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CITY OF EAST TAWAS
OSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2016

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AUDITORS' REPORT

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March 10, 2017

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 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Tawas Housing Commission, a component unit, which represent 41 percent, 80 percent, and 70 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tawas Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

We have also issued our report dated March 10, 2017, on our consideration of the City of East Tawas' internal control over compliance and on our tests of its compliance with Public Act 51 of 1951. The purpose of that report is to describe the scope of our testing of internal control over compliance and compliance with Public Act 51 of 1951 and the results of that testing, and not to provide an opinion on internal control over compliance or on compliance. That report is an integral part of a performance audit performed in accordance with *Government Auditing Standards* in considering the City of East Tawas' internal control over compliance and on compliance.

Stephenson & Company, P.C.

City of East Tawas

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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, 2016. 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

The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$19,212,422. Business-type activities (Enterprise Funds) account for \$9,038,315 of this total.

The City's total net position increased by \$542,057. This is a 2.9% increase, which was the result of revenues exceeding expenses for the current year. This increase was consistent with the prior year increase.

The City's governmental funds reported a combined ending fund balance of \$3,652,075 this year, a decrease of \$659,223. Of this amount, \$1,053,096 is available for spending (*unassigned fund balance*) on behalf of its citizens. The General Fund 2015/2016 fiscal year end fund balance is \$1,987,344. This reflects a decrease of \$7,041 from fiscal year 2014/2015.

The City's and its component units total bonded and contract indebtedness was reduced by \$223,333.

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 position* 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 position 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, construction in progress, and land owned by the City. These assets total \$14,172,122 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, state and federal distributions, grants and other intergovernmental revenue.
- 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.
- Major Streets – This fund accounts 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.
- Library Construction fund – This fund accounts for the collection of donations spent for the construction of the new library.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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.
- Water Fund – This fund accounts for fees collected for water services provided by the City.
- 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 position and changes in net position. 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 Position:

The following summarizes the net position of the City of East Tawas at September 30, 2016 and 2015:

Net Position Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Current Assets	\$ 5,040,691	\$ 1,720,798	\$ 6,761,489	\$ 7,393,064
Restricted Assets	0	210,126	210,126	209,169
Other Noncurrent Assets	137,747	1,321,788	1,459,535	1,491,801
Capital Assets – net	<u>7,373,320</u>	<u>6,798,802</u>	<u>14,172,122</u>	<u>13,215,276</u>
Total Assets	<u>12,551,758</u>	<u>10,051,514</u>	<u>22,603,272</u>	<u>22,309,310</u>
Deferred Outflows of Resources	<u>14,653</u>	<u>11,805</u>	<u>26,458</u>	<u>29,356</u>
Current Liabilities	101,148	82,484	183,632	302,620
Long-Term Liabilities	<u>1,023,116</u>	<u>942,520</u>	<u>1,965,636</u>	<u>2,129,234</u>
Total Liabilities	<u>1,124,264</u>	<u>1,025,004</u>	<u>2,149,268</u>	<u>2,431,854</u>
Deferred Inflows of Resources	<u>1,268,040</u>	<u>0</u>	<u>1,268,040</u>	<u>1,236,447</u>
Net Position				
Net Investment in				
Capital Assets	6,390,936	5,877,132	12,268,068	11,154,637
Restricted	1,838,469	210,126	2,048,595	2,839,609
Unrestricted	<u>1,944,702</u>	<u>2,951,057</u>	<u>4,895,759</u>	<u>4,676,119</u>
Total Net Position	<u>\$ 10,174,107</u>	<u>\$ 9,038,315</u>	<u>\$ 19,212,422</u>	<u>\$ 18,670,365</u>

Summary of Changes in Net Position:

Following is an analysis of the changes in net position for fiscal year 2016 with comparative totals for 2015.

Summary of Changes in Net Position (Continued) :

Generally speaking, the City's net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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.

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 position are available.

	Governmental Activities	Business-Type Activities	September 30, 2016	September 30, 2015
Revenues:				
Program Revenues:				
Charges for Services	\$ 240,844	\$ 1,833,630	\$ 2,074,474	\$ 1,997,735
Operating Grants and Contributions	455,907	211,629	667,536	855,280
Capital Grants and Contributions	<u>283,814</u>	<u>5,000</u>	<u>288,814</u>	<u>253,928</u>
Total Program Revenues	<u>980,565</u>	<u>2,050,259</u>	<u>3,030,824</u>	<u>3,106,943</u>
General Revenues:				
Property Taxes	1,269,196	0	1,269,196	1,256,897
State Revenue Sharing	266,414	0	266,414	265,430
Interest and Investment Earnings	23,724	7,048	30,772	27,314
Rent Income	274,076	2,250	276,326	262,469
Proceeds from Loss Recoveries	0	0	0	10,751
Gain (Loss) on Disposal of Capital Assets	0	(11,206)	(11,206)	3,678
Other	<u>500</u>	<u>6,703</u>	<u>7,203</u>	<u>10,767</u>
Total General Revenues	<u>1,833,910</u>	<u>4,795</u>	<u>1,838,705</u>	<u>1,837,306</u>
Total Revenues	<u>2,814,475</u>	<u>2,055,054</u>	<u>4,869,529</u>	<u>4,944,249</u>
Program Expenses:				
General Government	633,247	0	633,247	633,441
Public Safety	467,301	0	467,301	417,082
Public Works	1,062,869	0	1,062,869	1,149,150
Health and Welfare	30,600	0	30,600	30,600
Community and Economic Development	69,312	0	69,312	104,083
Recreation and Cultural	247,079	0	247,079	156,587
Interest and Fiscal Charges	40,706	0	40,706	44,889
Amortization of Deferred Bond Costs and Bond Discounts (Net)	2,348	0	2,348	2,349
Sewer Services	0	673,619	673,619	781,764
Water Services	0	486,863	486,863	440,561
City Park	<u>0</u>	<u>613,528</u>	<u>613,528</u>	<u>605,533</u>
Total Program Expenses	<u>2,553,462</u>	<u>1,774,010</u>	<u>4,327,472</u>	<u>4,366,039</u>
Increase (Decrease) in Net Position Before Transfers	261,013	281,044	542,057	578,210

Summary of Changes in Net Position (Continued):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Transfers – Internal Activity	\$ 167,456	\$ (167,456)	\$ 0	\$ 0
Change in Net Position	428,469	113,588	542,057	578,210
Beginning Net Position	<u>9,745,638</u>	<u>8,924,727</u>	<u>18,670,365</u>	<u>18,092,155</u>
Ending Net Position	<u>\$ 10,174,107</u>	<u>\$ 9,038,315</u>	<u>\$ 19,212,422</u>	<u>\$ 18,670,365</u>

Governmental Activities

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

Total governmental activities reveal revenues of \$980,565 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 \$2,553,462 for these same activities. The largest expenses were incurred by General Government offices (\$633,247), Public Safety (\$467,301) and Public Works (\$1,062,869).

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) Federal Project Fund - accounts for the collection of note receivable activity as a result of loans to downtown businesses from prior UDAG monies, and 3) Library Construction Fund - accounts for the collection of donations spent for the construction of the new library.

This year's City audit, following GASB 34 format, shows 10 governmental funds. These funds are maintained by the City as separate units in the General Ledger.

- The General Fund did not experience a significant change in fund balance in the current year.
- The Federal Project Fund fund balance increased by \$34,921. This increase is due to the excess of revenues over expenditures for the current year.

- The Major Streets fund balance increased by \$63,448. This increase is due mainly to the grant revenue received from the Michigan Department of Transportation.
- The Library Construction Fund fund balance decreased by \$866,699. This decrease is due to the current year construction expenses related to the completion of the library exceeding the contributions received and transfers in during the current year.
- The Aggregate Remaining Governmental Funds fund balance increased by \$116,148. This increase is mainly due to increases in revenues the Local Streets fund, particularly the SAW Grant and the Federal revenue from the Michigan Department of Transportation's administered project, offset by a decrease in SAW Grant expenses

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 Position*, *Statement of Cash Flows*, etc.

- The Sewer Fund net position increased by \$28,754, due to revenues exceeding expenses. The fund had decreased State grant revenue of \$57,513 and decreased expenses for the SAW grant of \$74,349 in the current year.
- The Water Fund net position decreased by \$664, due to expenses exceeding revenues in the current year. The fund had increased operating supplies expenses due to purchasing a greater number of water meters in the current year. This was offset by various insignificant fluctuations in other accounts.
- The City Park Fund net position increased by \$84,170, due to revenues exceeding expenses. There was no significant change in activity compared to the prior year.

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, 2016 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 \$1,929,885. That amount is below the original budget estimate of \$1,966,032 and below the final amended budget estimate of \$2,005,797. The variance between the actual revenues and the amended budget was mainly the result of reclassification of reimbursements for expenditures of the Department of Public Works.

The actual expenditures of the General Fund were \$1,716,709, which is below both the original budget estimates of \$2,165,986 and the final amended budget estimates of \$2,014,496. The variance between the actual expenditures and the final amended budget was mainly due to capital outlay and public works expenditures being significantly lower than budgeted.

The General Fund had total revenues of \$1,929,885 and total expenditures of \$1,716,709 with an ending fund balance of \$1,987,344.

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 \$10,089,364 with an ending balance of \$11,471,101. Governmental Activities Total Capital Assets – Net of Depreciation was \$7,373,320.

During the year ended September 30, 2016, the City's governmental capital asset additions totaled \$1,509,417. \$49,872 of this was for reconstruction and paving on various roads including Alice Street, Locke Street, Sawyer Street, Washington Street, and Tawas Street, \$165,949 for sidewalks on East Lincoln Street, \$1,212,776 for completion of the new Library building, which included the reclassification of \$71,466 from construction in progress, \$14,878 for the DPW garage roof replacement, \$45,548 for the Library parking lot, \$8,839 for a dump trailer, and \$11,555 for a dump box for a truck. The disposals in the year ended September 30, 2016 totaled \$56,214. This included \$23,000 for a snow thrower, \$14,749 for a server at City Hall, and \$18,465 for BS&A software. All assets were fully depreciated.

Capital Assets – Business-Type Activities beginning balance was \$15,529,726 with an ending balance of \$15,405,290. Business-Type Activities Total Capital Assets – Net of Depreciation was \$6,798,802.

During the year ended September 30, 2016 the City's business type capital asset additions totaled \$184,994, which included the purchase of a John Deere mower for \$8,900, WiFi equipment for \$5,925, replacing the Dillion Park pavilion roof for \$14,500, improvements to Bolen and Dewey Durant park ball fields for \$33,047, architectural fees for the campground cabin project for \$4,378, land improvement demolitions of Verlac and Different Blend for \$30,280, hydroseeding at Harbor Park for \$5,780, Community Center south lot work for \$19,688, construction-in-progress for replacing the water main on Huron Street of \$8,700, a pump and generator upgrade at the Green St. lift station for \$39,442, and a variable drive electrical upgrade at the Klenow St. lift station for \$14,354. Prior year Dewey Durant park construction-in-progress of \$4,566 was reclassified upon completion of the project, and the replacement of the Community Center parking lot led to the original lot's removal, creating a net book value loss of \$11,206. Disposals consisted of BS & A Software and numerous various assets below \$5,000 each that had a net book value of \$0 that were removed from the listing during the current year. Total depreciation for this year amounts to \$331,770 with ending accumulated depreciation being \$8,606,488.

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 \$1,802,703. Such debt includes *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. Property values remained relatively the same in 2016 as they were in 2015 and are expected to hold steady in 2017. The City Council maintained the same operational millage rate for 2016 of 17.6177 mills as was levied in 2015. The City also levies an extra voted millage of .3994 mills for mosquito control and suppression that was approved by voters in 2011 and first levied in 2012. As in past years, the City will make every effort to keep services at a level that the City's taxpayers have come to expect while being cognizant of the taxpayers' ability to pay.

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. Revenue sharing payments for 2016 were approximately 0.3% higher than the payments received in 2015. State of Michigan projections for the revenue sharing program for fiscal year 2016-2017 show an increase of approximately 0.7%.

Employee related costs account for approximately 26.46% of the General Fund budgeted expenditures. Contracted and professional services account for approximately 30.77% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 17%. The remaining portion of the budget is comprised of capital improvements and operating expenses such as supplies, services, and maintenance.

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 POSITION
September 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
Assets					
Cash and Cash Equivalents (Note 2)	\$ 1,021,179	\$ 1,556,276	\$ 2,577,455	\$ 148,242	\$ 473,109
Investments (Note 2)	1,995,045	653,291	2,648,336	100,000	360,881
Receivables:					
Property Taxes	1,247,777	0	1,247,777	189,560	0
Special Assessments	11,100	0	11,100	0	0
Accounts, Net	4,665	94,208	98,873	0	2,016
Interest	0	0	0	0	163
Notes Receivable	36,243	0	36,243	0	0
Due from Local Units	2,165	0	2,165	0	0
Due from State	101,758	18,875	120,633	47,875	0
Internal Balances	603,175	(603,175)	0	0	0
Prepaid Items	17,584	1,323	18,907	22	17,352
Restricted Assets:					
Cash and Cash Equivalents (Note 2)	0	109,819	109,819	0	0
Investments (Note 2)	0	100,307	100,307	0	0
Noncurrent Assets:					
Notes Receivable	137,747	0	137,747	0	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,321,788	1,321,788	0	0
Capital Assets Not Being Depreciated (Note 4)	1,170,215	1,506,475	2,676,690	0	205,892
Capital Assets, Net of Accumulated Depreciation (Note 4)	6,203,105	5,292,327	11,495,432	2,073,042	700,364
Total Assets	12,551,758	10,051,514	22,603,272	2,558,741	1,759,777
Deferred Outflows of Resources					
Deferred Charge on Refunding	14,653	11,805	26,458	0	0
Liabilities					
Accounts Payable	63,380	61,783	125,163	401	30,998
Due to Local Units	0	0	0	0	21,444
Accrued Interest Payable	16,815	16,357	33,172	37,070	0
Accrued Liabilities	20,953	4,344	25,297	0	12,729
Unearned Revenue	0	0	0	0	366
Long Term Liabilities: (Note 5)					
Due Within One Year	108,055	54,878	162,933	63,850	13,538
Due In More Than One Year	915,061	887,642	1,802,703	1,791,894	6,378
Total Liabilities	1,124,264	1,025,004	2,149,268	1,893,215	85,453
Deferred Inflows of Resources					
Property Taxes Levied for 2016/17	1,247,040	0	1,247,040	237,435	0
Special Assessments Levied for 2016/2017	21,000	0	21,000	0	0
Total Deferred Inflows of Resources	1,268,040	0	1,268,040	237,435	0
Net Position					
Net Investment in Capital Assets	6,390,936	5,877,132	12,268,068	217,298	906,256
Restricted For:					
Debt Service	0	210,126	210,126	47,428	0
Mosquito Control	2,790	0	2,790	0	0
Major Streets	149,216	0	149,216	0	0
Local Streets	156,694	0	156,694	0	0
Cemetery	1,595	0	1,595	0	0
Economic Development	1,432,702	0	1,432,702	163,365	0
Library Construction	2,528	0	2,528	0	0
Permanent Funds:					
Nonexpendable	90,860	0	90,860	0	0
Tawas Lake Public Improvement	2,084	0	2,084	0	0
Unrestricted	1,944,702	2,951,057	4,895,759	0	768,068
Total Net Position	\$ 10,174,107	\$ 9,038,315	\$ 19,212,422	\$ 428,091	\$ 1,674,324

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, 2016

		Net (Expense) Revenue and Changes in Net Position							
		Program Revenues			Primary Government			Component Units	
Function/Program	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
Primary Government									
Governmental Activities:									
General Government:									
Legislative and Executive	\$ 127,585	\$ 0	\$ 0	\$ 0	\$ (127,585)	\$ 0	\$ (127,585)		
Financial and Tax									
Administration	124,086	0	0	0	(124,086)	0	(124,086)		
Other General Government	381,576	55,441	0	0	(326,135)	0	(326,135)		
Public Safety:									
Police	231,078	0	0	0	(231,078)	0	(231,078)		
Fire	236,223	123,665	1,816	0	(110,742)	0	(110,742)		
Public Works:									
Other Public Works	1,062,869	23,998	406,523	96,143	(536,205)	0	(536,205)		
Health and Welfare:									
Other Health and Welfare	30,600	0	0	0	(30,600)	0	(30,600)		
Community and Economic									
Development	69,312	0	0	0	(69,312)	0	(69,312)		
Recreation and Cultural	247,079	37,740	47,568	187,671	25,900	0	25,900		
Interest and Fees on Long-Term									
Debt	40,706	0	0	0	(40,706)	0	(40,706)		
Amortization of Deferred Bond									
Costs and Bond Discounts (Net)	<u>2,348</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,348)</u>	<u>0</u>	<u>(2,348)</u>		
Total Governmental Activities	<u>2,553,462</u>	<u>240,844</u>	<u>455,907</u>	<u>283,814</u>	<u>(1,572,897)</u>	<u>0</u>	<u>(1,572,897)</u>		
Business-Type Activities:									
Sewer Services	673,619	489,012	211,629	0	0	27,022	27,022		
Water Services	486,863	481,776	0	0	0	(5,087)	(5,087)		
City Park	<u>613,528</u>	<u>862,842</u>	<u>0</u>	<u>5,000</u>	<u>0</u>	<u>254,314</u>	<u>254,314</u>		
Total Business-Type Activities	<u>1,774,010</u>	<u>1,833,630</u>	<u>211,629</u>	<u>5,000</u>	<u>0</u>	<u>276,249</u>	<u>276,249</u>		
Total Primary Government	<u>\$ 4,327,472</u>	<u>\$ 2,074,474</u>	<u>\$ 667,536</u>	<u>\$ 288,814</u>	<u>(1,572,897)</u>	<u>276,249</u>	<u>(1,296,648)</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, 2016

Function/Program					Net (Expense) Revenue and Changes in Net Position				
	Expenses	Program Revenues			Primary Government			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
<u>Component Units</u>									
TIFA	\$ 284,153	\$ 0	\$ 0	\$ 0				\$ (284,153)	\$ 0
Housing Commission	<u>526,206</u>	<u>329,814</u>	<u>212,444</u>	<u>0</u>				<u>0</u>	<u>16,052</u>
Total Component Units	<u>\$ 810,359</u>	<u>\$ 329,814</u>	<u>\$ 212,444</u>	<u>\$ 0</u>				<u>(284,153)</u>	<u>16,052</u>
General Revenue:									
Property Taxes Levied For:									
General Operating					\$ 1,234,774	\$ 0	\$ 1,234,774	0	0
Mosquito Control					30,075	0	30,075	0	0
TIFA					0	0	0	186,056	0
Payment in Lieu of Taxes					4,347	0	4,347	0	0
State Revenue Sharing					266,414	0	266,414	53,496	0
Interest and Investment Earnings					23,724	7,048	30,772	412	2,048
Rent Income					274,076	2,250	276,326	0	0
Gain (Loss) on Disposal of Capital Assets					0	(11,206)	(11,206)	0	0
Other					500	6,703	7,203	0	11,096
Transfers					<u>167,456</u>	<u>(167,456)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total General Revenue and Transfers					<u>2,001,366</u>	<u>(162,661)</u>	<u>1,838,705</u>	<u>239,964</u>	<u>13,144</u>
Change in Net Position					428,469	113,588	542,057	(44,189)	29,196
Net Position - Beginning					<u>9,745,638</u>	<u>8,924,727</u>	<u>18,670,365</u>	<u>472,280</u>	<u>1,645,128</u>
Net Position - Ending					<u>\$ 10,174,107</u>	<u>\$ 9,038,315</u>	<u>\$ 19,212,422</u>	<u>\$ 428,091</u>	<u>\$ 1,674,324</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, 2016

		Special Revenue Funds		Capital Project Fund		
	General Fund	Federal Project Fund	Major Streets	Library Construction Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>						
Cash and Cash Equivalents (Note 2)	\$ 222,924	\$ 476,213	\$ 152,601	\$ 5,850	\$ 163,591	\$ 1,021,179
Investments (Note 2)	1,705,942	200,000	0	0	89,103	1,995,045
Receivables:						
Property Taxes	1,247,777	0	0	0	0	1,247,777
Special Assessments	0	0	0	0	11,100	11,100
Accounts, Net	4,665	0	0	0	0	4,665
Notes Receivable	0	173,990	0	0	0	173,990
Due from Local Units	0	0	0	0	2,165	2,165
Due from State	46,299	0	34,728	0	20,731	101,758
Due from Other Funds (Note 3)	26,540	582,499	0	0	0	609,039
Prepaid Items	14,652	0	1,987	0	945	17,584
Total Assets	<u>\$ 3,268,799</u>	<u>\$ 1,432,702</u>	<u>\$ 189,316</u>	<u>\$ 5,850</u>	<u>\$ 287,635</u>	<u>\$ 5,184,302</u>
<u>Liabilities</u>						
Accounts Payable	\$ 15,405	\$ 0	\$ 35,485	\$ 3,322	\$ 9,168	\$ 63,380
Due to Other Funds (Note 3)	899	0	3,201	0	1,764	5,864
Accrued Liabilities	18,111	0	1,414	0	1,428	20,953
Total Liabilities	<u>34,415</u>	<u>0</u>	<u>40,100</u>	<u>3,322</u>	<u>12,360</u>	<u>90,197</u>
<u>Deferred Inflows of Resources</u>						
Property Taxes Levied for 2016/17	1,247,040	0	0	0	0	1,247,040
Special Assessments Levied for 2016/2017	0	0	0	0	21,000	21,000
Unavailable Revenue - Notes Receivable	0	173,990	0	0	0	173,990
Total Deferred Inflows of Resources	<u>1,247,040</u>	<u>173,990</u>	<u>0</u>	<u>0</u>	<u>21,000</u>	<u>1,442,030</u>
<u>Fund Equity</u>						
Fund Balances:						
Nonspendable:						
Cemetery Perpetual Care	0	0	0	0	90,860	90,860
Prepaid Items	14,652	0	1,987	0	945	17,584
Restricted For:						
Major Streets	0	0	147,229	0	0	147,229
Local Streets	0	0	0	0	155,869	155,869
Library Construction	0	0	0	2,528	0	2,528
Cemetery	0	0	0	0	1,475	1,475
Economic Development	0	1,258,712	0	0	0	1,258,712
Mosquito Control	0	0	0	0	2,790	2,790
Tawas Lake Public Improvement	0	0	0	0	2,084	2,084
Committed To:						
Debt Retirement	0	0	0	0	252	252
Community Center	14,504	0	0	0	0	14,504
Capital Equipment	652,460	0	0	0	0	652,460
Assigned For:						
2016/17 Budgeted Expenditures	252,632	0	0	0	0	252,632
Unassigned	1,053,096	0	0	0	0	1,053,096
Total Fund Equity	<u>1,987,344</u>	<u>1,258,712</u>	<u>149,216</u>	<u>2,528</u>	<u>254,275</u>	<u>3,652,075</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Equity	<u>\$ 3,268,799</u>	<u>\$ 1,432,702</u>	<u>\$ 189,316</u>	<u>\$ 5,850</u>	<u>\$ 287,635</u>	<u>\$ 5,184,302</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 POSITION OF GOVERNMENTAL ACTIVITIES
September 30, 2016

Total Governmental Fund Balances	\$ 3,652,075
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:

Capital Asset Cost	\$ 11,471,101	
Accumulated Depreciation	<u>(4,097,781)</u>	
		7,373,320

Other assets are not available to pay for current period expenditures and, therefore, are deferred inflows in the governmental funds:

Notes Receivable	173,990
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Accrued Interest on Long-Term Liabilities	(16,815)
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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)	(997,037)	
Deferred Charge on Refunding	14,653	
Compensated Absences Payable	<u>(26,079)</u>	
Total Long-Term Liabilities		<u>(1,008,463)</u>

Total Net Position - Governmental Activities	\$ <u>10,174,107</u>
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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, 2016

	Special Revenue Funds			Capital Project Fund	Other	Total
	General Fund	Federal Project Fund	Major Streets	Library Construction Fund	Governmental Funds	Governmental Funds
<u>Revenue</u>						
Property Taxes	\$ 1,269,987	\$ 0	\$ 0	\$ 0	\$ 30,172	\$ 1,300,159
Federal Grants and Revenue	0	0	96,143	0	0	96,143
State Grants and Revenue	266,414	0	283,672	0	234,427	784,513
Licenses and Permits	4,315	0	0	0	0	4,315
Charges for Services	169,598	0	0	0	5,170	174,768
Interest and Rentals	155,859	7,186	555	1,486	149,119	314,205
Special Assessments	0	0	0	0	562	562
Other Revenue	63,712	27,735	0	187,671	480	279,598
Total Revenue	<u>1,929,885</u>	<u>34,921</u>	<u>380,370</u>	<u>189,157</u>	<u>419,930</u>	<u>2,954,263</u>
<u>Expenditures</u>						
Current:						
General Government:						
Legislative	40,881	0	0	0	0	40,881
Chief Executive	87,470	0	0	0	0	87,470
Financial and Tax Administration	124,712	0	0	0	0	124,712
Other General Government	264,755	0	0	0	10,667	275,422
Public Safety	370,748	0	0	0	0	370,748
Public Works	508,596	0	245,246	0	134,259	888,101
Health and Welfare	0	0	0	0	30,600	30,600
Community and Economic Development	67,571	0	0	0	0	67,571
Recreation and Cultural	156,345	0	0	0	0	156,345
Capital Outlay	95,631	0	168,199	1,255,856	71,950	1,591,636
Debt Service:						
Principal	0	0	0	0	105,000	105,000
Interest and Fiscal Charges	0	0	0	0	42,456	42,456
Total Expenditures	<u>1,716,709</u>	<u>0</u>	<u>413,445</u>	<u>1,255,856</u>	<u>394,932</u>	<u>3,780,942</u>
Excess of Revenue Over (Under) Expenditures	<u>213,176</u>	<u>34,921</u>	<u>(33,075)</u>	<u>(1,066,699)</u>	<u>24,998</u>	<u>(826,679)</u>
<u>Other Financing Sources (Uses)</u>						
Operating Transfers In	167,456	0	96,523	200,000	92,087	556,066
Operating Transfers Out	(387,673)	0	0	0	(937)	(388,610)
Total Other Financing Sources (Uses)	<u>(220,217)</u>	<u>0</u>	<u>96,523</u>	<u>200,000</u>	<u>91,150</u>	<u>167,456</u>
Net Change in Fund Balances	(7,041)	34,921	63,448	(866,699)	116,148	(659,223)
Fund Balances - Beginning of Year	<u>1,994,385</u>	<u>1,223,791</u>	<u>85,768</u>	<u>869,227</u>	<u>138,127</u>	<u>4,311,298</u>
Fund Balances - End of Year	<u>\$ 1,987,344</u>	<u>\$ 1,258,712</u>	<u>\$ 149,216</u>	<u>\$ 2,528</u>	<u>\$ 254,275</u>	<u>\$ 3,652,075</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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	(659,223)
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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:

Special Assessments	\$ (477)		
Due from State	(111,576)		
Net difference			(112,053)

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	1,437,951		
Current Year Depreciation Expense	(318,557)		
Net difference			1,119,394

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 position. The activity reported in the governmental funds is as follows:

Current Year Note Receivable Principal Receipts		(27,735)
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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 position. The amount of repayments reported as expenditures in the governmental funds consist of:

Bonds Payable		105,000
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Governmental funds report the effect of discounts and Deferred Charge on Refunding when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of this difference in the treatment of long-term liabilities is as follows:

Amortization of Bond Discount and Deferred Charge on Refunding		(2,348)
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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	1,750		
Net Change in Accrued Compensated Absences	3,684		
			5,434

Change in Net Position of Governmental Activities	\$	<u>428,469</u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2016

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 404,267	\$ 252,268	\$ 899,741	\$ 1,556,276
Investments (Note 2)	0	653,291	0	653,291
Receivables:				
Accounts, Net	50,409	43,799	0	94,208
Due from State	18,875	0	0	18,875
Due from Other Funds (Note 3)	6,243	6,681	0	12,924
Prepaid Items	490	833	0	1,323
Restricted Assets:				
Cash and Cash Equivalents (Note 2)	0	109,819	0	109,819
Investments (Note 2)	0	100,307	0	100,307
Total Current Assets	<u>480,284</u>	<u>1,166,998</u>	<u>899,741</u>	<u>2,547,023</u>
Noncurrent Assets:				
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,321,788	0	1,321,788
Capital Assets Not Being Depreciated (Note 4)	6,500	8,700	1,491,275	1,506,475
Capital Assets, Net (Note 4)	<u>2,360,231</u>	<u>1,972,304</u>	<u>959,792</u>	<u>5,292,327</u>
Total Noncurrent Assets	<u>2,366,731</u>	<u>3,302,792</u>	<u>2,451,067</u>	<u>8,120,590</u>
Total Assets	<u>2,847,015</u>	<u>4,469,790</u>	<u>3,350,808</u>	<u>10,667,613</u>
<u>Deferred Outflows of Resources</u>				
Deferred Charge on Refunding	<u>0</u>	<u>11,805</u>	<u>0</u>	<u>11,805</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	21,940	77	39,766	61,783
Due to Other Funds (Note 3)	0	778	615,321	616,099
Accrued Interest Payable	0	16,357	0	16,357
Accrued Liabilities	1,871	2,473	0	4,344
Current Portion of Long-Term Liabilities (Note 5)	<u>0</u>	<u>54,878</u>	<u>0</u>	<u>54,878</u>
Total Current Liabilities	<u>23,811</u>	<u>74,563</u>	<u>655,087</u>	<u>753,461</u>
Long-Term Liabilities:				
Due in More Than One Year (Note 5)	<u>0</u>	<u>878,597</u>	<u>9,045</u>	<u>887,642</u>
Total Liabilities	<u>23,811</u>	<u>953,160</u>	<u>664,132</u>	<u>1,641,103</u>
<u>Net Position</u>				
Net Investment in Capital Assets	2,366,731	1,059,334	2,451,067	5,877,132
Restricted For:				
Debt Service	0	210,126	0	210,126
Unrestricted	<u>456,473</u>	<u>2,258,975</u>	<u>235,609</u>	<u>2,951,057</u>
Total Net Position	<u>\$ 2,823,204</u>	<u>\$ 3,528,435</u>	<u>\$ 2,686,676</u>	<u>\$ 9,038,315</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 POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2016

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Operating Revenue</u>				
Charges For Services	\$ 480,050	\$ 475,320	\$ 865,092	\$ 1,820,462
Service Connection Charges	2,000	0	0	2,000
Penalties	6,962	6,456	0	13,418
Other Revenue	285	1,662	4,756	6,703
Total Operating Revenue	<u>489,297</u>	<u>483,438</u>	<u>869,848</u>	<u>1,842,583</u>
<u>Operating Expenses</u>				
Salaries and Wages	54,402	61,472	191,671	307,545
Payroll Taxes and Employee Benefits	28,417	33,209	60,170	121,796
Advertising	0	0	1,084	1,084
Contractual Services	278,375	140,527	2,526	421,428
Depreciation and Amortization	106,273	96,168	130,396	332,837
Equipment	0	223	15,219	15,442
Equipment Rental	8,249	11,919	0	20,168
Insurance and Bonds	4,699	1,179	13,793	19,671
Office Supplies	3,112	3,130	700	6,942
Operating Supplies	2,889	95,901	13,138	111,928
Professional Fees and Services	171,223	0	3,005	174,228
Repair and Maintenance	3,150	1,760	47,092	52,002
Travel and Training	325	515	0	840
Utilities	12,373	0	124,167	136,540
Other	132	0	10,567	10,699
Total Operating Expenses	<u>673,619</u>	<u>446,003</u>	<u>613,528</u>	<u>1,733,150</u>
Operating Income (Loss)	<u>(184,322)</u>	<u>37,435</u>	<u>256,320</u>	<u>109,433</u>
<u>Nonoperating Revenue (Expenses)</u>				
State Grants and Revenue	211,629	0	0	211,629
Interest and Investment Earnings	1,447	4,089	1,512	7,048
Interest and Fees Expense	0	(40,860)	0	(40,860)
Gain (Loss) on Disposal of Capital Assets	0	0	(11,206)	(11,206)
Total Nonoperating Revenue (Expenses)	<u>213,076</u>	<u>(36,771)</u>	<u>(9,694)</u>	<u>166,611</u>
Income (Loss) Before Capital Contributions and Operating Transfers	28,754	664	246,626	276,044
Capital Contributions	0	0	5,000	5,000
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>(167,456)</u>	<u>(167,456)</u>
Change in Net Position	28,754	664	84,170	113,588
Net Position - Beginning of Year	<u>2,794,450</u>	<u>3,527,771</u>	<u>2,602,506</u>	<u>8,924,727</u>
Net Position - End of Year	<u>\$ 2,823,204</u>	<u>\$ 3,528,435</u>	<u>\$ 2,686,676</u>	<u>\$ 9,038,315</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, 2016

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Cash Flows From Operating Activities</u>				
Receipts From Customers	\$ 489,877	\$ 489,595	\$ 868,994	\$ 1,848,466
Payments to Suppliers for Goods and Services	(522,029)	(256,319)	(231,920)	(1,010,268)
Payments to Employees for Services	(83,343)	(93,022)	(252,272)	(428,637)
Net Cash Provided (Used) by Operating Activities	(115,495)	140,254	384,802	409,561
<u>Cash Flows From Non-Capital Financing Activities</u>				
State Grants Received	301,907	0	0	301,907
Cash Received from (Paid to) Other funds	0	0	(171,851)	(171,851)
Net Cash Provided (Used) by Non-Capital Financing Activities	301,907	0	(171,851)	130,056
<u>Cash Flows From Capital and Related Financing Activities</u>				
Local Contributions Received	0	0	5,000	5,000
Acquisition and Construction of Capital Assets	(53,797)	(8,700)	(98,432)	(160,929)
Principal Paid on Long-Term Debt	0	(55,000)	0	(55,000)
Interest and Fees Paid on Long-Term Debt	0	(42,006)	0	(42,006)
Net Cash Provided (Used) by Capital and Related Financing Activities	(53,797)	(105,706)	(93,432)	(252,935)
<u>Cash Flows From Investing Activities</u>				
Interest on Investments	1,447	4,089	1,512	7,048
Proceeds from Maturity of Investment Securities	150,339	758,340	0	908,679
Purchase of Investment Securities	(150,339)	(803,598)	0	(953,937)
Net Cash Provided (Used) by Investing Activities	1,447	(41,169)	1,512	(38,210)
Net Increase (Decrease) in Cash and Cash Equivalents	134,062	(6,621)	121,031	248,472
Cash and Cash Equivalents at Beginning of Year (Note 1)	270,205	368,708	778,710	1,417,623
Cash and Cash Equivalents at End of Year (Note 1)	\$ 404,267	\$ 362,087	\$ 899,741	\$ 1,666,095
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>				
Operating Income (Loss)	\$ (184,322)	\$ 37,435	\$ 256,320	\$ 109,433
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	106,273	96,168	130,396	332,837
Change in Assets and Liabilities:				
Accounts Receivable, Net	580	6,157	(854)	5,883
Prepaid Expenses	(39)	(241)	0	(280)
Accounts Payable and Accrued Liabilities	(37,987)	735	(629)	(37,881)
Accrued Compensated Absences	0	0	(431)	(431)
Net Cash Provided (Used) by Operating Activities	\$ (115,495)	\$ 140,254	\$ 384,802	\$ 409,561

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, 2016

	<u>Tax Account</u>	<u>Trust and Agency Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash and Cash Equivalents (Note 2)	\$ 1,310,105	\$ 5,934	\$ 1,316,039
Receivables:			
Property Taxes	<u>199,961</u>	<u>0</u>	<u>199,961</u>
Total Assets	<u>\$ 1,510,066</u>	<u>\$ 5,934</u>	<u>\$ 1,516,000</u>
<u>Liabilities</u>			
Due to Local Units	\$ 1,510,066	\$ 0	\$ 1,510,066
Due to Other Agencies and Individuals	<u>0</u>	<u>5,934</u>	<u>5,934</u>
Total Liabilities	<u>\$ 1,510,066</u>	<u>\$ 5,934</u>	<u>\$ 1,516,000</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, 2016

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. 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 police protection, 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 primary government is financially accountable if the City appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

In addition, the primary government is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

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, 2016

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. The financial statements of the TIFA are presented as part of Other Information and are not audited separately.

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, 2015. 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, 2016 was \$225,162. Complete financial statements can be obtained from the City of Tawas City, Clerk's office, located at 505 W. Lake Street, Tawas City, Michigan 48763.

Tawas Utilities Authority

The Tawas Utilities 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, 2016 was \$227,000. Complete financial statements can be obtained from the City of East Tawas, City Clerk's office.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

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. This bond debt was paid off in the fiscal year ended September 30, 2011 and the City's share of the total bond issue of \$7,930,000 was \$1,321,788. Each entity's percentage of payback was 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.

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, 2016 was \$131,436. The current value of the City of East Tawas' investment in the Huron Shore Regional Utility Authority is \$1,321,788. 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 position 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 position 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 position 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, 2016

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.

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

Library Construction Fund - This fund is used to account for donations for the purpose of the construction of a new library.

Major Streets - 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.

The other governmental funds of the City account 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, 2016

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 position, 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.

Water Fund - This fund accounts for fees collected for water services provided by the City.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. 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 position.

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 position. The statement of changes in revenue, expenses, and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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, 2016

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 unavailable 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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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, 2016

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 collectability.

The allowance for doubtful accounts at September 30, 2016 was \$0 for the primary government and \$188 for the component units.

Of the \$173,990 balance for notes receivable, \$137,747 will not be collected in the next fiscal year and is considered to be long-term.

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 position. Interfund balances within East Tawas City Park are due to the City of East Tawas General Fund for payroll related expenses of \$20,797, to the Federal Project Fund for a loan of \$582,499 for the purchase of land in East Tawas for future development, to the Sewer Fund for an error in the prior year's sewer billings of \$5,344, and to the Water Fund for an error in prior years water billings of \$6,681. There are also internal balances owed from the General Fund to the Sewer Fund for \$899 and from the Water Fund to the General Fund for \$778 for reimbursements for various items. The operating transfer out in the East Tawas City Park consists of transfers to the City of East Tawas General Fund and Community Center Fund for the operation and maintenance of the Community Center and the Park's contribution towards bond principal and interest for the Community Center debt.

The balance due to the Federal Project Fund, Water Fund, and Sewer Fund from the Park are not expected to be repaid within one year.

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.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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 position, 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 position 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.

The City's infrastructure consists of roads 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. The City is a Phase 3 government and has elected not to report general infrastructure assets retroactively.

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

M. 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.

N. 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.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences (Continued)

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.

O. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The City reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the City's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the City.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The City's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

P. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance (Continued)

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council—the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council or personnel authorized by the Council have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

The minimum unassigned fund balance shall be 25% of General Fund revenue.

The maximum unassigned fund balance shall be the sum of the minimum, plus an infrastructure emergency reserve of \$500,000 plus an operating reserve of 15% of General Fund expenditures.

The minimum/maximum range will be determined each year and reported as part of the fiscal year budget.

Q. 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.

R. 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.

S. 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, 2016.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgets and Budgetary Accounting

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

1. Prior to June 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 appropriation act.
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 all funds including the required 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.

U. 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.

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 Activities	Business- Type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and Cash Equivalents	\$ 1,021,179	\$ 1,556,276	\$ 1,316,039	\$ 3,893,494	\$ 621,351
Investments	1,995,045	653,291	0	2,648,336	460,881
Restricted Cash and Cash Equivalents	0	109,819	0	109,819	0
Restricted Investments	<u>0</u>	<u>100,307</u>	<u>0</u>	<u>100,307</u>	<u>0</u>
Total	<u>\$ 3,016,224</u>	<u>\$ 2,419,693</u>	<u>\$ 1,316,039</u>	<u>\$ 6,751,956</u>	<u>\$ 1,082,232</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 5,183,679	\$ 1,052,047
Investments in Financial Institution Pooled Funds	1,567,737	29,985
Petty Cash and Cash on Hand	<u>540</u>	<u>200</u>
Total	<u>\$ 6,751,956</u>	<u>\$ 1,082,232</u>

As of September 30, 2016, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government:		
Investment Pools	\$ <u>1,567,737</u>	Daily
Component Units:		
Investment Pools	\$ <u>29,985</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 and the East Tawas TIFA's MBIA Asset Management Group investment pools are rated AAAM by Standard & Poors.

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, 2016, \$3,914,483 of the City's bank balance of \$5,404,054 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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, 2016, \$70,829 of the TIFA's bank balance of \$218,257 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, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2015, \$323,924 of the East Tawas Housing Commission's bank balance of \$833,990 was exposed to custodial credit risk because it was uninsured but collateralized by securities held by the financial institution.

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
- 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.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of September 30, 2016 were as follows:

Due to	Due from					Total
	General Fund	Major Streets	Non-Major Governmental Funds	City Park Fund	Water Fund	
General Fund	\$ 0	\$ 3,201	\$ 1,764	\$ 20,797	\$ 778	\$ 26,540
Water Fund	0	0	0	6,681	0	6,681
Sewer Fund	899	0	0	5,344	0	6,243
Federal Project Fund	0	0	0	582,499	0	582,499
	<u>\$ 899</u>	<u>\$ 3,201</u>	<u>\$ 1,764</u>	<u>\$ 615,321</u>	<u>\$ 778</u>	<u>\$ 621,963</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 Federal Project Fund's interfund receivable balance represents long-term loans to the City Park at September 30, 2016.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended September 30, 2016, was as follows:

	Balance 10/01/15	Additions	Deletions	Balance 09/30/16
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,004,266	\$ 0	\$ 0	\$ 1,004,266
Construction in Progress	71,466	165,949	(71,466)	165,949
Subtotal	<u>1,075,732</u>	<u>165,949</u>	<u>(71,466)</u>	<u>1,170,215</u>
Capital Assets Being Depreciated:				
Land Improvements	274,860	45,548	0	320,408
Buildings and Improvements	2,946,711	1,227,654	0	4,174,365
Machinery and Equipment	1,075,035	20,394	(56,214)	1,039,215
Vehicles	1,385,722	0	0	1,385,722
Infrastructure - Roads	<u>3,331,304</u>	<u>49,872</u>	<u>0</u>	<u>3,381,176</u>
Subtotal	<u>9,013,632</u>	<u>1,343,468</u>	<u>(56,214)</u>	<u>10,300,886</u>
Less Accumulated Depreciation for:				
Land Improvements	(100,218)	(14,957)	0	(115,175)
Buildings and Improvements	(1,280,386)	(72,603)	0	(1,352,989)
Machinery and Equipment	(785,132)	(47,224)	56,214	(776,142)
Vehicles	(1,062,172)	(88,347)	0	(1,150,519)
Infrastructure - Roads	<u>(607,530)</u>	<u>(95,426)</u>	<u>0</u>	<u>(702,956)</u>
Subtotal	<u>(3,835,438)</u>	<u>(318,557)</u>	<u>56,214</u>	<u>(4,097,781)</u>
Capital Assets Being Depreciated	<u>5,178,194</u>	<u>1,024,911</u>	<u>0</u>	<u>6,203,105</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 6,253,926</u>	<u>\$ 1,190,860</u>	<u>\$ (71,466)</u>	<u>\$ 7,373,320</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 10/01/15	Additions	Deletions	Balance 09/30/16
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,440,322	\$ 0	\$ 0	\$ 1,440,322
Construction in Progress	<u>38,295</u>	<u>32,424</u>	<u>(4,566)</u>	<u>66,153</u>
Subtotal	<u>1,478,617</u>	<u>32,424</u>	<u>(4,566)</u>	<u>1,506,475</u>
Capital Assets Being Depreciated:				
Land Improvements	4,039,296	69,448	(155,409)	3,953,335
Buildings	1,067,377	14,500	(32,282)	1,049,595
Machinery and Equipment	475,411	14,825	(117,173)	373,063
Water System	3,908,312	0	0	3,908,312
Sewer System	<u>4,560,713</u>	<u>53,797</u>	<u>0</u>	<u>4,614,510</u>
Subtotal	<u>14,051,109</u>	<u>152,570</u>	<u>(304,864)</u>	<u>13,898,815</u>
Less Accumulated Depreciation for:				
Land Improvements	(3,394,969)	(98,239)	144,203	(3,349,005)
Buildings	(708,317)	(26,900)	32,282	(702,935)
Machinery and Equipment	(363,797)	(25,482)	117,173	(272,106)
Water System	(1,885,047)	(88,218)	0	(1,973,265)
Sewer System	<u>(2,216,246)</u>	<u>(92,931)</u>	<u>0</u>	<u>(2,309,177)</u>
Subtotal	<u>(8,568,376)</u>	<u>(331,770)</u>	<u>293,658</u>	<u>(8,606,488)</u>
Capital Assets Being Depreciated	<u>5,482,733</u>	<u>(179,200)</u>	<u>(11,206)</u>	<u>5,292,327</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 6,961,350</u>	<u>\$ (146,776)</u>	<u>\$ (15,772)</u>	<u>\$ 6,798,802</u>

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

Governmental Activities

General Government:	
Other General Government	\$ 57,636
Public Safety:	
Fire	77,635
Public Works:	
Other Public Works	177,708
Community and Economic Development	1,741
Recreation and Cultural	<u>3,837</u>
Total Governmental Activities	<u>\$ 318,557</u>

Business-Type Activities

Sewer	\$ 106,273
Water	95,101
City Park	<u>130,396</u>
Total Business-Type Activities	<u>\$ 331,770</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

	Balance 10/01/15	Additions	Deletions	Balance 09/30/16
<u>Governmental Activities</u>				
Capital Assets Being Depreciated:				
Land Improvements	\$ 2,935,783	\$ 0	\$ 0	\$ 2,935,783
Machinery and Equipment	181,135	0	0	181,135
Subtotal	<u>3,116,918</u>	<u>0</u>	<u>0</u>	<u>3,116,918</u>
Less Accumulated Depreciation for:				
Land Improvements	(793,989)	(146,789)	0	(940,778)
Machinery and Equipment	(70,668)	(32,430)	0	(103,098)
Subtotal	<u>(864,657)</u>	<u>(179,219)</u>	<u>0</u>	<u>(1,043,876)</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 2,252,261</u>	<u>\$ (179,219)</u>	<u>\$ 0</u>	<u>\$ 2,073,042</u>

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

<u>Governmental Activities</u>	
Community and Economic Development	\$ 148,139
Public Works	<u>31,080</u>
Total Depreciation Expense	<u>\$ 179,219</u>

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

	Balance 01/01/15	Additions	Deletions	Balance 12/31/15
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 205,892	\$ 0	\$ 0	\$ 205,892
Construction in Progress	6,800	0	(6,800)	0
Subtotal	<u>212,692</u>	<u>0</u>	<u>(6,800)</u>	<u>205,892</u>
Capital Assets Being Depreciated:				
Buildings	3,200,734	89,660	0	3,290,394
Furniture and Equipment	102,012	12,008	0	114,020
Subtotal	<u>3,302,746</u>	<u>101,668</u>	<u>0</u>	<u>3,404,414</u>
Less Accumulated Depreciation	<u>(2,596,951)</u>	<u>(107,099)</u>	<u>0</u>	<u>(2,704,050)</u>
Capital Assets Being Depreciated	<u>705,795</u>	<u>(5,431)</u>	<u>0</u>	<u>700,364</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 918,487</u>	<u>\$ (5,431)</u>	<u>\$ (6,800)</u>	<u>\$ 906,256</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, 2016

NOTE 5 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
General Obligation Bonds:		
\$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>1,000,000</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>935,000</u>
Total Bonds Payable	<u>1,000,000</u>	<u>935,000</u>
Total Primary Government	\$ <u><u>1,000,000</u></u>	\$ <u><u>935,000</u></u>

Component Units:

B. 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.	\$ <u><u>1,875,000</u></u>	\$ <u><u>0</u></u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

C. Compensated Absences Payable

The City has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of September 30, 2016, the accumulated vested vacation and sick leave benefits of the employees of various City departments and its component unit were as follows:

	Current Liability	Long-Term Liability	Total Balance
	09/30/16	09/30/16	09/30/16
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 3,450	\$ 22,629	\$ 26,079
Business-Type Activities	<u>0</u>	<u>9,045</u>	<u>9,045</u>
	<u>\$ 3,450</u>	<u>\$ 31,674</u>	<u>\$ 35,124</u>
<u>Component Unit</u>			
East Tawas Housing Commission	<u>\$ 13,538</u>	<u>\$ 6,378</u>	<u>\$ 19,916</u>

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2016:

	Balance 10/01/15	Issues or Additions	Payments or Expenditures	Balance 09/30/16	Due Within One Year
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 1,105,000	\$ 0	\$ (105,000)	\$ 1,000,000	\$ 105,000
Deferred Amounts on Issuance Discount	<u>(3,358)</u>	<u>0</u>	<u>395</u>	<u>(2,963)</u>	<u>(395)</u>
Total Bonds Payable, Net	1,101,642	0	(104,605)	997,037	104,605
Compensated Absences	<u>29,763</u>	<u>0</u>	<u>(3,684)*</u>	<u>26,079</u>	<u>3,450</u>
Total Primary Government	<u>\$ 1,131,405</u>	<u>\$ 0</u>	<u>\$ (108,289)</u>	<u>\$ 1,023,116</u>	<u>\$ 108,055</u>
Component Units:					
Bonds Payable	\$ 1,940,000	\$ 0	\$ (65,000)	\$ 1,875,000	\$ 65,000
Deferred Amounts on Issuance Discount	<u>(20,406)</u>	<u>0</u>	<u>1,150</u>	<u>(19,256)</u>	<u>(1,150)</u>
Total Component Units	<u>\$ 1,919,594</u>	<u>\$ 0</u>	<u>\$ (63,850)</u>	<u>\$ 1,855,744</u>	<u>\$ 63,850</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities (Continued)

	<u>Balance</u> <u>10/01/15</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/16</u>	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Bonds Payable	\$ 990,000	\$ 0	\$ (55,000)	\$ 935,000	\$ 55,000
Deferred Amounts on Issuance Discount	<u>(1,647)</u>	<u>0</u>	<u>122</u>	<u>(1,525)</u>	<u>(122)</u>
Total Bonds Payable, Net	988,353	0	(54,878)	933,475	54,878
Compensated Absences	<u>9,476</u>	<u>(431) *</u>	<u>0</u>	<u>9,045</u>	<u>0</u>
Total Primary Government	<u>\$ 997,829</u>	<u>\$ (431)</u>	<u>\$ (54,878)</u>	<u>\$ 942,520</u>	<u>\$ 54,878</u>
	<u>Balance</u> <u>01/01/15</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>12/31/15</u>	<u>Due Within</u> <u>One Year</u>
Component Units:					
Compensated Absences	<u>\$ 15,810</u>	<u>\$ 4,106 *</u>	<u>\$ 0</u>	<u>\$ 19,916</u>	<u>\$ 13,538</u>

*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$81,566 for the primary government and \$90,485 for the East Tawas TIFA.

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, 2016 are as follows:

Primary Government

Bonds Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2017	\$ 105,000	\$ 38,256	\$ 55,000	\$ 39,256	\$ 237,512
2018	110,000	33,956	60,000	36,506	240,462
2019	115,000	29,456	60,000	34,106	238,562
2020	125,000	24,657	65,000	31,706	246,363
2021	125,000	19,657	65,000	29,106	238,763
2022 - 2026	420,000	26,317	370,000	102,944	919,261
2027 - 2029	<u>0</u>	<u>0</u>	<u>260,000</u>	<u>22,313</u>	<u>282,313</u>
Total	<u>\$ 1,000,000</u>	<u>\$ 172,299</u>	<u>\$ 935,000</u>	<u>\$ 295,937</u>	<u>\$ 2,403,236</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Component Units

Bonds Payable	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2017	\$ 65,000	\$ 88,967	\$ 0	\$ 0	\$ 153,967
2018	70,000	86,302	0	0	156,302
2019	75,000	83,362	0	0	158,362
2020	80,000	80,138	0	0	160,138
2021	85,000	76,618	0	0	161,618
2022 - 2026	505,000	321,182	0	0	826,182
2027 - 2031	675,000	183,500	0	0	858,500
2032 - 2033	<u>320,000</u>	<u>24,250</u>	<u>0</u>	<u>0</u>	<u>344,250</u>
Total	\$ <u>1,875,000</u>	\$ <u>944,319</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>2,819,319</u>

NOTE 6 - 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 September 15 with the final collection date of February 28 before they are returned to the County as delinquent. For the current year, the taxable value for properties located within the City for the 2015 tax levy was \$76,523,560. The corresponding tax rates were 15.4864 mills for operations and 2.1313 mills for garbage collection.

The mosquito control millage is recognized in the same year as it is levied. The taxable value for properties located within the City for the 2016 tax levy was \$77,258,008 and the corresponding tax rate was 0.3994 mills for mosquito control.

NOTE 7 - OPERATING TRANSFERS

During the year ended September 30, 2016, the following transfers were made:

Transfer to	Transfer from				Total
	General Fund	City Park Fund	Non-Major Governmental Funds	Component Unit - East Tawas TIFA	
General Fund	\$ 0	\$ 167,456	\$ 0	\$ 0	\$ 167,456
Library Construction Fund	200,000	0	0	0	200,000
Major Streets	96,523	0	0	0	96,523
Non-major Governmental Funds	91,150	0	937	0	92,087
Component Unit					
East Tawas TIFA Debt Service	<u>0</u>	<u>0</u>	<u>0</u>	<u>155,268</u>	<u>155,268</u>
	\$ <u>387,673</u>	\$ <u>167,456</u>	\$ <u>937</u>	\$ <u>155,268</u>	\$ <u>711,334</u>

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.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 8 - RETIREMENT PLAN

The City has adopted a defined contribution pension plan covering substantially all of its general employees. The plan was administrated by Mass Mutual Insurance Company until March 1, 2016 at which time the trustee became FirstMerit Bank.

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 the City vest after 5 years of full-time employment. An employee who leaves the employment of the City is entitled to 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 \$44,666.

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

NOTE 9 - 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 10 - 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 \$63 as of September 30, 2016.

NOTE 11 - RISK MANAGEMENT

The City and the East Tawas Housing Commission are 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 and the East Tawas Housing Commission have 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, 2016

NOTE 12 - 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, 2016.

NOTE 13 - 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 for fiscal year 2016 and snow removal for fiscal years 2015 - 2017. 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 \$125,152 for bituminous paving and Bolen Trucking Co., Inc. was paid \$23,537 for snow removal.

The City of East Tawas has also entered into contracts with Tawas Bay Insurance Agency for liability insurance for the 2016 fiscal year. Tawas Bay Insurance Agency is owned and operated by a member of the Park Board, which does not vote on the insurance of the City. During the current year, Tawas Bay Insurance Agency was paid \$83,521 for insurance coverage.

NOTE 14 - COMMITMENTS

The City has contractual commitments in the amount of \$3,996 outstanding at September 30, 2016.

Construction contracts

As of September 30, 2016, the City had the following construction contracts in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at September 30, 2016</u>	<u>Contract Payable at September 30, 2016</u>
Lincoln Street Reconstruction Project - Huron Engineering & Surveying, Inc.	\$ <u>21,860</u>	\$ <u>3,996</u>	\$ <u>3,424</u>

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, 2016

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 1,267,497	\$ 1,269,922	\$ 1,269,987	\$ 65
State Grants and Revenue	271,000	271,000	266,414	(4,586)
Licenses and Permits	2,100	3,950	4,315	365
Charges for Services	146,610	167,935	169,598	1,663
Interest and Rentals	232,025	232,160	155,859	(76,301)
Other Revenue	46,800	60,830	63,712	2,882
Total Revenue	<u>1,966,032</u>	<u>2,005,797</u>	<u>1,929,885</u>	<u>(75,912)</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	41,650	42,250	40,881	1,369
Chief Executive	97,950	92,000	87,470	4,530
Financial and Tax Administration	156,400	129,375	124,712	4,663
Other General Government	282,862	289,012	264,755	24,257
Public Safety	350,911	375,486	370,748	4,738
Public Works	563,425	589,675	508,596	81,079
Community and Economic Development	89,800	72,225	67,571	4,654
Recreation and Cultural	193,025	161,360	156,345	5,015
Capital Outlay	389,963	263,113	95,631	167,482
Total Expenditures	<u>2,165,986</u>	<u>2,014,496</u>	<u>1,716,709</u>	<u>297,787</u>
Excess of Revenue Over (Under) Expenditures	<u>(199,954)</u>	<u>(8,699)</u>	<u>213,176</u>	<u>221,875</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	186,450	167,450	167,456	6
Operating Transfers Out	<u>(167,073)</u>	<u>(387,673)</u>	<u>(387,673)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>19,377</u>	<u>(220,223)</u>	<u>(220,217)</u>	<u>6</u>
Net Change in Fund Balances	(180,577)	(228,922)	(7,041)	221,881
Fund Balances - Beginning of Year	<u>1,994,385</u>	<u>1,994,385</u>	<u>1,994,385</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,813,808</u>	<u>\$ 1,765,463</u>	<u>\$ 1,987,344</u>	<u>\$ 221,881</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, 2016

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Interest and Rentals	\$ 6,468	\$ 7,540	\$ 7,186	\$ (354)
Other Revenue	<u>31,470</u>	<u>31,535</u>	<u>27,735</u>	<u>(3,800)</u>
Total Revenue	37,938	39,075	34,921	(4,154)
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>37,938</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenue Over (Under) Expenditures	0	39,075	34,921	(4,154)
Fund Balances - Beginning of Year	<u>1,223,791</u>	<u>1,223,791</u>	<u>1,223,791</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,223,791</u>	<u>\$ 1,262,866</u>	<u>\$ 1,258,712</u>	<u>\$ (4,154)</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, 2016

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal Grants and Revenue	\$ 0	\$ 0	\$ 96,143	\$ 96,143
State Grants and Revenue	470,000	440,875	283,672	(157,203)
Interest and Rentals	100	500	555	55
Total Revenue	<u>470,100</u>	<u>441,375</u>	<u>380,370</u>	<u>(61,005)</u>
<u>Expenditures</u>				
Current:				
Public Works	376,005	288,270	245,246	43,024
Capital Outlay	<u>268,750</u>	<u>315,920</u>	<u>168,199</u>	<u>147,721</u>
Total Expenditures	<u>644,755</u>	<u>604,190</u>	<u>413,445</u>	<u>190,745</u>
Excess of Revenue Over (Under) Expenditures	(174,655)	(162,815)	(33,075)	129,740
<u>Other Financing Sources</u>				
Operating Transfers In	<u>76,523</u>	<u>96,523</u>	<u>96,523</u>	<u>0</u>
Net Change in Fund Balance	(98,132)	(66,292)	63,448	129,740
Fund Balances - Beginning of Year	<u>85,768</u>	<u>85,768</u>	<u>85,768</u>	<u>0</u>
Fund Balances - End of Year	<u><u>\$ (12,364)</u></u>	<u><u>\$ 19,476</u></u>	<u><u>\$ 149,216</u></u>	<u><u>\$ 129,740</u></u>

OTHER INFORMATION

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
September 30, 2016

	Special Revenue Funds				Debt Retirement Fund	Permanent Fund	Total Other Governmental Funds
	Local Streets	Cemetery Fund	Mosquito Control Fund	Tawas Lake Public Improvement Fund	2007 Building Authority Refunding Bond Fund	Cemetery Perpetual Care	
<u>Assets</u>							
Cash and Cash Equivalents	\$ 146,675	\$ 2,298	\$ 625	\$ 11,984	\$ 252	\$ 1,757	\$ 163,591
Investments	0	0	0	0	0	89,103	89,103
Receivables:							
Special Assessments	0	0	0	11,100	0	0	11,100
Due from Local Units	0	0	2,165	0	0	0	2,165
Due from State	20,731	0	0	0	0	0	20,731
Prepaid Items	825	120	0	0	0	0	945
Total Assets	<u>\$ 168,231</u>	<u>\$ 2,418</u>	<u>\$ 2,790</u>	<u>\$ 23,084</u>	<u>\$ 252</u>	<u>\$ 90,860</u>	<u>\$ 287,635</u>
<u>Liabilities</u>							
Accounts Payable	\$ 8,750	\$ 418	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,168
Due to Other Funds	1,764	0	0	0	0	0	1,764
Accrued Liabilities	1,023	405	0	0	0	0	1,428
Total Liabilities	<u>11,537</u>	<u>823</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,360</u>
<u>Deferred Inflows of Resources</u>							
Special Assessments Levied for 2016/2017	0	0	0	21,000	0	0	21,000
<u>Fund Equity</u>							
Fund Balances:							
Nonspendable:							
Cemetery Perpetual Care	0	0	0	0	0	90,860	90,860
Prepaid Items	825	120	0	0	0	0	945
Restricted For:							
Local Streets	155,869	0	0	0	0	0	155,869
Cemetery	0	1,475	0	0	0	0	1,475
Mosquito Control	0	0	2,790	0	0	0	2,790
Tawas Lake Public Improvement	0	0	0	2,084	0	0	2,084
Committed To:							
Debt Retirement	0	0	0	0	252	0	252
Total Fund Equity	<u>156,694</u>	<u>1,595</u>	<u>2,790</u>	<u>2,084</u>	<u>252</u>	<u>90,860</u>	<u>254,275</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Equity	<u>\$ 168,231</u>	<u>\$ 2,418</u>	<u>\$ 2,790</u>	<u>\$ 23,084</u>	<u>\$ 252</u>	<u>\$ 90,860</u>	<u>\$ 287,635</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, 2016

	Special Revenue Funds				Debt Retirement Fund	Permanent Fund	Total Other Governmental Funds
	Local Streets	Cemetery Fund	Mosquito Control Fund	Tawas Lake Public Improvement Fund	2007 Building Authority Refunding Bond Fund	Cemetery Perpetual Care	
<u>Revenue</u>							
Property Taxes	\$ 0	\$ 0	\$ 30,172	\$ 0	\$ 0	\$ 0	\$ 30,172
State Grants and Revenue	234,427	0	0	0	0	0	234,427
Charges for Services	0	5,170	0	0	0	0	5,170
Interest and Rentals	688	4	26	7	147,457	937	149,119
Special Assessments	0	0	0	562	0	0	562
Other Revenue	0	0	0	0	0	480	480
Total Revenue	<u>235,115</u>	<u>5,174</u>	<u>30,198</u>	<u>569</u>	<u>147,457</u>	<u>1,417</u>	<u>419,930</u>
<u>Expenditures</u>							
Current:							
General Government:							
Other General Government	0	10,607	0	0	0	60	10,667
Public Works	134,146	0	0	113	0	0	134,259
Health and Welfare	0	0	30,600	0	0	0	30,600
Capital Outlay	71,950	0	0	0	0	0	71,950
Debt Service:							
Principal	0	0	0	0	105,000	0	105,000
Interest and Fiscal Charges	0	0	0	0	42,456	0	42,456
Total Expenditures	<u>206,096</u>	<u>10,607</u>	<u>30,600</u>	<u>113</u>	<u>147,456</u>	<u>60</u>	<u>394,932</u>
Excess of Revenue Over (Under) Expenditures	<u>29,019</u>	<u>(5,433)</u>	<u>(402)</u>	<u>456</u>	<u>1</u>	<u>1,357</u>	<u>24,998</u>
<u>Other Financing Sources (Uses)</u>							
Operating Transfers In	88,050	4,037	0	0	0	0	92,087
Operating Transfers Out	0	0	0	0	0	(937)	(937)
Total Other Financing Sources (Uses)	<u>88,050</u>	<u>4,037</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(937)</u>	<u>91,150</u>
Net Change in Fund Balances	117,069	(1,396)	(402)	456	1	420	116,148
Fund Balances - Beginning of Year	<u>39,625</u>	<u>2,991</u>	<u>3,192</u>	<u>1,628</u>	<u>251</u>	<u>90,440</u>	<u>138,127</u>
Fund Balances - End of Year	<u>\$ 156,694</u>	<u>\$ 1,595</u>	<u>\$ 2,790</u>	<u>\$ 2,084</u>	<u>\$ 252</u>	<u>\$ 90,860</u>	<u>\$ 254,275</u>

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
EAST TAWAS TIFA - COMPONENT UNIT
GOVERNMENTAL FUNDS
September 30, 2016

	<u>Special Revenue Fund</u>	<u>Debt Retirement Fund</u>	
		TIFA Streetscape Debt Service	Total Governmental Funds
	<u>TIFA Fund</u>		
<u>Assets</u>			
Cash and Cash Equivalents	\$ 100,814	\$ 47,428	\$ 148,242
Investments	100,000	0	100,000
Receivables:			
Property Taxes	189,560	0	189,560
Due from State	47,875	0	47,875
Prepaid Items	<u>22</u>	<u>0</u>	<u>22</u>
Total Assets	\$ <u>438,271</u>	\$ <u>47,428</u>	\$ <u>485,699</u>
<u>Liabilities</u>			
Accounts Payable	\$ <u>401</u>	\$ <u>0</u>	\$ <u>401</u>
<u>Deferred Inflows of Resources</u>			
Property Taxes Levied for 2016/17	<u>237,435</u>	<u>0</u>	<u>237,435</u>
<u>Fund Equity</u>			
Fund Balances:			
Nonspendable:			
Prepaid Items	22	0	22
Restricted For:			
Debt Retirement	0	47,428	47,428
Economic Development	<u>200,413</u>	<u>0</u>	<u>200,413</u>
Total Fund Equity	<u>200,435</u>	<u>47,428</u>	<u>247,863</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Equity	\$ <u>438,271</u>	\$ <u>47,428</u>	\$ <u>485,699</u>

CITY OF EAST TAWAS
Iosco County, Michigan

EAST TAWAS TIFA - COMPONENT UNIT -
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
September 30, 2016

Total Governmental Fund Balances		\$	247,863
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	3,116,918	
Accumulated Depreciation		<u>(1,043,876)</u>	
			2,073,042
Accrued Interest on Long-Term Liabilities			(37,070)
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)			<u>(1,855,744)</u>
Total Net Position - Governmental Activities		\$	<u><u>428,091</u></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, 2016

	Special Revenue Fund	Debt Retirement Fund	Total Governmental Funds
	TIFA Fund	TIFA Streetscape Debt Service	
<u>Revenue</u>			
Property Taxes	\$ 186,056	\$ 0	\$ 186,056
State Revenue	53,496	0	53,496
Interest and Rentals	342	70	412
Total Revenue	<u>239,894</u>	<u>70</u>	<u>239,964</u>
<u>Expenditures</u>			
Current:			
Community and Economic Development	9,116	0	9,116
Capital Outlay	4,033	0	4,033
Debt Service:			
Principal	0	65,000	65,000
Interest and Fiscal Charges	<u>0</u>	<u>91,718</u>	<u>91,718</u>
Total Expenditures	<u>13,149</u>	<u>156,718</u>	<u>169,867</u>
Excess of Revenue Over (Under) Expenditures	<u>226,745</u>	<u>(156,648)</u>	<u>70,097</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	0	155,268	155,268
Operating Transfers Out	<u>(155,268)</u>	<u>0</u>	<u>(155,268)</u>
Total Other Financing Sources (Uses)	<u>(155,268)</u>	<u>155,268</u>	<u>0</u>
Net Change in Fund Balances	71,477	(1,380)	70,097
Fund Balances - Beginning of Year	<u>128,958</u>	<u>48,808</u>	<u>177,766</u>
Fund Balances - End of Year	<u>\$ 200,435</u>	<u>\$ 47,428</u>	<u>\$ 247,863</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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 70,097
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.	
Current Year Depreciation Expense	(179,219)
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 position. The amount of repayments reported as expenditures in the governmental funds consist of:	
Bonds Payable	65,000
Governmental funds report the effect of discounts 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 Discount	(1,150)
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>1,083</u>
Change in Net Position of Governmental Activities	<u>\$ (44,189)</u>



Stephenson & Company, P.C.

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

March 10, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH PUBLIC ACT 51 OF 1951

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

Compliance

We have audited the City of East Tawas' compliance with Public Act 51 of 1951, as amended, for the year ended September 30, 2016.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts, and grant agreements is the responsibility of the City's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Public Act 298 of 2012. Those standards and Public Act 298 of 2012 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Public Act 51 of 1951 occurred. An audit includes examining, on a test basis, evidence about the City of East Tawas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of East Tawas' compliance with those requirements.

Opinion

In our opinion, the City of East Tawas complied, in all material respects, with the compliance requirements referred to above that are applicable to Public Act 51 of 1951 for the year ended September 30, 2016.

Internal Control Over Compliance

Management of the City of East Tawas is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City of East Tawas' internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of East Tawas' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis.

A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described below that we consider to be a significant deficiency.

ACT 51 COMPLIANCE – PAYROLL CHARGES

The September 30, 2016 audit was the first audit with the requirement for a performance audit of compliance with Act 51 of 1951, as amended. As part of the audit, an understanding of the internal controls over compliance with Act 51 was required. The City relies on timecards to support, as a fundamental accounting record, the amount billed for labor and benefits to the Act 51 expenditure line items. The City currently uses the daily timecards of its department of public works employees to document time spent on eligible Act 51 activities. Those timecards are reviewed by the department of public works supervisor or the City manager. Then the timecards are compiled and summarized onto a labor usage time report by City employees and used to enter the data into the City's general ledger. During our testing, it was determined there were several instances where the amounts compiled on the labor usage time report did not match the original timecard. The effect of this significant deficiency is that expenditures were charged to the Act 51 restricted funds that were not substantiated by time actually worked on eligible activities. We recommend that the City implement a control to review all time charged to the Act 51 restricted funds to ensure it is supported by timecards and is for actual time spent on eligible activities.

View of Responsible Officials:

Effective immediately, the City Clerk/Treasurer will carefully review the labor usage time reports to ensure they were properly compiled and agree to the daily timecards.

The City of East Tawas' responses to the findings in our audit are described above. We did not audit the City's responses and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on Public Act 298 of 2012. Accordingly, this report is not suitable for any other purpose.

Stephenson & Company, P.C.



Stephenson & Company, P.C.

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

March 10, 2017

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of East Tawas for the year ended September 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 21, 2016. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication 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 March 10, 2017. 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 & Company, P.C.

APPENDIX I

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 21, 2016, 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 November 21, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of East Tawas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2016. We noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.
- The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to and accepted by management on March 10, 2017. Management has determined the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements as a whole, and material misstatements provided to management on March 10, 2017 were corrected by management.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 10, 2017.

APPENDIX I

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

APPENDIX II MANAGEMENT COMMENTS

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the 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, 2016, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of East 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control to be a material weakness:

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. The effect of this material weakness is that reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles (GAAP) and the City would not be in a position to detect the errors or omissions. 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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the City of East Tawas' internal control to be a significant deficiency:

APPENDIX II MANAGEMENT COMMENTS

ACT 51 COMPLIANCE – PAYROLL CHARGES

The September 30, 2016 audit was the first audit with the requirement for a performance audit of compliance with Act 51 of 1951, as amended. As part of the audit, an understanding of the internal controls over compliance with Act 51 was required. The City relies on timecards to support, as a fundamental accounting record, the amount billed for labor and benefits to the Act 51 expenditure line items. The City currently uses the daily timecards of its department of public works employees to document time spent on eligible Act 51 activities. Those timecards are reviewed by the department of public works supervisor or the City manager. Then the timecards are compiled and summarized onto a labor usage time report by City employees and used to enter the data into the City's general ledger. During our testing, it was determined there were several instances where the amounts compiled on the labor usage time report did not match the original timecard. The effect of this significant deficiency is that expenditures were charged to the Act 51 restricted funds that were not substantiated by time actually worked on eligible activities. We recommend that the City implement a control to review all time charged to the Act 51 restricted funds to ensure it is supported by timecards and is for actual time spent on eligible activities.

View of Responsible Officials:

Effective immediately, the City Clerk/Treasurer will carefully review the labor usage time reports to ensure they were properly compiled and agree to the daily timecards.

The City of East Tawas' responses to the findings in our audit are described above. We did not audit the City's responses and, accordingly, we express no opinion on them.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls		X		