



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Herman A. Bertuleit

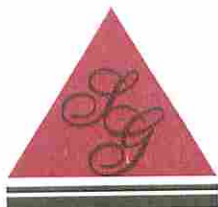
CITY OF EAST TAWAS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 2009

# I\_N\_D\_E\_X

## AUDITORS' REPORT

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December 04, 2009

Independent Auditors' Report

Members of the City Council  
City of East Tawas  
Iosco County, Michigan

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 Tawas, Iosco County, Michigan, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements, as listed in the index. These financial statements are the responsibility of the City of East Tawas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Tawas Housing Commission, a component unit. The financial statements, reported discretely, reflect total assets of \$1,627,372 as of December 31, 2008, and total revenues of \$530,688 for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tawas Housing Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph 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 Tawas, Iosco County, Michigan, as of September 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Tawas' basic financial statements. The combining nonmajor and East Tawas TIFA - component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor and East Tawas TIFA - component unit fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Gracik & Co., P.C.*



# City of East Tawas

760 Newman Street ♦ PO Box 672 ♦ East Tawas, Michigan 48730-0672  
989.362.6161 ♦ fax 989.362.6736 ♦ cityhall.etch@charterinternet.com

[www.easttawas.com](http://www.easttawas.com)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of East Tawas' (the City) financial performance provides an overview of the City's financial activities for the year ended September 30, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole. The discussion focuses on the City's primary government and, unless otherwise noted, does not include the component units reported separately from the primary government.

### Financial Highlights

#### Financial Highlights

The City's assets exceeded its liabilities by \$16,783,594. Business-type activities (Enterprise Funds) account for \$9,660,416 of this total.

The City's total net assets increased by \$515,026. This is a 3.2% increase.

The City's governmental funds reported a combined ending fund balance of \$2,454,461 this year, a decrease of \$248,386. Of this amount, \$2,066,071 is available for spending (*unreserved/undesignated fund balance*) on behalf of its citizens. The General Fund 2008/2009 fiscal year end fund balance is \$1,190,233. This reflects a decrease of \$295,538 from fiscal year 2007/2008.

The City's total bonded and contract indebtedness was reduced by \$461,872.

### Overview of the Financial Statements

The financial statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The City's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the City as a whole. These statements include the financial activities of the primary government and its component units except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

With this report, capital assets are listed for the City of East Tawas. These assets are comprised of buildings and improvements, land improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total \$13,978,961 net of accumulated depreciation.

### **Fund Financial Statements**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental*, *Proprietary* and *Fiduciary*.

#### ***Governmental Funds:***

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Major Streets Fund – This fund accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.
- Federal Project Fund – This fund accounts for the collection of note receivable activity as a result of loans to downtown businesses from previous UDAG monies.

#### ***Proprietary Funds:***

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the City's major enterprise funds:

- Sewer Fund – This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.
- Water Fund – This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.
- City Park Fund – This fund accounts for funds received for constructing, operating and maintaining the City's park facilities.

***Fiduciary Funds:*** Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City for political subdivisions in which the City acts as the fiscal agent.

## Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the City *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining nonmajor fund statements.

## Government-Wide Financial Analysis

### Summary of Net Assets:

The following summarizes the net assets of the City of East Tawas at September 30, 2009 and 2008:

#### Net Assets Summary

|                             | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>September 30, 2009</u> | <u>September 30, 2008</u> |
|-----------------------------|------------------------------------|-------------------------------------|---------------------------|---------------------------|
| Current Assets              | \$ 3,681,224                       | \$ 2,290,315                        | \$ 5,971,539              | \$ 5,330,146              |
| Restricted Assets           | 0                                  | 197,755                             | 197,755                   | 947,919                   |
| Other Noncurrent Assets     | 460,866                            | 1,376,446                           | 1,837,312                 | 1,885,379                 |
| Capital Assets – net        | <u>6,274,565</u>                   | <u>7,704,396</u>                    | <u>13,978,961</u>         | <u>13,722,238</u>         |
| <b>Total Assets</b>         | <u>10,416,655</u>                  | <u>11,568,912</u>                   | <u>21,985,567</u>         | <u>21,885,682</u>         |
| Current Liabilities         | 1,254,225                          | 304,926                             | 1,559,151                 | 1,514,526                 |
| Long-Term Liabilities       | <u>2,039,252</u>                   | <u>1,603,570</u>                    | <u>3,642,822</u>          | <u>4,102,588</u>          |
| <b>Total Liabilities</b>    | <u>3,293,477</u>                   | <u>1,908,496</u>                    | <u>5,201,973</u>          | <u>5,617,114</u>          |
| <b>Net Assets</b>           |                                    |                                     |                           |                           |
| Invested in Capital Assets, |                                    |                                     |                           |                           |
| Net of Related Debt         | 4,270,870                          | 6,339,443                           | 10,610,313                | 10,285,854                |
| Restricted                  | 83,665                             | 197,755                             | 281,420                   | 1,029,163                 |
| Unrestricted                | <u>2,768,643</u>                   | <u>3,123,218</u>                    | <u>5,891,861</u>          | <u>4,953,551</u>          |
| <b>Total Net Assets</b>     | <u>\$ 7,123,178</u>                | <u>\$ 9,660,416</u>                 | <u>\$ 16,783,594</u>      | <u>\$ 16,268,568</u>      |

### Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2009 with comparative totals for 2008.

Generally speaking, the City's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The City of East Tawas, through its governing body, i.e., City Council, has taken a sensible approach vis-à-vis capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

### Summary of Changes in Net Assets (Continued) :

The City Council has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>September 30, 2009</u> | <u>September 30, 2008</u> |
|---|------------------------------------|-------------------------------------|---------------------------|---------------------------|
| <b>Revenues:</b>  |                                    |                                     |                           |                           |
| <b>Program Revenues:</b>  |                                    |                                     |                           |                           |
| Charges for Services  | \$ 202,007                         | \$ 1,452,342                        | \$ 1,654,349              | \$ 1,609,063              |
| Operating Grants and Contributions                              | 357,671                            | 77,338                              | 435,009                   | 616,872                   |
| Capital Grants and Contributions                                | <u>218,131</u>                     | <u>10,536</u>                       | <u>228,667</u>            | <u>35,261</u>             |
| <b>Total Program Revenues</b>                                   | <u>777,809</u>                     | <u>1,540,216</u>                    | <u>2,318,025</u>          | <u>2,261,196</u>          |
| <b>General Revenues:</b>  |                                    |                                     |                           |                           |
| Property Taxes  | 1,129,928                          | 250,865                             | 1,380,793                 | 1,353,367                 |
| State Revenue Sharing   | 272,753                            | 0                                   | 272,753                   | 292,356                   |
| Interest and Investment Earnings                                | 96,056                             | 45,524                              | 141,580                   | 246,817                   |
| Rent Income   | 303,973                            | 0                                   | 303,973                   | 329,925                   |
| Sale of Capital Assets  | 0                                  | 0                                   | 0                         | 74,000                    |
| Other   | 672                                | 5,346                               | 6,018                     | 4,902                     |
| Transfers – Internal Activity                                   | <u>163,129</u>                     | <u>(163,129)</u>                    | <u>0</u>                  | <u>0</u>                  |
| <b>Total General Revenues<br/>and Transfers</b>                 | <u>1,966,511</u>                   | <u>138,606</u>                      | <u>2,105,117</u>          | <u>2,301,367</u>          |
| <b>Total Revenues</b>   | <u>2,744,320</u>                   | <u>1,678,822</u>                    | <u>4,423,142</u>          | <u>4,562,563</u>          |
| <b>Program Expenses:</b>  |                                    |                                     |                           |                           |
| General Government  | 607,172                            | 0                                   | 607,172                   | 620,391                   |
| Public Safety   | 442,204                            | 0                                   | 442,204                   | 525,928                   |
| Public Works  | 948,251                            | 0                                   | 948,251                   | 894,462                   |
| Community and Economic<br>Development                           | 84,384                             | 0                                   | 84,384                    | 75,929                    |
| Recreation and Cultural   | 176,160                            | 0                                   | 176,160                   | 163,214                   |
| Interest and Fiscal Charges                                     | 84,877                             | 0                                   | 84,877                    | 89,763                    |
| Amortization of Deferred Bond<br>Costs and Bond Discounts (Net) | 5,596                              | 0                                   | 5,596                     | 5,596                     |
| Sewer Services  | 0                                  | 481,376                             | 481,376                   | 468,913                   |
| Water Services  | 0                                  | 470,206                             | 470,206                   | 453,745                   |
| City Park   | <u>0</u>                           | <u>607,890</u>                      | <u>607,890</u>            | <u>629,016</u>            |
| <b>Total Program Expenses</b>                                   | <u>2,348,644</u>                   | <u>1,559,472</u>                    | <u>3,908,116</u>          | <u>3,926,957</u>          |
| <b>Change in Net Assets</b>                                     | 395,676                            | 119,350                             | 515,026                   | 635,606                   |
| <b>Beginning Net Assets, as Restated</b>                        | <u>6,727,502</u>                   | <u>9,541,066</u>                    | <u>16,268,568</u>         | <u>15,632,962</u>         |
| <b>Ending Net Assets</b>  | <u>\$ 7,123,178</u>                | <u>\$ 9,660,416</u>                 | <u>\$ 16,783,594</u>      | <u>\$ 16,268,568</u>      |

### Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$777,809 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees for refuse collection, franchises, fire contracts, cemetery sales and openings and penalties. While revenue collected is substantial, operating expenses totaled \$2,348,644 for these same activities. The largest expenses were incurred by General Government offices (\$607,172), Public Safety (\$442,204) and Public Works (\$948,251).

## **Business-Type Activities**

The City of East Tawas' *Business-Type activities* are limited to the Sewer, Water and City Park Funds.

## **Financial Analysis of City Funds**

As noted earlier in this report, the City uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

### **Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; 2) Major Streets Fund – accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts; and 3) Federal Project Fund – accounts for the collection of note receivable activity as a result of loans to downtown businesses from prior UDAG monies.

This year's City audit, following GASB 34 format, shows 11 governmental funds. These funds are maintained by the City as separate units in the General Ledger.

### **Enterprise Funds**

The City's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, the sewer and water departments and the City Park comprise these funds. GASB 34 places such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc.

## **Budgetary Highlights**

The City's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended September 30, 2009 the City Council amended the budget to take into account events occurring during the year. These budget amendments fall into two categories:

- Changes made to reflect increases or decreases in anticipated expenditures
- Changes made to reflect increases or decreases in anticipated revenues

### **General Fund**

The General Fund actual revenue was \$1,965,108. That amount is above the original budget estimate of \$1,804,765 and below the final amended budget estimate of \$1,966,585. The variance between the original budget and the amended budget was mainly the result of increased federal and state grants.

The actual expenditures of the General Fund were \$1,616,787, which is below both the original budget estimates of \$1,651,929 and the final amended budget estimates of \$1,707,741. The variance between the actual expenditures



and the final amended budget was due to projects that were expected to be completed during the 2008-2009 fiscal year and decreased spending in various other areas.

The General Fund had total revenues of \$1,965,108 and total expenditures of \$1,616,787 with an ending fund balance of \$1,190,233.

Operating transfers in of \$143,129 include revenues from the City Park which was then paid to the Building Authority as rent for the City Hall and Community Center. The Building Authority then used that money as payment of principal and interest for the bond issue for construction of the City Hall and Community Center.

Operating transfers out of \$786,988 include \$136,000 to the Intragovernmental Service Fund for equipment replacement; \$66,730 to the Community Center Fund for City Hall operations paid through the Community Center budget; \$538,983 to the Major Streets Fund for road improvements ; and \$45,275 to the Local Streets Fund to cover road maintenance .

### **Capital Asset and Debt Administration**

#### **Capital Assets**

Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The City's infrastructure consists of roads and water/sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$7,877,576 with an ending balance of \$8,760,133. Governmental Activities Total Capital Assets – Net of Depreciation was \$6,274,565.

During the year ended September 30, 2009, the City's governmental capital asset additions totaled \$900,228, including the reclassification of \$17,671 from construction in progress. The majority of this amount was for the reconstruction of West Westover and Washington streets and the purchase of a fire truck driving simulator purchased with grant revenue. There were no disposals in the year ended September 30, 2009.

Capital Assets - Business Type Activities beginning balance was \$16,274,396 with an ending balance of \$16,361,263. Business-Type Activities Total Capital Assets – Net of Depreciation was \$7,704,396.

During the year ended September 30, 2009 the City's business type capital asset additions totaled \$86,867. The majority of this amount was paving in the East Tawas City Park. There were no disposals in the year ended September 30, 2009.

An expanded and detailed presentation may be seen in Note 4 of the audit, notes to financial statements.

#### **Long-Term Debt**

At year's end, long-term debt (due in more than one year) amounted to \$3,237,974. Such debt includes *Contracts Payable and Bonds Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

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

The City Council and management staff are working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for more than half of the City's General Fund revenues.

Due to economic conditions and a negative adjustment to taxable values throughout the State of Michigan, property values in the City of East Tawas will decrease in 2010 for the first time since Proposal A was approved by the voters of the State of Michigan in 1994. The City is currently levying the maximum allowable millage under the Headlee Amendment to the Michigan Constitution. The City Council will be considering an adjustment to the distribution of the City's millage levy in an attempt to keep services at a level that the City's taxpayers have come to expect.

Revenue sharing from the State of Michigan is the next largest revenue source for the City and this source is beyond the control of the City. Action by the State Legislature has continued to decrease the revenue sharing dollars that the City receives which is beginning to affect such services as police protection and could soon have a detrimental effect on other City services.

Employee related costs account for approximately 35% of the General Fund expenditures. Contracted and professional services account for approximately 24% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 22%. The remaining portion of the budget is comprised of operating expenses such as supplies, services, maintenance, and capital improvements.

The City Council and staff will continue to monitor revenues and expenditures and take appropriate action to account for changes in economic factors.

### **Component Units**

Complete financial statements for the East Tawas Tax Increment Finance Authority are included in this audit report.

Complete financial statements for the East Tawas Housing Commission may be obtained from the East Tawas Housing Commission office located at 304 West Bay Street, East Tawas, Michigan 48730.

### **Requests 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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of East Tawas Clerk's office located at 760 Newman Street, P.O. Box 672, East Tawas, Michigan, 48730.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
September 30, 2009

|  | Primary Government         |                              |                      | Component Units    |                                     |
|--|----------------------------|------------------------------|----------------------|--------------------|-------------------------------------|
|  | Governmental<br>Activities | Business-<br>Type Activities | Total                | East Tawas<br>TIFA | East Tawas<br>Housing<br>Commission |
| <b>Assets</b>  |                            |                              |                      |                    |                                     |
| Cash and Cash Equivalents (Note 2)                               | \$ 520,804                 | \$ 826,201                   | \$ 1,347,005         | \$ 603,250         | \$ 239,719                          |
| Investments (Note 2)   | 1,752,921                  | 1,161,254                    | 2,914,175            | 170,237            | 160,895                             |
| Receivables:   |                            |                              |                      |                    |                                     |
| Property Taxes   | 1,181,767                  | 261,655                      | 1,443,422            | 167,624            | 0                                   |
| Special Assessments  | 157                        | 0                            | 157                  | 0                  | 0                                   |
| Accounts, Net  | 14,987                     | 77,803                       | 92,790               | 0                  | 51                                  |
| Interest   | 7,370                      | 0                            | 7,370                | 0                  | 207                                 |
| Due from Component Unit (Note 3)                                 | 63,593                     | 0                            | 63,593               | 0                  | 0                                   |
| Due from State   | 103,027                    | 0                            | 103,027              | 0                  | 0                                   |
| Internal Balances  | 36,598                     | (36,598)                     | 0                    | 0                  | 0                                   |
| Prepaid Expenses   | 0                          | 0                            | 0                    | 0                  | 9,113                               |
| Restricted Assets:   |                            |                              |                      |                    |                                     |
| Cash and Cash Equivalents (Note 2)                               | 0                          | 95,715                       | 95,715               | 0                  | 0                                   |
| Investments (Note 2)   | 0                          | 102,040                      | 102,040              | 0                  | 0                                   |
| Noncurrent Assets:   |                            |                              |                      |                    |                                     |
| Notes Receivable   | 408,056                    | 0                            | 408,056              | 0                  | 0                                   |
| Investment in Huron Shore Regional<br>Utility Authority (Note 1) | 0                          | 1,319,230                    | 1,319,230            | 0                  | 0                                   |
| Bond Issuance Costs, Net (Note 1)                                | 52,810                     | 57,216                       | 110,026              | 82,178             | 0                                   |
| Capital Assets, Net (Note 4)                                     | 6,274,565                  | 7,704,396                    | 13,978,961           | 2,387,016          | 1,217,387                           |
| Total Assets   | <u>10,416,655</u>          | <u>11,568,912</u>            | <u>21,985,567</u>    | <u>3,410,305</u>   | <u>1,627,372</u>                    |
| <b>Liabilities</b>   |                            |                              |                      |                    |                                     |
| Accounts Payable   | 29,007                     | 11,313                       | 40,320               | 163,393            | 39,171                              |
| Due to Local Units   | 0                          | 0                            | 0                    | 0                  | 17,395                              |
| Due to State   | 1,249                      | 0                            | 1,249                | 0                  | 0                                   |
| Accrued Interest Payable   | 34,832                     | 30,844                       | 65,676               | 43,229             | 830                                 |
| Accrued Liabilities  | 8,215                      | 1,114                        | 9,329                | 438                | 4,055                               |
| Due to Primary Government (Note 3)                               | 0                          | 0                            | 0                    | 0                  | 59,739                              |
| Deferred Revenue   | 1,180,922                  | 261,655                      | 1,442,577            | 167,624            | 1,552                               |
| Long Term Liabilities: (Note 6)                                  |                            |                              |                      |                    |                                     |
| Due Within One Year  | 115,000                    | 289,848                      | 404,848              | 45,000             | 126,616                             |
| Due In More Than One Year  | 1,924,252                  | 1,313,722                    | 3,237,974            | 2,210,000          | 11,916                              |
| Total Liabilities  | <u>3,293,477</u>           | <u>1,908,496</u>             | <u>5,201,973</u>     | <u>2,629,684</u>   | <u>261,274</u>                      |
| <b>Net Assets</b>  |                            |                              |                      |                    |                                     |
| Invested in Capital Assets, Net of<br>Related Debt               | 4,270,870                  | 6,339,443                    | 10,610,313           | 170,965            | 1,037,648                           |
| Restricted For:  |                            |                              |                      |                    |                                     |
| Debt Service   | 1,412                      | 197,755                      | 199,167              | 51,897             | 0                                   |
| Capital Projects   | 0                          | 0                            | 0                    | 302,847            | 0                                   |
| Perpetual Care   | 82,253                     | 0                            | 82,253               | 0                  | 0                                   |
| Unrestricted   | <u>2,768,643</u>           | <u>3,123,218</u>             | <u>5,891,861</u>     | <u>254,912</u>     | <u>328,450</u>                      |
| Total Net Assets   | <u>\$ 7,123,178</u>        | <u>\$ 9,660,416</u>          | <u>\$ 16,783,594</u> | <u>\$ 780,621</u>  | <u>\$ 1,366,098</u>                 |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2009

| Function/Program              | Expenses            | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |                    |                    |                                     |
|-------------------------------|---------------------|-------------------------|--|--|--|-----------------------------|--------------------|--------------------|-------------------------------------|
|                               |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Primary Government                                 |                             |                    | Component Units    |                                     |
|                               |                     |                         |  |  | Governmental<br>Activities                         | Business-Type<br>Activities | Total              | East Tawas<br>TIFA | East Tawas<br>Housing<br>Commission |
|                               |                     |                         |  |  |  |                             |                    |                    |                                     |
| Primary Government            |                     |                         |  |  |  |                             |                    |                    |                                     |
| Governmental Activities:      |                     |                         |  |  |  |                             |                    |                    |                                     |
| General Government:           |                     |                         |  |  |  |                             |                    |                    |                                     |
| Legislative and Executive     | \$ 112,612          | \$ 0                    | \$ 0                                     | \$ 0                                   | \$ (112,612)                                       | \$ 0                        | \$ (112,612)       |                    |                                     |
| Financial and Tax             |                     |                         |  |  |  |                             |                    |                    |                                     |
| Administration                | 157,355             | 0                       | 0  | 0                                      | (157,355)  | 0                           | (157,355)          |                    |                                     |
| Other General Government      | 337,205             | 50,694                  | 0  | 0                                      | (286,511)  | 0                           | (286,511)          |                    |                                     |
| Public Safety:                |                     |                         |  |  |  |                             |                    |                    |                                     |
| Police                        | 252,560             | 0                       | 0  | 0                                      | (252,560)  | 0                           | (252,560)          |                    |                                     |
| Fire                          | 189,644             | 92,418                  | 1,918                                    | 121,489                                | 26,181   | 0                           | 26,181             |                    |                                     |
| Public Works:                 |                     |                         |  |  |  |                             |                    |                    |                                     |
| Other Public Works            | 948,251             | 22,630                  | 285,219                                  | 96,642                                 | (543,760)  | 0                           | (543,760)          |                    |                                     |
| Community and Economic        |                     |                         |  |  |  |                             |                    |                    |                                     |
| Development                   | 84,384              | 100                     | 20,579                                   | 0                                      | (63,705)   | 0                           | (63,705)           |                    |                                     |
| Recreation and Cultural       | 176,160             | 36,165                  | 49,955                                   | 0                                      | (90,040)   | 0                           | (90,040)           |                    |                                     |
| Interest and Fees on Long-    |                     |                         |  |  |  |                             |                    |                    |                                     |
| Term Debt                     | 84,877              | 0                       | 0  | 0                                      | (84,877)   | 0                           | (84,877)           |                    |                                     |
| Amortization of Deferred Bond |                     |                         |  |  |  |                             |                    |                    |                                     |
| Costs and Bond Discounts      |                     |                         |  |  |  |                             |                    |                    |                                     |
| (Net)                         | <u>5,596</u>        | <u>0</u>                | <u>0</u>                                 | <u>0</u>                               | <u>(5,596)</u>                                     | <u>0</u>                    | <u>(5,596)</u>     |                    |                                     |
| Total Governmental            |                     |                         |  |  |  |                             |                    |                    |                                     |
| Activities                    | <u>2,348,644</u>    | <u>202,007</u>          | <u>357,671</u>                           | <u>218,131</u>                         | <u>(1,570,835)</u>                                 | <u>0</u>                    | <u>(1,570,835)</u> |                    |                                     |
| Business-Type Activities:     |                     |                         |  |  |  |                             |                    |                    |                                     |
| Sewer Services                | 481,376             | 375,122                 | 77,338                                   | 0                                      | 0  | (28,916)                    | (28,916)           |                    |                                     |
| Water Services                | 470,206             | 389,611                 | 0  | 0                                      | 0  | (80,595)                    | (80,595)           |                    |                                     |
| City Park                     | <u>607,890</u>      | <u>687,609</u>          | <u>0</u>                                 | <u>10,536</u>                          | <u>0</u>   | <u>90,255</u>               | <u>90,255</u>      |                    |                                     |
| Total Business-Type           |                     |                         |  |  |  |                             |                    |                    |                                     |
| Activities                    | <u>1,559,472</u>    | <u>1,452,342</u>        | <u>77,338</u>                            | <u>10,536</u>                          | <u>0</u>   | <u>(19,256)</u>             | <u>(19,256)</u>    |                    |                                     |
| Total Primary Government      |                     |                         |  |  |  |                             |                    |                    |                                     |
|                               | <u>\$ 3,908,116</u> | <u>\$ 1,654,349</u>     | <u>\$ 435,009</u>                        | <u>\$ 228,667</u>                      | <u>(1,570,835)</u>                                 | <u>(19,256)</u>             | <u>(1,590,091)</u> |                    |                                     |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2009

| Function/Program                    |                   |                         |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |                     |                    |                                     |
|-------------------------------------|-------------------|-------------------------|--|--|--|-----------------------------|---------------------|--------------------|-------------------------------------|
|                                     | Expenses          | Program Revenues        |  |  | Primary Government                                 |                             |                     | Component Units    |                                     |
|                                     |                   | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                         | Business-Type<br>Activities | Total               | East Tawas<br>TIFA | East Tawas<br>Housing<br>Commission |
| <u>Component Units</u>              |                   |                         |  |  |  |                             |                     |                    |                                     |
| TIFA                                | \$ 210,896        | \$ 0                    | \$ 0                                     | \$ 0                                   |  |                             |                     | \$ (210,896)       | \$ 0                                |
| Housing Commission                  | <u>474,823</u>    | <u>282,012</u>          | <u>231,026</u>                           | <u>0</u>                               |  |                             |                     | <u>0</u>           | <u>38,215</u>                       |
| Total Component Units               | <u>\$ 685,719</u> | <u>\$ 282,012</u>       | <u>\$ 231,026</u>                        | <u>\$ 0</u>                            |  |                             |                     | <u>(210,896)</u>   | <u>38,215</u>                       |
| General Revenue:                    |                   |                         |  |  |  |                             |                     |                    |                                     |
| Property Taxes Levied For:          |                   |                         |  |  |  |                             |                     |                    |                                     |
| General Operating                   |                   |                         |  |  | \$ 1,129,928                                       | \$ 0                        | \$ 1,129,928        | 0                  | 0                                   |
| TIFA                                |                   |                         |  |  | 0  | 0                           | 0                   | 214,155            | 0                                   |
| Sewer Debt Service                  |                   |                         |  |  | 0  | 149,231                     | 149,231             | 0                  | 0                                   |
| Water Debt Service                  |                   |                         |  |  | 0  | 101,634                     | 101,634             | 0                  | 0                                   |
| State Revenue Sharing               |                   |                         |  |  | 272,753  | 0                           | 272,753             | 0                  | 0                                   |
| Interest and Investment Earnings    |                   |                         |  |  | 96,056   | 45,524                      | 141,580             | 18,842             | 9,265                               |
| Rent Income                         |                   |                         |  |  | 303,973  | 0                           | 303,973             | 0                  | 0                                   |
| Other                               |                   |                         |  |  | 672  | 5,346                       | 6,018               | 5,184              | 8,385                               |
| Transfers                           |                   |                         |  |  | <u>163,129</u>                                     | <u>(163,129)</u>            | <u>0</u>            | <u>0</u>           | <u>0</u>                            |
| Total General Revenue and Transfers |                   |                         |  |  | <u>1,966,511</u>                                   | <u>138,606</u>              | <u>2,105,117</u>    | <u>238,181</u>     | <u>17,650</u>                       |
| Change in Net Assets                |                   |                         |  |  | 395,676  | 119,350                     | 515,026             | 27,285             | 55,865                              |
| Net Assets - Beginning              |                   |                         |  |  | <u>6,727,502</u>                                   | <u>9,541,066</u>            | <u>16,268,568</u>   | <u>753,336</u>     | <u>1,310,233</u>                    |
| Net Assets - Ending                 |                   |                         |  |  | <u>\$ 7,123,178</u>                                | <u>\$ 9,660,416</u>         | <u>\$16,783,594</u> | <u>\$ 780,621</u>  | <u>\$ 1,366,098</u>                 |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2009

|                                    | <u>Special Revenue Funds</u> |                      |                             | Other                     | Total                     |
|------------------------------------|------------------------------|----------------------|-----------------------------|---------------------------|---------------------------|
|                                    | <u>General Fund</u>          | <u>Major Streets</u> | <u>Federal Project Fund</u> | <u>Governmental Funds</u> | <u>Governmental Funds</u> |
| <u>ASSETS</u>                      |                              |                      |                             |                           |                           |
| Cash and Cash Equivalents (Note 2) | \$ 263,504                   | \$ 8,502             | \$ 31,176                   | \$ 217,622                | \$ 520,804                |
| Investments (Note 2)               | 778,747                      | 0                    | 894,058                     | 80,116                    | 1,752,921                 |
| Receivables:                       |                              |                      |                             |                           |                           |
| Property Taxes                     | 1,181,767                    | 0                    | 0                           | 0                         | 1,181,767                 |
| Special Assessments                | 157                          | 0                    | 0                           | 0                         | 157                       |
| Accounts, Net                      | 14,068                       | 0                    | 919                         | 0                         | 14,987                    |
| Interest                           | 7,370                        | 0                    | 0                           | 0                         | 7,370                     |
| Notes Receivable                   | 0                            | 0                    | 408,056                     | 0                         | 408,056                   |
| Due from Component Unit (Note 3)   | 63,593                       | 0                    | 0                           | 0                         | 63,593                    |
| Due from State                     | 62,834                       | 28,938               | 0                           | 11,255                    | 103,027                   |
| Due from Other Funds (Note 3)      | <u>38,384</u>                | <u>0</u>             | <u>0</u>                    | <u>0</u>                  | <u>38,384</u>             |
| Total Assets                       | <u>\$ 2,410,424</u>          | <u>\$ 37,440</u>     | <u>\$ 1,334,209</u>         | <u>\$ 308,993</u>         | <u>\$ 4,091,066</u>       |
| <u>LIABILITIES AND FUND EQUITY</u> |                              |                      |                             |                           |                           |
| <u>Liabilities</u>                 |                              |                      |                             |                           |                           |
| Accounts Payable                   | \$ 23,095                    | \$ 315               | \$ 0                        | \$ 5,597                  | \$ 29,007                 |
| Due to Other Funds (Note 3)        | 1,786                        | 0                    | 0                           | 0                         | 1,786                     |
| Due to State                       | 0                            | 1,249                | 0                           | 0                         | 1,249                     |
| Accrued Liabilities                | 7,018                        | 116                  | 0                           | 1,081                     | 8,215                     |
| Deferred Revenue (Note 5)          | <u>1,188,292</u>             | <u>0</u>             | <u>408,056</u>              | <u>0</u>                  | <u>1,596,348</u>          |
| Total Liabilities                  | <u>1,220,191</u>             | <u>1,680</u>         | <u>408,056</u>              | <u>6,678</u>              | <u>1,636,605</u>          |
| <u>Fund Equity</u>                 |                              |                      |                             |                           |                           |
| Fund Balances:                     |                              |                      |                             |                           |                           |
| Reserved For:                      |                              |                      |                             |                           |                           |
| Debt Service                       | 0                            | 0                    | 0                           | 1,412                     | 1,412                     |
| Perpetual Care                     | 0                            | 0                    | 0                           | 82,253                    | 82,253                    |
| Unreserved:                        |                              |                      |                             |                           |                           |
| Designated For:                    |                              |                      |                             |                           |                           |
| Local Streets                      | 54,725                       | 0                    | 0                           | 0                         | 54,725                    |
| Library                            | 250,000                      | 0                    | 0                           | 0                         | 250,000                   |
| Undesignated, Reported In:         |                              |                      |                             |                           |                           |
| General Fund                       | 885,508                      | 0                    | 0                           | 0                         | 885,508                   |
| Special Revenue Funds              | <u>0</u>                     | <u>35,760</u>        | <u>926,153</u>              | <u>218,650</u>            | <u>1,180,563</u>          |
| Total Fund Equity                  | <u>1,190,233</u>             | <u>35,760</u>        | <u>926,153</u>              | <u>302,315</u>            | <u>2,454,461</u>          |
| Total Liabilities and Fund Equity  | <u>\$ 2,410,424</u>          | <u>\$ 37,440</u>     | <u>\$ 1,334,209</u>         | <u>\$ 308,993</u>         | <u>\$ 4,091,066</u>       |

The accompanying notes to financial statements are an integral part of this statement.



CITY OF EAST TAWAS  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
September 30, 2009

|  |    |                    |                    |
|--|----|--------------------|--------------------|
| Total Governmental Fund Balances   |    | \$                 | 2,454,461          |
| Amounts reported for governmental activities in the statement of net assets are different because:   |    |                    |                    |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:          |    |                    |                    |
| Capital Asset Cost   | \$ | 8,760,133          |                    |
| Accumulated Depreciation   |    | <u>(2,485,568)</u> |                    |
|  |    |                    | 6,274,565          |
| Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:  |    |                    |                    |
| Interest Receivable  |    | 7,370              |                    |
| Notes Receivable   |    | <u>408,056</u>     |                    |
| Net Difference   |    |                    | 415,426            |
| Accrued Interest on Long-Term Liabilities  |    |                    | (34,832)           |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of: |    |                    |                    |
| Bonds Payable (Net of Unamortized Discount and Bond Issuance Costs)  |    | (1,968,863)        |                    |
| Compensated Absences Payable   |    | <u>(17,579)</u>    |                    |
| Total Long-Term Liabilities  |    |                    | <u>(1,986,442)</u> |
| Total Net Assets - Governmental Activities   |    | \$                 | <u>7,123,178</u>   |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2009

|  | <u>Special Revenue Funds</u> |                      |                             | Other                     | Total                     |
|--|------------------------------|----------------------|-----------------------------|---------------------------|---------------------------|
|  | <u>General Fund</u>          | <u>Major Streets</u> | <u>Federal Project Fund</u> | <u>Governmental Funds</u> | <u>Governmental Funds</u> |
| <u>Revenue</u>   |                              |                      |                             |                           |                           |
| Property Taxes   | \$ 1,163,236                 | \$ 0                 | \$ 0                        | \$ 0                      | \$ 1,163,236              |
| Federal Grants and Revenue   | 142,068                      | 0                    | 0                           | 0                         | 142,068                   |
| State Grants and Revenue   | 272,753                      | 294,145              | 0                           | 72,716                    | 639,614                   |
| Contributions from Local Units   | 0                            | 15,000               | 0                           | 0                         | 15,000                    |
| Licenses and Permits   | 3,608                        | 0                    | 0                           | 0                         | 3,608                     |
| Charges for Services   | 115,355                      | 0                    | 100                         | 25,570                    | 141,025                   |
| Interest and Rentals   | 212,644                      | 691                  | 37,610                      | 164,869                   | 415,814                   |
| Other Revenue  | 55,444                       | 0                    | 50,065                      | 3,572                     | 109,081                   |
| Total Revenue  | <u>1,965,108</u>             | <u>309,836</u>       | <u>87,775</u>               | <u>266,727</u>            | <u>2,629,446</u>          |
| <u>Expenditures</u>  |                              |                      |                             |                           |                           |
| Current:   |                              |                      |                             |                           |                           |
| General Government:  |                              |                      |                             |                           |                           |
| Legislative  | 34,242                       | 0                    | 0                           | 0                         | 34,242                    |
| Chief Executive  | 71,437                       | 0                    | 0                           | 0                         | 71,437                    |
| Financial and Tax Administration   | 157,067                      | 0                    | 0                           | 0                         | 157,067                   |
| Other General Government   | 235,405                      | 0                    | 0                           | 14,036                    | 249,441                   |
| Public Safety  | 342,527                      | 0                    | 0                           | 0                         | 342,527                   |
| Public Works   | 450,472                      | 271,017              | 0                           | 117,148                   | 838,637                   |
| Community and Economic Development   | 99,373                       | 0                    | 0                           | 0                         | 99,373                    |
| Recreation and Cultural  | 40,759                       | 0                    | 0                           | 112,256                   | 153,015                   |
| Capital Outlay   | 185,505                      | 666,141              | 0                           | 45,878                    | 897,524                   |
| Debt Service:  |                              |                      |                             |                           |                           |
| Principal  | 0                            | 0                    | 0                           | 110,000                   | 110,000                   |
| Interest and Fiscal Charges  | 0                            | 0                    | 0                           | 87,698                    | 87,698                    |
| Total Expenditures   | <u>1,616,787</u>             | <u>937,158</u>       | <u>0</u>                    | <u>487,016</u>            | <u>3,040,961</u>          |
| Excess of Revenue Over (Under) Expenditures                                  | <u>348,321</u>               | <u>(627,322)</u>     | <u>87,775</u>               | <u>(220,289)</u>          | <u>(411,515)</u>          |
| <u>Other Financing Sources (Uses)</u>  |                              |                      |                             |                           |                           |
| Operating Transfers In   | 143,129                      | 538,983              | 0                           | 397,130                   | 1,079,242                 |
| Operating Transfers Out  | (786,988)                    | (53,769)             | 0                           | (75,356)                  | (916,113)                 |
| Total Other Financing Sources (Uses)   | <u>(643,859)</u>             | <u>485,214</u>       | <u>0</u>                    | <u>321,774</u>            | <u>163,129</u>            |
| Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses | <u>(295,538)</u>             | <u>(142,108)</u>     | <u>87,775</u>               | <u>101,485</u>            | <u>(248,386)</u>          |
| Fund Balances - Beginning of Year  | <u>1,485,771</u>             | <u>177,868</u>       | <u>838,378</u>              | <u>200,830</u>            | <u>2,702,847</u>          |
| Fund Balances - End of Year  | <u>\$ 1,190,233</u>          | <u>\$ 35,760</u>     | <u>\$ 926,153</u>           | <u>\$ 302,315</u>         | <u>\$ 2,454,461</u>       |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2009

|   |                  |                       |
|---|------------------|-----------------------|
| Total Net Change in Fund Balances - Governmental Funds  | \$               | (248,386)             |
| Amounts reported for governmental activities in the statement of activities are different because:  |                  |                       |
| Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:  |                  |                       |
| Interest Receivable   |                  | 1,810                 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.  |                  |                       |
| Capital Outlay  | \$ 882,557       |                       |
| Current Year Depreciation Expense   | <u>(296,157)</u> |                       |
| Net difference  |                  | 586,400               |
| Note receivable repayments and note disbursements are revenue and expenditures respectively in the governmental funds, but the repayments and disbursements reduce and increase the note receivable balances in the statement of net assets. The activity reported in the governmental funds is as follows: |                  |                       |
| Current Year Note Receivable Principal Receipts   |                  | (50,065)              |
| Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:                                      |                  |                       |
| Bonds Payable   |                  | 110,000               |
| Governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term liabilities is as follows:                                |                  |                       |
| Amortization of Bond Costs  |                  | (5,596)               |
| 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 governmental funds:   |                  |                       |
| Net Change in Accrued Interest  | 2,821            |                       |
| Net Change in Accrued Compensated Absences  | <u>(1,308)</u>   |                       |
|   |                  | <u>1,513</u>          |
| Change in Net Assets of Governmental Activities   | \$               | <u><u>395,676</u></u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
September 30, 2009

|   | Enterprise Funds    |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | Major Funds         |                     |                     |                     |
|   | Sewer Fund          | Water Fund          | City Park Fund      | Total               |
| <u>Assets</u>   |                     |                     |                     |                     |
| Current Assets:   |                     |                     |                     |                     |
| Cash and Cash Equivalents (Note 2)                            | \$ 241,743          | \$ 48,302           | \$ 536,156          | \$ 826,201          |
| Investments (Note 2)  | 705,260             | 455,994             | 0                   | 1,161,254           |
| Receivables:  |                     |                     |                     |                     |
| Property Taxes  | 155,752             | 105,903             | 0                   | 261,655             |
| Accounts, Net   | 37,594              | 40,209              | 0                   | 77,803              |
| Due from Other Funds (Note 3)                                 | 0                   | 0                   | 1,786               | 1,786               |
| Restricted Assets:  |                     |                     |                     |                     |
| Cash and Cash Equivalents (Note 2)                            | 0                   | 95,715              | 0                   | 95,715              |
| Investments (Note 2)  | 0                   | 102,040             | 0                   | 102,040             |
| Total Current Assets  | <u>1,140,349</u>    | <u>848,163</u>      | <u>537,942</u>      | <u>2,526,454</u>    |
| Noncurrent Assets:  |                     |                     |                     |                     |
| Investment in Huron Shore Regional Utility Authority (Note 1) | 0                   | 1,319,230           | 0                   | 1,319,230           |
| Bond Issuance Costs, Net (Note 1)                             | 0                   | 57,216              | 0                   | 57,216              |
| Capital Assets, Net (Note 4)                                  | <u>3,050,936</u>    | <u>2,805,364</u>    | <u>1,848,096</u>    | <u>7,704,396</u>    |
| Total Noncurrent Assets                                       | <u>3,050,936</u>    | <u>4,181,810</u>    | <u>1,848,096</u>    | <u>9,080,842</u>    |
| Total Assets  | <u>4,191,285</u>    | <u>5,029,973</u>    | <u>2,386,038</u>    | <u>11,607,296</u>   |
| <u>Liabilities</u>  |                     |                     |                     |                     |
| Current Liabilities:  |                     |                     |                     |                     |
| Accounts Payable  | 3,006               | 5                   | 8,302               | 11,313              |
| Due to Other Funds (Note 3)                                   | 0                   | 0                   | 38,384              | 38,384              |
| Accrued Interest Payable                                      | 3,674               | 27,170              | 0                   | 30,844              |
| Accrued Liabilities   | 628                 | 486                 | 0                   | 1,114               |
| Deferred Revenue  | 155,752             | 105,903             | 0                   | 261,655             |
| Current Portion of Long-Term Liabilities (Note 6)             | <u>149,448</u>      | <u>140,400</u>      | <u>0</u>            | <u>289,848</u>      |
| Total Current Liabilities                                     | <u>312,508</u>      | <u>273,964</u>      | <u>46,686</u>       | <u>633,158</u>      |
| Long-Term Liabilities:  |                     |                     |                     |                     |
| Due in More Than One Year (Note 6)                            | <u>840</u>          | <u>1,306,935</u>    | <u>5,947</u>        | <u>1,313,722</u>    |
| Total Liabilities   | <u>313,348</u>      | <u>1,580,899</u>    | <u>52,633</u>       | <u>1,946,880</u>    |
| <u>Net Assets</u>   |                     |                     |                     |                     |
| Invested In Capital Assets, Net of Related Debt               | 2,897,814           | 1,593,533           | 1,848,096           | 6,339,443           |
| Restricted For:   |                     |                     |                     |                     |
| Debt Service  | 0                   | 197,755             | 0                   | 197,755             |
| Unrestricted  | <u>980,123</u>      | <u>1,657,786</u>    | <u>485,309</u>      | <u>3,123,218</u>    |
| Total Net Assets  | <u>\$ 3,877,937</u> | <u>\$ 3,449,074</u> | <u>\$ 2,333,405</u> | <u>\$ 9,660,416</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
For the Year Ended September 30, 2009

|   | Enterprise Funds    |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | Major Funds         |                     |                     |                     |
|   | Sewer Fund          | Water Fund          | City Park Fund      | Total               |
| <u>Operating Revenue</u>                  |                     |                     |                     |                     |
| Charges For Services                      | \$ 366,306          | \$ 384,355          | \$ 687,609          | \$ 1,438,270        |
| Service Connection Charges                | 3,720               | 0                   | 0                   | 3,720               |
| Penalties                                 | 5,096               | 5,256               | 0                   | 10,352              |
| Other Revenue                             | 0                   | 190                 | 5,156               | 5,346               |
| Total Operating Revenue                   | <u>375,122</u>      | <u>389,801</u>      | <u>692,765</u>      | <u>1,457,688</u>    |
| <u>Operating Expenses</u>                 |                     |                     |                     |                     |
| Salaries and Wages                        | 58,773              | 58,072              | 182,392             | 299,237             |
| Payroll Taxes and Employee Benefits       | 41,826              | 42,295              | 53,072              | 137,193             |
| Advertising                               | 0                   | 0                   | 1,193               | 1,193               |
| Contractual Services                      | 222,358             | 130,350             | 13,129              | 365,837             |
| Depreciation and Amortization             | 121,282             | 126,679             | 172,462             | 420,423             |
| Equipment                                 | 0                   | 0                   | 4,849               | 4,849               |
| Equipment Rental                          | 8,529               | 12,354              | 0                   | 20,883              |
| Insurance and Bonds                       | 1,093               | 518                 | 16,445              | 18,056              |
| Office Supplies                           | 3,076               | 3,131               | 0                   | 6,207               |
| Operating Supplies                        | 1,416               | 24,482              | 16,286              | 42,184              |
| Printing and Advertising                  | 190                 | 0                   | 0                   | 190                 |
| Repair and Maintenance                    | 4,614               | 4,221               | 49,400              | 58,235              |
| Travel and Training                       | 80                  | 722                 | 0                   | 802                 |
| Utilities                                 | 7,723               | 0                   | 90,100              | 97,823              |
| Other                                     | 0                   | 390                 | 8,562               | 8,952               |
| Total Operating Expenses                  | <u>470,960</u>      | <u>403,214</u>      | <u>607,890</u>      | <u>1,482,064</u>    |
| Operating Income (Loss)                   | <u>(95,838)</u>     | <u>(13,413)</u>     | <u>84,875</u>       | <u>(24,376)</u>     |
| <u>Nonoperating Revenue (Expenses)</u>    |                     |                     |                     |                     |
| Property Taxes                            | 149,231             | 101,634             | 0                   | 250,865             |
| Interest and Investment Earnings          | 24,093              | 18,309              | 3,122               | 45,524              |
| Contributions                             | 77,338              | 0                   | 0                   | 77,338              |
| Interest and Fees Expense                 | (10,416)            | (66,992)            | 0                   | (77,408)            |
| Total Nonoperating Revenue (Expenses)     | <u>240,246</u>      | <u>52,951</u>       | <u>3,122</u>        | <u>296,319</u>      |
| Income Before Contributions and Transfers | 144,408             | 39,538              | 87,997              | 271,943             |
| Capital Contribution                      | 0                   | 0                   | 10,536              | 10,536              |
| Operating Transfers Out                   | <u>0</u>            | <u>0</u>            | <u>(163,129)</u>    | <u>(163,129)</u>    |
| Change in Net Assets                      | 144,408             | 39,538              | (64,596)            | 119,350             |
| Net Assets - Beginning of Year            | <u>3,733,529</u>    | <u>3,409,536</u>    | <u>2,398,001</u>    | <u>9,541,066</u>    |
| Net Assets - End of Year                  | <u>\$ 3,877,937</u> | <u>\$ 3,449,074</u> | <u>\$ 2,333,405</u> | <u>\$ 9,660,416</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended September 30, 2009

|  | Enterprise Funds  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Major Funds       |                   |                   |                   |
|  | Sewer Fund        | Water Fund        | City Park Fund    | Total             |
| <b>Cash Flows From Operating Activities</b>  |                   |                   |                   |                   |
| Receipts From Customers  | \$ 378,933        | \$ 386,299        | \$ 692,765        | \$ 1,457,997      |
| Payments to Suppliers for Goods and Services   | (249,201)         | (176,318)         | (200,305)         | (625,824)         |
| Payments to Employees for Services   | (100,236)         | (100,241)         | (236,617)         | (437,094)         |
| Net Cash Provided by Operating Activities  | <u>29,496</u>     | <u>109,740</u>    | <u>255,843</u>    | <u>395,079</u>    |
| <b>Cash Flows From Non-Capital Financing Activities</b>  |                   |                   |                   |                   |
| Property Taxes Received  | 149,231           | 101,634           | 0                 | 250,865           |
| Intergovernmental Contributions  | 77,338            | 0                 | 0                 | 77,338            |
| Cash Received from (Paid to) Other funds   | (3,005)           | (3,146)           | (159,210)         | (165,361)         |
| Net Cash Provided (Used) by Non-Capital Financing Activities                                   | <u>223,564</u>    | <u>98,488</u>     | <u>(159,210)</u>  | <u>162,842</u>    |
| <b>Cash Flows From Capital and Related Financing Activities</b>                                |                   |                   |                   |                   |
| Local Grants Received  | 0                 | 0                 | 10,536            | 10,536            |
| State Grants Received  | 0                 | 0                 | 3,000             | 3,000             |
| Acquisition and Construction of Capital Assets   | (8,334)           | (5,900)           | (63,633)          | (77,867)          |
| Principal Paid on Long-Term Debt   | (226,364)         | (136,981)         | 0                 | (363,345)         |
| Interest and Fees Paid on Long-Term Debt   | (15,793)          | (69,929)          | 0                 | (85,722)          |
| Net Cash Used by Capital and Related Financing Activities                                      | <u>(250,491)</u>  | <u>(212,810)</u>  | <u>(50,097)</u>   | <u>(513,398)</u>  |
| <b>Cash Flows From Investing Activities</b>  |                   |                   |                   |                   |
| Interest on Investments  | 21,643            | 14,563            | 3,122             | 39,328            |
| Proceeds from Maturity of Investment Securities  | 816,628           | 820,787           | 10,284            | 1,647,699         |
| Purchase of Investment Securities  | (802,809)         | (824,290)         | 0                 | (1,627,099)       |
| Net Cash Provided by Investing Activities  | <u>35,462</u>     | <u>11,060</u>     | <u>13,406</u>     | <u>59,928</u>     |
| Net Increase in Cash and Cash Equivalents  | 38,031            | 6,478             | 59,942            | 104,451           |
| Cash and Cash Equivalents at Beginning of Year (Note 1)  | <u>203,712</u>    | <u>137,539</u>    | <u>476,214</u>    | <u>817,465</u>    |
| Cash and Cash Equivalents at End of Year (Note 1)  | <u>\$ 241,743</u> | <u>\$ 144,017</u> | <u>\$ 536,156</u> | <u>\$ 921,916</u> |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>  |                   |                   |                   |                   |
| Operating Income (Loss)  | \$ (95,838)       | \$ (13,413)       | \$ 84,875         | \$ (24,376)       |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: |                   |                   |                   |                   |
| Depreciation and Amortization Expense  | 121,282           | 126,679           | 172,462           | 420,423           |
| Change in Assets and Liabilities:  |                   |                   |                   |                   |
| Accounts Receivable, Net   | 3,811             | (3,502)           | 0                 | 309               |
| Accounts Payable and Accrued Liabilities   | 143               | (122)             | (2,096)           | (2,075)           |
| Accrued Compensated Absences   | <u>98</u>         | <u>98</u>         | <u>602</u>        | <u>798</u>        |
| Net Cash Provided by Operating Activities  | <u>\$ 29,496</u>  | <u>\$ 109,740</u> | <u>\$ 255,843</u> | <u>\$ 395,079</u> |

Supplemental Disclosures:

Noncash Capital and Related Financing Activities

The Water Fund recorded noncash activity in the form of an increase in contracts payable and investment in Huron Shore Regional Utility Authority of \$8,574. This was the result of an increase in the City of East Tawas' actual water usage percentage in the current year's joint venture membership gallon usage calculation.

The accompanying notes to financial statements are an integral part of this statement.



CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
 FIDUCIARY FUNDS  
September 30, 2009

|                                       | <u>Tax Account</u>  | <u>Trust and Agency<br/>Fund</u> | <u>Total</u>        |
|---------------------------------------|---------------------|----------------------------------|---------------------|
| <u>ASSETS</u>                         |                     |                                  |                     |
| Cash and Cash Equivalents (Note 2)    | \$ 1,482,488        | \$ 4,370                         | \$ 1,486,858        |
| Receivables:                          |                     |                                  |                     |
| Property Taxes                        | <u>273,943</u>      | <u>0</u>                         | <u>273,943</u>      |
| Total Assets                          | <u>\$ 1,756,431</u> | <u>\$ 4,370</u>                  | <u>\$ 1,760,801</u> |
| <u>LIABILITIES</u>                    |                     |                                  |                     |
| Due to Local Units                    | \$ 1,756,431        | \$ 7                             | \$ 1,756,438        |
| Due to Other Agencies and Individuals | <u>0</u>            | <u>4,363</u>                     | <u>4,363</u>        |
| Total Liabilities                     | <u>\$ 1,756,431</u> | <u>\$ 4,370</u>                  | <u>\$ 1,760,801</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Tawas (City) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of City Operations and Fund Types

The City of East Tawas is organized under Michigan's Comprehensive Home Rule City Act. The City operates under an elected City Council (seven members) and provides services to its residents in many areas, including fire protection, water and sewer services, and maintenance of major and local streets. All activities over which the City exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability of fiscal matters of the entity.

Education services are provided to citizens through the local school district which is a separate governmental entity and is not part of this report.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

1. Blended Component Units

a. Governmental Activity and Fund Type Blended Component Unit:

**East Tawas Building Authority** - The City of East Tawas Building Authority is governed by a three member board appointed by the City's governing body. Although it is legally separate from the City of East Tawas, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

b. Business-Type Activity and Proprietary Fund Type Blended Component Unit:

**East Tawas City Park** - The East Tawas City Park is legally separate from the City. The City Park is reported as if it were part of the primary government because its sole purpose is to finance, construct and operate the City's park facilities. The financial activities of the East Tawas City Park are recorded in an Enterprise Fund, which is accounted for using the accrual basis of accounting.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

2. Discretely Presented Component Units

The component unit columns on the combined financial statements include the financial data of the City's component units. They are reported in separate columns to emphasize that they are legally separate from the City.

a. Governmental Activity and Fund Type Component Unit:

**East Tawas Tax Increment Finance Authority** - The East Tawas Tax Increment Finance Authority (TIFA) is governed by a seven member board appointed by the City's governing body. The TIFA is reported in a separate column to emphasize that it is legally separate from the City. The TIFA's sole purpose is to finance improvements within the TIFA District of the City of East Tawas. Separate financial statements for the TIFA are not prepared.

b. Business-Type Activity and Proprietary Fund Type Blended Component Unit:

**East Tawas Housing Commission** - The component unit columns include the financial data of the East Tawas Housing Commission as of and for the year ended December 31, 2008. The Housing Commission is reported in a separate column to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City Council. The Housing Commission was created by an ordinance of the City of East Tawas to provide safe, sanitary and decent housing for qualifying senior and low income families. Complete financial statements can be obtained from the East Tawas Housing Commission office.

C. Joint Ventures

The City has entered into several joint ventures with various municipalities described as follows:

Tawas Police Authority

The Tawas Police Authority functions as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established to provide police protection to the constituent municipalities, the City of East Tawas and the City of Tawas City and other municipalities by contract. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2009 was \$248,429. Complete financial statements can be obtained from the City of Tawas City, Clerk's office, located at 516 Oak Street, Tawas City, Michigan 48763.

Tawas Utility Authority

The Tawas Utility Authority was established as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established for the construction and operation of sewage treatment facilities to service both municipalities. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2009 was \$203,175. Complete financial statements can be obtained from the City of East Tawas, City Manager's office.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

Huron Shore Regional Utility Authority

The Huron Shore Regional Utility Authority was established as a joint venture between the City of East Tawas, City of Tawas City, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the City of East Tawas' share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the City because title to the water and sewer systems belongs to the Authority.

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 17.77% of the total bond issue of \$7,930,000 or \$1,409,161. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the City of East Tawas is making payments through ad-valorem taxes and charges for services.

Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The City of East Tawas' contribution for the year ended September 30, 2009 was \$120,313. The current value of the City of East Tawas' investment in the Huron Shore Regional Utility Authority is \$1,319,230. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

D. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government and its component units, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

**Fund Financial Statements**

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and state revenue.

Major Streets Fund - This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.

Federal Project Fund - This fund is used to account for loans to local businesses for the purpose of community and economic development.

The other governmental funds of the City accounts for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.

Water Fund - This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.

City Park Fund - This fund accounts for fees collected for park services provided by the City.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City for political subdivisions in which the City acts as fiscal agent for others. The City uses these funds to account for current tax collections and deposits held for hall rental.

F. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.



CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide, proprietary and fiduciary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-exchange Transactions**

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest and rent.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at September 30, 2009, but were levied to finance 2009-2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

I. Receivables

Receivables generally consist of accounts (fees), sales taxes, shared revenues, property taxes, special assessments, and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at September 30, 2009 was \$0 for the primary government and the component units.

J. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets.

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

L. Bond Issuance Costs

On the government-wide and proprietary fund financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

M. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Capital Assets (Continued)

The City's infrastructure consists of roads, bridges, dams and water and sewer lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

| <u>Descriptions</u>        | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 25 - 50 years          |
| Land Improvements          | 10 - 20 years          |
| Machinery and Equipment    | 5 - 10 years           |
| Vehicles                   | 5 - 10 years           |
| Utility Systems            | 25 - 40 years          |
| Infrastructure             | 20 - 40 years          |

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

O. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation and sick leave benefits are accrued as a liability using the vesting method. An accrual for earned vacation and sick leave is made based on accumulated vacation and sick leave and the employee wage rates at year end taking into consideration limits specified in the City's termination policy. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The City records a liability for sick leave earned at varying rates depending on the City policy.

The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, the current portion of unpaid compensated absences is recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts, if any, are recorded in the account "Accrued Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Governmental Fund Balance Reserves

The City reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for future debt service and perpetual care expenses.

R. Governmental Fund Balance Designations

Designations of portions of the fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance designations have been established for future local street and library expenditures.

S. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the City, these revenues are charges for services for water, sewer and park usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

T. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2009.

V. Budgets and Budgetary Accounting

The City of East Tawas normally follows these procedures in establishing the budgetary data reflected in the financial statements.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Budgets and Budgetary Accounting (Continued)

1. Prior to September 1, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the City Council throughout the operating year.

The City adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the City are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the functional level.

The legal level of control is at the functional level for the General Fund and Special Revenue Funds.

Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the City Council. The financial statements include budgetary amounts as amended.

W. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

X. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

|   | Governmental<br>Activities | Business-<br>Type<br>Activities | Fiduciary<br>Funds  | Total Primary<br>Government | Component<br>Units  |
|---|----------------------------|---------------------------------|---------------------|-----------------------------|---------------------|
| Cash and Cash Equivalents               | \$ 520,804                 | \$ 826,201                      | \$ 1,486,858        | \$ 2,833,863                | \$ 842,969          |
| Investments                             | 1,752,921                  | 1,161,254                       | 0                   | 2,914,175                   | 331,132             |
| Restricted Cash and Cash<br>Equivalents | 0                          | 95,715                          | 0                   | 95,715                      | 0                   |
| Restricted Investments                  | 0                          | 102,040                         | 0                   | 102,040                     | 0                   |
| Total                                   | <u>\$ 2,273,725</u>        | <u>\$ 2,185,210</u>             | <u>\$ 1,486,858</u> | <u>\$ 5,945,793</u>         | <u>\$ 1,174,101</u> |

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

|  | <u>Primary<br/>Government</u> | <u>Component<br/>Units</u> |
|--|-------------------------------|----------------------------|
| Bank Deposits (Checking and Savings Accounts and<br>Certificates of Deposit) | \$ 5,373,364                  | \$ 1,089,498               |
| Investments in Financial Institution Pooled Funds                            | 571,899                       | 84,403                     |
| Petty Cash and Cash on Hand  | <u>530</u>                    | <u>200</u>                 |
| Total  | <u>\$ 5,945,793</u>           | <u>\$ 1,174,101</u>        |

As of September 30, 2009, the City had the following investments.

| <u>Investment Type</u> | <u>Fair<br/>Value</u> | <u>Specific Identification<br/>Maturities</u> |
|------------------------|-----------------------|---|
| Primary Government:    |                       |   |
| Investment Pools       | \$ 475,943            | Daily   |
| Money Markets          | <u>95,956</u>         | Daily   |
|                        | <u>\$ 571,899</u>     |   |
| Component Units:       |                       |   |
| Investment Pools       | <u>\$ 84,403</u>      | Daily   |

Interest Rate Risk

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The City's MBIA Asset Management Group investment pool's are rated AAAM by Standard & Poors. The City's Fifth Third Bank money markets are unrated.

Custodial Credit Risk - Deposits - Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2009, \$2,518,210 of the City's bank balance of \$5,451,509 was exposed to custodial credit risk because it was uninsured and uncollateralized.



CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits - Component Units

East Tawas TIFA:

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of September 30, 2009, \$371,648 of the TIFA's bank balance of \$687,305 was exposed to custodial credit risk because it was uninsured and uncollateralized.

East Tawas Housing Commission:

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of December 31, 2008, \$0 of the East Tawas Housing Commission's bank balance of \$400,414 was exposed to custodial credit risk.

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City's investment policy requires that no more than 50% of the total investment portfolio be invested with a single financial institution, with the exception of US Treasury securities and authorized pools. To ensure that the City does not over-concentrate in any one investment, the City shall limit its investments to no more than 5% in any one issue.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City will minimize custodial credit risk, by; limiting investments to the types of securities approved in the City's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

Foreign Currency Risk

The City's investment policy does not address foreign currency risk.

Investments

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of September 30, 2009 were as follows:

| <u>Fund</u>                    | <u>Interfund<br/>Receivable</u>  | <u>Interfund<br/>Payable</u>                   |
|--------------------------------|----------------------------------|--|
| Major Governmental Funds:      |                                  |  |
| General Fund                   | \$ 38,384                        | \$ 1,786                                       |
| Major Enterprise Funds:        |                                  |  |
| City Park Fund                 | <u>1,786</u>                     | <u>38,384</u>                                  |
|                                | <u>\$ 40,170</u>                 | <u>\$ 40,170</u>                               |
| <u>Due from Component Unit</u> | <u>Due to Primary Government</u> |  |
| General Fund                   | \$ <u>63,593</u> *               | East Tawas Housing Commission \$ <u>59,739</u> |

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

\* The Due from (to) component unit does not offset due to different fiscal year ends between the City and the East Tawas Housing Commission. \$59,739 of this balance will not be repaid within one year. This loan will be repaid by the East Tawas Housing Commission in four annual installments beginning in 2010. Interest will be charged at the prevailing interest rate, which is currently 4.39%. The remaining \$3,854 of the balance is the East Tawas Housing Commission's share of payroll and insurance paid by the City's General Fund subsequent to December 31, 2008.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended September 30, 2009, was as follows:

|                                       | Balance<br>10/01/08 | Additions         | Deletions          | Balance<br>09/30/09 |
|---------------------------------------|---------------------|-------------------|--------------------|---------------------|
| <u>Governmental Activities</u>        |                     |                   |                    |                     |
| Capital Assets Not Being Depreciated: |                     |                   |                    |                     |
| Land                                  | \$ 1,004,266        | \$ 0              | \$ 0               | \$ 1,004,266        |
| Construction in Progress              | 17,671              | 0                 | (17,671)           | 0                   |
| Subtotal                              | <u>1,021,937</u>    | <u>0</u>          | <u>(17,671)</u>    | <u>1,004,266</u>    |
| Capital Assets Being Depreciated:     |                     |                   |                    |                     |
| Land Improvements                     | 187,750             | 13,661            | 0                  | 201,411             |
| Buildings and Improvements            | 2,930,811           | 0                 | 0                  | 2,930,811           |
| Machinery and Equipment               | 920,862             | 166,730           | 0                  | 1,087,592           |
| Vehicles                              | 1,213,225           | 29,148            | 0                  | 1,242,373           |
| Infrastructure - Roads                | <u>1,602,991</u>    | <u>690,689</u>    | <u>0</u>           | <u>2,293,680</u>    |
| Subtotal                              | <u>6,855,639</u>    | <u>900,228</u>    | <u>0</u>           | <u>7,755,867</u>    |
| Less Accumulated Depreciation for:    |                     |                   |                    |                     |
| Land Improvements                     | (20,264)            | (9,997)           | 0                  | (30,261)            |
| Buildings and Improvements            | (777,250)           | (71,917)          | 0                  | (849,167)           |
| Machinery and Equipment               | (648,694)           | (62,138)          | 0                  | (710,832)           |
| Vehicles                              | (612,994)           | (108,083)         | 0                  | (721,077)           |
| Infrastructure - Roads                | <u>(130,209)</u>    | <u>(44,022)</u>   | <u>0</u>           | <u>(174,231)</u>    |
| Subtotal                              | <u>(2,189,411)</u>  | <u>(296,157)</u>  | <u>0</u>           | <u>(2,485,568)</u>  |
| Capital Assets Being Depreciated      | <u>4,666,228</u>    | <u>604,071</u>    | <u>0</u>           | <u>5,270,299</u>    |
| Governmental Activities Total         |                     |                   |                    |                     |
| Capital Assets - Net of Depreciation  | <u>\$ 5,688,165</u> | <u>\$ 604,071</u> | <u>\$ (17,671)</u> | <u>\$ 6,274,565</u> |
|                                       | Balance<br>10/01/08 | Additions         | Deletions          | Balance<br>09/30/09 |
| <u>Business-Type Activities</u>       |                     |                   |                    |                     |
| Capital Assets Not Being Depreciated: |                     |                   |                    |                     |
| Land                                  | \$ 267,634          | \$ 0              | \$ 0               | \$ 267,634          |
| Construction in Progress              | 0                   | 10,834            | 0                  | 10,834              |
| Subtotal                              | <u>267,634</u>      | <u>10,834</u>     | <u>0</u>           | <u>278,468</u>      |
| Capital Assets Being Depreciated:     |                     |                   |                    |                     |
| Land Improvements                     | 3,847,058           | 70,133            | 0                  | 3,917,191           |
| Buildings                             | 960,080             | 0                 | 0                  | 960,080             |
| Machinery and Equipment               | 634,566             | 0                 | 0                  | 634,566             |
| Water System                          | 4,995,792           | 5,900             | 0                  | 5,001,692           |
| Sewer System                          | <u>5,569,266</u>    | <u>0</u>          | <u>0</u>           | <u>5,569,266</u>    |
| Subtotal                              | <u>16,006,762</u>   | <u>76,033</u>     | <u>0</u>           | <u>16,082,795</u>   |

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 4 - CAPITAL ASSETS (CONTINUED)

|   | Balance<br>10/01/08 | Additions           | Deletions   | Balance<br>09/30/09 |
|---|---------------------|---------------------|-------------|---------------------|
| <u>Business-Type Activities (Continued)</u> |                     |                     |             |                     |
| Less Accumulated Depreciation for:          |                     |                     |             |                     |
| Land Improvements                           | \$ (2,565,507)      | \$ (147,701)        | \$ 0        | \$ (2,713,208)      |
| Buildings                                   | (529,937)           | (25,870)            | 0           | (555,807)           |
| Machinery and Equipment                     | (567,583)           | (15,019)            | 0           | (582,602)           |
| Water System                                | (2,090,914)         | (117,398)           | 0           | (2,208,312)         |
| Sewer System                                | (2,486,382)         | (110,556)           | 0           | (2,596,938)         |
| Subtotal                                    | <u>(8,240,323)</u>  | <u>(416,544)</u>    | <u>0</u>    | <u>(8,656,867)</u>  |
| Business-Type Activities Total              |                     |                     |             |                     |
| Capital Assets - Net of Depreciation        | <u>\$ 8,034,073</u> | <u>\$ (329,677)</u> | <u>\$ 0</u> | <u>\$ 7,704,396</u> |

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

|                                    |              |
|------------------------------------|--------------|
| General Government:                |              |
| Legislative and Executive          | \$ 5,344     |
| Other General Government           | 77,005       |
| Public Safety:                     |              |
| Fire                               | 96,758       |
| Public Works:                      |              |
| Other Public Works                 | 108,986      |
| Community and Economic Development | 1,741        |
| Recreation and Cultural            | <u>6,323</u> |

Total Governmental Activities \$ 296,157

Business-Type Activities

|           |                |
|-----------|----------------|
| Sewer     | \$ 121,282     |
| Water     | 122,800        |
| City Park | <u>172,462</u> |

Total Business-Type Activities \$ 416,544

Capital asset activity of the East Tawas TIFA for the current year is as follows:

|                                       | Balance<br>10/01/08 | Additions         | Deletions   | Balance<br>09/30/09 |
|---------------------------------------|---------------------|-------------------|-------------|---------------------|
| <u>Governmental Activities</u>        |                     |                   |             |                     |
| Capital Assets Not Being Depreciated: |                     |                   |             |                     |
| Construction in Progress              | <u>\$ 1,465,116</u> | <u>\$ 633,032</u> | <u>\$ 0</u> | <u>\$ 2,098,148</u> |
| Capital Assets Being Depreciated      |                     |                   |             |                     |
| Land Improvements                     | 302,761             | 10,750            | 0           | 313,511             |
| Machinery and Equipment               | <u>25,735</u>       | <u>0</u>          | <u>0</u>    | <u>25,735</u>       |
| Subtotal                              | <u>328,496</u>      | <u>10,750</u>     | <u>0</u>    | <u>339,246</u>      |

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 4 - CAPITAL ASSETS (CONTINUED)

|  | Balance<br>10/1/08  | Additions         | Deletions   | Balance<br>9/30/09  |
|--|---------------------|-------------------|-------------|---------------------|
| <u>Governmental Activities (Continued)</u> |                     |                   |             |                     |
| Less Accumulated Depreciation for:         |                     |                   |             |                     |
| Land Improvements                          | \$ (25,505)         | \$ (15,451)       | \$ 0        | \$ (40,956)         |
| Machinery and Equipment                    | (5,625)             | (3,797)           | 0           | (9,422)             |
| Subtotal                                   | <u>(31,130)</u>     | <u>(19,248)</u>   | <u>0</u>    | <u>(50,378)</u>     |
| Capital Assets Being Depreciated           | <u>297,366</u>      | <u>(8,498)</u>    | <u>0</u>    | <u>288,868</u>      |
| Governmental Activities Total              |                     |                   |             |                     |
| Capital Assets - Net of Depreciation       | <u>\$ 1,762,482</u> | <u>\$ 624,534</u> | <u>\$ 0</u> | <u>\$ 2,387,016</u> |

Depreciation expense was charged to programs of the East Tawas TIFA as follows:

|                                    |                  |
|------------------------------------|------------------|
| <u>Governmental Activities</u>     |                  |
| Community and Economic Development | <u>\$ 19,248</u> |

Capital Asset activity of the East Tawas Housing Commission for the current year is as follows:

|                                       | Balance<br>01/01/08 | Additions           | Deletions   | Balance<br>12/31/08 |
|---------------------------------------|---------------------|---------------------|-------------|---------------------|
| <u>Business-Type Activities</u>       |                     |                     |             |                     |
| Capital Assets Not Being Depreciated: |                     |                     |             |                     |
| Land                                  | \$ <u>205,892</u>   | \$ <u>0</u>         | \$ <u>0</u> | \$ <u>205,892</u>   |
| Capital Assets Being Depreciated:     |                     |                     |             |                     |
| Buildings                             | 2,888,554           | 0                   | 0           | 2,888,554           |
| Furniture and Equipment               | <u>86,626</u>       | <u>949</u>          | <u>0</u>    | <u>87,575</u>       |
|                                       | 2,975,180           | 949                 | 0           | 2,976,129           |
| Less Accumulated Depreciation         | <u>(1,863,184)</u>  | <u>(101,450)</u>    | <u>0</u>    | <u>(1,964,634)</u>  |
| Net Capital Assets Being Depreciated  | <u>1,111,996</u>    | <u>(100,501)</u>    | <u>0</u>    | <u>1,011,495</u>    |
| Business-Type Activities              |                     |                     |             |                     |
| Capital Assets - Net                  | <u>\$ 1,317,888</u> | <u>\$ (100,501)</u> | <u>\$ 0</u> | <u>\$ 1,217,387</u> |

Depreciation expense was charged in full to the East Tawas Housing Commission function.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

|                                  | Unavailable       | Unearned            | Total               |
|----------------------------------|-------------------|---------------------|---------------------|
| Real and Personal Property Taxes | \$ 0              | \$ 1,180,922        | \$ 1,180,922        |
| Interest Receivable              | 7,370             | 0                   | 7,370               |
| Notes Receivable                 | <u>408,056</u>    | <u>0</u>            | <u>408,056</u>      |
| Total                            | <u>\$ 415,426</u> | <u>\$ 1,180,922</u> | <u>\$ 1,596,348</u> |

NOTE 6 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

|  | <u>Governmental</u> | <u>Business-Type</u> |
|--|---------------------|----------------------|
| General Obligation Bonds:  |                     |                      |
| \$2,000,000 1999 Building Authority Limited Tax General Obligation Bonds, dated June 1, 1999 for the purpose of paying the cost of acquiring, constructing and equipping a community center and City Hall Building, which the City has leased in return for the payment of certain rentals pursuant to a Limited Tax Full Faith and Credit General Obligation Contract of Lease between the City and the Authority. The bonds bear interest at 5.10% and are due in annual installments through year 2009. | \$ 65,000           | \$ 0                 |
| \$630,000 Limited Tax General Obligation Construction Bonds, dated August 1, 2003 for the purpose of paying part of the cost of acquiring and constructing street improvements. The bonds bear interest at 4.125% and are due in annual installments through 2018.   | 420,000             | 0                    |
| \$1,575,000 2007 Building Authority Refunding Bonds Limited Tax General Obligation Bonds, dated March 29, 2007 for the purpose of advance refunding the 1999 Building Authority Limited Tax General Obligation Bonds. The bonds bear interest at 4% - 4.125% and are due in annual installments through 2023.  | <u>1,565,000</u>    | <u>0</u>             |
| Total General Obligation Bonds   | <u>2,050,000</u>    | <u>0</u>             |
| Revenue Bonds:   |                     |                      |
| \$1,275,000 2007 Water Supply System Refunding Bonds, dated March 29, 2007 for the purpose of advance refunding the \$1,485,000 Water Supply System Revenue Bonds. The bonds bear interest at 3.625% - 5% and are due in annual installments through 2029.   | <u>0</u>            | <u>1,265,000</u>     |
| Total Bonds Payable  | <u>2,050,000</u>    | <u>1,265,000</u>     |

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Primary Government: (Continued)

B. Contracts Payable

|  | <u>Governmental</u> | <u>Business-Type</u> |
|--|---------------------|----------------------|
| Joint waste water treatment plant with the City of Tawas City through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987, due in annual installments through November 1, 2009, bearing interest at the rates of 4.5% to 5.9%. The most current estimate of the City's share is 38.32% of the total Refunding bond issue of \$4,250,000 or \$1,628,600.   | \$ 0                | \$ 149,448           |
| Joint water supply system agreement with the City of Tawas City, the Charter Townships of AuSable and Oscoda, and the Township of Baldwin through the Huron Shore Regional Utility Authority, dated May 1, 1996, due in annual installments through November 1, 2010, bearing interest at the rates of 4% to 5.65% to finance the cost of constructing a new water supply system. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 17.77% of the total bond issue cost of \$7,930,000 or \$1,409,161. | <u>0</u>            | <u>199,912</u>       |
| Total Contracts Payable  | <u>0</u>            | <u>349,360</u>       |
| Total Primary Government   | <u>\$ 2,050,000</u> | <u>\$ 1,614,360</u>  |

Component Units:

C. Bonds Payable

|  | <u>Governmental</u> | <u>Business-Type</u> |
|--|---------------------|----------------------|
| Governmental Activities  |                     |                      |
| East Tawas TIFA - \$2,300,000 Limited Tax General Obligation 2008 Development Bonds, dated June 23, 2008 for the purpose of paying the cost of streetscape improvements. The bonds bear interest from 3.8% - 5% and are due in annual installments through 2033. | \$ 2,255,000        | \$ 0                 |
| Business-Type Activities:  |                     |                      |
| Housing Commission - \$1,130,000 1998 General Obligation Unlimited Tax Refunding Bonds, dated September 29, 1998 used for Section 8 Senior Citizens Housing. The bonds bear interest from 3.65% - 4.15% and are due in annual installments through 2009.         | <u>0</u>            | <u>120,000</u>       |
| Total Component Units  | <u>\$ 2,255,000</u> | <u>\$ 120,000</u>    |

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Compensated Absences Payable

The City has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of September 30, 2009, the accumulated vested vacation and sick leave benefits of the employees of various City departments and its component unit were as follows:

|  | Current<br>Liability<br>09/30/09 | Long-Term<br>Liability<br>09/30/09 | Total Balance<br>09/30/09 |
|--|----------------------------------|------------------------------------|---------------------------|
| <u>Accrued Employee Benefits Payable</u> |                                  |                                    |                           |
| <u>Primary Government</u>                |                                  |                                    |                           |
| Governmental Activities                  | \$ 0                             | \$ 17,579                          | \$ 17,579                 |
| Business-Type Activities                 | 0                                | 7,627                              | 7,627                     |
|  | <u>\$ 0</u>                      | <u>\$ 25,206</u>                   | <u>\$ 25,206</u>          |
| <u>Component Unit</u>                    |                                  |                                    |                           |
| East Tawas Housing Commission            | <u>\$ 6,616</u>                  | <u>\$ 11,916</u>                   | <u>\$ 18,532</u>          |

E. Defeasance of Debt

On March 29, 2007 the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2009 and ending in 2023. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2009, \$1,480,000 of bonds outstanding are considered defeased.

On March 29, 2007 the City defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2010 and ending in 2029. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2009 \$1,230,000 of bonds outstanding are considered defeased.

F. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2009:

|                                | Balance<br>10/01/08 | Issues or<br>Additions | Payments or<br>Expenditures | Balance<br>09/30/09 | Due Within<br>One Year |
|--------------------------------|---------------------|------------------------|-----------------------------|---------------------|------------------------|
| <u>Governmental Activities</u> |                     |                        |                             |                     |                        |
| Primary Government:            |                     |                        |                             |                     |                        |
| Bonds Payable                  | \$ 2,160,000        | \$ 0                   | \$ (110,000)                | \$ 2,050,000        | \$ 115,000             |
| Deferred Amounts on Refunding  | (30,281)            | 0                      | 1,954                       | (28,327)            | 0                      |
| Total Bonds Payable, Net       | 2,129,719           | 0                      | (108,046)                   | 2,021,673           | 115,000                |
| Compensated Absences           | 16,271              | 1,308 *                | 0                           | 17,579              | 0                      |
| Total Primary Government       | <u>\$ 2,145,990</u> | <u>\$ 1,308</u>        | <u>\$ (108,046)</u>         | <u>\$ 2,039,252</u> | <u>\$ 115,000</u>      |
| Component Units:               |                     |                        |                             |                     |                        |
| Bonds Payable                  | <u>\$ 2,300,000</u> | <u>\$ 0</u>            | <u>\$ (45,000)</u>          | <u>\$ 2,255,000</u> | <u>\$ 45,000</u>       |



CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

**NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)**

**F. Changes in Long-Term Liabilities (Continued)**

|  | <u>Balance<br/>10/01/08</u> | <u>Issues or<br/>Additions</u> | <u>Payments or<br/>Expenditures</u> | <u>Balance<br/>09/30/09</u> | <u>Due Within<br/>One Year</u> |
|--|-----------------------------|--------------------------------|-------------------------------------|-----------------------------|--------------------------------|
| <b><u>Business-Type Activities</u></b> |                             |                                |                                     |                             |                                |
| Primary Government:                    |                             |                                |                                     |                             |                                |
| Bonds Payable                          | \$ 1,380,000                | \$ 0                           | \$ (115,000)                        | \$ 1,265,000                | \$ 40,000                      |
| Deferred Amounts on Refunding          | (19,362)                    | 0                              | 945                                 | (18,417)                    | 0                              |
| Total Bonds Payable, Net               | 1,360,638                   | 0                              | (114,055)                           | 1,246,583                   | 40,000                         |
| Contracts Payable                      | 589,131                     | 0                              | (239,771)                           | 349,360                     | 249,848                        |
| Compensated Absences                   | 6,829                       | 798 *                          | 0                                   | 7,627                       | 0                              |
| Total Primary Government               | <u>\$ 1,956,598</u>         | <u>\$ 798</u>                  | <u>\$ (353,826)</u>                 | <u>\$ 1,603,570</u>         | <u>\$ 289,848</u>              |
|  |                             |                                |                                     |                             |                                |
|  | <u>Balance<br/>10/01/08</u> | <u>Issues or<br/>Additions</u> | <u>Payments or<br/>Expenditures</u> | <u>Balance<br/>09/30/09</u> | <u>Due Within<br/>One Year</u> |
| Component Units:                       |                             |                                |                                     |                             |                                |
| Bonds Payable                          | \$ 240,000                  | \$ 0                           | \$ (120,000)                        | \$ 120,000                  | \$ 120,000                     |
| Compensated Absences                   | 19,516                      | 0                              | (984) *                             | 18,532                      | 6,616                          |
| Total Component Units                  | <u>\$ 259,516</u>           | <u>\$ 0</u>                    | <u>\$ (120,984)</u>                 | <u>\$ 138,532</u>           | <u>\$ 126,616</u>              |

\*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$162,285.

Compensated absences for the governmental funds are generally liquidated by the General, Major Street and Local Street funds.

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of September 30, 2009 are as follows:

**Primary Government**

| <b>Bonds Payable</b> | <u>Governmental Activities</u> |                   | <u>Business-Type Activities</u> |                   | <u>Total</u>        |
|----------------------|--------------------------------|-------------------|---------------------------------|-------------------|---------------------|
|                      | <u>Principal</u>               | <u>Interest</u>   | <u>Principal</u>                | <u>Interest</u>   |                     |
| 2010                 | \$ 115,000                     | \$ 81,739         | \$ 40,000                       | \$ 53,913         | \$ 290,652          |
| 2011                 | 120,000                        | 76,631            | 45,000                          | 52,313            | 293,944             |
| 2012                 | 125,000                        | 71,681            | 45,000                          | 50,681            | 292,362             |
| 2013                 | 135,000                        | 66,531            | 45,000                          | 48,881            | 295,412             |
| 2014                 | 140,000                        | 60,975            | 50,000                          | 46,631            | 297,606             |
| 2015 - 2019          | 745,000                        | 212,748           | 280,000                         | 196,005           | 1,433,753           |
| 2020 - 2024          | 670,000                        | 70,631            | 345,000                         | 131,668           | 1,217,299           |
| 2025 - 2029          | 0                              | 0                 | 415,000                         | 54,401            | 469,401             |
| Total                | <u>\$ 2,050,000</u>            | <u>\$ 640,936</u> | <u>\$ 1,265,000</u>             | <u>\$ 634,493</u> | <u>\$ 4,590,429</u> |

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

**NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)**

| <b>Contracts Payable</b> | <b>Governmental Activities</b> |                 | <b>Business-Type Activities</b> |                  | <b>Total</b>      |
|--------------------------|--------------------------------|-----------------|---------------------------------|------------------|-------------------|
|                          | <u>Principal</u>               | <u>Interest</u> | <u>Principal</u>                | <u>Interest</u>  |                   |
| 2010                     | \$ 0                           | \$ 0            | \$ 249,848                      | \$ 15,604        | \$ 265,452        |
| 2011                     | <u>0</u>                       | <u>0</u>        | <u>99,512</u>                   | <u>5,622</u>     | <u>105,134</u>    |
| Total                    | <u>\$ 0</u>                    | <u>\$ 0</u>     | <u>\$ 349,360</u>               | <u>\$ 21,226</u> | <u>\$ 370,586</u> |

Component Units

| <b>Bonds Payable</b> | <b>Governmental Activities</b> |                     | <b>Business-Type Activities</b> |                 | <b>Total</b>        |
|----------------------|--------------------------------|---------------------|---------------------------------|-----------------|---------------------|
|                      | <u>Principal</u>               | <u>Interest</u>     | <u>Principal</u>                | <u>Interest</u> |                     |
| 2010                 | \$ 45,000                      | \$ 103,750          | \$ 120,000                      | \$ 4,769        | \$ 273,519          |
| 2011                 | 50,000                         | 102,017             | 0                               | 0               | 152,017             |
| 2012                 | 50,000                         | 100,092             | 0                               | 0               | 150,092             |
| 2013                 | 55,000                         | 98,155              | 0                               | 0               | 153,155             |
| 2014                 | 55,000                         | 96,024              | 0                               | 0               | 151,024             |
| 2015 - 2019          | 335,000                        | 444,090             | 0                               | 0               | 779,090             |
| 2020 - 2024          | 450,000                        | 363,015             | 0                               | 0               | 813,015             |
| 2025 - 2029          | 610,000                        | 244,923             | 0                               | 0               | 854,923             |
| 2030 - 2033          | <u>605,000</u>                 | <u>77,750</u>       | <u>0</u>                        | <u>0</u>        | <u>682,750</u>      |
| Total                | <u>\$ 2,255,000</u>            | <u>\$ 1,629,816</u> | <u>\$ 120,000</u>               | <u>\$ 4,769</u> | <u>\$ 4,009,585</u> |

**NOTE 7 - PROPERTY TAXES**

Property taxes include amounts levied against all real property and tangible personal property located in the City. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the City was \$84,694,960. The tax rates were 16.1553 mills for operations and 1.76 mills for garbage.

**NOTE 8 - OPERATING TRANSFERS**

During the year ended September 30, 2009, the following transfers were made:

| <u>Description</u>                  | <u>Operating<br/>Transfers In</u> | <u>Operating<br/>Transfers Out</u> |
|-------------------------------------|-----------------------------------|------------------------------------|
| <u>Major Funds</u>                  |                                   |                                    |
| Major Governmental Funds:           |                                   |                                    |
| General Fund                        | \$ 143,129                        | \$ 786,988                         |
| Major Streets                       | 538,983                           | 53,769                             |
| Major Business-Type Activity Funds: |                                   |                                    |
| City Park Fund                      | <u>0</u>                          | <u>163,129</u>                     |
| Total Major Funds                   | <u>682,112</u>                    | <u>1,003,886</u>                   |
| Non-major Governmental Funds        | <u>397,130</u>                    | <u>75,356</u>                      |
|                                     | <u>\$ 1,079,242</u>               | <u>\$ 1,079,242</u>                |

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 8 - OPERATING TRANSFERS (CONTINUED)

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - RETIREMENT PLAN

The City has adopted a defined contribution pension plan covering substantially all of its general employees. The plan is administered through Hartford Life Insurance Company.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

Contributions made by an employee vest immediately and contributions made by the City vest after 5 years of full-time employment. An employee who leaves the employment of the City is entitled to his or her contributions and the City's contributions if vesting requirements are satisfied. The City is required to contribute an amount equal to 8% of the employee's gross earnings.

During the year, the City's required and actual contributions amounted to \$57,840.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its employees.

NOTE 10 - DEFERRED COMPENSATION PLAN

The City offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

NOTE 11 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. Accrued unemployment compensation was \$0 as of September 30, 2009.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims, general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2009

NOTE 13 - RESTRICTED ASSETS AND RESERVES

The City is required, under the 2007 Water Supply System Revenue Refunding Bonds, to maintain certain restricted assets in the Water Fund. The Bonds provide that a Bond Reserve Account be established "at the lesser of" (1) the maximum annual debt service due in the current or any future year (2) 125% of the average annual debt service or (3) 10% of the principal amount of the Bonds. The 2007 Water Supply System Revenue Refunding Bonds also require certain assets be deposited into the Bond and Interest Redemption Depository account. The City did meet all of these requirements for the year ended September 30, 2009.

NOTE 14 - RELATED PARTY TRANSACTIONS

The City of East Tawas has entered into contracts with Bolen Asphalt Paving, Inc. and Bolen Trucking Co., Inc. for bituminous paving and snow removal for fiscal years 2007 - 2009. Bolen Asphalt Paving, Inc. and Bolen Trucking Co., Inc. are owned and operated by relatives of a member of the government's governing council. During the current year, Bolen Asphalt Paving, Inc. was paid \$440,907 for bituminous paving and Bolen Trucking Co., Inc. was paid \$23,342 for snow removal.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended September 30, 2009

|  | Original<br>Budget  | Final<br>Amended<br>Budget | Actual              | Variance -<br>Favorable<br>(Unfavorable) |
|--|---------------------|----------------------------|---------------------|--|
| <u>Revenue</u>                                   |                     |                            |                     |  |
| Property Taxes                                   | \$ 1,164,095        | \$ 1,159,500               | \$ 1,163,236        | \$ 3,736                                 |
| Federal Grants and Revenue                       | 0                   | 122,575                    | 142,068             | 19,493                                   |
| State Grants and Revenue                         | 289,500             | 307,600                    | 272,753             | (34,847)                                 |
| Licenses and Permits                             | 2,300               | 3,350                      | 3,608               | 258                                      |
| Charges for Services                             | 110,570             | 115,200                    | 115,355             | 155                                      |
| Interest and Rentals                             | 193,300             | 202,900                    | 212,644             | 9,744                                    |
| Other Revenue                                    | 45,000              | 55,460                     | 55,444              | (16)                                     |
| Total Revenue                                    | <u>1,804,765</u>    | <u>1,966,585</u>           | <u>1,965,108</u>    | <u>(1,477)</u>                           |
| <u>Expenditures</u>                              |                     |                            |                     |  |
| Current:   |                     |                            |                     |  |
| General Government:                              |                     |                            |                     |  |
| Legislative                                      | 55,850              | 40,675                     | 34,242              | 6,433                                    |
| Chief Executive                                  | 66,925              | 74,175                     | 71,437              | 2,738                                    |
| Financial and Tax Administration                 | 169,650             | 165,385                    | 157,067             | 8,318                                    |
| Other General Government                         | 269,504             | 248,029                    | 235,405             | 12,624                                   |
| Public Safety                                    | 367,300             | 345,125                    | 342,527             | 2,598                                    |
| Public Works                                     | 509,075             | 480,150                    | 450,472             | 29,678                                   |
| Community and Economic Development               | 83,650              | 122,877                    | 99,373              | 23,504                                   |
| Recreation and Cultural                          | 48,975              | 42,125                     | 40,759              | 1,366                                    |
| Capital Outlay                                   | 81,000              | 189,200                    | 185,505             | 3,695                                    |
| Total Expenditures                               | <u>1,651,929</u>    | <u>1,707,741</u>           | <u>1,616,787</u>    | <u>90,954</u>                            |
| Excess of Revenue Over Expenditures              | <u>152,836</u>      | <u>258,844</u>             | <u>348,321</u>      | <u>89,477</u>                            |
| <u>Other Financing Sources (Uses)</u>            |                     |                            |                     |  |
| Operating Transfers In                           | 143,429             | 143,125                    | 143,129             | 4  |
| Operating Transfers Out                          | (715,970)           | (786,988)                  | (786,988)           | 0  |
| Total Other Financing Sources (Uses)             | <u>(572,541)</u>    | <u>(643,863)</u>           | <u>(643,859)</u>    | <u>4</u>                                 |
| Excess of Revenue and Other Sources Over (Under) |                     |                            |                     |  |
| Expenditures and Other Uses                      | (419,705)           | (385,019)                  | (295,538)           | 89,481                                   |
| Fund Balances - Beginning of Year                | <u>1,485,771</u>    | <u>1,485,771</u>           | <u>1,485,771</u>    | <u>0</u>                                 |
| Fund Balances - End of Year                      | <u>\$ 1,066,066</u> | <u>\$ 1,100,752</u>        | <u>\$ 1,190,233</u> | <u>\$ 89,481</u>                         |

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 MAJOR STREETS - SPECIAL REVENUE FUND  
For the Year Ended September 30, 2009

|   | Original<br>Budget | Final<br>Amended<br>Budget | Actual           | Variance -<br>Favorable<br>(Unfavorable) |
|---|--------------------|----------------------------|------------------|--|
| <u>Revenue</u>  |                    |                            |                  |  |
| State Grants and Revenue  | \$ 279,200         | \$ 297,142                 | \$ 294,145       | \$ (2,997)                               |
| Contributions from Local Units  | 150,000            | 15,000                     | 15,000           | 0  |
| Interest and Rentals  | <u>1,500</u>       | <u>700</u>                 | <u>691</u>       | <u>(9)</u>                               |
| Total Revenue   | <u>430,700</u>     | <u>312,842</u>             | <u>309,836</u>   | <u>(3,006)</u>                           |
| <u>Expenditures</u>   |                    |                            |                  |  |
| Current:  |                    |                            |                  |  |
| Public Works  | 214,800            | 278,431                    | 271,017          | 7,414                                    |
| Capital Outlay  | <u>646,576</u>     | <u>670,700</u>             | <u>666,141</u>   | <u>4,559</u>                             |
| Total Expenditures  | <u>861,376</u>     | <u>949,131</u>             | <u>937,158</u>   | <u>11,973</u>                            |
| Excess of Revenue Over (Under) Expenditures                                     | <u>(430,676)</u>   | <u>(636,289)</u>           | <u>(627,322)</u> | <u>8,967</u>                             |
| <u>Other Financing Sources (Uses)</u>   |                    |                            |                  |  |
| Operating Transfers In  | 484,695            | 538,983                    | 538,983          | 0  |
| Operating Transfers Out   | <u>(54,019)</u>    | <u>(54,019)</u>            | <u>(53,769)</u>  | <u>250</u>                               |
| Total Other Financing Sources (Uses)  | <u>430,676</u>     | <u>484,964</u>             | <u>485,214</u>   | <u>250</u>                               |
| Excess of Revenue and Other Sources Over (Under)<br>Expenditures and Other Uses | 0                  | (151,325)                  | (142,108)        | 9,217                                    |
| Fund Balances - Beginning of Year   | <u>177,868</u>     | <u>177,868</u>             | <u>177,868</u>   | <u>0</u>                                 |
| Fund Balances - End of Year   | <u>\$ 177,868</u>  | <u>\$ 26,543</u>           | <u>\$ 35,760</u> | <u>\$ 9,217</u>                          |

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 FEDERAL PROJECT FUND - SPECIAL REVENUE FUND  
For the Year Ended September 30, 2009

|                                     | Original<br>Budget | Final<br>Amended<br>Budget | Actual            | Variance -<br>Favorable<br>(Unfavorable) |
|-------------------------------------|--------------------|----------------------------|-------------------|--|
| <u>Revenue</u>                      |                    |                            |                   |  |
| Charges for Services                | \$ 100             | \$ 100                     | \$ 100            | \$ 0                                     |
| Interest and Rentals                | 35,001             | 37,435                     | 37,610            | 175                                      |
| Other Revenue                       | <u>88,801</u>      | <u>49,971</u>              | <u>50,065</u>     | <u>94</u>                                |
| Total Revenue                       | 123,902            | 87,506                     | 87,775            | 269                                      |
| <u>Expenditures</u>                 |                    |                            |                   |  |
| Current:                            |                    |                            |                   |  |
| Community and Economic Development  | <u>123,902</u>     | <u>0</u>                   | <u>0</u>          | <u>0</u>                                 |
| Excess of Revenue Over Expenditures | 0                  | 87,506                     | 87,775            | 269                                      |
| Fund Balances - Beginning of Year   | <u>838,378</u>     | <u>838,378</u>             | <u>838,378</u>    | <u>0</u>                                 |
| Fund Balances - End of Year         | <u>\$ 838,378</u>  | <u>\$ 925,884</u>          | <u>\$ 926,153</u> | <u>\$ 269</u>                            |



#### OTHER INFORMATION

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
September 30, 2009

|                                    | <u>Special Revenue Funds</u> |                      |                         |                                       | <u>Debt Retirement Funds</u>          |                                |  |
|------------------------------------|------------------------------|----------------------|-------------------------|---------------------------------------|---------------------------------------|--------------------------------|--|
|                                    | <u>Local Streets</u>         | <u>Cemetery Fund</u> | <u>Community Center</u> | <u>Intragovernmental Service Fund</u> | <u>Major Street Construction Bond</u> | <u>Building Authority Fund</u> | <u>2007 Building Authority Refunding Bond Fund</u> |
| <u>ASSETS</u>                      |                              |                      |                         |                                       |                                       |                                |  |
| Cash and Cash Equivalents          | \$ 46,711                    | \$ 926               | \$ 13,671               | \$ 152,765                            | \$ 1,163                              | \$ 249                         | \$ 0   |
| Investments                        | 0                            | 0                    | 0                       | 0                                     | 0                                     | 0                              | 0  |
| Due from State                     | <u>11,255</u>                | <u>0</u>             | <u>0</u>                | <u>0</u>                              | <u>0</u>                              | <u>0</u>                       | <u>0</u>   |
| Total Assets                       | <u>\$ 57,966</u>             | <u>\$ 926</u>        | <u>\$ 13,671</u>        | <u>\$ 152,765</u>                     | <u>\$ 1,163</u>                       | <u>\$ 249</u>                  | <u>\$ 0</u>  |
| <u>LIABILITIES AND FUND EQUITY</u> |                              |                      |                         |                                       |                                       |                                |  |
| <u>Liabilities</u>                 |                              |                      |                         |                                       |                                       |                                |  |
| Accounts Payable                   | \$ 0                         | \$ 21                | \$ 5,576                | \$ 0                                  | \$ 0                                  | \$ 0                           | \$ 0   |
| Accrued Liabilities                | <u>666</u>                   | <u>0</u>             | <u>415</u>              | <u>0</u>                              | <u>0</u>                              | <u>0</u>                       | <u>0</u>   |
| Total Liabilities                  | <u>666</u>                   | <u>21</u>            | <u>5,991</u>            | <u>0</u>                              | <u>0</u>                              | <u>0</u>                       | <u>0</u>   |
| <u>Fund Equity</u>                 |                              |                      |                         |                                       |                                       |                                |  |
| Fund Balances:                     |                              |                      |                         |                                       |                                       |                                |  |
| Reserved For:                      |                              |                      |                         |                                       |                                       |                                |  |
| Debt Service                       | 0                            | 0                    | 0                       | 0                                     | 1,163                                 | 249                            | 0  |
| Perpetual Care                     | 0                            | 0                    | 0                       | 0                                     | 0                                     | 0                              | 0  |
| Unreserved:                        |                              |                      |                         |                                       |                                       |                                |  |
| Undesignated, Reported In:         |                              |                      |                         |                                       |                                       |                                |  |
| Special Revenue Funds              | <u>57,300</u>                | <u>905</u>           | <u>7,680</u>            | <u>152,765</u>                        | <u>0</u>                              | <u>0</u>                       | <u>0</u>   |
| Total Fund Equity                  | <u>57,300</u>                | <u>905</u>           | <u>7,680</u>            | <u>152,765</u>                        | <u>1,163</u>                          | <u>249</u>                     | <u>0</u>   |
| Total Liabilities and Fund Equity  | <u>\$ 57,966</u>             | <u>\$ 926</u>        | <u>\$ 13,671</u>        | <u>\$ 152,765</u>                     | <u>\$ 1,163</u>                       | <u>\$ 249</u>                  | <u>\$ 0</u>  |

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
September 30, 2009

|                                    | <u>Permanent Fund</u>              |   |
|------------------------------------|------------------------------------|---|
|                                    | <u>Cemetery<br/>Perpetual Care</u> | <u>Total Other<br/>Governmental<br/>Funds</u> |
| <u>ASSETS</u>                      |                                    |   |
| Cash and Cash Equivalents          | \$ 2,137                           | \$ 217,622                                    |
| Investments                        | 80,116                             | 80,116  |
| Due from State                     | <u>0</u>                           | <u>11,255</u>                                 |
| Total Assets                       | <u>\$ 82,253</u>                   | <u>\$ 308,993</u>                             |
| <u>LIABILITIES AND FUND EQUITY</u> |                                    |   |
| <u>Liabilities</u>                 |                                    |   |
| Accounts Payable                   | \$ 0                               | \$ 5,597                                      |
| Accrued Liabilities                | <u>0</u>                           | <u>1,081</u>                                  |
| Total Liabilities                  | <u>0</u>                           | <u>6,678</u>                                  |
| <u>Fund Equity</u>                 |                                    |   |
| Fund Balances:                     |                                    |   |
| Reserved For:                      |                                    |   |
| Debt Service                       | 0                                  | 1,412   |
| Perpetual Care                     | 82,253                             | 82,253  |
| Unreserved:                        |                                    |   |
| Undesignated, Reported In:         |                                    |   |
| Special Revenue Funds              | <u>0</u>                           | <u>218,650</u>                                |
| Total Fund Equity                  | <u>82,253</u>                      | <u>302,315</u>                                |
| Total Liabilities and Fund Equity  | <u>\$ 82,253</u>                   | <u>\$ 308,993</u>                             |

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2009

|  | Special Revenue Funds |                |                  |                                | Debt Retirement Funds          |                         |   |
|--|-----------------------|----------------|------------------|--------------------------------|--------------------------------|-------------------------|---|
|  | Local Streets         | Cemetery Fund  | Community Center | Intragovernmental Service Fund | Major Street Construction Bond | Building Authority Fund | 2007 Building Authority Refunding Bond Fund |
| <u>Revenue</u>   |                       |                |                  |                                |                                |                         |   |
| State Grants and Revenue   | \$ 72,716             | \$ 0           | \$ 0             | \$ 0                           | \$ 0                           | \$ 0                    | \$ 0  |
| Charges for Services   | 0                     | 7,000          | 18,570           | 0                              | 0                              | 0                       | 0   |
| Interest and Rentals   | 313                   | 37             | 17,912           | 957                            | 13                             | 143,437                 | 0   |
| Other Revenue  | 0                     | 0              | 672              | 0                              | 0                              | 0                       | 0   |
| Total Revenue  | <u>73,029</u>         | <u>7,037</u>   | <u>37,154</u>    | <u>957</u>                     | <u>13</u>                      | <u>143,437</u>          | <u>0</u>                                    |
| <u>Expenditures</u>  |                       |                |                  |                                |                                |                         |   |
| Current:   |                       |                |                  |                                |                                |                         |   |
| General Government:  |                       |                |                  |                                |                                |                         |   |
| Other General Government   | 0                     | 14,036         | 0                | 0                              | 0                              | 0                       | 0   |
| Public Works   | 117,148               | 0              | 0                | 0                              | 0                              | 0                       | 0   |
| Recreation and Cultural  | 0                     | 0              | 112,256          | 0                              | 0                              | 0                       | 0   |
| Capital Outlay   | 0                     | 0              | 16,730           | 29,148                         | 0                              | 0                       | 0   |
| Debt Service:  |                       |                |                  |                                |                                |                         |   |
| Principal  | 0                     | 0              | 0                | 0                              | 35,000                         | 65,000                  | 10,000                                      |
| Interest and Fiscal Charges  | 0                     | 0              | 0                | 0                              | 19,269                         | 5,273                   | 63,156                                      |
| Total Expenditures   | <u>117,148</u>        | <u>14,036</u>  | <u>128,986</u>   | <u>29,148</u>                  | <u>54,269</u>                  | <u>70,273</u>           | <u>73,156</u>                               |
| Excess of Revenue Over (Under) Expenditures                                  | <u>(44,119)</u>       | <u>(6,999)</u> | <u>(91,832)</u>  | <u>(28,191)</u>                | <u>(54,256)</u>                | <u>73,164</u>           | <u>(73,156)</u>                             |
| <u>Other Financing Sources (Uses)</u>  |                       |                |                  |                                |                                |                         |   |
| Operating Transfers In   | 45,275                | 2,200          | 86,730           | 136,000                        | 53,769                         | 0                       | 73,156                                      |
| Operating Transfers Out  | 0                     | 0              | 0                | 0                              | 0                              | (73,156)                | 0   |
| Total Other Financing Sources (Uses)   | <u>45,275</u>         | <u>2,200</u>   | <u>86,730</u>    | <u>136,000</u>                 | <u>53,769</u>                  | <u>(73,156)</u>         | <u>73,156</u>                               |
| Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses | 1,156                 | (4,799)        | (5,102)          | 107,809                        | (487)                          | 8                       | 0   |
| Fund Balances - Beginning of Year  | <u>56,144</u>         | <u>5,704</u>   | <u>12,782</u>    | <u>44,956</u>                  | <u>1,650</u>                   | <u>241</u>              | <u>0</u>                                    |
| Fund Balances - End of Year  | <u>\$ 57,300</u>      | <u>\$ 905</u>  | <u>\$ 7,680</u>  | <u>\$ 152,765</u>              | <u>\$ 1,163</u>                | <u>\$ 249</u>           | <u>\$ 0</u>                                 |

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2009

|   | <u>Permanent Fund</u>      |                                      |
|---|----------------------------|--------------------------------------|
|   | Cemetery<br>Perpetual Care | Total Other<br>Governmental<br>Funds |
| <u>Revenue</u>  |                            |                                      |
| State Grants and Revenue  | \$ 0                       | \$ 72,716                            |
| Charges for Services  | 0                          | 25,570                               |
| Interest and Rentals  | 2,200                      | 164,869                              |
| Other Revenue   | 2,900                      | 3,572                                |
| Total Revenue   | <u>5,100</u>               | <u>266,727</u>                       |
| <u>Expenditures</u>   |                            |                                      |
| Current:  |                            |                                      |
| General Government:   |                            |                                      |
| Other General Government  | 0                          | 14,036                               |
| Public Works  | 0                          | 117,148                              |
| Recreation and Cultural   | 0                          | 112,256                              |
| Capital Outlay  | 0                          | 45,878                               |
| Debt Service:   |                            |                                      |
| Principal   | 0                          | 110,000                              |
| Interest and Fiscal Charges   | 0                          | 87,698                               |
| Total Expenditures  | <u>0</u>                   | <u>487,016</u>                       |
| Excess of Revenue Over (Under) Expenditures                                     | <u>5,100</u>               | <u>(220,289)</u>                     |
| <u>Other Financing Sources (Uses)</u>   |                            |                                      |
| Operating Transfers In  | 0                          | 397,130                              |
| Operating Transfers Out   | <u>(2,200)</u>             | <u>(75,356)</u>                      |
| Total Other Financing Sources (Uses)  | <u>(2,200)</u>             | <u>321,774</u>                       |
| Excess of Revenue and Other Sources Over<br>(Under) Expenditures and Other Uses | 2,900                      | 101,485                              |
| Fund Balances - Beginning of Year   | <u>79,353</u>              | <u>200,830</u>                       |
| Fund Balances - End of Year   | <u>\$ 82,253</u>           | <u>\$ 302,315</u>                    |

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
EAST TAWAS TIFA - COMPONENT UNIT  
GOVERNMENTAL FUNDS  
September 30, 2009

|                                    | <u>Special<br/>Revenue Fund</u> | <u>Debt<br/>Retirement<br/>Fund</u> | <u>Capital Project<br/>Fund</u>                 |                                |
|------------------------------------|---------------------------------|-------------------------------------|---|--------------------------------|
|                                    |                                 | TIFA<br>Streetscape<br>Debt Service | Downtown<br>Development<br>Construction<br>Fund | Total<br>Governmental<br>Funds |
|                                    | <u>TIFA Fund</u>                |                                     |   |                                |
| <u>ASSETS</u>                      |                                 |                                     |   |                                |
| Cash and Cash Equivalents          | \$ 86,172                       | \$ 51,897                           | \$ 465,181                                      | \$ 603,250                     |
| Investments                        | 170,237                         | 0                                   | 0   | 170,237                        |
| Receivables:                       |                                 |                                     |   |                                |
| Property Taxes                     | <u>167,624</u>                  | <u>0</u>                            | <u>0</u>  | <u>167,624</u>                 |
| Total Assets                       | <u>\$ 424,033</u>               | <u>\$ 51,897</u>                    | <u>\$ 465,181</u>                               | <u>\$ 941,111</u>              |
| <u>LIABILITIES AND FUND EQUITY</u> |                                 |                                     |   |                                |
| <u>Liabilities</u>                 |                                 |                                     |   |                                |
| Accounts Payable                   | \$ 1,059                        | \$ 0                                | \$ 162,334                                      | \$ 163,393                     |
| Accrued Liabilities                | 438                             | 0                                   | 0   | 438                            |
| Deferred Revenue                   | <u>167,624</u>                  | <u>0</u>                            | <u>0</u>  | <u>167,624</u>                 |
| Total Liabilities                  | <u>169,121</u>                  | <u>0</u>                            | <u>162,334</u>                                  | <u>331,455</u>                 |
| <u>Fund Equity</u>                 |                                 |                                     |   |                                |
| Fund Balances:                     |                                 |                                     |   |                                |
| Reserved For:                      |                                 |                                     |   |                                |
| Debt Service                       | 0                               | 51,897                              | 0   | 51,897                         |
| Capital Projects                   | 0                               | 0                                   | 302,847   | 302,847                        |
| Unreserved:                        |                                 |                                     |   |                                |
| Undesignated, Reported In:         |                                 |                                     |   |                                |
| Special Revenue Fund               | <u>254,912</u>                  | <u>0</u>                            | <u>0</u>  | <u>254,912</u>                 |
| Total Fund Equity                  | <u>254,912</u>                  | <u>51,897</u>                       | <u>302,847</u>                                  | <u>609,656</u>                 |
| Total Liabilities and Fund Equity  | <u>\$ 424,033</u>               | <u>\$ 51,897</u>                    | <u>\$ 465,181</u>                               | <u>\$ 941,111</u>              |

CITY OF EAST TAWAS  
Iosco County, Michigan

EAST TAWAS TIFA - COMPONENT UNIT -  
RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
September 30, 2009

|  |    |                 |                    |
|--|----|-----------------|--------------------|
| Total Governmental Fund Balances   |    | \$              | 609,656            |
| Amounts reported for governmental activities in the statement of net assets are different because:   |    |                 |                    |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:          |    |                 |                    |
| Capital Asset Cost   | \$ | 2,437,394       |                    |
| Accumulated Depreciation   |    | <u>(50,378)</u> |                    |
|  |    |                 | 2,387,016          |
| Accrued Interest on Long-Term Liabilities  |    |                 | (43,229)           |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of: |    |                 |                    |
| Bonds Payable (Net of Bond Issuance Costs)   |    |                 | <u>(2,172,822)</u> |
| Total Net Assets - Governmental Activities   |    | \$              | <u>780,621</u>     |

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING STATEMENT OF  
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
EAST TAWAS TIFA - COMPONENT UNIT - GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2009

|   | Special Revenue<br>Fund | Debt Retirement<br>Fund             | Capital Project<br>Fund                         |                                |
|---|-------------------------|-------------------------------------|---|--------------------------------|
|   |                         | TIFA<br>Streetscape<br>Debt Service | Downtown<br>Development<br>Construction<br>Fund | Total<br>Governmental<br>Funds |
|   | TIFA Fund               |                                     |   |                                |
| <u>Revenue</u>  |                         |                                     |   |                                |
| Property Taxes  | \$ 214,155              | \$ 0                                | \$ 0  | \$ 214,155                     |
| Interest and Rentals  | 5,270                   | 22                                  | 13,550  | 18,842                         |
| Other Revenue   | 5,184                   | 0                                   | 0   | 5,184                          |
| Total Revenue   | <u>224,609</u>          | <u>22</u>                           | <u>13,550</u>                                   | <u>238,181</u>                 |
| <u>Expenditures</u>   |                         |                                     |   |                                |
| Current:  |                         |                                     |   |                                |
| General Government:   |                         |                                     |   |                                |
| Financial and Tax Administration  | 5,220                   | 0                                   | 0   | 5,220                          |
| Public Works  | 15,000                  | 0                                   | 5,598   | 20,598                         |
| Community and Economic Development  | 55,129                  | 0                                   | 0   | 55,129                         |
| Capital Outlay  | 10,750                  | 0                                   | 633,032   | 643,782                        |
| Debt Service:   |                         |                                     |   |                                |
| Principal   | 0                       | 45,000                              | 0   | 45,000                         |
| Interest and Fiscal Charges   | 0                       | 90,377                              | 0   | 90,377                         |
| Total Expenditures  | <u>86,099</u>           | <u>135,377</u>                      | <u>638,630</u>                                  | <u>860,106</u>                 |
| Excess of Revenue Over (Under) Expenditures                                     | <u>138,510</u>          | <u>(135,355)</u>                    | <u>(625,080)</u>                                | <u>(621,925)</u>               |
| <u>Other Financing Sources (Uses)</u>   |                         |                                     |   |                                |
| Operating Transfers In  | 0                       | 187,252                             | 0   | 187,252                        |
| Operating Transfers Out   | <u>(187,252)</u>        | <u>0</u>                            | <u>0</u>  | <u>(187,252)</u>               |
| Total Other Financing Sources (Uses)  | <u>(187,252)</u>        | <u>187,252</u>                      | <u>0</u>  | <u>0</u>                       |
| Excess of Revenue and Other Sources Over<br>(Under) Expenditures and Other Uses | (48,742)                | 51,897                              | (625,080)                                       | (621,925)                      |
| Fund Balances - Beginning of Year   | <u>303,654</u>          | <u>0</u>                            | <u>927,927</u>                                  | <u>1,231,581</u>               |
| Fund Balances - End of Year   | <u>\$ 254,912</u>       | <u>\$ 51,897</u>                    | <u>\$ 302,847</u>                               | <u>\$ 609,656</u>              |



CITY OF EAST TAWAS  
Iosco County, Michigan

EAST TAWAS TIFA - COMPONENT UNIT -  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2009

|  |              |
|--|--------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ (621,925) |
|--|--------------|

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

|                                   |                 |         |
|-----------------------------------|-----------------|---------|
| Capital Outlay                    | \$ 643,782      |         |
| Current Year Depreciation Expense | <u>(19,248)</u> |         |
| Net difference                    |                 | 624,534 |

Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:

|               |        |
|---------------|--------|
| Bonds Payable | 45,000 |
|---------------|--------|

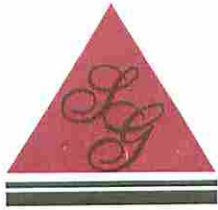
Governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term liabilities is as follows:

|                            |         |
|----------------------------|---------|
| Amortization of Bond Costs | (3,460) |
|----------------------------|---------|

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 governmental funds:

|                                |                 |
|--------------------------------|-----------------|
| Net Change in Accrued Interest | <u>(16,864)</u> |
|--------------------------------|-----------------|

|   |                  |
|---|------------------|
| Change in Net Assets of Governmental Activities | <u>\$ 27,285</u> |
|---|------------------|



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA

Herman A. Bertulci

December 4, 2009

Management and the City Council  
City of East Tawas  
East Tawas, Michigan

We have conducted the audit of 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 Tawas as of and for the year ended September 30, 2009 and have issued our report dated December 4, 2009. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America, that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the City during the audit and met with management on December 4, 2009. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the City Council, others within the City and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

*Stephenson, Gracik & Co., P.C.*

## **APPENDIX I**

### **COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE**

#### **Responsibilities Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated August 19, 2009, 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.

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

We performed the audit as outlined in our engagement letter related to planning matters dated August 19, 2009.

#### **Significant Audit Findings**

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies used by the City of East Tawas are described in (Note 1) of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current year. We noted no transactions entered into by the City during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- 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.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

#### **Difficulties Encountered During the Audit**

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

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

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted differences was provided to management on December 4, 2009.

#### **Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

## **APPENDIX I**

### **COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE**

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

#### **Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

#### **Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

## **APPENDIX II MANAGEMENT COMMENTS**

In planning and performing our audit of the financial statements of the City of East Tawas as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City of East Tawas' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of East Tawas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of East Tawas' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We identified the following deficiency in internal control that we consider to be a significant deficiency.

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the City of East Tawas' financial statements. However, if at any point in the audit we as auditors are part of the City's control system for producing reliable financial statements, auditing standards indicate that the City has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

View of Responsible Officials:

The City of East Tawas has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

The City of East Tawas' response to the finding in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

**APPENDIX II  
MANAGEMENT COMMENTS**

**STATUS OF PRIOR YEAR COMMENTS:**

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

| <u>Comment</u>                  | <u>Implemented/<br/>Situation<br/>Corrected</u> | <u>Management<br/>Decision To<br/>Not Implement</u> | <u>Progress<br/>Made</u> | <u>Situation<br/>Still<br/>Exists</u> |
|---------------------------------|---|---|--------------------------|---------------------------------------|
| Financial Statement Preparation |   |   |                          | X                                     |
| Utility Billing Adjustments     | X   |   |                          |                                       |
| Compliance with Bond Ordinance  | X   |   |                          |                                       |