

City of East Jordan, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2017

CITY OF EAST JORDAN, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR

RUSS PECK

COMMISSIONER

ANDREW BOYER

COMMISSIONER

JOHN DOEBEL

COMMISSIONER

PAUL TIMMONS

COMMISSIONER

MARK PENZIEN

COMMISSIONER

TRACEY JOHNSON

COMMISSIONER

THOMAS REID JR.

APPOINTED OFFICERS

CITY ADMINISTRATOR

TOM CANNON

TREASURER

HEATHER JACKSON

CLERK

CHELTZI WILSON

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
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 Balance 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
COMPONENT UNITS:	
Combining Balance Sheet	21
Combining Statement of Revenues, Expenditures, and Changes in Net Position	22
NOTES TO FINANCIAL STATEMENTS	23

TABLE OF CONTENTS

	<u>Page</u>
REQUIRED SUPPLEMENTARY INFORMATION:	
Employee Retirement and Benefit Systems:	
Schedule of Funding Progress	46
Major Funds:	
Budgetary Comparison Schedule – General Fund.....	48
Budgetary Comparison Schedule – Major Street Fund	50
Budgetary Comparison Schedule – Local Street Fund.....	51
OTHER INFORMATION:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds	54
REPORTS ON COMPLIANCE:	
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

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

PHILLIP J. WOLF, CPA

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Jordan Housing Commission, a component unit of the City of East Jordan, Michigan, which represents 73 percent, 70 percent, and 42 percent, respectively, of the assets, net position, and revenue of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Jordan Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

To the City Commission
City of East Jordan, Michigan

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of East Jordan, Michigan, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 10, pages 46 through 47, and pages 48 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

To the City Commission
City of East Jordan, Michigan

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017 on our consideration of the City of East Jordan, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of East Jordan, Michigan's internal control over financial reporting and compliance.



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

December 18, 2017

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, 2017. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year 2017 by \$11,056,380 (*net position*). Of this, \$72,398 (*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 \$268,890 or 16% of the total General Fund expenditures and transfers, which was an increase of \$29,212 or 12%.
- The current level of unrestricted net position of the governmental activities stands at (\$772,072), or about (38)% of expenses.
- Net position of the governmental activities increased \$403,891 or 9%. Net position of the business-type activities decreased \$443,424 or 7%.

Overview of the Financial Statements

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

Report Layout

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

Basic Financial Statements

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

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, 2017 follows:

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current Assets	\$ 1,026,614	\$ 595,035	\$ 1,424,342	\$ 1,929,812	\$ 2,450,956	\$ 2,524,847
Capital Assets	5,700,874	5,962,272	7,695,671	7,925,156	13,396,545	13,887,428
Total Assets	6,727,488	6,557,307	9,120,013	9,854,968	15,847,501	16,412,275
Deferred Outflows of Resources	226,745	381,337	63,957	114,584	290,702	495,921
Liabilities						
Current Liabilities	136,384	227,418	315,306	448,241	451,690	675,659
Noncurrent Liabilities	1,578,218	1,862,433	2,818,828	3,024,370	4,397,046	4,886,803
Total Liabilities	1,714,602	2,089,851	3,134,134	3,472,611	4,848,736	5,562,462
Deferred Inflows of Resources	181,807	194,860	51,280	54,961	233,087	249,821
Net Position						
Net Investment in Capital Assets	5,284,360	5,348,484	5,154,086	5,192,067	10,438,446	10,540,551
Restricted	545,536	168,067	-	-	545,536	168,067
Unrestricted	(772,072)	(862,618)	844,470	1,249,913	72,398	387,295
Total Net Position	\$ 5,057,824	\$ 4,653,933	\$ 5,998,556	\$ 6,441,980	\$ 11,056,380	\$ 11,095,913

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

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

Water and Sewer Funds

Operation of the water and sewer system is paid through user fees based upon amount of metered water used. A comparison of revenues and expenses is evaluated every year to determine whether rates are providing the necessary revenue to meet expenses of the system. The last rate increase went into effect for the quarter beginning July 1, 2015.

Tourist Park Fund

Operation of the Tourist Park is paid through user fees based upon camper rent. A comparison of revenues and expenses is evaluated every year to determine whether rates are providing the necessary revenue to meet expenses of the park. The last rate increase went into effect for the season beginning January 1, 2015.

E.J. Harbor Marina Fund

Operation of the Harbor Fund is paid through user fees based upon seasonal and transient dock rents. The rates are set through the Michigan Department of Natural Resources Parks and Recreation Bureau (Michigan State Waterways Commission). The last rate increase went into effect for the season beginning January 1, 2015.

A condensed version of the Statement of Activities follows:

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for Services	\$ 178,413	\$ 121,416	\$ 1,427,860	\$ 1,442,558	\$ 1,606,273	\$ 1,563,974
Operating Grants and Contributions	462,824	331,262	-	-	462,824	331,262
General Revenues						
Property Taxes	1,039,843	1,030,422	-	-	1,039,843	1,030,422
State Shared Revenues	243,030	232,715	-	-	243,030	232,715
Investment Earnings	20,994	18,587	65,260	1,050	86,254	19,637
Other Grants	-	-	-	159,800	-	159,800
Miscellaneous	131,224	238,805	2,408	17,888	133,632	256,693
Total Revenues	2,076,328	1,973,207	1,495,528	1,621,296	3,571,856	3,594,503
Expenses						
Legislative	23,392	25,572	-	-	23,392	25,572
General Government	538,561	495,123	-	-	538,561	495,123
Public Safety	661,487	668,966	-	-	661,487	668,966
Public Works	538,642	622,219	-	-	538,642	622,219
Community and Economic Development	51,005	66,438	-	-	51,005	66,438
Health and Welfare	19,958	98,033	-	-	19,958	98,033
Recreation and Culture	243,015	251,280	-	-	243,015	251,280
Sewer	-	-	641,950	506,058	641,950	506,058
Water	-	-	410,498	471,390	410,498	471,390
EJ Harbor Marina	-	-	210,460	229,064	210,460	229,064
Tourist Park	-	-	182,538	150,106	182,538	150,106
Other Nonmajor	-	-	60,004	56,539	60,004	56,539
Interest Expense - Unallocated	29,879	31,972	-	-	29,879	31,972
Total Expenses	2,105,939	2,259,603	1,505,450	1,413,157	3,611,389	3,672,760
Changes in Net Position before Transfers	(29,611)	(286,396)	(9,922)	208,139	(39,533)	(78,257)
Transfers	433,502	469,801	(433,502)	(469,801)	-	-
Changes in Net Position	403,891	183,405	(443,424)	(261,662)	(39,533)	(78,257)
Net Position - Beginning	4,653,933	4,437,560	6,441,980	6,703,642	11,095,913	11,141,202
Prior Period Adjustment	-	32,968	-	-	-	32,968
Restated Net Position - Beginning	4,653,933	4,470,528	6,441,980	6,703,642	11,095,913	11,174,170
Net Position - Ending	\$ 5,057,824	\$ 4,653,933	\$ 5,998,556	\$ 6,441,980	\$ 11,056,380	\$ 11,095,913

General Fund Budgetary Highlights

Licenses & Permits and federal sources were below expected budgetary levels. Many of the capital project related grants that are still in the General Fund fell short of budget, however this is not unusual for capital projects and there is an offsetting expense account that is under budget as well. Taxes, state, local sources, charges for services, interest and rents, and other revenue came in over budget. Expenditures that exceeded budget are discussed in note 11.

Capital Asset and Debt Administration

Capital Assets

The City’s net investment in capital assets as of June 30, 2017, amounted to \$13,396,545. This investment, detailed in the following table, is invested in a broad range of capital assets including land, buildings, land improvements, machinery and equipment, streets, and business-type infrastructure.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2015
Land	\$ 301,450	\$ 301,450	\$ 355,002	\$ 355,002	\$ 656,452	\$ 656,452
Buildings	1,764,615	1,818,801	83,851	64,186	1,848,466	1,882,987
Land Improvements	245,397	160,903	1,048,905	1,096,405	1,294,302	1,257,308
Machinery and Equipment	1,319,152	1,462,328	65,560	79,612	1,384,712	1,541,940
Sewer Lagoons	-	-	1,061,062	1,103,962	1,061,062	1,103,962
Mains	-	-	5,081,291	5,225,989	5,081,291	5,225,989
Infrastructure	2,070,260	2,218,790	-	-	2,070,260	2,218,790
Total Capital Assets	\$ 5,700,874	\$ 5,962,272	\$ 7,695,671	\$ 7,925,156	\$ 13,396,545	\$ 13,887,428

Debt Outstanding

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

**City of East Jordan
Debt Outstanding**

	Governmental Activities		Business-type Activities		Component Unit	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 70,000	\$ 132,000	\$ 2,499,000	\$ 2,677,000	\$ 2,569,000	\$ 2,809,000
Installment Purchase Agreement	346,514	481,788	42,585	56,089	389,099	537,877
Net Pension Liability	1,240,193	1,357,856	458,995	472,449	1,699,188	1,830,305
Compensated Absences	28,877	48,106	12,353	10,336	41,230	58,442
Total Debt Outstanding	\$ 1,685,584	\$ 2,019,750	\$ 3,012,933	\$ 3,215,874	\$ 4,698,517	\$ 5,235,624

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

Economic Factors and Next Year’s Budgets and Rates

- The State of Michigan is projecting significant budget deficits.

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

Request for Information

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

Basic Financial Statements

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 846,490	\$ 743,570	\$ 1,590,060	\$ 177,228
Cash and Equivalents - Restricted	20,230	607,291	627,521	29,095
Accounts Receivable - Net	12	107,038	107,050	3,292
Due From Governmental Units	104,141	-	104,141	-
Internal Loans	52,066	(52,066)	-	-
Prepays and Inventory	3,675	18,509	22,184	2,999
Capital Assets Not Depreciated	301,450	355,002	656,452	49,307
Capital Assets (Net of Accumulated Depreciation)	5,399,424	7,340,669	12,740,093	161,098
TOTAL ASSETS	6,727,488	9,120,013	15,847,501	423,019
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Investment Experience and Contributions	226,745	63,957	290,702	16,566
LIABILITIES:				
Accounts Payable	-	26,816	26,816	12,068
Accrued Liabilities	21,050	7,480	28,530	14,264
Accrued Interest	4,768	13,753	18,521	-
Customer Deposits	3,200	73,152	76,352	5,719
Unearned Revenue	-	-	-	256
Net Pension Liability - Due in more than one year	1,240,193	458,995	1,699,188	18,740
Installment Loans Payable - Due within one year	92,366	14,105	106,471	-
Installment Loans Payable - Due in more than one year	254,148	28,480	282,628	-
Bonds Payable - Due within one year	15,000	180,000	195,000	-
Bonds Payable - Due in more than one year	55,000	2,319,000	2,374,000	-
Compensated Absences - Due in more than one year	28,877	12,353	41,230	-
TOTAL LIABILITIES	1,714,602	3,134,134	4,848,736	51,047
DEFERRED INFLOWS OF RESOURCES:				
Pension Assumptions and Experience	181,807	51,280	233,087	6,046
NET POSITION:				
Net Investment in Capital Assets	5,284,360	5,154,086	10,438,446	210,405
Restricted	545,536	-	545,536	99
Unrestricted	(772,072)	844,470	72,398	171,988
TOTAL NET POSITION	\$ 5,057,824	\$ 5,998,556	\$ 11,056,380	\$ 382,492

Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Governmental Activities:								
Legislative	\$ 23,392	\$ -	\$ -	\$ -	\$ (23,392)	\$ -	\$ (23,392)	\$ -
General Government	538,561	46,472	-	-	(492,089)	-	(492,089)	-
Public Safety	661,487	131,016	36,660	-	(493,811)	-	(493,811)	-
Public Works	538,642	-	258,924	-	(279,718)	-	(279,718)	-
Community and Economic Development	51,005	-	50,051	-	(954)	-	(954)	-
Health and Welfare	19,958	-	117,189	-	97,231	-	97,231	-
Recreation and Culture	243,015	925	-	-	(242,090)	-	(242,090)	-
Interest Expense - Unallocated	29,879	-	-	-	(29,879)	-	(29,879)	-
Total Governmental Activities	2,105,939	178,413	462,824	-	(1,464,702)	-	(1,464,702)	-
Business-type activities:								
Sewer	641,950	467,760	-	-	-	(174,190)	(174,190)	-
Water	410,498	614,651	-	-	-	204,153	204,153	-
EJ Harbor Marina	210,460	111,949	-	-	-	(98,511)	(98,511)	-
Tourist Park	182,538	187,314	-	-	-	4,776	4,776	-
Nonmajor - Solid Waste	60,004	46,186	-	-	-	(13,818)	(13,818)	-
Total Business-type Activities	1,505,450	1,427,860	-	-	-	(77,590)	(77,590)	-
Total Primary Government	\$ 3,611,389	\$ 1,606,273	\$ 462,824	\$ -	(1,464,702)	(77,590)	(1,542,292)	-
Component Units:								
Public Works:								
East Jordan Housing Commission	\$ 164,025	\$ 104,435	\$ 54,971	\$ -	-	-	-	(4,619)
Economic Development:								
Downtown Development Authority	196,266	-	-	-	-	-	-	(196,266)
Total Component Units	360,291	104,435	54,971	-	-	-	-	(200,885)
Total	\$ 3,971,680	\$ 1,710,708	\$ 517,795	\$ -	-	-	-	-
General Revenues and Transfers:								
Property Taxes								
Operating					983,057	-	983,057	217,512
Debt					56,786	-	56,786	-
State Shared Revenue					243,030	-	243,030	-
Investment Earnings					20,994	65,260	86,254	413
Miscellaneous					131,224	2,408	133,632	20,672
Transfers					433,502	(433,502)	-	-
Total General Revenues and Transfers					1,868,593	(365,834)	1,502,759	238,597
Changes in Net Position					403,891	(443,424)	(39,533)	37,712
Net Position - Beginning					4,653,933	6,441,980	11,095,913	344,780
Net Position - Ending					\$ 5,057,824	\$ 5,998,556	\$ 11,056,380	\$ 382,492

City of East Jordan, Michigan

Balance Sheet Governmental Funds June 30, 2017

	General	Major Street	Local Street	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 164,615	\$ 21,465	\$ 424	\$ 573,939	\$ 760,443
Cash and Equivalents - Restricted	17,400	-	-	2,830	20,230
Due from Other Funds	52,066	-	-	-	52,066
Due from Governmental Units	56,971	34,898	12,272	-	104,141
Prepays and Inventory	2,779	403	493	-	3,675
TOTAL ASSETS	\$ 293,831	\$ 56,766	\$ 13,189	\$ 576,769	\$ 940,555
LIABILITIES:					
Accrued Liabilities	\$ 18,962	\$ 269	\$ 388	\$ -	\$ 19,619
Customer Deposits	3,200	-	-	-	3,200
TOTAL LIABILITIES	22,162	269	388	-	22,819
FUND BALANCES:					
Nonspendable	2,779	403	493	-	3,675
Restricted	-	-	-	545,536	545,536
Assigned	-	56,094	12,308	31,233	99,635
Unassigned	268,890	-	-	-	268,890
TOTAL FUND BALANCES	271,669	56,497	12,801	576,769	917,736
TOTAL LIABILITIES AND FUND BALANCES	\$ 293,831	\$ 56,766	\$ 13,189	\$ 576,769	

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

Capital assets used by governmental activities	5,077,127
Deferred outflow - pension items	226,745
Net pension obligation	(1,240,193)
Compensated absences liability	(22,722)
Long-term notes & bonds payable for governmental activities	(139,308)
Accrued interest expense	(1,863)
Deferred inflows - pension items	(181,807)
Internal service funds included in governmental activities	422,109
Net position of governmental activities	\$ 5,057,824

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2017**

	General	Major Street	Local Street	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:					
Taxes	\$ 983,057	\$ -	\$ -	\$ 56,786	\$ 1,039,843
Licenses and Permits	3,170	-	-	-	3,170
Federal Sources	1,126	-	-	-	1,126
State Revenues	278,564	186,114	72,810	-	537,488
Local Revenues	167,240	-	-	-	167,240
Charges for Services	175,243	-	-	-	175,243
Interest and Rents	20,903	7	1	83	20,994
Other Revenue	99,355	23,500	-	8,369	131,224
TOTAL REVENUES	<u>1,728,658</u>	<u>209,621</u>	<u>72,811</u>	<u>65,238</u>	<u>2,076,328</u>
EXPENDITURES:					
Legislative	23,392	-	-	-	23,392
General Government	545,208	-	-	18,188	563,396
Public Safety	581,909	-	-	-	581,909
Public Works	84,371	214,616	149,728	-	448,715
Community and Economic Development	50,050	-	-	-	50,050
Health and Welfare	116,406	-	-	-	116,406
Recreation and Cultural	222,682	-	-	-	222,682
Debt Service	22,313	-	-	39,976	62,289
TOTAL EXPENDITURES	<u>1,646,331</u>	<u>214,616</u>	<u>149,728</u>	<u>58,164</u>	<u>2,068,839</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	82,327	(4,995)	(76,917)	7,074	7,489
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	70,745	71,323	473,478	615,546
Operating Transfers Out	(53,976)	(25,000)	-	(103,068)	(182,044)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(53,976)</u>	<u>45,745</u>	<u>71,323</u>	<u>370,410</u>	<u>433,502</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	28,351	40,750	(5,594)	377,484	440,991
FUND BALANCES, JULY 1	243,318	15,747	18,395	199,285	476,745
FUND BALANCES, JUNE 30	<u>\$ 271,669</u>	<u>\$ 56,497</u>	<u>\$ 12,801</u>	<u>\$ 576,769</u>	<u>\$ 917,736</u>

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2017**

Net changes in fund balances - total governmental funds	\$ 440,991
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 (\$319,587) and loss (\$420) exceeded capital outlay \$136,608 in the current period.	(183,399)
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	144,724
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.	2,269
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	(23,876)
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	20,311
Accrued Interest	2,871
	<hr/>
Changes in net position of governmental activities	<u>\$ 403,891</u>

**Statement of Net Position
Proprietary Funds
June 30, 2017**

	Business - type Activities Enterprise Funds					Total	Governmental Activities
	Sewer	Water	Tourist Park	EJ Harbor Marina	Non major Solid Waste Transfer Station		Internal Service Fund
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 370,777	\$ 307,747	\$ 64,846	\$ 200	\$ -	\$ 743,570	\$ 86,047
Cash and Equivalents-Restricted	375,504	231,787	-	-	-	607,291	-
Accounts Receivable - Net	41,942	59,104	2,816	3,176	-	107,038	12
Prepays and Inventory	-	1,531	2,355	14,623	-	18,509	-
Capital Assets Not Depreciated	21,626	36,322	7,769	289,285	-	355,002	-
Capital Assets (Net of Accumulated Depreciation)	2,511,454	3,740,832	80,953	952,898	54,532	7,340,669	623,747
TOTAL ASSETS	3,321,303	4,377,323	158,739	1,260,182	54,532	9,172,079	709,806
DEFERRED OUTFLOWS OF RESOURCES:							
Pension Investment Experience and Contributions	29,070	26,165	8,722	-	-	63,957	-
LIABILITIES:							
Accounts Payable	17,000	-	-	9,816	-	26,816	-
Accrued Liabilities	2,095	845	2,768	1,634	138	7,480	1,431
Accrued Interest	2,678	8,305	-	2,770	-	13,753	2,905
Due to Other Funds	-	-	-	50,086	1,980	52,066	-
Customer Deposits	-	100	52,563	20,489	-	73,152	-
Compensated Absences - Due in more than one year	6,346	5,481	326	33	167	12,353	6,155
Net Pension Obligation - Due in more than one year	204,828	187,136	67,031	-	-	458,995	-
Installment Loans Payable - Due within one year	-	-	-	14,105	-	14,105	57,444
Installment Loans Payable - Due in more than one year	-	-	-	28,480	-	28,480	219,762
Bonds Payable - Due within one year	11,000	151,000	-	18,000	-	180,000	-
Bonds Payable - Due in more than one year	601,000	1,618,000	-	100,000	-	2,319,000	-
TOTAL LIABILITIES	844,947	1,970,867	122,688	245,413	2,285	3,186,200	287,697
DEFERED INFLOWS OF RESOURCES:							
Pension Assumptions and Experience	23,309	20,978	6,993	-	-	51,280	-
NET POSITION:							
Net Investment in Capital Assets	1,921,080	2,008,154	88,722	1,081,598	54,532	5,154,086	346,541
Unrestricted	561,037	403,489	(50,942)	(66,829)	(2,285)	844,470	75,568
TOTAL NET POSITION	\$ 2,482,117	\$ 2,411,643	\$ 37,780	\$ 1,014,769	\$ 52,247	\$ 5,998,556	\$ 422,109

City of East Jordan, Michigan

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds For the Year Ended June 30, 2017

	Business - type Activities Enterprise Funds					Total	Governmental Activities
	Sewer	Water	Tourist Park	EJ Harbor Marina	Nonmajor Solid Waste Transfer Station		Internal Service Fund
OPERATING REVENUES:							
Charges for Services	\$ 467,760	\$ 614,651	\$ 187,314	\$ 111,949	\$ 46,186	\$ 1,427,860	\$ 357,940
Total Operating Revenues	467,760	614,651	187,314	111,949	46,186	1,427,860	357,940
OPERATING EXPENSES:							
Personnel Services	153,955	140,497	74,837	41,136	15,604	426,029	143,079
Contracted Services	255,692	11,976	5,475	1,362	1,730	276,235	393
Insurance	931	1,455	399	2,457	16	5,258	9,009
Equipment Rental	47,309	38,719	2,922	532	6,650	96,132	-
Supplies	1,513	8,630	10,762	75,798	32,471	129,174	39,787
Utilities	55,841	35,888	39,799	20,915	954	153,397	13,964
Repair and Maintenance	19,667	22,241	26,166	11,482	869	80,425	61,779
Depreciation	87,653	103,133	10,126	48,243	1,536	250,691	91,974
Miscellaneous	5,808	6,077	12,052	8,535	174	32,646	3,653
Total Operating Expenses	628,369	368,616	182,538	210,460	60,004	1,449,987	363,638
OPERATING INCOME (LOSS)	(160,609)	246,035	4,776	(98,511)	(13,818)	(22,127)	(5,698)
NON-OPERATING REVENUES (EXPENSES):							
Interest and Rents	941	290	9,992	54,028	9	65,260	30
Miscellaneous Revenue	170	674	571	352	641	2,408	12,351
Interest Expense	(13,581)	(41,882)	-	-	-	(55,463)	(4,414)
Total Non-Operating Revenues (Expenses)	(12,470)	(40,918)	10,563	54,380	650	12,205	7,967
Income (Loss) Before Transfers	(173,079)	205,117	15,339	(44,131)	(13,168)	(9,922)	2,269
Operating Transfers Out	(433,502)	-	-	-	-	(433,502)	-
CHANGES IN NET POSITION	(606,581)	205,117	15,339	(44,131)	(13,168)	(443,424)	2,269
NET POSITION, JULY 1	3,088,698	2,206,526	22,441	1,058,900	65,415	6,441,980	419,840
NET POSITION, JUNE 30	<u>\$ 2,482,117</u>	<u>\$ 2,411,643</u>	<u>\$ 37,780</u>	<u>\$ 1,014,769</u>	<u>\$ 52,247</u>	<u>\$ 5,998,556</u>	<u>\$ 422,109</u>

**Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2017**

	Business - type Activities Enterprise Funds					Governmental Activities	
	Sewer	Water	Tourist Park	EJ Harbor Marina	Nonmajor Solid Waste Transfer Station	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers	\$ 550,123	\$ 696,099	\$ 188,408	\$ 112,611	\$ 46,186	\$ 1,593,427	\$ -
Payments to Suppliers	(401,594)	(246,800)	(98,252)	(121,503)	(42,864)	(911,013)	(126,754)
Payments to Employees	(137,954)	(126,190)	(68,490)	(40,810)	(15,587)	(389,031)	(141,703)
Internal Activity - Payments/Receipts with Other Funds	-	-	-	26,026	1,980	28,006	357,942
Net Cash Provided (Used) by Operating Activities	10,575	323,109	21,666	(23,676)	(10,285)	321,389	89,485
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:							
Other Revenue	170	674	571	352	641	2,408	12,351
Operating Transfers In/(Out)	(433,502)	-	-	-	-	(433,502)	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	(433,332)	674	571	352	641	(431,094)	12,351
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Purchase of Capital Assets	-	-	-	-	(22,255)	(22,255)	(13,975)
Asset Adjustment	-	1,050	-	-	-	1,050	-
Interest Payments	(13,581)	(41,882)	-	-	-	(55,463)	(4,414)
Principal Payments	(11,000)	(150,000)	-	(30,504)	-	(191,504)	(52,550)
Net Cash Provided (Used) by Capital and Related Financing Activities	(24,581)	(190,832)	-	(30,504)	(22,255)	(268,172)	(70,939)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Interest Income	941	290	9,992	54,028	9	65,260	30
Net Cash Provided (Used) by Investing Activities	941	290	9,992	54,028	9	65,260	30
Net Increase (Decrease) in Cash and Equivalents	(446,397)	133,241	32,229	200	(31,890)	(312,617)	30,927
Balances - Beginning of the Year	1,192,678	406,293	32,617	-	31,890	1,663,478	55,120
Balances - End of the Year	\$ 746,281	\$ 539,534	\$ 64,846	\$ 200	\$ -	\$ 1,350,861	\$ 86,047
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	\$ (160,609)	\$ 246,035	\$ 4,776	\$ (98,511)	\$ (13,818)	\$ (22,127)	\$ (5,698)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation Expense	87,653	103,133	10,126	48,243	1,536	250,691	91,974
Change in Assets and Liabilities:							
(Increase) Decrease in Assets:							
Accounts Receivable	82,363	81,448	(2,816)	208	-	161,203	2
Prepays and Inventory	-	-	(677)	4,321	-	3,644	-
Increase (Decrease) in Liabilities:							
Accounts Payable	(13,177)	(114,603)	-	(2,862)	-	(130,642)	-
Accrued Liabilities	16,001	13,344	6,290	453	10	36,098	294
Accrued Interest	(2,773)	(7,211)	-	(1,881)	-	(11,865)	1,831
Due to Other Funds	-	-	-	26,026	1,980	28,006	-
Customer Deposits	-	-	3,910	454	-	4,364	-
Compensated Absences	1,117	963	57	(127)	7	2,017	1,082
Net Cash Provided (Used) by Operating Activities	\$ 10,575	\$ 323,109	\$ 21,666	\$ (23,676)	\$ (10,285)	\$ 321,389	\$ 89,485

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Agency	Expendable Trust			Totals	
	Tax Collection	Perpetual Care	Police Dept Trust	Ambulance Trust		Fire Dept Trust
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 26,838	\$ 198,661	\$ 7,219	\$ 25	\$ 1,336	\$ 234,079
TOTAL ASSETS	<u>\$ 26,838</u>	<u>\$ 198,661</u>	<u>\$ 7,219</u>	<u>\$ 25</u>	<u>\$ 1,336</u>	<u>\$ 234,079</u>
LIABILITIES:						
Due to Others	\$ 26,838	\$ -	\$ -	\$ -	\$ -	\$ 26,838
TOTAL LIABILITIES	<u>\$ 26,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,838</u>
NET POSITION:						
Held in Trust for Fund Purposes		\$ 198,661	\$ 7,219	\$ 25	\$ 1,336	\$ 207,241
TOTAL NET POSITION		<u>\$ 198,661</u>	<u>\$ 7,219</u>	<u>\$ 25</u>	<u>\$ 1,336</u>	<u>\$ 207,241</u>

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017**

	Expendable Trust				Totals
	Perpetual Care	Police Dept Trust	Ambulance Trust	Fire Dept Trust	
ADDITIONS:					
Fees	\$ 2,080	\$ 5,600	\$ -	\$ -	\$ 7,680
Interest Income	358	4	-	-	362
TOTAL ADDITIONS	2,438	5,604	-	-	8,042
DEDUCTIONS:					
Supplies	-	10,249	-	-	10,249
Other	362	-	-	-	362
TOTAL DEDUCTIONS	362	10,249	-	-	10,611
CHANGES IN NET POSITION	2,076	(4,645)	-	-	(2,569)
NET POSITION, JULY 1	196,585	11,864	25	1,336	209,810
NET POSITION, JUNE 30	\$ 198,661	\$ 7,219	\$ 25	\$ 1,336	\$ 207,241

Component Units

City of East Jordan, Michigan

Combining Balance Sheet Component Units June 30, 2017

	Downtown Development Authority	East Jordan Housing Commission 12/31/2016	Totals
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 109,822	\$ 67,406	\$ 177,228
Cash and Equivalents - Restricted	-	29,095	29,095
Accounts Receivable	-	3,292	3,292
Prepays and Inventory	-	2,999	2,999
Capital Assets Not Depreciated	-	49,307	49,307
Capital Assets (Net of Accumulated Depreciation)	3,750	157,348	161,098
TOTAL ASSETS	113,572	309,447	423,019
DEFERRED OUTFLOWS OF RESOURCES:			
Pension investment experience and contributions	-	16,566	16,566
LIABILITIES:			
Accounts Payable	-	12,068	12,068
Accrued Liabilities	100	14,164	14,264
Customer Deposits	-	5,719	5,719
Unearned Revenue	-	256	256
Net Pension Liability	-	18,740	18,740
TOTAL LIABILITIES	100	50,947	51,047
DEFERRED INFLOWS OF RESOURCES:			
Pension experience	-	6,046	6,046
NET POSITION:			
Net Investment in Capital Assets	3,750	206,655	210,405
Restricted	99	-	99
Unrestricted	109,623	62,365	171,988
TOTAL NET POSITION	113,472	269,020	382,492
TOTAL LIABILITIES AND NET POSITION	\$ 113,572	\$ 319,967	\$ 433,539

**Combining Statement of Revenues, Expenditures
and Changes in Net Position
Component Units
For the Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	East Jordan Housing Commission 12/31/2016	Total
Public Works:							
East Jordan Housing Commission	\$ 164,025	\$ 104,435	\$ 54,971	\$ -	\$ -	\$ (4,619)	\$ (4,619)
Economic Development:							
Downtown Development Authority	196,266	-	-	-	(196,266)	-	(196,266)
Total Component Units	<u>\$ 360,291</u>	<u>\$ 104,435</u>	<u>\$ 54,971</u>	<u>\$ -</u>	<u>(196,266)</u>	<u>(4,619)</u>	<u>(200,885)</u>
General Revenues:							
Taxes					217,512	-	217,512
Interest Income					85	328	413
Miscellaneous					11,646	9,026	20,672
Total General Revenues					<u>229,243</u>	<u>9,354</u>	<u>238,597</u>
Changes in Net Position					32,977	4,735	37,712
Net Position - Beginning					<u>80,495</u>	<u>264,285</u>	<u>344,780</u>
Net Position - Ending					<u>\$ 113,472</u>	<u>\$ 269,020</u>	<u>\$ 382,492</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Discretely Presented Component Units

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

Agency Funds. These funds account for assets held for others in an expendable trust.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash and Equivalents

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

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

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

Receivables and Payables

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

Interfund Receivables and Payables

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

Property Taxes

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

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

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

Inventories and Prepaids Items

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

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

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

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

Buildings	40 to 60 years
Land Improvements	15 to 30 years
Machinery and Equipment	3 to 15 years
Sewer Lagoons	25 years
Mains	50 to 75 years
Infrastructure	10 to 30 years

Compensated Absences

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

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

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has pension items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has pension items that qualify for reporting in this category.

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

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

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

Fund Balance Classification

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

- **Nonspendable**: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year. The City has \$3,675 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 \$545,536 in restricted fund balance for debt service and capital project funds.
- **Committed**: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City. These amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City has \$0 classified as committed fund balance.
- **Assigned**: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned funds in the amount of \$99,635.
- **Unassigned**: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

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

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

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

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

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

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

NOTE 3 - CASH AND EQUIVALENTS

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents - Unrestricted	\$ 846,490	\$ 743,570	\$ 1,590,060	\$ 234,079	\$ 177,228
Cash and Equivalents – Restricted	<u>20,230</u>	<u>607,291</u>	<u>627,521</u>	-	<u>29,095</u>
Total	<u>\$ 866,720</u>	<u>\$ 1,350,861</u>	<u>\$ 2,217,581</u>	<u>\$ 234,079</u>	<u>\$ 206,323</u>

Cash and equivalents are restricted in the amount of \$627,521 for the following: \$2,830 for Special Revenue Funds, \$17,400 for General Fund, and \$607,291 for Bond Reserves of Water and Sewer Funds.

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 2,216,464	\$ 234,079	\$ 206,323
Petty Cash and Cash on Hand	<u>1,117</u>	-	-
Total	<u>\$ 2,217,581</u>	<u>\$ 234,079</u>	<u>\$ 206,323</u>

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

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

NOTE 3 - CASH AND EQUIVALENTS (Continued)

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,907,117 of the City's bank balance of \$2,608,447 was exposed to credit risk because it was uninsured and uncollateralized.

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

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

Statutory Authority:

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

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

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

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

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

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

NOTE 4 - CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Disposals</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 301,450	\$ -	\$ -	\$ 301,450
<i>Capital assets being depreciated:</i>				
Buildings	2,626,284	-	-	2,626,284
Land Improvements	292,080	89,263	-	381,343
Machinery and Equipment	3,978,034	28,997	(142,562)	3,864,469
Infrastructure	<u>4,513,852</u>	<u>32,323</u>	-	<u>4,546,175</u>
Subtotal	<u>11,410,250</u>	<u>150,583</u>	<u>(142,562)</u>	<u>11,418,271</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(807,483)	(54,186)	-	(861,669)
Land Improvements	(131,177)	(4,769)	-	(135,946)
Machinery and Equipment	(2,515,706)	(171,753)	142,142	(2,545,317)
Infrastructure	<u>(2,295,062)</u>	<u>(180,853)</u>	-	<u>(2,475,915)</u>
Subtotal	<u>(5,749,428)</u>	<u>(411,561)</u>	<u>142,142</u>	<u>(6,018,847)</u>
Net Capital Assets Being Depreciated	<u>5,660,822</u>	<u>(260,978)</u>	<u>(420)</u>	<u>5,399,424</u>
Capital Assets, Net	<u>\$ 5,962,272</u>	<u>\$ (260,978)</u>	<u>\$ (420)</u>	<u>\$ 5,700,874</u>

NOTE 4 - CAPITAL ASSETS (Continued)

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

Governmental Activities	
General Government	\$ 5,460
Public Safety	93,917
Public Works	190,320
Recreation and Culture	29,890
Internal Service	<u>91,974</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 411,561</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments</u>	<u>Disposals</u>	<u>Ending Balances</u>
Business-type Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 355,002	\$ -	\$ -	\$ -	\$ 355,002
<i>Capital assets being depreciated:</i>					
Sewer Lagoons	2,144,991	-	-	-	2,144,991
Buildings	216,707	22,255	-	-	238,962
Mains	7,945,348	-	-	-	7,945,348
Land Improvements	2,335,174	-	-	-	2,335,174
Machinery and Equipment	<u>216,744</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>216,744</u>
Subtotal	<u>12,858,964</u>	<u>22,255</u>	<u>-</u>	<u>-</u>	<u>12,881,219</u>
<i>Less accumulated depreciation for:</i>					
Sewer Lagoons	(1,041,029)	(42,900)	-	-	(1,083,929)
Buildings	(152,521)	(2,590)	-	-	(155,111)
Mains	(2,719,359)	(143,553)	(1,145)	-	(2,864,057)
Land Improvements	(1,238,769)	(47,500)	-	-	(1,286,269)
Machinery and Equipment	<u>(137,131)</u>	<u>(14,148)</u>	<u>95</u>	<u>-</u>	<u>(151,184)</u>
Subtotal	<u>(5,288,809)</u>	<u>(250,691)</u>	<u>(1,050)</u>	<u>-</u>	<u>(5,540,550)</u>
Net Capital Assets Being Depreciated	<u>7,570,155</u>	<u>(228,436)</u>	<u>(1,050)</u>	<u>-</u>	<u>7,340,669</u>
Capital Assets, Net	<u>\$ 7,925,157</u>	<u>\$ (228,436)</u>	<u>\$ (1,050)</u>	<u>\$ -</u>	<u>\$ 7,695,671</u>

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

Business-type Activities	
Sewer	\$ 87,653
Water	103,133
Tourist Park	10,126
E.J. Harbor Marina	48,243
Solid Waste Transfer Station	<u>1,536</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 250,691</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances 01/01/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances 12/31/16</u>
East Jordan Housing Commission:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 49,307	\$ -	\$ -	\$ 49,307
<i>Capital assets being depreciated:</i>				
Buildings	1,066,953	43,453	-	1,110,406
Furniture, Equipment & Machinery - Dwelling	19,330	1,630	449	20,511
Furniture, Equipment & Machinery - Administration	<u>16,627</u>	<u>-</u>	<u>-</u>	<u>16,627</u>
Subtotal	<u>1,102,910</u>	<u>45,083</u>	<u>449</u>	<u>1,147,544</u>
<i>Less accumulated depreciation</i>	<u>(967,792)</u>	<u>(22,853)</u>	<u>449</u>	<u>(990,196)</u>
Net Capital Assets Being Depreciated	<u>135,118</u>	<u>22,230</u>	<u>-</u>	<u>157,348</u>
Capital Assets, Net	<u>\$ 184,425</u>	<u>\$ 22,230</u>	<u>\$ -</u>	<u>\$ 206,655</u>

Depreciation expense in the amount of \$22,853 was charged to Public Works of the Business-type activities.

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
City of East Jordan DDA:				
<i>Capital assets being depreciated:</i>				
Furniture and Equipment	\$ 5,000	\$ -	\$ -	\$ 5,000
<i>Less accumulated depreciation</i>	<u>(750)</u>	<u>(500)</u>	<u>-</u>	<u>(1,250)</u>
Net Capital Assets Being Depreciated	<u>4,250</u>	<u>(500)</u>	<u>-</u>	<u>3,750</u>
Capital Assets, Net	<u>\$ 4,250</u>	<u>\$ (500)</u>	<u>\$ -</u>	<u>\$ 3,750</u>

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

NOTE 5 - PROPERTY TAXES

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

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

The taxable value of real and personal property located in the City at December 31, 2016 totaled \$54,600,327. The tax levy for that year was based on the following rates:

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

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

		DUE TO OTHER FUNDS		
		E.J. Harbor Marine	Solid Waste Transfer Station	Totals
DUE FROM OTHER FUNDS	General Fund	\$ 50,086	\$ 1,980	\$ 52,066

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	Totals
TRANSFERS OUT	General Fund	\$ -	\$ 14,000	\$ 39,976	\$ 53,976
	Major Street	-	25,000	-	25,000
	Nonmajor Governmental	70,745	32,323	-	103,068
	Sewer	-	-	433,502	433,502
	Total	<u>\$ 70,745</u>	<u>\$ 71,323</u>	<u>\$ 473,478</u>	<u>\$ 615,546</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:

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General Obligation Bonds:							
\$175,000 Capital Improvement Bonds for Streets	4.30%	2021	85,000	-	15,000	70,000	15,000
\$47,000 Refunding Bond Series 2015	2.00%	2018	47,000	-	47,000	-	-
Installment Purchase Agreements:							
\$49,167 Caterpillar	2.50%	2019	30,226	-	9,827	20,399	10,073
\$214,446 Fire Truck	4.40%	2018	58,722	-	18,737	39,985	19,562
\$153,836 Dump Truck	2.75%	2017	51,279	-	25,640	25,639	25,639
\$51,250 Tractor	2.25%	2017	34,167	-	17,083	17,084	17,084
\$37,528 Police Vehicle	2.00%	2019	37,528	-	12,509	25,019	12,509
\$214,084 Street Sweeper	2.50%	2021	214,084	-	-	214,084	4,648
\$127,886 Ambulance Chassis	4.50%	2023	49,448	-	49,448	-	-
\$8,364 2016 Toro Workman	3.35%	2019	6,334	-	2,030	4,304	2,851
Total Governmental Activities – Long-Term Debt			<u>613,788</u>	<u>-</u>	<u>197,274</u>	<u>416,514</u>	<u>107,366</u>
Business-type Activities							
General Obligation Bonds:							
\$834,218 Water Bonds	2.50%	2020	200,000	-	50,000	150,000	50,000
\$1,290,000 Water Bonds	2.50%	2020	310,000	-	75,000	235,000	75,000
\$250,000 2007B Harbor Bonds	4.20%	2023	135,000	-	17,000	118,000	18,000
\$1,525,000 Water Capital Improvement Bonds	2.0% to 3.55%	2051	1,409,000	-	25,000	1,384,000	26,000
\$675,000 Sewer Capital Improvement Bonds	2.0% to 3.55%	2051	623,000	-	11,000	612,000	11,000
Installment Purchase Agreements:							
\$103,000 2009 Harbor	4.45%	2020	56,089	-	13,504	42,585	14,105
Total Business-type Activities – Long-Term Debt			<u>2,733,089</u>	<u>-</u>	<u>191,504</u>	<u>2,541,585</u>	<u>194,105</u>
Governmental Compensated Absences			48,106	-	19,229	28,877	-
Business-type Compensated Absences			10,336	2,017	-	12,353	-
Total Long-Term Debt			<u>\$3,405,319</u>	<u>\$ 2,017</u>	<u>\$ 408,007</u>	<u>\$2,999,329</u>	<u>\$ 301,471</u>

NOTE 7 - LONG-TERM DEBT (Continued)

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

Year End June 30	Governmental Activities		Business-type Activities	
	Bonds/Installments Payable		Bonds/Installments Payable	
	Principal	Interest	Principal	Interest
2018	\$ 107,366	\$ 11,980	\$ 194,105	\$ 67,869
2019	94,619	8,884	201,733	62,367
2020	54,906	6,083	201,747	56,666
2021	54,906	4,351	60,000	51,587
2022	34,906	2,618	63,000	49,676
2023-2027	69,811	2,618	243,000	225,326
2028-2032	-	-	253,000	193,973
2033-2037	-	-	289,000	159,128
2038-2042	-	-	328,000	119,228
2043-2047	-	-	373,000	73,841
2048-2051	-	-	335,000	22,483
Total	<u>\$ 416,514</u>	<u>\$ 36,534</u>	<u>\$ 2,541,585</u>	<u>\$ 1,082,144</u>

Accumulated Sick and Vacation Pay

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

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

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

The accumulated sick and vacation pay liability is \$41,230 at June 30, 2017.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

PRIMARY GOVERNMENT

Description of Plan and Plan Assets

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.00% and 2.5% for employees times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2016.

General Information about the Pension Plan

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

01 – DPW: Open Division	
	<u>2016 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 years
Employee Contributions	6%
Act 88:	Yes (Adopted 1/3/1967)

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

02 – Police: Open Division	
	<u>2016 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	5 years
Employee Contributions	6%
Act 88:	Yes (Adopted 1/3/1967)
10 – Dept Hds: Open Division	
	<u>2016 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 Years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	3 years
Employee Contributions	3%
Act 88:	Yes (Adopted 1/3/1967)
12 – Gnl Other: Open Division	
	<u>2016 Valuation</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	5 years
Employee Contributions	3%
Act 88:	Yes (Adopted 1/3/1967)

Employees Covered by Benefit Terms

At December 31, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>16</u>
	42

Funding Policy

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

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

The contribution rate as a percentage of payroll at June 30, 2017 is as follows:

DPW	10.62%
Police	19.68%
Dept Hds	23.61%
Gnl Other	10.04%

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.75 percent in the long-term
Investment rate of return	7.75 percent

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

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

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

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

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

Discount Rate. The discount rate used to measure the total pension liability is 8.0% for 2016 and thereafter. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 4,857,268	\$ 3,026,963	\$ 1,830,305
Service cost	84,621	-	84,621
Interest on total pension liability	379,944	-	379,944
Changes in benefits	-	-	-
Difference between expected and actual experience	(99,810)	-	(99,810)
Changes in assumptions	-	-	-
Employer contributions	-	129,081	(129,081)
Employee contributions	-	34,980	(34,980)
Net investment income	-	338,499	(338,499)
Benefit payments, including employee refunds	(300,566)	(300,566)	-
Administrative expense	-	(6,688)	6,688
Other changes	-	-	-
Net changes	64,189	195,306	(131,117)
Balances as of December 31, 2016	\$ 4,921,457	\$ 3,222,269	\$ 1,699,188

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$2,249,681	\$1,699,188	\$1,252,285

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

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

For the year ended June 30, 2017, the City recognized pension expense of \$186,917. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 233,087
Changes in assumptions	102,102	-
Net difference between projected and actual earnings on pension plan investments	125,070	-
Contributions subsequent to the measurement date	63,530	-
Total	\$ 290,702	\$ 233,087

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

Year Ended June 30:

2018	\$ 103,618	\$ 116,544
2019	103,618	116,543
2020	40,349	-
2021	(20,413)	-

For the year ended June 30, 2017, the City’s annual pension cost of 128,071 for the plan equaled the required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2016, using the entry normal cost method. Significant actuarial assumptions used included (a) an 8% investment rate of return; (b) projected salary increases of 4.50% per year; and (c) 0.00 to 8.40% per year merit and longevity increases. Both determined using techniques that smooth the effect of short-term volatility over a four-year period. The City’s unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 26 years.

EAST JORDAN HOUSING COMMISSION

Description of Plan and Plan Assets

The Housing Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.00% and 2.5% for employees times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2016.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

General Information about the Pension Plan

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

Open Division	
	2015 Valuation
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	5 years
Employee Contributions	3%
Act 88:	Yes (Adopted 1/3/1967)

Contributions

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

Net Pension Liability

The employer’s Net Pension Liability was measured as of December 31, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
\$116,589	\$97,849	\$18,740

Actuarial assumptions

The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 3%-4%, Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2015, 2016 and 2017, respectively). Investment rate of return: 8.25%, net of investment expense, including inflation.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 111,198	\$ 92,774	\$ 18,424
Service cost	2,077	-	2,077
Interest on total pension liability	7,866	-	7,866
Changes in benefits	-	-	-
Difference between expected and actual experience	(8,061)	-	(8,061)
Changes in assumptions	4,942	-	4,942
Employer contributions	-	3,035	(3,035)
Employee contributions	-	895	(895)
Net investment income	-	(1,256)	1,256
Benefit payments, including employee refunds	(24,474)	(24,474)	-
Administrative expense	-	(231)	231
Other changes	23,041	27,106	(4,065)
Net changes	5,391	5,075	316
Balances as of December 31, 2015	\$ 116,589	\$ 97,849	\$ 18,740

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Housing Commission's net pension liability	\$549,501	\$18,740	\$(464,806)

Deferred Outflows

Deferred outflows of \$16,566 exists as of December 31, 2016; the outflows consist of contributions since the measurement date December 31, 2015 thru the calendar year, and, the unamortized difference between the projected and actual investment earnings. The following summarizes these amounts:

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	3,707	6,046
Net difference between projected and actual earnings on pension plan investments	9,229	-
Contributions subsequent to the measurement date	<u>3,630</u>	<u>-</u>
 Total	 <u>\$ 16,566</u>	 <u>\$ 6,046</u>

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 11 - EXCESS EXPENDITURES OVER APPROPRIATIONS

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

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
General Government	\$ 478,999	\$ 545,208	\$ (66,209)
Community & Economic Development	\$ -	\$ 50,050	(50,050)
Health and Welfare	\$ -	\$ 116,406	(116,406)

NOTE 12 - DEFICIT UNRESTRICTED NET POSITION

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

EJ Harbor Marina	\$ 66,829
Solid Waste Transfer Station	2,285

Required Supplementary Information

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2017**

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

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended June 30, 2017**

	Actuarial Date as of December 31		
	2017	2016	2015
Actuarially determined contribution	\$ 129,081	\$ 118,460	\$ 139,018
Contributions in relation to the actuarially determined contribution	129,081	118,460	139,018
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 724,325	\$ 745,195	\$ 882,986
Contributions as a percentage of covered-employee payroll	18%	16%	16%

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%
Retirement age	In the 2014 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the 1994 Group Annuity Mortality Table - Blended 50% Male / 50% Female

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 979,900	\$ 979,900	\$ 983,057	\$ 3,157
Licenses and Permits	4,500	4,500	3,170	(1,330)
Federal Sources	2,800	2,800	1,126	(1,674)
State Sources	245,700	245,700	278,564	32,864
Local Sources	120,000	120,000	167,240	47,240
Charges for Services	36,300	36,300	175,243	138,943
Interest and Rents	12,300	12,300	20,903	8,603
Other Revenue	35,875	35,875	99,355	63,480
TOTAL REVENUES	1,437,375	1,437,375	1,728,658	291,283
EXPENDITURES:				
Legislative:				
City Council	26,535	23,535	23,392	143
General Government:				
Administrator	75,286	71,286	123,114	(51,828)
Clerk	73,585	73,585	72,337	1,248
Attorney	27,546	27,546	24,125	3,421
Treasurer	107,870	101,870	99,216	2,654
Building and Grounds	86,260	115,260	115,284	(24)
Elections	5,400	4,400	3,916	484
Assessor	28,638	28,638	28,442	196
Cemetery	30,962	39,962	40,546	(584)
Data Processing	15,010	15,010	36,895	(21,885)
Board of Review	1,942	1,442	1,333	109
Total General Government	452,499	478,999	545,208	(66,209)
Public Safety:				
Police Department	442,199	402,699	389,364	13,335
Fire Department	167,776	176,776	183,456	(6,680)
Zoning Board/Commission	9,094	9,094	9,089	5
Total Public Safety	619,069	588,569	581,909	6,660
Public Works:				
Public Works	49,643	48,488	48,764	(276)
Sidewalks	12,192	12,192	11,659	533
Street Lighting	53,000	11,100	11,029	71
Airport	11,250	11,250	12,919	(1,669)
Total Public Works	126,085	83,030	84,371	(1,341)
Community and Economic Development:				
Housing Commission and Paying Agents	-	-	50,050	(50,050)
Health and Welfare				
Emergency Medical Facility	-	-	116,406	(116,406)
Recreation and Culture:				
Parks and Recreation	67,750	103,250	107,996	(4,746)
Community and Skate Park	52,472	58,372	59,640	(1,268)
Civic Center Recreation Facility	34,784	29,784	29,585	199
Elm Pointe Recreation Facility	27,324	25,824	25,461	363
Total Recreation and Culture	182,330	217,230	222,682	(5,452)
Debt Service	22,313	22,313	22,313	-
TOTAL EXPENDITURES	1,428,831	1,413,676	1,646,331	(232,655)

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	8,544	23,699	82,327	58,628
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	85,848	85,848	-	(85,848)
Operating Transfers (Out)	<u>(38,840)</u>	<u>(53,995)</u>	<u>(53,976)</u>	<u>19</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 55,552</u>	<u>\$ 55,552</u>	28,351	<u>\$ (27,201)</u>
FUND BALANCE, JULY 1			<u>243,318</u>	
FUND BALANCE, JUNE 30			<u>\$ 271,669</u>	

City of East Jordan, Michigan

Required Supplementary Information Budgetary Comparison Schedule Major Street Fund For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 169,510	\$ 169,510	\$ 186,114	\$ 16,604
Interest	-	-	7	7
Other Revenue	-	-	23,500	23,500
TOTAL REVENUES	169,510	169,510	209,621	40,111
EXPENDITURES:				
Public Works	234,679	234,679	214,616	20,063
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(65,169)	(65,169)	(4,995)	60,174
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	70,000	70,000	70,745	745
Operating Transfers Out	(25,000)	(25,000)	(25,000)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (20,169)	\$ (20,169)	40,750	\$ 60,919
FUND BALANCE, JULY 1			15,747	
FUND BALANCE, JUNE 30			\$ 56,497	

City of East Jordan, Michigan

Required Supplementary Information Budgetary Comparison Schedule Local Street Fund For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 80,019	\$ 80,019	\$ 72,810	\$ (7,209)
Interest	-	-	1	1
TOTAL REVENUES	80,019	80,019	72,811	(7,208)
EXPENDITURES:				
Public Works	162,610	162,610	149,728	12,882
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(82,591)	(82,591)	(76,917)	5,674
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	72,000	72,000	71,323	(677)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (10,591)	\$ (10,591)	(5,594)	\$ 4,997
FUND BALANCE, JULY 1			18,395	
FUND BALANCE, JUNE 30			\$ 12,801	

Other Information

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017**

	Special Revenue Funds			Debt Service Funds		
	Fire Equipment	Rehab I and II	D.A.R.E.	2007A GO Cap.	2001 Mi Trans	2007B GO Cap.
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 151	\$ 28,319	\$ 2,763	\$ -	\$ -	\$ -
Cash and Equivalents - Restricted	-	-	-	1,737	93	1,000
TOTAL ASSETS	\$ 151	\$ 28,319	\$ 2,763	\$ 1,737	\$ 93	\$ 1,000
FUND BALANCES:						
Restricted	\$ -	\$ -	\$ -	\$ 1,737	\$ 93	\$ 1,000
Assigned	151	28,319	2,763	-	-	-
TOTAL FUND BALANCES	151	28,319	2,763	1,737	93	1,000
TOTAL LIABILITIES AND FUND BALANCES	\$ 151	\$ 28,319	\$ 2,763	\$ 1,737	\$ 93	\$ 1,000

	Capital Project Funds				
	Street Improvement Tax	Sewer USDA Construction	Bandshell	Industrial Complex	Totals
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 92,807	\$ 433,514	\$ 15,005	\$ 1,380	\$ 573,939
Cash and Equivalents - Restricted	-	-	-	-	2,830
TOTAL ASSETS	<u>\$ 92,807</u>	<u>\$ 433,514</u>	<u>\$ 15,005</u>	<u>\$ 1,380</u>	<u>\$ 576,769</u>
FUND BALANCES:					
Restricted	\$ 92,807	\$ 433,514	\$ 15,005	\$ 1,380	\$ 545,536
Assigned	-	-	-	-	31,233
TOTAL FUND BALANCES	<u>92,807</u>	<u>433,514</u>	<u>15,005</u>	<u>1,380</u>	<u>576,769</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 92,807</u>	<u>\$ 433,514</u>	<u>\$ 15,005</u>	<u>\$ 1,380</u>	<u>\$ 576,769</u>

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2017**

	Special Revenue Funds			Debt Service Funds		
	Fire Equipment	Rehab I and II	D.A.R.E.	2007A GO Cap.	2001 MI Trans	2007B GO Cap.
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Revenues	-	-	-	-	-	-
Interest and Rents	-	14	1	-	-	-
TOTAL REVENUES	-	14	1	-	-	-
EXPENDITURES:						
General Government	-	-	-	-	-	-
Debt Service	21,321	-	-	18,655	-	-
TOTAL EXPENDITURES	21,321	-	-	18,655	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,321)	14	1	(18,655)	-	-
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	21,321	-	-	18,655	-	-
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	21,321	-	-	18,655	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	14	1	-	-	-
FUND BALANCES, JULY 1	151	28,305	2,762	1,737	93	1,000
FUND BALANCES, JUNE 30	\$ 151	\$ 28,319	\$ 2,763	\$ 1,737	\$ 93	\$ 1,000

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2017**

	Capital Project Funds				Totals
	Street Improvement Tax	Sewer USDA Construction	Bandshell	Industrial Complex	
REVENUES:					
Taxes	\$ 56,786	\$ -	\$ -	\$ -	\$ 56,786
Other Revenues	-	-	8,369	-	8,369
Interest and Rents	48	12	6	2	83
TOTAL REVENUES	56,834	12	8,375	2	65,238
EXPENDITURES:					
General Government	-	-	14,554	3,634	18,188
Debt Service	-	-	-	-	39,976
TOTAL EXPENDITURES	-	-	14,554	3,634	58,164
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	56,834	12	(6,179)	(3,632)	7,074
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	433,502	-	-	473,478
Operating Transfers Out	(103,068)	-	-	-	(103,068)
TOTAL OTHER FINANCING SOURCES (USES)	(103,068)	433,502	-	-	370,410
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(46,234)	433,514	(6,179)	(3,632)	377,484
FUND BALANCES, JULY 1	139,041	-	21,184	5,012	199,285
FUND BALANCES, JUNE 30	\$ 92,807	\$ 433,514	\$ 15,005	\$ 1,380	\$ 576,769

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

PHILLIP J. WOLF, CPA

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, 2017, and the related notes to the financial statements, which collectively comprise the City of East Jordan, Michigan's basic financial statements and have issued our report thereon dated December 18, 2017. Our report includes a reference to other auditors who audited the financial statements of the East Jordan Housing Commission, as described in our report on the City of East Jordan, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

To the City Commission
City of East Jordan

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency listed as 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of East Jordan, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-002 and 2017-003.

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

December 18, 2017

Significant Deficiency

Internal Control Over Financial Reporting

Preparation of Financial Statements in Accordance with GAAP

Finding 2017-001

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

Noncompliance with State Statutes

Deficit Unrestricted Net Position

Finding 2017-002

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

Condition: The City's E.J. Harbor Marina and Solid Waste Transfer Station Funds have a deficit in unrestricted net position.

Cause: The E.J. Harbor Marina and Solid Waste Transfer Station Funds have a negative unrestricted net position balance of \$66,829 and \$2,285 respectively.

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

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

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

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

Significant Deficiency

Noncompliance with State Statues

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 2017-003

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

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

The City’s 2016/2017 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2016/2017 expenditures exceeded the Board’s approved budget allocations for three general fund activities.

During the fiscal year ended June 30, 2017, expenditures were incurred in excess of amounts appropriated in the amended budget for the general fund on page 48 of the financial statements.

Cause: Unknown.

Effect: Condition violates State Law.

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

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

- *Contact Person(s) Responsible for Correction:*
Heather Jackson, Treasurer
- *Anticipated Completion Date:*
2016-2017 fiscal year.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

PHILLIP J. WOLF, CPA

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, 2017, and have issued our report thereon dated December 18, 2017. 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 19, 2017, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on October 19, 2017.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of East Jordan, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

The financial statements disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

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

Accounting (Prior Year)

It was noted during our audit, not all account receivables were recorded in the proper period at year end. We recommend that all receipts be recorded in the proper period before year end.

Status: Corrected.

Inventory (Prior Year)

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

Status: Uncorrected.

Single Approach for Reporting Leases

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

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

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

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

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

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

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

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

Other Matters

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

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

Conclusion

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

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



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

December 18, 2017