide Financial Statements**

A condensed version of the Statement of Net Position at June 30, 2013 follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Assets</b>						
Current Assets	\$ 706,133	\$ 607,339	\$ 1,624,780	\$ 1,739,374	\$ 2,330,913	\$ 2,346,713
Capital Assets	5,409,250	5,784,879	9,064,802	9,352,575	14,474,052	15,137,454
<b>Total Assets</b>	<b>\$ 6,115,383</b>	<b>\$ 6,392,218</b>	<b>\$ 10,689,582</b>	<b>\$ 11,091,949</b>	<b>\$ 16,804,965</b>	<b>\$ 17,484,167</b>
<b>Liabilities</b>						
Current Liabilities	\$ 187,671	\$ 181,806	\$ 321,393	\$ 292,781	\$ 509,064	\$ 474,587
Noncurrent Liabilities	422,670	414,583	3,185,193	3,370,601	3,607,863	3,785,184
<b>Total Liabilities</b>	<b>610,341</b>	<b>596,389</b>	<b>3,506,586</b>	<b>3,663,382</b>	<b>4,116,927</b>	<b>4,259,771</b>
<b>Net Position</b>						
Net Investment in Capital Assets	4,922,403	5,336,520	5,885,584	5,961,357	10,807,987	11,297,877
Restricted	145,820	9,534	-	-	145,820	9,534
Unrestricted	436,819	449,775	1,297,412	1,467,210	1,734,231	1,916,985
<b>Total Net Position</b>	<b>\$ 5,505,042</b>	<b>\$ 5,795,829</b>	<b>\$ 7,182,996</b>	<b>\$ 7,428,567</b>	<b>\$ 12,688,038</b>	<b>\$ 13,224,396</b>

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

**Water and Sewer Funds**

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

**Tourist Park Fund**

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

**Harbor Fund**

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

**Ambulance Fund**

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

**Transfer Station Fund**

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

A condensed version of the Statement of Activities follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 141,292	\$ 119,000	\$ 1,664,805	\$ 1,730,054	\$ 1,806,097	\$ 1,849,054
Operating Grants and Contributions	222,699	256,417	-	6,074	222,699	262,491
<b>General Revenues</b>						
Property Taxes	1,105,619	1,173,344	-	-	1,105,619	1,173,344
State Shared Revenues	222,086	218,636	-	-	222,086	218,636
Investment Earnings	6,117	10,642	154,891	140,179	161,008	150,821
Miscellaneous	241,034	47,242	175,733	20,032	416,767	67,274
<b>Total Revenues</b>	<b>1,938,847</b>	<b>1,825,281</b>	<b>1,995,429</b>	<b>1,896,339</b>	<b>3,934,276</b>	<b>3,721,620</b>
<b>Expenses</b>						
Legislative	32,788	25,342	-	-	32,788	25,342
General Government	438,663	339,201	-	-	438,663	339,201
Public Safety	617,280	649,044	-	-	617,280	649,044
Public Works	540,512	516,960	-	-	540,512	516,960
Community and Economic Development	73,870	7,582	-	-	73,870	7,582
Recreation and Culture	183,418	187,809	-	-	183,418	187,809
Sewer	-	-	325,537	533,891	325,537	533,891
Water	-	-	417,791	686,917	417,791	686,917
Ambulance	-	-	939,596	540,912	939,596	540,912
EJ Harbor Marina	-	-	423,100	379,166	423,100	379,166
Other Nonmajor	-	-	248,792	178,722	248,792	178,722
Interest Exense - Unallocated	48,857	14,612	-	-	48,857	14,612
<b>Total Expenses</b>	<b>1,935,388</b>	<b>1,740,550</b>	<b>2,354,816</b>	<b>2,319,608</b>	<b>4,290,204</b>	<b>4,060,158</b>
Changes in Net Position before Transfers	3,459	84,731	(359,387)	(423,269)	(355,928)	(338,538)
Transfers	(140,410)	(97,803)	113,816	97,803	(26,594)	-
<b>Changes in Net Position</b>	<b>(136,951)</b>	<b>(13,072)</b>	<b>(245,571)</b>	<b>(325,466)</b>	<b>(382,522)</b>	<b>(338,538)</b>
Net Position - Beginning	5,795,829	4,225,658	7,428,567	7,546,593	13,224,396	11,772,251
Prior Period Adjustment	(153,836)	1,583,243	-	207,440	(153,836)	1,790,683
Restated Net Position - Beginning	5,641,993	5,808,901	7,428,567	7,754,033	13,070,560	13,562,934
<b>Net Position - Ending</b>	<b>\$ 5,505,042</b>	<b>\$ 5,795,829</b>	<b>\$ 7,182,996</b>	<b>\$ 7,428,567</b>	<b>\$ 12,688,038</b>	<b>\$ 13,224,396</b>

**General Fund Budgetary Highlights**

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

**Capital Asset and Debt Administration**

**Capital Assets**

The City’s net investment in capital assets as of June 30, 2013, amounted to \$14,474,052. This investment, detailed in the following table, is invested in a broad range of capital assets including land, buildings, land improvements, machinery and equipment, streets, and business-type infrastructure.

**City of East Jordan  
Capital Assets  
(net of depreciation, where applicable)  
June 30, 2013**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 301,450	\$ 301,450	\$ 355,002	\$ 355,002	\$ 656,452	\$ 656,452
Buildings	1,193,254	1,231,815	822,621	840,598	2,015,875	2,072,413
Land Improvements	80,727	93,210	1,044,805	1,115,221	1,125,532	1,208,431
Machinery and Equipment	1,166,346	1,313,773	288,149	301,286	1,454,495	1,615,059
Sewer Lagoons	-	-	1,232,662	1,275,562	1,232,662	1,275,562
Mains	-	-	5,321,563	5,464,906	5,321,563	5,464,906
Infrastructure	<u>2,667,473</u>	<u>2,844,631</u>	<u>-</u>	<u>-</u>	<u>2,667,473</u>	<u>2,844,631</u>
Total Capital Assets	<u>\$ 5,409,250</u>	<u>\$ 5,784,879</u>	<u>\$ 9,064,802</u>	<u>\$ 9,352,575</u>	<u>\$ 14,474,052</u>	<u>\$ 15,137,454</u>

**Debt Outstanding**

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

**City of East Jordan  
Debt Outstanding  
June 30, 2013**

	Governmental Activities		Business-type Activities		Component Unit	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ 225,000	\$ 285,000	\$ 2,317,000	\$ 2,415,000	\$ 415,000	\$ 580,000
Revenue Bonds	-	-	862,218	976,218	-	-
Installment Purchase Agreement	261,847	163,359	171,247	179,933	110,077	131,353
Compensated Absences	61,252	72,505	14,579	20,136	-	14,046
<b>Total Debt Outstanding</b>	<b>\$ 548,099</b>	<b>\$ 520,864</b>	<b>\$ 3,365,044</b>	<b>\$ 3,591,287</b>	<b>\$ 525,077</b>	<b>\$ 725,399</b>

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

**Economic Factors and Next Year’s Budgets and Rates**

- The State of Michigan is projecting significant budget deficits.

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

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

**Request for Information**

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

## **Basic Financial Statements**

---



	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
<b>ASSETS:</b>				
Cash and Equivalents - Unrestricted	\$ 249,593	\$ 1,191,718	\$ 1,441,311	\$ 121,594
Cash and Equivalents - Restricted	145,820	128,066	273,886	-
Investments - Unrestricted	-	-	-	56,511
Accounts Receivable - Net	6,679	471,706	478,385	542
Due From Governmental Units	40,804	67,883	108,687	-
Internal Loans	257,314	(257,314)	-	-
Prepays and Inventory	5,923	22,721	28,644	1,057
Capital Assets Not Depreciated	301,450	355,002	656,452	170,343
Capital Assets (Net of Accumulated Depreciation)	5,107,800	8,709,800	13,817,600	145,147
<b>TOTAL ASSETS</b>	<b>\$ 6,115,383</b>	<b>\$ 10,689,582</b>	<b>\$ 16,804,965</b>	<b>\$ 495,194</b>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 12,442	\$ 26,503	\$ 38,945	\$ 12,404
Accrued Liabilities	38,297	26,727	65,024	4,385
Due to Governmental Units	1,236	-	1,236	-
Accrued Interest	7,667	60,197	67,864	-
Customer Deposits	2,600	28,115	30,715	2,650
Unearned Revenue	-	-	-	233
Installment Loans Payable - Due within one year	65,429	17,851	83,280	20,640
Installment Loans Payable - Due in more than one year	196,418	153,396	349,814	89,437
Bonds Payable - Due within one year	60,000	162,000	222,000	170,000
Bonds Payable - Due in more than one year	165,000	3,017,218	3,182,218	245,000
Compensated Absences - Due in more than one year	61,252	14,579	75,831	-
<b>TOTAL LIABILITIES</b>	<b>610,341</b>	<b>3,506,586</b>	<b>4,116,927</b>	<b>544,749</b>
<b>NET POSITION:</b>				
Net Investment in Capital Assets	4,922,403	5,885,584	10,807,987	315,490
Restricted	145,820	-	145,820	-
Unrestricted	436,819	1,297,412	1,734,231	(365,045)
<b>TOTAL NET POSITION</b>	<b>\$ 5,505,042</b>	<b>\$ 7,182,996</b>	<b>\$ 12,688,038</b>	<b>\$ (49,555)</b>

# City of East Jordan, Michigan

## Statement of Activities For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government:</b>								
<b>Governmental Activities:</b>								
Legislative	\$ 32,788	\$ -	\$ -	\$ -	\$ (32,788)	\$ -	\$ (32,788)	\$ -
General Government	438,663	27,714	21,518	-	(389,431)	-	(389,431)	-
Public Safety	617,280	112,685	-	-	(504,595)	-	(504,595)	-
Public Works	540,512	450	200,326	-	(339,736)	-	(339,736)	-
Community and Economic Development	73,870	-	-	-	(73,870)	-	(73,870)	-
Recreation and Culture	183,418	443	855	-	(182,120)	-	(182,120)	-
Interest Expense - Unallocated	48,857	-	-	-	(48,857)	-	(48,857)	-
Total Governmental Activities	<u>1,935,388</u>	<u>141,292</u>	<u>222,699</u>	<u>-</u>	<u>(1,571,397)</u>	<u>-</u>	<u>(1,571,397)</u>	<u>-</u>
<b>Business-type activities:</b>								
Sewer	325,537	272,024	-	-	-	(53,513)	(53,513)	-
Water	417,791	545,905	-	-	-	128,114	128,114	-
Ambulance	939,596	671,698	-	-	-	(267,898)	(267,898)	-
EJ Harbor Marine	423,100	122,255	-	-	-	(300,845)	(300,845)	-
Other Non-Major	248,792	52,923	-	-	-	(195,869)	(195,869)	-
Total Business-type Activities	<u>2,354,816</u>	<u>1,664,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(690,011)</u>	<u>(690,011)</u>	<u>-</u>
Total Primary Government	<u>\$ 4,290,204</u>	<u>\$ 1,806,097</u>	<u>\$ 222,699</u>	<u>\$ -</u>	<u>(1,571,397)</u>	<u>(690,011)</u>	<u>(2,261,408)</u>	<u>-</u>
<b>Component Units:</b>								
<b>Public Works:</b>								
East Jordan Housing Commission	\$ 174,671	\$ 89,983	\$ 59,962	\$ -	-	-	-	(24,726)
<b>Economic Development:</b>								
Downtown Development Authority	41,789	-	-	-	-	-	-	(41,789)
Total Component Units	<u>216,460</u>	<u>89,983</u>	<u>59,962</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(66,515)</u>
Total	<u>\$ 4,506,664</u>	<u>\$ 1,896,080</u>	<u>\$ 282,661</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>General Revenues and Transfers:</b>								
Property Taxes								
Operating					1,039,222	-	1,039,222	220,520
Debt					66,397	-	66,397	-
State Shared Revenue					222,086	-	222,086	-
Investment Earnings					6,117	154,891	161,008	831
Miscellaneous					241,034	175,733	416,767	5,582
Transfers					(140,410)	113,816	(26,594)	26,594
Total General Revenues and Transfers					<u>1,434,446</u>	<u>444,440</u>	<u>1,878,886</u>	<u>253,527</u>
Changes in Net Position					<u>(136,951)</u>	<u>(245,571)</u>	<u>(382,522)</u>	<u>187,012</u>
Net Position - Beginning					5,795,829	7,428,567	13,224,396	(236,567)
Prior Period Adjustment					(153,836)	-	(153,836)	-
Restated Net Position - Beginning					<u>5,641,993</u>	<u>-</u>	<u>13,070,560</u>	<u>-</u>
Net Position - Ending					<u>\$ 5,505,042</u>	<u>\$ 7,182,996</u>	<u>\$ 12,688,038</u>	<u>\$ (49,555)</u>

See accompanying notes to financial statements.

**City of East Jordan, Michigan**

**Balance Sheet  
Governmental Funds  
June 30, 2013**

	General	Major Street	Local Street	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash and Equivalents - Unrestricted	\$ 74,718	\$ 15,429	\$ 5,487	\$ 20,272	\$ 115,906
Cash and Equivalents - Restricted	-	-	-	145,820	145,820
Accounts Receivable	6,667	-	-	-	6,667
Due from Other Funds	257,314	-	-	-	257,314
Due from Governmental Units	40,804	-	-	-	40,804
Prepays and Inventory	5,027	403	493	-	5,923
<b>TOTAL ASSETS</b>	<b>\$ 384,530</b>	<b>\$ 15,832</b>	<b>\$ 5,980</b>	<b>\$ 166,092</b>	<b>\$ 572,434</b>
<b>LIABILITIES:</b>					
Accounts Payable	\$ 3,725	\$ 8,717	\$ -	\$ -	\$ 12,442
Accrued Liabilities	33,592	331	511	-	34,434
Customer Deposits	2,600	-	-	-	2,600
Due to Others	-	1,236	-	-	1,236
<b>TOTAL LIABILITIES</b>	<b>39,917</b>	<b>10,284</b>	<b>511</b>	<b>-</b>	<b>50,712</b>
<b>FUND BALANCES:</b>					
Nonspendable	5,027	403	493	-	5,923
Restricted	-	-	-	145,820	145,820
Assigned	-	5,145	4,976	20,272	30,393
Unassigned	339,586	-	-	-	339,586
<b>TOTAL FUND BALANCES</b>	<b>344,613</b>	<b>5,548</b>	<b>5,469</b>	<b>166,092</b>	<b>521,722</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 384,530</b>	<b>\$ 15,832</b>	<b>\$ 5,980</b>	<b>\$ 166,092</b>	

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

Capital assets used by governmental activities	4,957,875
Compensated absences liability	(61,252)
Long-term notes & bonds payable for governmental activities	(358,650)
Accrued interest expense	(7,667)
Internal service funds included in governmental activities	453,014
<b>Net position of governmental activities</b>	<b>\$ 5,505,042</b>

**Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Governmental Funds  
For the Year Ended June 30, 2013**

	General	Major Street	Local Street	Nonmajor Governmental Funds	Totals Governmental Funds
<b>REVENUES:</b>					
Taxes	\$ 1,038,937	\$ 285	\$ -	\$ 66,397	\$ 1,105,619
Licenses and Permits	27,013	-	-	-	27,013
State Revenues	225,841	150,733	49,593	-	426,167
Local Revenues	11,572	-	-	7,046	18,618
Charges for Services	114,279	-	-	-	114,279
Interest and Rents	5,992	62	-	63	6,117
Other Revenue	225,654	1,024	-	14,356	241,034
<b>TOTAL REVENUES</b>	<b>1,649,288</b>	<b>152,104</b>	<b>49,593</b>	<b>87,862</b>	<b>1,938,847</b>
<b>EXPENDITURES:</b>					
Legislative	32,788	-	-	-	32,788
General Government	387,212	-	-	6,239	393,451
Public Safety	534,487	-	-	-	534,487
Public Works	108,873	146,833	113,022	-	368,728
Community and Economic Development	73,870	-	-	-	73,870
Recreation & Cultural	141,989	-	-	-	141,989
Debt Service	-	-	-	112,544	112,544
<b>TOTAL EXPENDITURES</b>	<b>1,279,219</b>	<b>146,833</b>	<b>113,022</b>	<b>118,783</b>	<b>1,657,857</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	370,069	5,271	(63,429)	(30,921)	280,990
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating Transfers In	-	57,693	58,500	154,535	270,728
Operating Transfers Out	(273,415)	(130,030)	-	(7,693)	(411,138)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(273,415)</b>	<b>(72,337)</b>	<b>58,500</b>	<b>146,842</b>	<b>(140,410)</b>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	96,654	(67,066)	(4,929)	115,921	140,580
FUND BALANCES, JULY 1	247,959	72,614	10,398	50,171	381,142
FUND BALANCES, JUNE 30	<u>\$ 344,613</u>	<u>\$ 5,548</u>	<u>\$ 5,469</u>	<u>\$ 166,092</u>	<u>\$ 521,722</u>

**Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2013**

Net changes in fund balances - total governmental funds	\$ 140,580
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 (317,116) exceeded capital outlay \$3,747 in the current period.	(313,369)
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	65,951
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.	(39,102)
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	11,253
Accrued Interest	<u>(2,264)</u>
Changes in net position of governmental activities	<u><u>\$ (136,951)</u></u>

**Statement of Net Position  
Proprietary Funds  
June 30, 2013**

	Business - type Activities Enterprise Funds					Total	Governmental
							Internal
	Sewer	Water	Ambulance	EJ Harbor Marina	Nonmajor Enterprise Funds		Service Fund
<b>ASSETS:</b>							
Cash and Equivalents - Unrestricted	\$ 822,313	\$ 331,917	\$ 100	\$ 200	\$ 37,188	\$ 1,191,718	\$ 133,687
Accounts Receivable - Net	104,712	136,911	230,083	-	-	471,706	12
Due from Other Governmental Units	-	-	3,675	64,208	-	67,883	-
Prepays and Inventory	-	1,531	-	20,691	499	22,721	-
Capital Assets Not Depreciated	21,626	36,322	-	289,285	7,769	355,002	-
Capital Assets (Net of Accumulated Depreciation)	2,871,811	3,801,151	937,720	953,662	145,456	8,709,800	451,375
Cash and Equivalents-Restricted							
Bond Reserve	50,866	77,200	-	-	-	128,066	-
<b>TOTAL ASSETS</b>	<b>\$ 3,871,328</b>	<b>\$ 4,385,032</b>	<b>\$ 1,171,578</b>	<b>\$ 1,328,046</b>	<b>\$ 190,912</b>	<b>\$ 10,946,896</b>	<b>\$ 585,074</b>
<b>LIABILITIES:</b>							
Accounts Payable	\$ -	\$ -	\$ 567	\$ 19,302	\$ 6,634	\$ 26,503	\$ -
Accrued Liabilities	3,189	1,994	11,464	3,237	6,843	26,727	3,863
Accrued Interest	14,328	37,764	1,462	6,643	-	60,197	-
Due to Other Funds	-	-	7,031	201,904	48,379	257,314	-
Customer Deposits	-	1,073	-	11,455	15,587	28,115	-
Compensated Absences - Due in more than one year	-	-	14,579	-	-	14,579	-
Installment Loans Payable - Due within one year	-	-	6,000	11,851	-	17,851	25,640
Installment Loans Payable - Due in more than one year	-	-	72,000	81,396	-	153,396	102,557
Bonds Payable - Due within one year	10,000	137,000	-	15,000	-	162,000	-
Bonds Payable - Due in more than one year	645,000	2,205,218	-	167,000	-	3,017,218	-
<b>TOTAL LIABILITIES</b>	<b>672,517</b>	<b>2,383,049</b>	<b>113,103</b>	<b>517,788</b>	<b>77,443</b>	<b>3,763,900</b>	<b>132,060</b>
<b>NET POSITION:</b>							
Net Investment in Capital Assets	2,238,437	1,495,255	937,720	1,060,947	153,225	5,885,584	323,178
Unrestricted	960,374	506,728	120,755	(250,689)	(39,756)	1,297,412	129,836
<b>TOTAL NET POSITION</b>	<b>\$ 3,198,811</b>	<b>\$ 2,001,983</b>	<b>\$ 1,058,475</b>	<b>\$ 810,258</b>	<b>\$ 113,469</b>	<b>\$ 7,182,996</b>	<b>\$ 453,014</b>

**Statement of Revenues, Expenses, and  
Changes in Net Position - Proprietary Funds  
For the Year Ended June 30, 2013**

	Business - type Activities Enterprise Funds					Total	Governmental Activities
	Sewer	Water	Ambulance	EJ Harbor Marina	Nonmajor Enterprise Funds		Internal Service Fund
<b>OPERATING REVENUES:</b>							
Charges for Services	\$ 272,024	\$ 545,905	\$ 671,698	\$ 122,255	\$ 52,923	\$ 1,664,805	\$ 272,959
Total Operating Revenues	<u>272,024</u>	<u>545,905</u>	<u>671,698</u>	<u>122,255</u>	<u>52,923</u>	<u>1,664,805</u>	<u>272,959</u>
<b>OPERATING EXPENSES:</b>							
Personal Services	86,822	120,396	383,187	42,575	89,484	722,464	109,816
Contracted Services	19,760	7,085	19,082	9,331	41,238	96,496	1,794
Insurance	749	1,096	4,604	2,305	292	9,046	9,540
Equipment Rental	29,427	28,474	2,357	3,590	-	63,848	-
Supplies	2,545	16,367	48,524	121,896	25,312	214,644	73,602
Utilities	35,960	31,607	16,049	11,142	27,167	121,925	12,442
Bad Debt	-	-	355,031	-	-	355,031	-
Repair and Maintenance	17,662	15,732	22,679	7,658	29,309	93,040	47,581
Depreciation	94,069	96,880	44,625	71,915	10,235	317,724	61,970
Miscellaneous	8,045	11,767	39,818	139,197	25,755	224,582	2,994
Total Operating Expenses	<u>295,039</u>	<u>329,404</u>	<u>935,956</u>	<u>409,609</u>	<u>248,792</u>	<u>2,218,800</u>	<u>319,739</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(23,015)</u>	<u>216,501</u>	<u>(264,258)</u>	<u>(287,354)</u>	<u>(195,869)</u>	<u>(553,995)</u>	<u>(46,780)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>							
Interest and Rents	1,330	274	464	31,890	120,933	154,891	105
Miscellaneous Revenue	2,355	3,835	57,192	111,214	1,137	175,733	12,786
Interest Expense	(30,498)	(88,387)	(3,640)	(13,491)	-	(136,016)	(5,213)
Total Non-Operating Revenues (Expenses)	<u>(26,813)</u>	<u>(84,278)</u>	<u>54,016</u>	<u>129,613</u>	<u>122,070</u>	<u>194,608</u>	<u>7,678</u>
Income (Loss) Before Transfers	(49,828)	132,223	(210,242)	(157,741)	(73,799)	(359,387)	(39,102)
Operating Transfers In	-	-	48,816	50,000	15,000	113,816	-
<b>CHANGES IN NET POSITION</b>	(49,828)	132,223	(161,426)	(107,741)	(58,799)	(245,571)	(39,102)
NET POSITION, JULY 1	3,248,639	1,869,760	1,219,901	917,999	172,268	7,428,567	645,952
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	(153,836)
<b>NET POSITION, JUNE 30</b>	<u>\$ 3,198,811</u>	<u>\$ 2,001,983</u>	<u>\$ 1,058,475</u>	<u>\$ 810,258</u>	<u>\$ 113,469</u>	<u>\$ 7,182,996</u>	<u>\$ 453,014</u>

**Statement of Cash Flows  
Proprietary Fund Types  
For the Year Ended June 30, 2013**

	Business - type Activities Enterprise Funds					Total	Governmental
	Sewer	Water	Ambulance	EJ Harbor Marina	Nonmajor Enterprise Funds		Internal
							Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Receipts from Customers	\$ 430,544	\$ 550,398	\$ 845,265	\$ 63,075	\$ 56,475	\$ 1,945,757	\$ -
Payments to Suppliers	(116,475)	(78,714)	(511,347)	(181,885)	(142,852)	(1,031,273)	(139,103)
Payments to Employees	(85,200)	(120,180)	(387,509)	(42,117)	(89,702)	(724,708)	(109,318)
Internal Activity - Payments/Receipts with Other Funds	(469)	(599)	(13,639)	-	29,627	14,920	272,959
Net Cash Provided (Used) by Operating Activities	<u>228,400</u>	<u>350,905</u>	<u>(67,230)</u>	<u>(160,927)</u>	<u>(146,452)</u>	<u>204,696</u>	<u>24,538</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
Other Revenue	2,355	3,835	57,192	111,214	1,137	175,733	12,786
Operating Transfers In	-	-	48,816	50,000	15,000	113,816	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>2,355</u>	<u>3,835</u>	<u>106,008</u>	<u>161,214</u>	<u>16,137</u>	<u>289,549</u>	<u>12,786</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
Purchase of Capital Assets	-	-	(30,602)	-	-	(30,602)	-
Disposal(Adjustments) of Capital Assets	288	290	-	-	-	578	290
Interest Payments	(30,498)	(88,387)	(3,640)	(13,491)	-	(136,016)	(5,213)
Principal Payments	(60,000)	(137,000)	(5,000)	(18,686)	-	(220,686)	(49,397)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(90,210)</u>	<u>(225,097)</u>	<u>(39,242)</u>	<u>(32,177)</u>	<u>-</u>	<u>(386,726)</u>	<u>(54,320)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Interest Income	1,330	274	464	31,890	-	33,958	105
Net Cash Provided (Used) by Investing Activities	<u>1,330</u>	<u>274</u>	<u>464</u>	<u>31,890</u>	<u>-</u>	<u>33,958</u>	<u>105</u>
Net Increase (Decrease) in Cash and Equivalents	141,875	129,917	-	-	(130,315)	141,477	(16,891)
Balances - Beginning of the Year	731,304	279,200	100	200	-	1,010,804	150,578
Balances - End of the Year	<u>\$ 873,179</u>	<u>\$ 409,117</u>	<u>\$ 100</u>	<u>\$ 200</u>	<u>\$ (130,315)</u>	<u>\$ 1,152,281</u>	<u>\$ 133,687</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>							
Operating Income (Loss)	\$ (23,015)	\$ 216,501	\$ (264,258)	\$ (287,354)	\$ (195,869)	\$ (553,995)	\$ (46,780)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation Expense	94,069	96,880	44,625	71,915	10,235	317,724	61,970
Change in Assets and Liabilities:							
(Increase) Decrease in Assets:							
Accounts Receivable	158,520	4,906	173,567	-	-	336,993	-
Prepays and Inventory	-	-	-	(2,524)	-	(2,524)	8,850
Due from Other Governmental Units	-	-	(3,675)	(64,208)	-	(67,883)	-
Increase (Decrease) in Liabilities:							
Accounts Payable	(3,977)	(1,293)	567	18,969	5,432	19,698	-
Accrued Liabilities	1,622	216	1,235	458	571	4,102	498
Accrued Interest	1,650	34,707	(95)	1,218	-	37,480	-
Due to Other Funds	(469)	(599)	(13,639)	95,571	29,627	110,491	-
Customer Deposits	-	(413)	-	5,028	3,552	8,167	-
Compensated Absences	-	-	(5,557)	-	-	(5,557)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 228,400</u>	<u>\$ 350,905</u>	<u>\$ (67,230)</u>	<u>\$ (160,927)</u>	<u>\$ (146,452)</u>	<u>\$ 204,696</u>	<u>\$ 24,538</u>



**Statement of Fiduciary Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2013**

	Perpetual Care	Police Dept Trust	Ambulance Trust	Fire Dept Trust	Totals
<b>ASSETS:</b>					
Cash and Equivalents - Unrestricted	\$ 15,377	\$ 7,763	\$ 25	\$ 1,192	\$ 24,357
Cash and Equivalents - Restricted	175,065	-	-	-	175,065
Other Assets	-	-	-	143	143
<b>TOTAL ASSETS</b>	<u>\$ 190,442</u>	<u>\$ 7,763</u>	<u>\$ 25</u>	<u>\$ 1,335</u>	<u>\$ 199,565</u>
<b>NET POSITION:</b>					
Held in Trust for Fund Purposes	<u>\$ 190,442</u>	<u>\$ 7,763</u>	<u>\$ 25</u>	<u>\$ 1,335</u>	<u>\$ 199,565</u>
<b>TOTAL NET POSITION</b>	<u>\$ 190,442</u>	<u>\$ 7,763</u>	<u>\$ 25</u>	<u>\$ 1,335</u>	<u>\$ 199,565</u>

**Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2013**

	Perpetual Care	Police Dept Trust	Ambulance Trust	Fire Dept Trust	Totals
<b>ADDITIONS:</b>					
Fees	\$ 1,950	\$ 3,234	\$ -	\$ -	\$ 5,184
Contributions/Donations	-	1,100	-	-	1,100
Interest Income	586	6	-	1	593
<b>TOTAL ADDITIONS</b>	<u>2,536</u>	<u>4,340</u>	<u>-</u>	<u>1</u>	<u>6,877</u>
<b>DEDUCTIONS:</b>					
Supplies	-	2,984	-	-	2,984
Other	517	1,750	-	13	2,280
<b>TOTAL DEDUCTIONS</b>	<u>517</u>	<u>4,734</u>	<u>-</u>	<u>13</u>	<u>5,264</u>
<b>CHANGES IN NET POSITION</b>	2,019	(394)	-	(12)	1,613
<b>NET POSITION, JULY 1</b>	<u>188,423</u>	<u>8,157</u>	<u>25</u>	<u>1,347</u>	<u>197,952</u>
<b>NET POSITION, JUNE 30</b>	<u>\$ 190,442</u>	<u>\$ 7,763</u>	<u>\$ 25</u>	<u>\$ 1,335</u>	<u>\$ 199,565</u>

## **Notes to Financial Statements**

---

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

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

**A. Reporting Entity**

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

***Discretely Presented Component Units***

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

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

**B. Government-Wide and Fund Financial Statements**

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

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

***Deposits and Investments***

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.

The City's investments during the year consisted of certificate of deposits and prime vest sweep account, which is invested in money market funds.

***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.

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

***Subsequent Events***

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 15, 2013, which is the date the financial statements were available to be issued.

***Property Taxes***

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

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

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

***Inventories and Prepaids Items***

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

***Capital Assets***

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



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

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
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	10 to 30 years
Other Infrastructure	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

***Compensated Absences***

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

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

***Deferred Outflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

***Deferred Inflows of Resources***

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

**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 or are not expected to be converted to cash within the next year. The City has \$5,923 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 \$145,820 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.
- **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 \$30,393.
- **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.

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

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.

*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.

*Subsequent Events*

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 15, 2013, which is the date the financial statements were available to be issued.

**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.

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

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.

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 - DEPOSITS AND INVESTMENTS**

At year end, the City’s deposits and investments 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	\$ 249,593	\$ 1,191,718	\$ 1,441,311	\$ 24,357	\$ 121,594
Cash and Equivalents – Restricted	145,820	128,066	273,886	175,065	-
Investments – Unrestricted	-	-	-	-	<u>56,511</u>
Total	<u>\$ 395,413</u>	<u>\$ 1,319,784</u>	<u>\$ 1,715,197</u>	<u>\$ 199,422</u>	<u>\$ 178,105</u>

Cash and Equivalents are restricted in the amount of \$448,951 for the following: \$3,037 for Debt Service Funds, \$175,065 for Perpetual Care, \$142,783 for Capital Project Funds, and \$128,066 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)	\$ 1,714,180	\$ 199,422	\$ 178,105
Petty Cash and Cash on Hand	<u>1,017</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,715,197</u>	<u>\$ 199,422</u>	<u>\$ 178,105</u>

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

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

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

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,401,198 of the City's bank balance of \$2,075,625 was exposed to credit risk because it was uninsured and uncollateralized.

*Custodial investment credit risk.* Custodial investment credit risk is the risk that in the event of the failure of the counterparty, the Housing Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the Housing Commission's \$56,511 in investments, \$56,511 is in the name of the Housing Commission.

Statutory Authority:

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

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

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

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

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

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

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

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending</u> <u>Balances</u>
<b>Governmental Activities:</b>					
<i>Capital assets not being depreciated:</i>					
Land	\$ 301,450	\$ -	\$ -	-	\$ 301,450
<i>Capital assets being depreciated:</i>					
Buildings	1,798,403	-	-	-	1,798,403
Land Improvements	200,310	-	-	-	200,310
Machinery and Equipment	3,373,593	3,747	(53,218)	-	3,324,122
Infrastructure	4,428,957	-	-	-	4,428,957
Subtotal	<u>9,801,263</u>	<u>3,747</u>	<u>(53,218)</u>	<u>-</u>	<u>9,751,792</u>

**NOTE 4 - CAPITAL ASSETS (Continued)**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation for:</i>					
Buildings	(566,588)	(38,561)	-	-	(605,149)
Land Improvements	(107,100)	(12,483)	-	-	(119,583)
Machinery and Equipment	(2,059,820)	(150,884)	53,218	(290)	(2,157,776)
Infrastructure	<u>(1,584,326)</u>	<u>(177,158)</u>	<u>-</u>	<u>-</u>	<u>(1,761,484)</u>
Subtotal	<u>(4,317,834)</u>	<u>(379,086)</u>	<u>53,218</u>	<u>(290)</u>	<u>(4,643,992)</u>
Net Capital Assets Being Depreciated	<u>5,483,429</u>	<u>(375,339)</u>	<u>-</u>	<u>(290)</u>	<u>5,107,800</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 5,784,879</u>	<u>\$ (375,339)</u>	<u>\$ -</u>	<u>\$ (290)</u>	<u>\$ 5,409,250</u>

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

**Governmental Activities**

General government	\$ 6,572
Public Safety	88,933
Public Works	182,847
Recreation and Culture	38,764
Internal Service	<u>61,970</u>

**Total Depreciation Expense -  
Governmental Activities**

**\$ 379,086**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balances</u>
<b>Business-type Activities:</b>					
<i>Capital assets not being depreciated:</i>					
Land	<u>\$ 355,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 355,002</u>
<i>Capital assets being depreciated:</i>					
Sewer Lagoons	2,144,991	-	-	-	2,144,991
Buildings	1,008,287	-	-	-	1,008,287
Mains	7,604,698	-	-	-	7,604,698
Land Improvements	2,141,884	-	-	-	2,141,884
Machinery and Equipment	<u>782,189</u>	<u>30,602</u>	<u>-</u>	<u>-</u>	<u>812,791</u>
Subtotal	<u>13,682,049</u>	<u>30,602</u>	<u>-</u>	<u>-</u>	<u>13,712,651</u>

**NOTE 4 - CAPITAL ASSETS (Continued)**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation for:</i>					
Sewer Lagoons	(869,429)	(42,900)	-	-	(912,329)
Buildings	(167,689)	(17,977)	-	-	(185,666)
Mains	(2,139,792)	(143,343)	-	-	(2,283,135)
Land Improvements	(1,026,663)	(70,416)	-	-	(1,097,079)
Machinery and Equipment	(480,903)	(43,088)	-	(651)	(524,642)
Subtotal	(4,684,476)	(317,724)	-	(651)	(5,002,851)
Net Capital Assets Being Depreciated	<u>8,997,573</u>	<u>(287,122)</u>	-	<u>(651)</u>	<u>8,709,800</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 9,352,575</u>	<u>\$ (287,122)</u>	<u>\$ -</u>	<u>\$ (651)</u>	<u>\$ 9,064,802</u>

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

**Business-type Activities**

Sewer	\$ 94,069
Water	96,880
Tourist Park	9,094
Marina	71,915
Solid Waste Transfer Station	1,141
Ambulance	<u>44,625</u>

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

**\$ 317,724**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>East Jordan Housing Commission:</b>				
<i>Capital assets not being depreciated:</i>				
Land	<u>\$ 170,343</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,343</u>
<i>Capital assets being depreciated:</i>				
Buildings	998,493	10,404	-	1,008,897
Furniture, Equipment & Machinery - Dwelling	20,541	448	(2,772)	18,217
Furniture, Equipment & Machinery - Administration	<u>25,381</u>	-	-	<u>25,381</u>
Subtotal	<u>1,044,415</u>	<u>10,852</u>	<u>(2,772)</u>	<u>1,052,495</u>



**NOTE 4 - CAPITAL ASSETS (Continued)**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation</i>	(872,826)	(37,197)	2,675	(907,348)
Net Capital Assets Being Depreciated	171,589	(26,345)	(97)	145,147
Governmental Activities Capital Assets, Net of Depreciation	\$ 341,932	\$ (26,345)	\$ (97)	\$ 315,490

Depreciation expense in the amount of \$37,197 was charged to Low Rent Programs of the Business-type activities.

**NOTE 5 - PROPERTY TAXES**

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

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

The taxable value of real and personal property located in the City at December 31, 2012 totaled \$62,752,329. The tax levy for that year was based on the following rates:

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

**NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

		<b>DUE TO OTHER FUNDS</b>			
		<u>Ambulance Fund</u>	<u>EJ Harbor Marina</u>	<u>Nonmajor Enterprise</u>	<u>Total</u>
<b>DUE FROM OTHER FUNDS</b>	General Fund	\$ 7,031	\$ 201,904	\$ 48,379	\$ 257,314

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

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

		TRANSFERS IN							
		Major Street	Local Street	Nonmajor Governmental	Component Unit	Ambulance	EJ Harbor Marina	Nonmajor Enterprise	Totals
TRANSFERS OUT	General Fund	\$ 50,000	\$ 58,500	\$ 24,505	\$ 26,594	\$ 48,816	\$ 50,000	\$ 15,000	\$ 273,415
	Major Street	-	-	130,030	-	-	-	-	130,030
	Nonmajor Governmental	7,693	-	-	-	-	-	-	7,693
	<b>Total</b>	<u>\$ 57,693</u>	<u>\$ 58,500</u>	<u>\$ 154,535</u>	<u>\$ 26,594</u>	<u>\$ 48,816</u>	<u>\$ 50,000</u>	<u>\$ 15,000</u>	<u>\$ 411,138</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 7 - LONG-TERM DEBT**

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

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>							
General Obligation Bonds:							
\$345,000 Michigan Transportation Bonds	4.9% to 5.35%	2014	\$ 60,000	\$ -	\$ 30,000	\$ 30,000	\$ 30,000
\$245,000 Michigan Transportation Bonds	3.4% to 5.05%	2016	90,000	-	20,000	70,000	20,000
\$175,000 Capital Improvement Bonds for Streets	4.3%	2021	135,000	-	10,000	125,000	10,000
Installment Purchase Agreements:							
\$27,000 Police Car	4.3750%	2014	13,500	-	6,750	6,750	6,750
\$112,500 2009 Loader	4.2000%	2013	23,758	-	23,758	-	-
\$214,446 Fire Truck	4.4000%	2018	126,101	-	15,780	110,321	16,460
\$153,836 Dump Truck	2.7500%	2017	-	153,836	25,639	128,197	25,640
\$33,157 Fire Truck	2.2500%	2013	-	33,157	16,578	16,579	16,579
<b>Total Governmental Activities – Long-Term Debt</b>			<u>448,359</u>	<u>186,993</u>	<u>148,505</u>	<u>486,847</u>	<u>125,429</u>
<b>Business-type Activities</b>							
General Obligation Bonds:							
\$320,000 Sewer Capital Improvement Bonds	2.0% to 3.55%	2013	50,000	-	50,000	-	-
\$834,218 Water Bonds	2.5000%	2020	381,218	-	44,000	337,218	44,000
\$1,290,000 Water Bonds	2.5000%	2020	595,000	-	70,000	525,000	70,000
\$250,000 2007B Harbor Bonds	4.2000%	2023	197,000	-	15,000	182,000	15,000
\$1,525,000 Water Capital Improvement Bonds	2.0% to 3.55%	2051	1,503,000	-	23,000	1,480,000	23,000
\$675,000 Sewer Capital Improvement Bonds	2.0% to 3.55%	2051	665,000	-	10,000	655,000	10,000
Installment Purchase Agreements:							
\$103,000 2009 Electric	4.4500%	2020	96,933	-	3,686	93,247	11,851
\$98,000 2009 Ambulance	4.5000%	2023	83,000	-	5,000	78,000	6,000
<b>Total Business-type Activities – Long-Term Debt</b>			<u>3,571,151</u>	<u>-</u>	<u>220,686</u>	<u>3,350,465</u>	<u>179,851</u>

**NOTE 7 - LONG-TERM DEBT (Continued)**

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Within One Year</u>
<b>Component Unit Activities</b>							
General Obligation Bonds:							
\$915,000 1997 Series A	5.1000%	2015	225,000	-	70,000	155,000	75,000
\$785,000 1998 Series A	4.6250%	2015	195,000	-	65,000	130,000	65,000
\$210,000 2003 Series A	4.6500%	2018	130,000	-	20,000	110,000	20,000
\$90,000 Bike Path Bonds, Series 2004	4.5000%	2015	30,000	-	10,000	20,000	10,000
Installment Purchase Agreement:							
\$210,000 Land	4.3000%	2018	<u>131,353</u>	<u>-</u>	<u>21,276</u>	<u>110,077</u>	<u>20,640</u>
<b>Total Component Unit Activities – Long-Term Debt</b>			<u>711,353</u>	<u>-</u>	<u>186,276</u>	<u>525,077</u>	<u>190,640</u>
Governmental Compensated Absences			72,505	-	11,253	61,252	-
Business-type Compensated Absences			20,136	-	5,557	14,579	-
Component Unit Compensated Absences			<u>14,046</u>	<u>-</u>	<u>14,046</u>	<u>-</u>	<u>-</u>
<b>Total Long-Term Debt</b>			<u><b>\$4,837,550</b></u>	<u><b>\$ 186,993</b></u>	<u><b>\$ 586,323</b></u>	<u><b>\$4,438,220</b></u>	<u><b>\$ 495,920</b></u>

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

	<u>Governmental Activities Bonds/Installments Payable</u>		<u>Business-type Activities Bonds/Installments Payable</u>		<u>Component Units Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Fiscal:						
2014	\$ 125,429	\$ 19,332	\$ 179,851	\$ 92,038	\$ 190,640	\$ 24,066
2015	82,830	14,408	183,378	86,873	196,648	14,900
2016	83,587	11,050	194,147	81,546	42,116	5,724
2017	59,377	7,650	197,504	75,974	47,589	3,825
2018	60,201	5,474	201,105	70,299	48,084	1,661
2019-2023	75,423	5,845	627,480	275,281	-	-
2024-2028	-	-	237,000	219,464	-	-
2029-2033	-	-	260,000	187,531	-	-
2034-2038	-	-	296,000	151,542	-	-
2039-2043	-	-	337,000	110,618	-	-
2044-2048	-	-	383,000	64,050	-	-
2049-2052	-	-	<u>254,000</u>	<u>13,494</u>	<u>-</u>	<u>-</u>
<b>TOTALS</b>	<u><b>\$ 486,847</b></u>	<u><b>\$ 63,759</b></u>	<u><b>\$ 3,350,465</b></u>	<u><b>\$ 1,428,710</b></u>	<u><b>\$ 525,077</b></u>	<u><b>\$ 50,176</b></u>

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

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

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

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

The accumulated sick and vacation pay liability is \$75,831 at June 30, 2013.

**NOTE 8 - RISK MANAGEMENT**

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

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**Plan Description**

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

**Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate ranges from 8.91% to 19.21% of annual covered payroll. The obligation to contribute to and maintain the system for these employees was established by negotiation with the City of East Jordan’s competitive bargaining units and requires a contribution from the employees of 3 percent from Department Heads and General employees and 6 percent of gross wages from Police and Public Works employees.

**Annual Pension Cost**

For the year ended June 30, 2013, the City’s annual pension cost of \$119,729 for the plan exceeded the required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry normal cost method. Significant actuarial assumptions used included (a) an 8% investment rate of return; (b) projected salary increases of 4.50% per year; and (c) 0.00 to 8.40% per year merit and longevity increases. Both determined using techniques that smooth the effect of short-term volatility over a four-year period. The City’s unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 29 years.

<b>Three-year Trend Information</b>			
<b>Year Ended Dec 31</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2011	\$ 134,462	100%	0
2012	121,897	100%	0
2013	119,729	100%	0

**NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS**

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

**NOTE 11 - SEGMENT INFORMATION – ENTERPRISE FUND**

Segment information for the year ended June 30, 2013 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Ambulance</u>	<u>Marina</u>
Nonoperating revenue (expense)	\$ (26,813)	\$ (84,278)	\$ 54,016	\$ 129,613
Operating income (loss)	(23,015)	216,501	(264,258)	(287,354)
Changes in net position	(49,828)	132,223	(161,426)	(107,741)
Operating revenues	272,024	545,905	671,698	122,255
Operating expenses	295,039	329,404	935,956	409,609
Operating transfers – net	-	-	48,816	50,000
Depreciation	94,069	96,880	44,625	71,915
Total assets	3,871,328	4,385,032	1,171,578	1,328,046
Current liabilities	27,517	177,831	26,524	269,392
Noncurrent liabilities	645,000	2,205,218	86,579	248,396
Beginning net position	3,248,639	1,869,760	1,219,901	917,999
Ending net position	3,198,811	2,001,983	1,058,475	810,258
Cash provided (used) by:				
Operating activities	228,400	350,905	(67,230)	(160,927)
Noncapital financing	2,355	3,835	106,008	161,214
Capital financing	(90,210)	(225,097)	(39,242)	(32,177)
Investing	1,330	274	464	31,890
Beginning cash	731,304	279,200	100	200
Ending cash	873,179	409,117	100	200

**NOTE 12 - EXCESS EXPENDITURES OVER APPROPRIATIONS**

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

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General Fund:			
Community & Economic Development	-	73,870	(73,870)
Operating Transfers Out	244,857	273,415	(28,558)
Major Street:			
Operating Transfers Out	125,058	130,030	(4,972)

**NOTE 13 - DEFICIT UNRESTRICTED NET POSITION**

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

EJ Harbor Marina	\$	250,689
Tourist Park		76,393

**NOTE 14 – PRIOR PERIOD ADJUSTMENTS**

A prior period adjustment of \$153,836 was needed to record the 2012 purchase of a dump truck for the DPW in the Internal Service Fund.

**NOTE 15 - CHANGE IN PRESENTATION**

During 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. There were no significant changes to the financial statements as a result of adopting these Statements. The City did not adopt provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Effects on the financial statements as a result of adopting this standard are limited to financial presentation.



## **Required Supplementary Information**

---

**Pension:**

Three year trend information as of December 31<sup>st</sup> follows:

	2010	2011	2012
Actuarial Value of Assets	\$ 3,273,848	\$ 3,398,458	\$ 3,430,346
Actuarial Accrued Liability	3,773,005	4,274,195	4,428,246
Unfunded AAL	499,157	875,737	997,900
Funded Ratio	87%	80%	78%
Covered Payroll	904,180	822,353	831,162
UAAL as a Percentage of Covered Payroll	55%	106%	120%

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 1,094,905	\$ 1,094,905	\$ 1,038,937	\$ (55,968)
Licenses and Permits	29,400	29,400	27,013	(2,387)
State Sources	304,935	304,935	225,841	(79,094)
Local Sources	15,430	15,430	11,572	(3,858)
Charges for Services	90,910	90,910	114,279	23,369
Interest and Rents	4,913	4,913	5,992	1,079
Other Revenue	101,350	150,166	225,654	75,488
<b>TOTAL REVENUES</b>	<b>1,641,843</b>	<b>1,690,659</b>	<b>1,649,288</b>	<b>(41,371)</b>
<b>EXPENDITURES:</b>				
Legislative:				
City Council	26,835	33,335	32,788	547
General Government:				
Administrator	62,911	74,911	72,939	1,972
Clerk	70,800	65,800	61,243	4,557
Attorney	27,291	26,291	23,889	2,402
Treasurer	96,780	96,780	94,758	2,022
Building and Grounds	144,170	124,170	63,196	60,974
Elections	5,900	2,900	2,399	501
Assessor	34,000	29,000	27,282	1,718
Cemetery	32,982	30,782	28,853	1,929
Data Processing	17,815	14,815	11,570	3,245
Board of Review	2,155	1,655	1,083	572
<b>Total General Government</b>	<b>494,804</b>	<b>467,104</b>	<b>387,212</b>	<b>79,892</b>
Public Safety:				
Police Department	396,318	396,318	366,595	29,723
Fire Department	162,248	162,248	158,917	3,331
Zoning Board/Commission	9,097	9,497	8,975	522
<b>Total Public Safety</b>	<b>567,663</b>	<b>568,063</b>	<b>534,487</b>	<b>33,576</b>
Public Works:				
Public Works	46,268	33,368	31,666	1,702
Sidewalks	19,774	17,774	11,051	6,723
Street Lighting	59,000	58,000	56,507	1,493
Airport	17,160	13,260	9,649	3,611
<b>Total Public Works</b>	<b>142,202</b>	<b>122,402</b>	<b>108,873</b>	<b>13,529</b>
Community and Economic Development:				
Housing Commission and Paying Agents	-	-	73,870	(73,870)
<b>Total Community and Economic Development</b>	<b>-</b>	<b>-</b>	<b>73,870</b>	<b>(73,870)</b>
Recreation and Culture:				
Parks and Recreation	59,864	53,864	46,241	7,623
Community and Skate Park	40,689	46,689	46,713	(24)
Civic Center Recreation Facility	29,262	24,262	20,174	4,088
Elm Pointe Recreation Facility	46,198	36,198	28,861	7,337
<b>Total Recreation and Culture</b>	<b>176,013</b>	<b>161,013</b>	<b>141,989</b>	<b>19,024</b>
<b>TOTAL EXPENDITURES</b>	<b>1,407,517</b>	<b>1,351,917</b>	<b>1,279,219</b>	<b>72,698</b>

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
EXCESS OF REVENUES OVER EXPENDITURES	234,326	338,742	370,069	31,327
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	<u>(140,441)</u>	<u>(244,857)</u>	<u>(273,415)</u>	<u>(28,558)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 93,885</u>	<u>\$ 93,885</u>	96,654	<u>\$ 2,769</u>
FUND BALANCE, JULY 1			<u>247,959</u>	
FUND BALANCE, JUNE 30			<u>\$ 344,613</u>	

**Required Supplementary Information  
Budgetary Comparison Schedule  
Major Street Fund  
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 69,000	\$ 69,000	\$ 285	\$ (68,715)
State Sources	124,200	124,200	150,733	26,533
Interest	200	200	62	(138)
Other Revenue	100	100	1,024	924
	<u>193,500</u>	<u>193,500</u>	<u>152,104</u>	<u>(41,396)</u>
TOTAL REVENUES				
EXPENDITURES:				
Public Works	<u>243,764</u>	<u>243,764</u>	<u>146,833</u>	<u>96,931</u>
EXCESS OF REVENUES OVER EXPENDITURES	(50,264)	(50,264)	5,271	55,535
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	717	67,617	57,693	(9,924)
Operating Transfers Out	<u>(58,158)</u>	<u>(125,058)</u>	<u>(130,030)</u>	<u>(4,972)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (107,705)</u>	<u>\$ (107,705)</u>	(67,066)	<u>\$ 40,639</u>
FUND BALANCE, JULY 1			<u>72,614</u>	
FUND BALANCE, JUNE 30			<u>\$ 5,548</u>	

**Required Supplementary Information  
Budgetary Comparison Schedule  
Local Street Fund  
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
State Sources	\$ 48,000	\$ 48,000	\$ 49,593	\$ 1,593
Interest	100	100	-	(100)
Other Revenue	1,000	1,000	-	(1,000)
	<u>49,100</u>	<u>49,100</u>	<u>49,593</u>	<u>493</u>
TOTAL REVENUES				
EXPENDITURES:				
Public Works	<u>145,982</u>	<u>145,982</u>	<u>113,022</u>	<u>32,960</u>
EXCESS OF REVENUES OVER EXPENDITURES	(96,882)	(96,882)	(63,429)	33,453
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	<u>86,562</u>	<u>86,562</u>	<u>58,500</u>	<u>(28,062)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (10,320)</u>	<u>\$ (10,320)</u>	(4,929)	<u>\$ 5,391</u>
FUND BALANCE, JULY 1			<u>10,398</u>	
FUND BALANCE, JUNE 30			<u>\$ 5,469</u>	

## **Other Information**

---

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>				
	<u>Fire Equipment</u>	<u>Rehab I and II</u>	<u>2007A GO Cap.</u>	<u>2002 Cap.</u>	<u>2007B GO Cap.</u>	<u>1999 Mi Trans</u>	<u>2001 Mi Trans</u>
<b>ASSETS:</b>							
Cash and Equivalents - Unrestricted	\$ 10	\$ 20,262	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and Equivalents - Restricted	-	-	1,737	103	1,000	104	93
<b>TOTAL ASSETS</b>	<b><u>\$ 10</u></b>	<b><u>\$ 20,262</u></b>	<b><u>\$ 1,737</u></b>	<b><u>\$ 103</u></b>	<b><u>\$ 1,000</u></b>	<b><u>\$ 104</u></b>	<b><u>\$ 93</u></b>
<b>FUND BALANCES:</b>							
Restricted	\$ -	\$ -	\$ 1,737	\$ 103	\$ 1,000	\$ 104	\$ 93
Assigned	10	20,262	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 10</u></b>	<b><u>\$ 20,262</u></b>	<b><u>\$ 1,737</u></b>	<b><u>\$ 103</u></b>	<b><u>\$ 1,000</u></b>	<b><u>\$ 104</u></b>	<b><u>\$ 93</u></b>



	Capital Project Funds			
	Street Improvement Tax	Bandshell	Industrial Complex	Totals
<b>ASSETS:</b>				
Cash and Equivalents - Unrestricted	\$ -	\$ -	\$ -	\$ 20,272
Cash and Equivalents - Restricted	130,474	8,657	3,652	145,820
<b>TOTAL ASSETS</b>	<b>\$ 130,474</b>	<b>\$ 8,657</b>	<b>\$ 3,652</b>	<b>\$ 166,092</b>
<b>FUND BALANCES:</b>				
Restricted	\$ 130,474	\$ 8,657	\$ 3,652	\$ 145,820
Assigned	-	-	-	20,272
<b>TOTAL FUND BALANCES</b>	<b>\$ 130,474</b>	<b>\$ 8,657</b>	<b>\$ 3,652</b>	<b>\$ 166,092</b>

**Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2013**

	Special Revenue Funds		Debt Service Funds				
	Fire Equipment	Rehab I and II	2007A GO Cap.	2002 Cap.	2007B GO Cap.	1999 Mi Trans	2001 Mi Trans
<b>REVENUES:</b>							
Taxes	\$ 174	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local Sources	-	-	-	-	-	-	-
Other Revenues	2,006	7,350	-	-	-	-	-
Interest and Rents	17	19	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>2,197</b>	<b>7,369</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXPENDITURES:</b>							
General Government	-	-	-	-	-	-	-
Debt Service	38,631	-	15,805	-	-	33,470	24,638
<b>TOTAL EXPENDITURES</b>	<b>38,631</b>	<b>-</b>	<b>15,805</b>	<b>-</b>	<b>-</b>	<b>33,470</b>	<b>24,638</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(36,434)</b>	<b>7,369</b>	<b>(15,805)</b>	<b>-</b>	<b>-</b>	<b>(33,470)</b>	<b>(24,638)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Operating Transfers In	8,700	-	15,805	-	-	33,470	24,638
Operating Transfers Out	-	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>8,700</b>	<b>-</b>	<b>15,805</b>	<b>-</b>	<b>-</b>	<b>33,470</b>	<b>24,638</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(27,734)</b>	<b>7,369</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES, JULY 1</b>	<b>27,744</b>	<b>12,893</b>	<b>1,737</b>	<b>103</b>	<b>1,000</b>	<b>104</b>	<b>93</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 10</b>	<b>\$ 20,262</b>	<b>\$ 1,737</b>	<b>\$ 103</b>	<b>\$ 1,000</b>	<b>\$ 104</b>	<b>\$ 93</b>

**Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2013**

	Capital Project Funds			
	Street Improvement Tax	Bandshell	Industrial Complex	Totals
	Tax	Bandshell	Complex	Totals
<b>REVENUES:</b>				
Taxes	\$ 66,223	\$ -	\$ -	\$ 66,397
Local Sources	-	7,046	-	7,046
Other Revenues	-	-	5,000	14,356
Interest and Rents	22	4	1	63
<b>TOTAL REVENUES</b>	<b>66,245</b>	<b>7,050</b>	<b>5,001</b>	<b>87,862</b>
<b>EXPENDITURES:</b>				
General Government	-	4,697	1,542	6,239
Debt Service	-	-	-	112,544
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>4,697</b>	<b>1,542</b>	<b>118,783</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>66,245</b>	<b>2,353</b>	<b>3,459</b>	<b>(30,921)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	71,922	-	-	154,535
Operating Transfers Out	(7,693)	-	-	(7,693)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>64,229</b>	<b>-</b>	<b>-</b>	<b>146,842</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>130,474</b>	<b>2,353</b>	<b>3,459</b>	<b>115,921</b>
<b>FUND BALANCES, JULY 1</b>	<b>-</b>	<b>6,304</b>	<b>193</b>	<b>50,171</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 130,474</b>	<b>\$ 8,657</b>	<b>\$ 3,652</b>	<b>\$ 166,092</b>

**Combining Statement of Net Position  
Nonmajor Enterprise Funds  
June 30, 2013**

	Solid Waste Transfer Station	Tourist Park	Totals
<b>ASSETS:</b>			
Cash and Investments - Unrestricted	\$ 36,971	\$ 217	\$ 37,188
Prepays and Inventory	-	499	499
Capital Assets Not Depreciated	-	7,769	7,769
Capital Assets (Net of Accumulated Depreciation)	37,286	108,170	145,456
TOTAL ASSETS	\$ 74,257	\$ 116,655	\$ 190,912
<b>LIABILITIES:</b>			
Accounts Payable	\$ -	\$ 6,634	\$ 6,634
Accrued Liabilities	334	6,509	6,843
Due to Other Funds	-	48,379	48,379
Customer Deposits	-	15,587	15,587
TOTAL CURRENT LIABILITIES	334	77,109	77,443
<b>NET POSITION:</b>			
Net Investment in Capital Assets	37,286	115,939	153,225
Unrestricted	36,637	(76,393)	(39,756)
TOTAL NET POSITION	73,923	39,546	113,469
TOTAL LIABILITIES AND NET POSITION	\$ 74,257	\$ 116,655	\$ 190,912

**Combining Statement of Revenues, Expenses, and  
Changes in Net Position - Nonmajor Enterprise Funds  
For the Year Ended June 30, 2013**

	Solid Waste Transfer Station	Tourist Park	Totals
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 50,632	\$ 2,291	\$ 52,923
<b>TOTAL OPERATING REVENUES</b>	<u>50,632</u>	<u>2,291</u>	<u>52,923</u>
<b>OPERATING EXPENSES:</b>			
Personal Services	13,887	75,597	89,484
Contracted Services	35,828	5,410	41,238
Insurance	-	292	292
Supplies	548	24,764	25,312
Utilities	940	26,227	27,167
Repair and Maintenance	9,061	20,248	29,309
Depreciation	1,141	9,094	10,235
Miscellaneous	152	25,603	25,755
<b>Total Operating Expenses</b>	<u>61,557</u>	<u>187,235</u>	<u>248,792</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(10,925)</u>	<u>(184,944)</u>	<u>(195,869)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest & Rents	37	120,896	120,933
Miscellaneous Revenue	1,137	-	1,137
<b>Total Non-Operating Revenues (Expenses)</b>	<u>1,174</u>	<u>120,896</u>	<u>122,070</u>
<b>Income (Loss) Before Transfers</b>	<u>(9,751)</u>	<u>(64,048)</u>	<u>(73,799)</u>
Operating Transfers In	-	15,000	15,000
Operating Transfers Out	-	-	-
<b>CHANGES IN NET POSITION</b>	<u>(9,751)</u>	<u>(49,048)</u>	<u>(58,799)</u>
<b>NET POSITION, JULY 1</b>	<u>83,674</u>	<u>88,594</u>	<u>172,268</u>
<b>NET POSITION, JUNE 31</b>	<u>\$ 73,923</u>	<u>\$ 39,546</u>	<u>\$ 113,469</u>

**Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2013**

	Solid Waste Transfer Station	Tourist Park	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from Customers	\$ 50,632	\$ 5,843	\$ 56,475
Payments to Suppliers	(46,529)	(96,323)	(142,852)
Payments to Employees	(14,676)	(75,026)	(89,702)
Internal Activity - Payments/Receipts with Other Funds	-	29,627	29,627
	<u>(10,573)</u>	<u>(135,879)</u>	<u>(146,452)</u>
Net Cash Provided (Used) by Operating Activities			
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Operating Transfers In	-	15,000	15,000
Other Revenue	1,137	-	1,137
	<u>1,137</u>	<u>15,000</u>	<u>16,137</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities			
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Disposal(Adjustments) of Capital Assets	73	-	73
	<u>73</u>	<u>-</u>	<u>73</u>
Net Cash Provided (Used) by Capital and Related Financing Activities			
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest income	37	120,896	120,933
	<u>37</u>	<u>120,896</u>	<u>120,933</u>
Net Cash Provided (Used) by Investing Activities			
Net Increase (Decrease) in Cash and Cash Equivalents	(9,326)	17	(9,309)
Balances - Beginning of the Year	46,297	200	46,497
	<u>46,297</u>	<u>200</u>	<u>46,497</u>
Balances - End of the Year	<u>\$ 36,971</u>	<u>\$ 217</u>	<u>\$ 37,188</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating Income (Loss)	\$ (10,925)	\$ (184,944)	\$ (195,869)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	1,141	9,094	10,235
Change in Assets and Liabilities:			
Prepays and Inventory			
Increase (Decrease) in Liabilities:			
Accounts Payable	(789)	6,221	5,432
Accrued Liabilities	-	571	571
Due to Other Funds	-	29,627	29,627
Customer Deposits	-	3,552	3,552
	<u>(789)</u>	<u>35,545</u>	<u>34,756</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (10,573)</u>	<u>\$ (135,879)</u>	<u>\$ (146,452)</u>

# City of East Jordan, Michigan

## Combining Balance Sheet Component Units June 30, 2013

	Downtown Development Authority	East Jordan Housing Commission	Totals
<b>ASSETS:</b>			
Cash and Equivalents - Unrestricted	\$ 78,469	\$ 43,125	\$ 121,594
Investments - Unrestricted	-	56,511	56,511
Accounts Receivable	-	542	542
Prepays and Inventory	-	1,057	1,057
Capital Assets Not Depreciated	-	170,343	170,343
Capital Assets (Net of Accumulated Depreciation)	-	145,147	145,147
<b>TOTAL ASSETS</b>	<b>\$ 78,469</b>	<b>\$ 416,725</b>	<b>\$ 495,194</b>
<b>LIABILITIES:</b>			
Accounts Payable	\$ -	\$ 12,404	\$ 12,404
Accrued Liabilities	101	4,284	4,385
Customer Deposits	-	2,650	2,650
Unearned Revenue	-	233	233
Bonds Payable - Due within one year	170,000	-	170,000
Bonds Payable - Due in more than one year	245,000	-	245,000
Installment Loans Payable - Due within one year	20,640	-	20,640
Installment Loans Payable - Due in more than one year	89,437	-	89,437
<b>TOTAL LIABILITIES</b>	<b>525,178</b>	<b>19,571</b>	<b>544,749</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	-	315,490	315,490
Unrestricted	(446,709)	81,664	(365,045)
<b>TOTAL NET POSITION</b>	<b>(446,709)</b>	<b>397,154</b>	<b>(49,555)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 78,469</b>	<b>\$ 416,725</b>	<b>\$ 495,194</b>

**Combining Statement of Revenues, Expenditures  
and Changes in Net Position  
Component Units  
For the Year Ended June 30, 2013**

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	Total
<b>Public Works:</b>							
East Jordan Housing Commission	\$ 174,671	\$ 89,983	\$ 59,962	\$ -	\$ -	\$ (24,726)	\$ (24,726)
<b>Economic Development:</b>							
Downtown Development Authority	41,789	-	-	-	(41,789)	-	(41,789)
Total Component Units	<u>\$ 216,460</u>	<u>\$ 89,983</u>	<u>\$ 59,962</u>	<u>\$ -</u>	<u>(41,789)</u>	<u>(24,726)</u>	<u>(66,515)</u>
<b>General Revenues:</b>							
Taxes					220,520	-	220,520
Interest Income					137	694	831
Transfers					26,594	-	26,594
Miscellaneous					50	5,532	5,582
<b>Total General Revenues</b>					<u>247,301</u>	<u>6,226</u>	<u>253,527</u>
Changes in Net Position					205,512	(18,500)	187,012
Net Position - Beginning					<u>(652,221)</u>	<u>415,654</u>	<u>(236,567)</u>
<b>Net Position - Ending</b>					<u>\$ (446,709)</u>	<u>\$ 397,154</u>	<u>\$ (49,555)</u>



# **Report on Compliance**

---



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

**KINROSS OFFICE**

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

ROBERT L. HASKE, CPA  
AMBER N. MACK, CPA, EA

**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, 2013, and the related notes to the financial statements, which collectively comprise the City of East Jordan, Michigan's basic financial statements and have issued our report thereon dated November 15, 2013. Our report includes a reference to other auditors who audited the financial statements of the East Jordan Housing Commission, as described in or report on the City of East Jordan, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of East Jordan, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of East Jordan, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of East Jordan, Michigan's internal control.

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

To the City Commission  
City of East Jordan

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies listed as 2013-001 and 2013-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of East Jordan, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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 is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2013-003 and 2013-004.

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

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

November 15, 2013

*Significant Deficiency*

**Internal Control Over Financial Reporting**

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

***Finding 2013-001***

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

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

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

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

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

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

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

*Significant Deficiency*

**Internal Control Over Financial Reporting**

**Material Audit Adjustments**

***Finding 2013-002***

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

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

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

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

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

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

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

***Significant Deficiency***

**Noncompliance with State Statutes**

**Deficit Unrestricted Fund Balance**

***Finding 2013-003***

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

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

*Cause:* The Marina Fund has a negative unrestricted net position balance of \$250,689 and the Tourist Park has a negative unrestricted net position balance of \$76,393.

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

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

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

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

*Significant Deficiency*

**Noncompliance with State Statutes**

**Expenditures in Excess of Appropriations—Budgetary Funds**

***Finding 2013-004***

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

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

The City’s 2012-2013 General Appropriations Act (budget) provided for expenditures of the General and Major Street Funds to be controlled to the activity level. As detailed, actual 2012-2013 expenditures exceeded the board’s approved budget allocations for two general fund activities and one major street activity.

During the fiscal year ended June 30, 2013, expenditures were incurred in excess of amounts appropriated in the amended budget for the general fund and major street fund on pages 43-45 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 and major street fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

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

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



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

**KINROSS OFFICE**

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

ROBERT L. HASKE, CPA  
AMBER N. MACK, CPA, EA

**MEMBER AICPA  
DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**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, 2013, and have issued our report thereon dated November 15, 2013. 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 21, 2013, 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.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as whole.

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



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

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

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on October 21, 2013.

### **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. One new accounting policy was adopted regarding the implementation of GASB Statements 63 and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$0.

The financial statements disclosures are neutral, consistent and clear.

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

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

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

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. However, some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole (See Finding 2013-002).

### ***Disagreement with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 15, 2013.

### ***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.

### ***Other Matters***

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed for the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### ***Comments and Recommendations***

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

#### **Check Signatures (Prior Year)**

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

Status: Uncorrected.

#### **Outstanding Checks (Prior Year)**

During testing, it was noted that some payroll checks have been long outstanding and have not been cashed yet. We recommend that “stale” checks be voided and reissued if necessary to help ensure proper accounting of cash.

Status: Corrected.

#### **Check Register (Prior Year)**

During testing, it was noted that the vendor and amount did not match between the check register and check image for check #44877. We recommend that the information on the check register match the individual checks to help ensure more accurate accounting records.

Status: Corrected.

#### **Check Images (Prior Year)**

During testing it was noted that the backsides of the check images were not obtained from the bank. We recommend that images of both sides of the checks be retained by the City to help ensure proper record retention and check control.

Status: Corrected.

#### **Sales Tax (Prior Year)**

During testing we noted that Michigan sales tax was being paid on purchases from the City credit card. Since governments are not required to pay Michigan sales tax, we recommend the City take the appropriate steps to ensure that sales tax is not being paid on purchases made with City funds.

Status: Corrected.

### **Journal Entries (Prior Year)**

It was noted during test of controls for Journal Entries that one entry was credited to the wrong account. It is recommended that greater care be taken when entering journal entries to the system.

Status: Corrected.

### **Payroll (Prior Year)**

It was noted during test of controls for payroll that several employees had incomplete I-9 forms. It was also noted that one employee file was missing deduction approval for an insurance deduction. It is recommended that all I-9 forms be filled out completely at the time of hire. It is also recommended that approval for each employee payroll deduction be kept in the respective employee's payroll file.

Status: Corrected.

### **Accounts Receivable (Prior Year)**

It was noted during the testing of accounts receivable that the sewer fund's accounts receivable had a stale balance of \$80,000. It was also noted that EMS accounts receivable is not reconciled to departmental records. It is recommended that accounts receivable be reconciled to departmental records to more accurately reflect the balances in those accounts.

Status: Corrected.

### **Housing Payroll (Prior Year)**

Currently the employees working at the Housing Commission are being paid by the City and their wages are being reimbursed to the City from the Housing Commission. The reimbursement revenue from Housing for the employees wage expense is being credited to the payroll expense account having essentially a net effect of zero in that account. We recommend that all wages be reported on a separate expense line item and all wage reimbursements be reported on a separate revenue line item to help ensure proper record keeping and accounting practices.

Status: Corrected.

### **Housing Employees (Prior Year)**

Currently the employees working at the Housing commission are being paid as if they are employees of the City; however, these employees do not have an employer/employee relationship with the City. We recommend that the employees working at the Housing commission either be treated as employees of Housing and not the City, or an employer/employee relationship be created to justify the City treating them as City employees to help ensure proper accounting practices.

Status: Corrected.

### **Payroll (Prior Year)**

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

Status: Uncorrected.

### **Disbursements (Prior Year)**

During testing, it was noted that information on several checks written did not match detail on the check register. It is recommended that care be taken to ensure that the information is correct between the system and physical checks.

Status: Corrected.

### **Trust & Agency Fund (Prior Year)**

During testing, it was noted that the City does not distribute Taxes to the local units using a Trust & Agency fund. It is recommended that the City establish a Trust & Agency fund to appropriately distribute taxes to the local units.

Status: Corrected.

### **Reporting Employer Provided Health Coverage on Form W-2**

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee's Form W-2, Wage and Tax Statement. Many employers are eligible for transition relief for tax year 2013 and beyond, until the IRS issues final guidance for this reporting requirement.

The amount reported does not affect tax liability, as the value of the employer excludible contribution to health coverage continues to be excludible from an employee's income, and it is not taxable. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be informed consumers. More information about the reporting can be found at [Form W-2 Reporting of Employer-Sponsored Health Coverage](#).

### **Pension Reporting**

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

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

### **Allowance for Doubtful Accounts**

During our testing of the ambulance system, it was noted that an allowance for doubtful accounts is not recorded. We recommend that ambulance receivables over 90 days be recorded as an allowance for doubtful accounts.

### **Pay Rate**

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

### **Conclusion**

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

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



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

November 15, 2013