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CITY OF EAST TAWAS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 2018

# INDEX

## AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 10
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET POSITION	11
STATEMENT OF ACTIVITIES	12 - 13
<u>FUND FINANCIAL STATEMENTS</u>	
BALANCE SHEET - GOVERNMENTAL FUNDS	14
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES	15
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	16
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	17
STATEMENT OF NET POSITION - PROPRIETARY FUNDS	18
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS	19
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	20
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS	21
<b>NOTES TO FINANCIAL STATEMENTS</b>	22 - 43
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	44
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FEDERAL PROJECT FUND - SPECIAL REVENUE FUND	45
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - MAJOR STREETS - SPECIAL REVENUE FUND	46
<b><u>OTHER INFORMATION</u></b>	
COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	47
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS	48
COMBINING BALANCE SHEET - EAST TAWAS TIFA - COMPONENT UNIT - GOVERNMENTAL FUNDS	49
EAST TAWAS TIFA - COMPONENT UNIT - RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	50
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - EAST TAWAS TIFA - COMPONENT UNIT - GOVERNMENTAL FUNDS	51
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	52



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February 05, 2019

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of and for the year ended September 30, 2018, 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 42 percent, 83 percent, and 68 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East 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 aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of September 30, 2018, 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.

*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, 2018. 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 \$20,561,020. Business-type activities (Enterprise Funds) account for \$9,210,457 of this total.

The City's total net position increased by \$630,100. This is a 3.2% increase, which was the result of revenues exceeding expenses for the current year. The increase is partially due to an increase of \$61,082 in rent income, which was largely the result of a one time, scheduled \$40,000 receipt, per the tower lease agreement. There were also significant decreases in SAW grant activity in the current year due to the ongoing project being completed in the prior year, resulting in a decrease in expenditures that was partially offset by a decrease in related revenue. There was a decrease in recreation and cultural capital contributions for the library of about \$52,000 as construction was completed in the prior year.

The City's governmental funds reported a combined ending fund balance of \$4,728,038 this year, an increase of \$532,075. Of this amount, \$1,109,246 is available for spending (*unassigned fund balance*) on behalf of its citizens. The General Fund 2017/2018 fiscal year end fund balance is \$2,698,555. This reflects an increase of \$390,181 from fiscal year 2016/2017.

Total bonded and contract indebtedness of the City and its component units was reduced by \$264,036.

### 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 \$13,705,751 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.

#### ***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, 2018 and 2017:

#### Net Position Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Current Assets	\$ 6,164,322	\$ 2,119,733	\$ 8,284,055	\$ 7,355,770
Restricted Assets	0	210,540	210,540	210,595
Other Noncurrent Assets	142,480	1,321,788	1,464,268	1,425,993
Capital Assets – Net of Accumulated Depreciation	<u>7,247,123</u>	<u>6,458,628</u>	<u>13,705,751</u>	<u>14,147,629</u>
<b>Total Assets</b>	<u>13,553,925</u>	<u>10,110,689</u>	<u>23,664,614</u>	<u>23,139,987</u>
<b>Deferred Outflows of Resources</b>	<u>10,746</u>	<u>9,916</u>	<u>20,662</u>	<u>23,560</u>
Current Liabilities	119,782	80,577	200,359	159,970
Long-Term Liabilities	<u>805,262</u>	<u>829,571</u>	<u>1,634,833</u>	<u>1,805,856</u>
<b>Total Liabilities</b>	<u>925,044</u>	<u>910,148</u>	<u>1,835,192</u>	<u>1,965,826</u>
<b>Deferred Inflows of Resources</b>	<u>1,289,064</u>	<u>0</u>	<u>1,289,064</u>	<u>1,266,801</u>
<b>Net Position</b>				
Net Investment in Capital Assets	6,475,042	5,649,825	12,124,867	12,400,160
Restricted	2,212,378	210,540	2,422,918	2,238,832
Unrestricted	<u>2,663,143</u>	<u>3,350,092</u>	<u>6,013,235</u>	<u>5,291,928</u>
<b>Total Net Position</b>	<u>\$ 11,350,563</u>	<u>\$ 9,210,457</u>	<u>\$ 20,561,020</u>	<u>\$ 19,930,920</u>

### Summary of Changes in Net Position:

Following is an analysis of the changes in net position for fiscal year 2018 with comparative totals for 2017.

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.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
<b>Revenues:</b>				
<b>Program Revenues:</b>				
Charges for Services	\$ 257,707	\$ 1,953,884	\$ 2,211,591	\$ 2,135,889
Operating Grants and Contributions	516,129	0	516,129	753,037
Capital Grants and Contributions	0	0	0	140,789
<b>Total Program Revenues</b>	<u>773,836</u>	<u>1,953,884</u>	<u>2,727,720</u>	<u>3,029,715</u>
<b>General Revenues:</b>				
Property Taxes	1,292,548	0	1,292,548	1,282,381
State Revenue Sharing	282,823	0	282,823	282,193
Interest and Investment Earnings	49,394	26,624	76,018	51,691
Rent Income	337,651	6,275	343,926	282,844
Gain (Loss) on Disposal of Capital Assets	9,100	4,050	13,150	(9,000)
Other	1,768	6,108	7,876	10,100
<b>Total General Revenues</b>	<u>1,973,284</u>	<u>43,057</u>	<u>2,016,341</u>	<u>1,900,209</u>
<b>Total Revenues</b>	<u>2,747,120</u>	<u>1,996,941</u>	<u>4,744,061</u>	<u>4,929,924</u>
<b>Program Expenses:</b>				
General Government	645,107	0	645,107	634,579
Public Safety	407,565	0	407,565	427,677
Public Works	971,349	0	971,349	945,945
Health and Welfare	30,600	0	30,600	30,600
Community and Economic Development	81,513	0	81,513	61,662
Recreation and Cultural	224,240	0	224,240	216,181
Interest and Fiscal Charges	32,123	0	32,123	36,506
Amortization of Deferred Bond Costs and Bond Discounts (Net)	2,348	0	2,348	2,349
Sewer Services	0	500,935	500,935	621,252
Water Services	0	498,492	498,492	539,413
City Park	0	719,689	719,689	675,273
<b>Total Program Expenses</b>	<u>2,394,845</u>	<u>1,719,116</u>	<u>4,113,961</u>	<u>4,191,437</u>
<b>Increase (Decrease) in Net Position Before Transfers</b>	<b>352,275</b>	<b>277,825</b>	<b>630,100</b>	<b>738,487</b>



**Summary of Changes in Net Position (Continued):**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Transfers – Internal Activity	\$ 163,956	\$ (163,956)	\$ 0	\$ 0
<b>Change in Net Position</b>	516,231	113,869	630,100	738,487
<b>Beginning Net Position (Restated)</b>	<u>10,834,332</u>	<u>9,096,588</u>	<u>19,930,920</u>	<u>19,192,433</u>
<b>Ending Net Position</b>	<u>\$ 11,350,563</u>	<u>\$ 9,210,457</u>	<u>\$ 20,561,020</u>	<u>\$ 19,930,920</u>

**Governmental Activities**

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

Total governmental activities reveal revenues of \$773,836 from *Charges for Services* and *Operating 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 \$2,394,845 for these same activities. The largest expenses were incurred by General Government offices (\$645,107), Public Safety (\$407,565) and Public Works (\$971,349).

**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.

This year's City audit, following GASB 34 format, shows 9 governmental funds. These funds are maintained by the City as separate units in the General Ledger.

- The General Fund fund balance increased by \$390,181. The City received a one-time scheduled payment of \$40,000 from a tower lease agreement. This, along with a decrease in Other General Government expenditures, was largely offset by an increase in Public Works expenditures. Transfers out to other funds decreased \$79,250; in particular, transfers to the Major Street Fund and Local Street Fund were significantly lower than the prior year.
- The Federal Project Fund fund balance decreased by \$28,534. The decrease is the result of the Fund issuing a note of \$77,000 in the current year.

- The Major Streets fund balance increased by \$118,362. This increase is due mainly to the grant revenue received from the Michigan Department of Transportation exceeding Public Works expenditures in the current year.
- The Aggregate Remaining Governmental Funds fund balance increased by \$52,066. This increase is mainly due to revenues and transfers in exceeding expenditures in the Local Streets fund.

### **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 City Park Fund net position increased by \$77,157, due to revenues exceeding expenses. The increase was primarily the result of increased charges for services revenue due to increasing camping fee rates.
- The Sewer Fund and the Water Fund did not experience significant changes in fund balance.

### **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, 2018 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 \$2,059,012. That amount is above the original budget estimate of \$2,010,666 and below the final amended budget estimate of \$2,093,456. The variance between the original budget and the amended budget was mainly the result of budgeting for an anticipated increase in rental revenue stemming from a new lease agreement. The difference between the amended budget and the actual revenues was mainly the result of reclassification of reimbursements for expenditures of the Department of Public Works.

The actual expenditures of the General Fund were \$1,715,122, which is below both the original budget estimates of \$2,147,252 and the final amended budget estimates of \$2,289,418. 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 difference between the original and final amended budget was due to amendments in several areas in anticipation of higher expenditures.

The General Fund had total revenues of \$2,059,012 and total expenditures of \$1,715,122 with an ending fund balance of \$2,698,555.

## 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 \$11,877,575 with an ending balance of \$11,933,100. Governmental Activities Total Capital Assets – Net of Depreciation was \$7,247,123.

During the year ended September 30, 2018, the City's governmental capital asset additions consisted of:

Franklin Street Paving	\$ 45,023
2018 GMC Sierra	38,344
John Deere 3039R Tractor	30,372
Smith Street Storm Drain Project	15,271
Parking Lot behind Ben Franklin	10,300
Other Additions	<u>25,389</u>
<b>Total Additions</b>	<b><u>\$ 164,699</u></b>

The City's governmental capital asset disposals consisted of fully depreciated equipment and vehicles, which were disposed of or sold, with sales proceeds totaling \$9,100.

Capital Assets – Business-Type Activities beginning balance was \$15,235,844 with an ending balance of \$15,211,938. Business-Type Activities Total Capital Assets – Net of Depreciation was \$6,458,628.

During the year ended September 30, 2018, the City's business-type capital asset additions consisted of:

John Deere 3039R Tractor	\$ 24,183
Surveying & Mapping Equipment	18,893
Durant Park Pavilion Metal Roof	12,429
Other Additions	<u>5,304</u>
<b>Total Additions</b>	<b><u>\$ 60,809</u></b>

The City's business-type capital asset disposals consisted of a fully depreciated tractor that was sold for \$2,525, the previous Durant Pavilion roof, and various capital asset items in the Water Fund that were fully depreciated.

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 \$1,460,350. 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 increased slightly from 2017 to 2018 and are expected to increase slightly again in 2019. The City Council slightly increased the operational millage rate for 2018 to 17.6677 mills which is an increase of 0.0500 mills as levied in 2017. The City also levied an extra voted millage of .4100 mills for mosquito control and suppression that was approved by voters in 2016 and first levied in 2018. The City only levied .3500 mills for mosquito control and suppression due to budgeting requirements. 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 2018 were approximately 3.0% higher than the payments received in 2017. State of Michigan projections for the revenue sharing program for fiscal year 2018-2019 show an increase of approximately 4.6%.

Employee related costs account for approximately 27.7% of the General Fund budgeted expenditures. Contracted and professional services account for approximately 25.6% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 17.1%. 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, 2018

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
<b>Assets</b>					
Cash and Cash Equivalents (Note 2)	\$ 1,409,184	\$ 2,128,267	\$ 3,537,451	\$ 302,938	\$ 600,781
Investments (Note 2)	2,668,854	511,364	3,180,218	101,887	364,261
Receivables:					
Property Taxes	1,289,837	0	1,289,837	188,151	0
Special Assessments	1,560	0	1,560	0	0
Accounts, Net	2,512	104,319	106,831	0	1,130
Interest	0	0	0	0	257
Notes Receivable	39,110	0	39,110	0	0
Due from Local Units	2,518	0	2,518	0	0
Due from State	110,957	0	110,957	57,223	0
Internal Balances	625,299	(625,299)	0	0	0
Prepaid Items	14,491	1,082	15,573	0	17,576
Restricted Assets:					
Cash and Cash Equivalents (Note 2)	0	107,944	107,944	0	0
Investments (Note 2)	0	102,596	102,596	0	0
Noncurrent Assets:					
Notes Receivable	142,480	0	142,480	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)	997,019	1,440,322	2,437,341	0	205,892
Capital Assets, Net of Accumulated Depreciation (Note 4)	6,250,104	5,018,306	11,268,410	1,723,091	543,335
Total Assets	13,553,925	10,110,689	23,664,614	2,373,290	1,733,232
<b>Deferred Outflows of Resources</b>					
Deferred Charge on Refunding	10,746	9,916	20,662	78,043	0
<b>Liabilities</b>					
Accounts Payable	84,839	60,769	145,608	0	28,030
Due to Local Units	0	0	0	0	19,580
Accrued Interest Payable	13,232	14,211	27,443	22,219	0
Accrued Liabilities	21,711	5,597	27,308	0	13,787
Long Term Liabilities: (Note 5)					
Due Within One Year	114,605	59,878	174,483	89,553	16,028
Due In More Than One Year	690,657	769,693	1,460,350	1,748,740	14,812
Total Liabilities	925,044	910,148	1,835,192	1,860,512	92,237
<b>Deferred Inflows of Resources</b>					
Property Taxes Levied for 2018/19	1,289,064	0	1,289,064	245,374	0
<b>Net Position</b>					
Net Investment in Capital Assets	6,475,042	5,649,825	12,124,867	(37,159)	749,227
Restricted For:					
Debt Service	0	210,540	210,540	55,106	0
Mosquito Control	1,303	0	1,303	0	0
Major Streets	335,337	0	335,337	0	0
Local Streets	323,279	0	323,279	0	0
Cemetery	2,040	0	2,040	0	0
Economic Development	1,457,291	0	1,457,291	327,500	0
Permanent Funds:					
Nonexpendable	91,481	0	91,481	0	0
Tawas Lake Public Improvement	1,647	0	1,647	0	0
Unrestricted	2,663,143	3,350,092	6,013,235	0	891,768
Total Net Position	\$ 11,350,563	\$ 9,210,457	\$ 20,561,020	\$ 345,447	\$ 1,640,995

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, 2018

		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	\$ 178,678	\$ 0	\$ 0	\$ 0	\$ (178,678)	\$ 0	\$ (178,678)		
Financial and Tax									
Administration	130,259	0	0	0	(130,259)	0	(130,259)		
Other General Government	336,170	49,328	0	0	(286,842)	0	(286,842)		
Public Safety:									
Police	192,625	0	0	0	(192,625)	0	(192,625)		
Fire	214,940	119,835	2,855	0	(92,250)	0	(92,250)		
Public Works:									
Other Public Works	971,349	46,646	459,082	0	(465,621)	0	(465,621)		
Health and Welfare:									
Other Health and Welfare	30,600	0	0	0	(30,600)	0	(30,600)		
Community and Economic									
Development	81,513	0	0	0	(81,513)	0	(81,513)		
Recreation and Cultural	224,240	41,898	54,192	0	(128,150)	0	(128,150)		
Interest and Fees on Long-Term									
Debt	32,123	0	0	0	(32,123)	0	(32,123)		
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>2,394,845</u>	<u>257,707</u>	<u>516,129</u>	<u>0</u>	<u>(1,621,009)</u>	<u>0</u>	<u>(1,621,009)</u>		
Business-Type Activities:									
Sewer Services	500,935	523,005	0	0	0	22,070	22,070		
Water Services	498,492	491,739	0	0	0	(6,753)	(6,753)		
City Park	<u>719,689</u>	<u>939,140</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>219,451</u>	<u>219,451</u>		
Total Business-Type Activities	<u>1,719,116</u>	<u>1,953,884</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>234,768</u>	<u>234,768</u>		
Total Primary Government	<u>\$ 4,113,961</u>	<u>\$ 2,211,591</u>	<u>\$ 516,129</u>	<u>\$ 0</u>	<u>(1,621,009)</u>	<u>234,768</u>	<u>(1,386,241)</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, 2018

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	\$ 240,219	\$ 0	\$ 0	\$ 0				\$ (240,219)	\$ 0
Housing Commission	<u>560,225</u>	<u>307,596</u>	<u>213,793</u>	<u>0</u>				<u>0</u>	<u>(38,836)</u>
Total Component Units	<u>\$ 800,444</u>	<u>\$ 307,596</u>	<u>\$ 213,793</u>	<u>\$ 0</u>				<u>(240,219)</u>	<u>(38,836)</u>
General Revenue:									
Property Taxes Levied For:									
General Operating					\$ 1,260,739	\$ 0	\$ 1,260,739	0	0
Mosquito Control					27,504	0	27,504	0	0
TIFA					0	0	0	194,262	0
Payment in Lieu of Taxes					4,305	0	4,305	0	0
State Revenue Sharing					282,823	0	282,823	51,463	0
Interest and Investment Earnings					49,394	26,624	76,018	4,105	2,230
Rent Income					337,651	6,275	343,926	0	0
Gain (Loss) on Disposal of Capital Assets					9,100	4,050	13,150	0	0
Other					1,768	6,108	7,876	0	8,681
Transfers					<u>163,956</u>	<u>(163,956)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total General Revenue and Transfers					<u>2,137,240</u>	<u>(120,899)</u>	<u>2,016,341</u>	<u>249,830</u>	<u>10,911</u>
Change in Net Position					516,231	113,869	630,100	9,611	(27,925)
Net Position - Beginning (Restated) (Note 13)					<u>10,834,332</u>	<u>9,096,588</u>	<u>19,930,920</u>	<u>335,836</u>	<u>1,668,920</u>
Net Position - Ending					<u>\$ 11,350,563</u>	<u>\$ 9,210,457</u>	<u>\$ 20,561,020</u>	<u>\$ 345,447</u>	<u>\$ 1,640,995</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, 2018

	<u>Special Revenue Funds</u>			Other	Total
	General Fund	Federal Project Fund	Major Streets	Governmental Funds	Governmental Funds
<u>Assets</u>					
Cash and Cash Equivalents (Note 2)	\$ 300,312	\$ 490,971	\$ 297,962	\$ 319,939	\$ 1,409,184
Investments (Note 2)	2,375,623	202,231	0	91,000	2,668,854
Receivables:					
Property Taxes	1,289,837	0	0	0	1,289,837
Special Assessments	0	0	0	1,560	1,560
Accounts, Net	2,512	0	0	0	2,512
Notes Receivable	0	181,590	0	0	181,590
Due from Local Units	486	0	0	2,032	2,518
Due from State	51,013	0	42,038	17,906	110,957
Due from Other Funds (Note 3)	52,992	582,499	0	0	635,491
Prepaid Items	11,440	0	1,885	1,166	14,491
Total Assets	<u>\$ 4,084,215</u>	<u>\$ 1,457,291</u>	<u>\$ 341,885</u>	<u>\$ 433,603</u>	<u>\$ 6,316,994</u>
<u>Liabilities</u>					
Accounts Payable	\$ 78,383	\$ 0	\$ 2,508	\$ 3,948	\$ 84,839
Due to Other Funds (Note 3)	0	0	2,842	7,350	10,192
Accrued Liabilities	18,213	0	1,198	2,300	21,711
Total Liabilities	<u>96,596</u>	<u>0</u>	<u>6,548</u>	<u>13,598</u>	<u>116,742</u>
<u>Deferred Inflows of Resources</u>					
Property Taxes Levied for 2018/19	1,289,064	0	0	0	1,289,064
Unavailable Revenue - Special Assessments	0	0	0	1,560	1,560
Unavailable Revenue - Notes Receivable	0	181,590	0	0	181,590
Total Deferred Inflows of Resources	<u>1,289,064</u>	<u>181,590</u>	<u>0</u>	<u>1,560</u>	<u>1,472,214</u>
<u>Fund Equity</u>					
Fund Balances:					
Nonspendable:					
Cemetery Perpetual Care	0	0	0	91,481	91,481
Prepaid Items	11,440	0	1,885	1,166	14,491
Restricted For:					
Major Streets	0	0	333,452	0	333,452
Local Streets	0	0	0	322,209	322,209
Cemetery	0	0	0	1,944	1,944
Economic Development	0	1,275,701	0	0	1,275,701
Mosquito Control	0	0	0	1,303	1,303
Tawas Lake Public Improvement	0	0	0	87	87
Committed To:					
Debt Retirement	0	0	0	255	255
Community Center	31,730	0	0	0	31,730
Capital Equipment	1,124,460	0	0	0	1,124,460
Police Department	75,000	0	0	0	75,000
Assigned For:					
2018/19 Budgeted Expenditures	346,679	0	0	0	346,679
Unassigned	1,109,246	0	0	0	1,109,246
Total Fund Equity	<u>2,698,555</u>	<u>1,275,701</u>	<u>335,337</u>	<u>418,445</u>	<u>4,728,038</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Equity	<u>\$ 4,084,215</u>	<u>\$ 1,457,291</u>	<u>\$ 341,885</u>	<u>\$ 433,603</u>	<u>\$ 6,316,994</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, 2018

Total Governmental Fund Balances	\$	4,728,038
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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	\$ 11,933,100	
Accumulated Depreciation	<u>(4,685,977)</u>	
		7,247,123

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

Notes Receivable	181,590	
Special Assessments Receivable	<u>1,560</u>	
		183,150

Accrued Interest on Long-Term Liabilities		(13,232)
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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)	(782,827)	
Deferred Charge on Refunding	10,746	
Compensated Absences Payable	<u>(22,435)</u>	
Total Long-Term Liabilities		<u>(794,516)</u>

Total Net Position - Governmental Activities	\$	<u>11,350,563</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, 2018

		Special Revenue Funds			
	General Fund	Federal Project Fund	Major Streets	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>					
Property Taxes	\$ 1,297,043	\$ 0	\$ 0	\$ 27,599	\$ 1,324,642
State Grants and Revenue	282,823	0	336,360	122,722	741,905
Licenses and Permits	4,740	0	0	0	4,740
Charges for Services	166,792	0	0	3,070	169,862
Interest and Rentals	236,055	13,055	3,321	151,254	403,685
Special Assessments	0	0	0	20,787	20,787
Other Revenue	71,559	35,411	0	180	107,150
Total Revenue	<u>2,059,012</u>	<u>48,466</u>	<u>339,681</u>	<u>325,612</u>	<u>2,772,771</u>
<u>Expenditures</u>					
Current:					
General Government:					
Legislative	42,670	0	0	0	42,670
Chief Executive	129,479	0	0	0	129,479
Financial and Tax Administration	137,556	0	0	0	137,556
Other General Government	257,447	0	0	13,168	270,615
Public Safety	321,364	0	0	0	321,364
Public Works	381,931	0	249,109	109,123	740,163
Health and Welfare	0	0	0	30,600	30,600
Community and Economic Development	78,837	77,000	0	0	155,837
Recreation and Cultural	184,882	0	0	0	184,882
Capital Outlay	180,956	0	0	75,674	256,630
Debt Service:					
Principal	0	0	0	110,000	110,000
Interest and Fiscal Charges	0	0	0	33,956	33,956
Total Expenditures	<u>1,715,122</u>	<u>77,000</u>	<u>249,109</u>	<u>372,521</u>	<u>2,413,752</u>
Excess of Revenue Over (Under)					
Expenditures	<u>343,890</u>	<u>(28,534)</u>	<u>90,572</u>	<u>(46,909)</u>	<u>359,019</u>
<u>Other Financing Sources (Uses)</u>					
Sale of Capital Assets	9,100	0	0	0	9,100
Operating Transfers In	163,956	0	27,790	100,843	292,589
Operating Transfers Out	(126,765)	0	0	(1,868)	(128,633)
Total Other Financing Sources (Uses)	<u>46,291</u>	<u>0</u>	<u>27,790</u>	<u>98,975</u>	<u>173,056</u>
Net Change in Fund Balances	390,181	(28,534)	118,362	52,066	532,075
Fund Balances - Beginning of Year	<u>2,308,374</u>	<u>1,304,235</u>	<u>216,975</u>	<u>366,379</u>	<u>4,195,963</u>
Fund Balances - End of Year	<u>\$ 2,698,555</u>	<u>\$ 1,275,701</u>	<u>\$ 335,337</u>	<u>\$ 418,445</u>	<u>\$ 4,728,038</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, 2018

Total Net Change in Fund Balances - Governmental Funds		\$	532,075
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			660
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	\$	164,699	
Current Year Depreciation Expense		<u>(334,806)</u>	
			(170,107)
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 Loan Disbursements		77,000	
Current Year Note Receivable Principal Receipts		<u>(35,411)</u>	
			41,589
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			110,000
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)
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		1,833	
Net Change in Accrued Compensated Absences		<u>2,529</u>	
			<u>4,362</u>
Change in Net Position of Governmental Activities	\$	<u><u>516,231</u></u>	

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

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
September 30, 2018

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 555,106	\$ 437,207	\$ 1,135,954	\$ 2,128,267
Investments (Note 2)	100,000	411,364	0	511,364
Receivables:				
Accounts, Net	56,191	48,128	0	104,319
Prepaid Items	379	703	0	1,082
Restricted Assets:				
Cash and Cash Equivalents (Note 2)	0	107,944	0	107,944
Investments (Note 2)	0	102,596	0	102,596
Total Current Assets	<u>711,676</u>	<u>1,107,942</u>	<u>1,135,954</u>	<u>2,955,572</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	0	1,433,822	1,440,322
Capital Assets, Net of Accumulated Depreciation (Note 4)	<u>2,179,852</u>	<u>1,941,915</u>	<u>896,539</u>	<u>5,018,306</u>
Total Noncurrent Assets	<u>2,186,352</u>	<u>3,263,703</u>	<u>2,330,361</u>	<u>7,780,416</u>
Total Assets	<u>2,898,028</u>	<u>4,371,645</u>	<u>3,466,315</u>	<u>10,735,988</u>
<u>Deferred Outflows of Resources</u>				
Deferred Charge on Refunding	<u>0</u>	<u>9,916</u>	<u>0</u>	<u>9,916</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	1,761	52,034	6,974	60,769
Due to Other Funds (Note 3)	1,251	12,782	611,266	625,299
Accrued Interest Payable	0	14,211	0	14,211
Accrued Liabilities	1,684	3,913	0	5,597
Current Portion of Long-Term Liabilities (Note 5)	<u>0</u>	<u>59,878</u>	<u>0</u>	<u>59,878</u>
Total Current Liabilities	<u>4,696</u>	<u>142,818</u>	<u>618,240</u>	<u>765,754</u>
Long-Term Liabilities:				
Due in More Than One Year (Note 5)	<u>0</u>	<u>758,841</u>	<u>10,852</u>	<u>769,693</u>
Total Liabilities	<u>4,696</u>	<u>901,659</u>	<u>629,092</u>	<u>1,535,447</u>
<u>Net Position</u>				
Net Investment in Capital Assets	2,186,352	1,133,112	2,330,361	5,649,825
Restricted For:				
Debt Service	0	210,540	0	210,540
Unrestricted	<u>706,980</u>	<u>2,136,250</u>	<u>506,862</u>	<u>3,350,092</u>
Total Net Position	<u>\$ 2,893,332</u>	<u>\$ 3,479,902</u>	<u>\$ 2,837,223</u>	<u>\$ 9,210,457</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, 2018

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Operating Revenue</u>				
Charges For Services	\$ 515,326	\$ 485,108	\$ 945,415	\$ 1,945,849
Penalties	7,679	6,631	0	14,310
Other Revenue	1,057	1,490	3,561	6,108
Total Operating Revenue	<u>524,062</u>	<u>493,229</u>	<u>948,976</u>	<u>1,966,267</u>
<u>Operating Expenses</u>				
Salaries and Wages	58,291	82,446	208,427	349,164
Payroll Taxes and Employee Benefits	28,416	42,279	58,894	129,589
Advertising	0	0	1,494	1,494
Contractual Services	264,319	178,063	2,526	444,908
Depreciation and Amortization	110,158	97,507	125,982	333,647
Equipment	0	264	38,248	38,512
Equipment Rental	7,329	29,333	0	36,662
Insurance and Bonds	4,809	1,231	18,535	24,575
Office Supplies	4,156	2,844	394	7,394
Operating Supplies	5,233	24,814	17,091	47,138
Professional Fees and Services	0	0	45,632	45,632
Repair and Maintenance	6,983	3,200	58,017	68,200
Travel and Training	559	345	0	904
Utilities	9,759	0	127,833	137,592
Other	923	660	16,616	18,199
Total Operating Expenses	<u>500,935</u>	<u>462,986</u>	<u>719,689</u>	<u>1,683,610</u>
Operating Income (Loss)	<u>23,127</u>	<u>30,243</u>	<u>229,287</u>	<u>282,657</u>
<u>Nonoperating Revenue (Expenses)</u>				
Interest and Investment Earnings	6,452	12,396	7,776	26,624
Interest and Fees Expense	0	(35,506)	0	(35,506)
Gain (Loss) on Disposal of Capital Assets	0	0	4,050	4,050
Total Nonoperating Revenue (Expenses)	<u>6,452</u>	<u>(23,110)</u>	<u>11,826</u>	<u>(4,832)</u>
Income (Loss) Before Operating Transfers	29,579	7,133	241,113	277,825
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>(163,956)</u>	<u>(163,956)</u>
Change in Net Position	29,579	7,133	77,157	113,869
Net Position - Beginning of Year (Restated) (Note 13)	<u>2,863,753</u>	<u>3,472,769</u>	<u>2,760,066</u>	<u>9,096,588</u>
Net Position - End of Year	<u>\$ 2,893,332</u>	<u>\$ 3,479,902</u>	<u>\$ 2,837,223</u>	<u>\$ 9,210,457</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, 2018

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Cash Flows From Operating Activities</u>				
Receipts From Customers	\$ 525,549	\$ 491,972	\$ 948,976	\$ 1,966,497
Payments to Suppliers for Goods and Services	(303,298)	(188,717)	(345,268)	(837,283)
Payments to Employees for Services	(85,983)	(116,644)	(266,332)	(468,959)
Net Cash Provided (Used) by Operating Activities	<u>136,268</u>	<u>186,611</u>	<u>337,376</u>	<u>660,255</u>
<u>Cash Flows From Non-Capital Financing Activities</u>				
Cash Received from (Paid to) Other funds	<u>0</u>	<u>0</u>	<u>(166,944)</u>	<u>(166,944)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>				
Acquisition and Construction of Capital Assets	(18,893)	0	(41,916)	(60,809)
Principal Paid on Long-Term Debt	0	(60,000)	0	(60,000)
Interest and Fees Paid on Long-Term Debt	0	(36,506)	0	(36,506)
Proceeds from Sale of Capital Assets	<u>0</u>	<u>0</u>	<u>4,050</u>	<u>4,050</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(18,893)</u>	<u>(96,506)</u>	<u>(37,866)</u>	<u>(153,265)</u>
<u>Cash Flows From Investing Activities</u>				
Interest on Investments	6,452	12,396	7,776	26,624
Proceeds from Maturity of Investment Securities	0	506,703	0	506,703
Purchase of Investment Securities	(100,000)	(513,960)	0	(613,960)
Net Cash Provided (Used) by Investing Activities	<u>(93,548)</u>	<u>5,139</u>	<u>7,776</u>	<u>(80,633)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	23,827	95,244	140,342	259,413
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>531,279</u>	<u>449,907</u>	<u>995,612</u>	<u>1,976,798</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 555,106</u>	<u>\$ 545,151</u>	<u>\$ 1,135,954</u>	<u>\$ 2,236,211</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>				
Operating Income (Loss)	\$ 23,127	\$ 30,243	\$ 229,287	\$ 282,657
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	110,158	97,507	125,982	333,647
Change in Assets and Liabilities:				
Accounts Receivable, Net	1,487	(1,257)	0	230
Prepaid Items	76	81	0	157
Accounts Payable and Accrued Liabilities	1,420	60,037	(18,882)	42,575
Accrued Compensated Absences	<u>0</u>	<u>0</u>	<u>989</u>	<u>989</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 136,268</u>	<u>\$ 186,611</u>	<u>\$ 337,376</u>	<u>\$ 660,255</u>

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, 2018

	<u>Tax Account</u>	<u>Trust and Agency Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash and Cash Equivalents (Note 2)	\$ 1,355,778	\$ 5,634	\$ 1,361,412
Receivables:			
Property Taxes	<u>189,015</u>	<u>0</u>	<u>189,015</u>
Total Assets	<u>\$ 1,544,793</u>	<u>\$ 5,634</u>	<u>\$ 1,550,427</u>
<u>Liabilities</u>			
Due to Local Units	\$ 1,544,793	\$ 0	\$ 1,544,793
Due to Other Agencies and Individuals	<u>0</u>	<u>5,634</u>	<u>5,634</u>
Total Liabilities	<u>\$ 1,544,793</u>	<u>\$ 5,634</u>	<u>\$ 1,550,427</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, 2018

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, 2018

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, 2017. 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, 2018 was \$185,790. 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, 2018 was \$256,250. 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, 2018

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, 2018 was \$137,627. 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, 2018

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.

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; and the acquisition or construction of major capital facilities.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

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, 2018

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, 2018

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, 2018 was \$0 for the primary government and \$499 for the component units.

Of the \$181,590 balance for notes receivable, \$142,480 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 \$28,767 and to the Federal Project Fund for a loan of \$582,499 for the purchase of land in East Tawas for future development. There are also internal balances owed from the Sewer Fund to the General Fund for \$1,251 and from the Water Fund to the General Fund for \$12,782 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 is 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.

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.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

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.

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance (Continued)

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, 2018.

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 Manager 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.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgets and Budgetary Accounting (Continued)

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	\$ 1,409,184	\$ 2,128,267	\$ 1,361,412	\$ 4,898,863	\$ 903,719
Investments	2,668,854	511,364	0	3,180,218	466,148
Restricted Cash and Cash Equivalents	0	107,944	0	107,944	0
Restricted Investments	<u>0</u>	<u>102,596</u>	<u>0</u>	<u>102,596</u>	<u>0</u>
Total	<u>\$ 4,078,038</u>	<u>\$ 2,850,171</u>	<u>\$ 1,361,412</u>	<u>\$ 8,289,621</u>	<u>\$ 1,369,867</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 6,194,587	\$ 1,211,081
Investments in Financial Institution Pooled Funds	2,094,494	158,586
Petty Cash and Cash on Hand	<u>540</u>	<u>200</u>
Total	<u>\$ 8,289,621</u>	<u>\$ 1,369,867</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of September 30, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government: Investment Pools	\$ <u>2,094,494</u>	Daily
Component Units: Investment Pools	\$ <u>158,586</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, 2018, \$4,764,361 of the City's bank balance of \$6,360,490 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, 2018, \$89,246 of the TIFA's bank balance of \$246,239 was exposed to custodial credit risk because it was uninsured and uncollateralized.

East Tawas Housing Commission:

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of December 31, 2017, \$0 of the East Tawas Housing Commission's bank balance of \$965,042 was exposed to custodial credit risk because it was uninsured but collateralized by securities held by the financial institution.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2018

**NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES**

The amounts of interfund receivables and payables as of September 30, 2018 were as follows:

Due to	Due from					Total
	Major Streets	Non-Major Governmental Funds	City Park Fund	Sewer Fund	Water Fund	
General Fund	\$ 2,842	\$ 7,350	\$ 28,767	\$ 1,251	\$ 12,782	\$ 52,992
Federal Project Fund	0	0	582,499	0	0	582,499
	<u>\$ 2,842</u>	<u>\$ 7,350</u>	<u>\$ 611,266</u>	<u>\$ 1,251</u>	<u>\$ 12,782</u>	<u>\$ 635,491</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, 2018.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity of the primary government for the fiscal year ended September 30, 2018, was as follows:

	Balance 10/01/17	Additions	Deletions	Balance 09/30/18
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 995,266	\$ 1,753	\$ 0	\$ 997,019
Capital Assets Being Depreciated:				
Land Improvements	329,758	25,571	0	355,329
Buildings and Improvements	4,213,975	0	0	4,213,975
Machinery and Equipment	1,045,344	44,243	(27,724)	1,061,863
Vehicles	1,503,072	38,344	(81,450)	1,459,966
Infrastructure - Roads	3,790,160	54,788	0	3,844,948
Subtotal	<u>10,882,309</u>	<u>162,946</u>	<u>(109,174)</u>	<u>10,936,081</u>
Less Accumulated Depreciation for:				
Land Improvements	(131,744)	(17,650)	0	(149,394)
Buildings and Improvements	(1,456,210)	(104,806)	0	(1,561,016)
Machinery and Equipment	(822,634)	(40,311)	27,724	(835,221)
Vehicles	(1,242,151)	(53,857)	81,450	(1,214,558)
Infrastructure - Roads	(807,606)	(118,182)	0	(925,788)
Subtotal	<u>(4,460,345)</u>	<u>(334,806)</u>	<u>109,174</u>	<u>(4,685,977)</u>
Capital Assets Being Depreciated	<u>6,421,964</u>	<u>(171,860)</u>	<u>0</u>	<u>6,250,104</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 7,417,230</u>	<u>\$ (170,107)</u>	<u>\$ 0</u>	<u>\$ 7,247,123</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 10/01/17	Additions	Deletions	Balance 09/30/18
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,440,322	\$ 0	\$ 0	\$ 1,440,322
Capital Assets Being Depreciated:				
Land Improvements	4,045,920	0	(277)	4,045,643
Buildings	1,058,870	12,429	0	1,071,299
Machinery and Equipment	435,628	48,380	(6,600)	477,408
Water System	3,700,755	0	(77,838)	3,622,917
Sewer System	4,554,349	0	0	4,554,349
Subtotal	<u>13,795,522</u>	<u>60,809</u>	<u>(84,715)</u>	<u>13,771,616</u>
Less Accumulated Depreciation for:				
Land Improvements	(3,443,493)	(88,348)	277	(3,531,564)
Buildings	(730,141)	(27,617)	0	(757,758)
Machinery and Equipment	(295,750)	(32,785)	6,600	(321,935)
Water System	(1,692,775)	(89,558)	77,838	(1,704,495)
Sewer System	(2,343,286)	(94,272)	0	(2,437,558)
Subtotal	<u>(8,505,445)</u>	<u>(332,580)</u>	<u>84,715</u>	<u>(8,753,310)</u>
Capital Assets Being Depreciated	<u>5,290,077</u>	<u>(271,771)</u>	<u>0</u>	<u>5,018,306</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 6,730,399</u>	<u>\$ (271,771)</u>	<u>\$ 0</u>	<u>\$ 6,458,628</u>

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

Governmental Activities

General Government:	
Other General Government	\$ 57,975
Public Safety:	
Fire	31,003
Public Works:	
Other Public Works	207,098
Community and Economic Development	2,676
Recreation and Cultural	<u>36,054</u>
Total Governmental Activities	<u>\$ 334,806</u>

Business-Type Activities

Sewer	\$ 110,158
Water	96,440
City Park	<u>125,982</u>
Total Business-Type Activities	<u>\$ 332,580</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

	Balance 10/01/17	Additions	Deletions	Balance 09/30/18
<u>Governmental Activities</u>				
Capital Assets Being Depreciated:				
Land Improvements	\$ 2,942,783	\$ 0	\$ 0	\$ 2,942,783
Machinery and Equipment	168,900	0	0	168,900
Subtotal	<u>3,111,683</u>	<u>0</u>	<u>0</u>	<u>3,111,683</u>
Less Accumulated Depreciation for:				
Land Improvements	(1,087,744)	(147,488)	0	(1,235,232)
Machinery and Equipment	(122,280)	(31,080)	0	(153,360)
Subtotal	<u>(1,210,024)</u>	<u>(178,568)</u>	<u>0</u>	<u>(1,388,592)</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 1,901,659</u>	<u>\$ (178,568)</u>	<u>\$ 0</u>	<u>\$ 1,723,091</u>

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

<u>Governmental Activities</u>	
Community and Economic Development	\$ 147,488
Public Works	<u>31,080</u>
Total Depreciation Expense	<u>\$ 178,568</u>

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

	Balance 01/01/17	Additions	Deletions	Balance 12/31/17
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 205,892	\$ 0	\$ 0	\$ 205,892
Construction in Progress	4,885	0	(4,885)	0
Subtotal	<u>210,777</u>	<u>0</u>	<u>(4,885)</u>	<u>205,892</u>
Capital Assets Being Depreciated:				
Buildings	3,294,063	23,279	0	3,317,342
Furniture and Equipment	126,785	12,104	0	138,889
Subtotal	<u>3,420,848</u>	<u>35,383</u>	<u>0</u>	<u>3,456,231</u>
Less Accumulated Depreciation	<u>(2,813,640)</u>	<u>(99,256)</u>	<u>0</u>	<u>(2,912,896)</u>
Capital Assets Being Depreciated	<u>607,208</u>	<u>(63,873)</u>	<u>0</u>	<u>543,335</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 817,985</u>	<u>\$ (63,873)</u>	<u>\$ (4,885)</u>	<u>\$ 749,227</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, 2018

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>785,000</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>820,000</u>
Total Bonds Payable	<u>785,000</u>	<u>820,000</u>
Total Primary Government	\$ <u><u>785,000</u></u>	\$ <u><u>820,000</u></u>

Component Units:

B. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
East Tawas TIFA - \$1,790,000 Limited Tax General Obligation 2017 Tax Increment Refunding Bonds, dated June 14, 2017 for the purpose of advance refunding the 2008 Limited Tax Obligation Development Bonds. The bonds bear interest from 3% - 3.15% and are due in annual installments through 2033.	\$ <u><u>1,770,000</u></u>	\$ <u><u>0</u></u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

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, 2018, 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
	09/30/18	09/30/18	09/30/18
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 0	\$ 22,435	\$ 22,435
Business-Type Activities	<u>0</u>	<u>10,852</u>	<u>10,852</u>
	<u>\$ 0</u>	<u>\$ 33,287</u>	<u>\$ 33,287</u>
<u>Component Unit</u>			
East Tawas Housing Commission	<u>\$ 16,028</u>	<u>\$ 14,812</u>	<u>\$ 30,840</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, 2018:

	Balance 10/01/17	Issues or Additions	Payments or Expenditures	Balance 09/30/18	Due Within One Year
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 895,000	\$ 0	\$ (110,000)	\$ 785,000	\$ 115,000
Deferred Amounts on Issuance Discount	<u>(2,568)</u>	<u>0</u>	<u>395</u>	<u>(2,173)</u>	<u>(395)</u>
Total Bonds Payable, Net	892,432	0	(109,605)	782,827	114,605
Compensated Absences	<u>24,964</u>	<u>0</u>	<u>(2,529)*</u>	<u>22,435</u>	<u>0</u>
Total Primary Government	<u>\$ 917,396</u>	<u>\$ 0</u>	<u>\$ (112,134)</u>	<u>\$ 805,262</u>	<u>\$ 114,605</u>
Component Units:					
Bonds Payable	\$ 1,860,000	\$ 0	\$ (90,000)	\$ 1,770,000	\$ 85,000
Deferred Amounts on Issuance Premium	<u>72,846</u>	<u>0</u>	<u>(4,553)</u>	<u>68,293</u>	<u>4,553</u>
Total Component Units	<u>\$ 1,932,846</u>	<u>\$ 0</u>	<u>\$ (94,553)</u>	<u>\$ 1,838,293</u>	<u>\$ 89,553</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

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

	<u>Balance</u> <u>10/01/17</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/18</u>	<u>Due Within</u> <u>One Year</u>
<b><u>Business-Type Activities</u></b>					
Primary Government:					
Bonds Payable	\$ 880,000	\$ 0	\$ (60,000)	\$ 820,000	\$ 60,000
Deferred Amounts on Issuance Discount	<u>(1,403)</u>	<u>0</u>	<u>122</u>	<u>(1,281)</u>	<u>(122)</u>
Total Bonds Payable, Net	878,597	0	(59,878)	818,719	59,878
Compensated Absences	<u>9,863</u>	<u>989</u> *	<u>0</u>	<u>10,852</u>	<u>0</u>
Total Primary Government	<u>\$ 888,460</u>	<u>\$ 989</u>	<u>\$ (59,878)</u>	<u>\$ 829,571</u>	<u>\$ 59,878</u>
	<u>Balance</u> <u>01/01/17</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>12/31/17</u>	<u>Due Within</u> <u>One Year</u>
Component Units:					
Compensated Absences	<u>\$ 22,418</u>	<u>\$ 8,422</u> *	<u>\$ 0</u>	<u>\$ 30,840</u>	<u>\$ 16,028</u>

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

The interest expenditures on long-term obligations for the year were \$67,629 for the primary government and \$50,424 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, 2018 are as follows:

**Primary Government**

<b>Bonds Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
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	135,000	14,457	70,000	26,506	245,963
2023	140,000	8,869	70,000	23,619	242,488
2024 - 2028	145,000	2,991	400,000	71,307	619,298
2029	<u>0</u>	<u>0</u>	<u>90,000</u>	<u>3,825</u>	<u>93,825</u>
Total	<u>\$ 785,000</u>	<u>\$ 100,087</u>	<u>\$ 820,000</u>	<u>\$ 220,175</u>	<u>\$ 1,925,262</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

Component Units

Bonds Payable	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2019	\$ 85,000	\$ 53,325	\$ 0	\$ 0	\$ 138,325
2020	90,000	50,775	0	0	140,775
2021	95,000	48,075	0	0	143,075
2022	100,000	45,225	0	0	145,225
2023	105,000	42,225	0	0	147,225
2024 - 2028	595,000	161,325	0	0	756,325
2029 - 2033	<u>700,000</u>	<u>65,325</u>	<u>0</u>	<u>0</u>	<u>765,325</u>
Total	\$ <u>1,770,000</u>	\$ <u>466,275</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>2,236,275</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 2017 tax levy was \$78,562,044. The corresponding tax rates were 15.3449 mills for operations and 2.2734 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 2018 tax levy was \$79,324,034 and the corresponding tax rate was 0.3500 mills for mosquito control.

**NOTE 7 - OPERATING TRANSFERS**

During the year ended September 30, 2018, the following transfers were made:

Transfer to	Transfer from					Total
	General Fund	City Park Fund	Non-Major Governmental Funds	Component Unit - TIFA Fund	Component Unit - TIFA Streetscape Debt Service	
General Fund	\$ 0	\$ 163,956	\$ 0	\$ 0	\$ 0	\$ 163,956
Major Streets	27,790	0	0	0	0	27,790
Non-major Governmental Funds	98,975	0	1,868	0	0	100,843
Component Unit						
TIFA Streetscape Debt Service	0	0	0	71,470	0	71,470
2017 TIFA Refunding Debt Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>73,775</u>	<u>45,946</u>	<u>119,721</u>
	\$ <u>126,765</u>	\$ <u>163,956</u>	\$ <u>1,868</u>	\$ <u>145,245</u>	\$ <u>45,946</u>	\$ <u>483,780</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, 2018

NOTE 8 - RETIREMENT PLAN

The City has adopted a defined contribution pension plan covering substantially all of its general employees. The plan is administered through Huntington 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 \$47,150.

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 \$0 as of September 30, 2018.

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.

The City is a defendant in a lawsuit. The outcome of this lawsuit is not presently determinable and the amount of damages, if any, cannot be reasonably determined at this time.



CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2018

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, 2018.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

In the prior year, the Park was awarded a grant through the Michigan Department of Natural Resources for half of the budgeted costs of a public bathhouse project. The Park had been accruing expenses related to the project as construction in progress and recorded a receivable and revenue related to the grant in the prior year. During the current fiscal year, it was determined that the project was no longer economically desirable, based on rising costs for construction, and the project was discontinued. Accordingly, a prior period adjustment was necessary to remove revenue recorded in prior years that will not be received and to remove the construction in progress that should have been recorded as expenses when incurred, rather than capitalized. The combined impact resulted in a prior period adjustment to decrease the City Park Net Position by \$81,538.

	<u>City Park Fund</u>	<u>Business-Type Activities</u>
Beginning Net Position	\$ 2,841,604	\$ 9,178,126
Adjustment for Bathhouse Project and Grant	<u>(81,538)</u>	<u>(81,538)</u>
Beginning Net Position (Restated)	<u>\$ 2,760,066</u>	<u>\$ 9,096,588</u>

NOTE 14 - RELATED PARTY TRANSACTIONS

The City of East Tawas has entered into contracts with Bolen Asphalt Paving, Inc. and Bolen Trucking Co., Inc. for bituminous paving for fiscal year 2018 and snow removal for fiscal year 2018. 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 \$145,555 for bituminous paving and Bolen Trucking Co., Inc. was paid \$11,400 for snow removal.

The City of East Tawas has also entered into contracts with Tawas Bay Insurance Agency for liability insurance for the 2018 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 \$90,175 for insurance coverage.

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, 2018

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 1,297,816	\$ 1,296,874	\$ 1,297,043	\$ 169
State Grants and Revenue	267,000	279,205	282,823	3,618
Licenses and Permits	3,100	4,324	4,740	416
Charges for Services	164,800	161,253	166,792	5,539
Interest and Rentals	229,950	284,780	236,055	(48,725)
Other Revenue	48,000	67,020	71,559	4,539
Total Revenue	<u>2,010,666</u>	<u>2,093,456</u>	<u>2,059,012</u>	<u>(34,444)</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	44,825	46,600	42,670	3,930
Chief Executive	89,675	137,075	129,479	7,596
Financial and Tax Administration	148,290	153,740	137,556	16,184
Other General Government	340,037	353,817	257,447	96,370
Public Safety	292,300	329,540	321,364	8,176
Public Works	570,150	551,600	381,931	169,669
Community and Economic Development	81,250	82,850	78,837	4,013
Recreation and Cultural	195,325	195,796	184,882	10,914
Capital Outlay	385,400	438,400	180,956	257,444
Total Expenditures	<u>2,147,252</u>	<u>2,289,418</u>	<u>1,715,122</u>	<u>574,296</u>
Excess of Revenue Over (Under) Expenditures	<u>(136,586)</u>	<u>(195,962)</u>	<u>343,890</u>	<u>539,852</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	9,100	9,100	0
Operating Transfers In	170,957	163,956	163,956	0
Operating Transfers Out	<u>(124,765)</u>	<u>(126,765)</u>	<u>(126,765)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>46,192</u>	<u>46,291</u>	<u>46,291</u>	<u>0</u>
Net Change in Fund Balances	(90,394)	(149,671)	390,181	539,852
Fund Balances - Beginning of Year	<u>2,308,374</u>	<u>2,308,374</u>	<u>2,308,374</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 2,217,980</u>	<u>\$ 2,158,703</u>	<u>\$ 2,698,555</u>	<u>\$ 539,852</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, 2018

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Interest and Rentals	\$ 6,680	\$ 12,271	\$ 13,055	\$ 784
Other Revenue	<u>33,025</u>	<u>35,411</u>	<u>35,411</u>	<u>0</u>
Total Revenue	39,705	47,682	48,466	784
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>39,705</u>	<u>77,000</u>	<u>77,000</u>	<u>0</u>
Excess of Revenue Over (Under) Expenditures	0	(29,318)	(28,534)	784
Fund Balances - Beginning of Year	<u>1,304,235</u>	<u>1,304,235</u>	<u>1,304,235</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,304,235</u>	<u>\$ 1,274,917</u>	<u>\$ 1,275,701</u>	<u>\$ 784</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, 2018

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
State Grants and Revenue	\$ 268,450	\$ 294,323	\$ 336,360	\$ 42,037
Interest and Rentals	400	2,927	3,321	394
Total Revenue	268,850	297,250	339,681	42,431
<u>Expenditures</u>				
Current:				
Public Works	331,765	325,040	249,109	75,931
Excess of Revenue Over (Under) Expenditures	(62,915)	(27,790)	90,572	118,362
<u>Other Financing Sources</u>				
Operating Transfers In	27,790	27,790	27,790	0
Net Change in Fund Balance	(35,125)	0	118,362	118,362
Fund Balances - Beginning of Year	216,975	216,975	216,975	0
Fund Balances - End of Year	<u>\$ 181,850</u>	<u>\$ 216,975</u>	<u>\$ 335,337</u>	<u>\$ 118,362</u>

## OTHER INFORMATION

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
September 30, 2018

	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	\$ 313,224	\$ 3,014	\$ 0	\$ 2,965	\$ 255	\$ 481	\$ 319,939
Investments	0	0	0	0	0	91,000	91,000
Receivables:							
Special Assessments	0	0	0	1,560	0	0	1,560
Due from Local Units	0	0	2,032	0	0	0	2,032
Due from State	17,906	0	0	0	0	0	17,906
Prepaid Items	1,070	96	0	0	0	0	1,166
<b>Total Assets</b>	<b>\$ 332,200</b>	<b>\$ 3,110</b>	<b>\$ 2,032</b>	<b>\$ 4,525</b>	<b>\$ 255</b>	<b>\$ 91,481</b>	<b>\$ 433,603</b>
<u>Liabilities</u>							
Accounts Payable	\$ 0	\$ 1,070	\$ 0	\$ 2,878	\$ 0	\$ 0	\$ 3,948
Due to Other Funds	6,621	0	729	0	0	0	7,350
Accrued Liabilities	2,300	0	0	0	0	0	2,300
<b>Total Liabilities</b>	<b>8,921</b>	<b>1,070</b>	<b>729</b>	<b>2,878</b>	<b>0</b>	<b>0</b>	<b>13,598</b>
<u>Deferred Inflows of Resources</u>							
Unavailable Revenue - Special Assessments	0	0	0	1,560	0	0	1,560
<u>Fund Equity</u>							
Fund Balances:							
Nonspendable:							
Cemetery Perpetual Care	0	0	0	0	0	91,481	91,481
Prepaid Items	1,070	96	0	0	0	0	1,166
Restricted For:							
Local Streets	322,209	0	0	0	0	0	322,209
Cemetery	0	1,944	0	0	0	0	1,944
Mosquito Control	0	0	1,303	0	0	0	1,303
Tawas Lake Public Improvement	0	0	0	87	0	0	87
Committed To:							
Debt Retirement	0	0	0	0	255	0	255
<b>Total Fund Equity</b>	<b>323,279</b>	<b>2,040</b>	<b>1,303</b>	<b>87</b>	<b>255</b>	<b>91,481</b>	<b>418,445</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Equity</b>	<b>\$ 332,200</b>	<b>\$ 3,110</b>	<b>\$ 2,032</b>	<b>\$ 4,525</b>	<b>\$ 255</b>	<b>\$ 91,481</b>	<b>\$ 433,603</b>

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, 2018

	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	\$ 27,599	\$ 0	\$ 0	\$ 0	\$ 27,599
State Grants and Revenue	122,722	0	0	0	0	0	122,722
Charges for Services	0	3,070	0	0	0	0	3,070
Interest and Rentals	5,373	11	19	25	143,958	1,868	151,254
Special Assessments	0	0	0	20,787	0	0	20,787
Other Revenue	0	0	0	0	0	180	180
Total Revenue	<u>128,095</u>	<u>3,081</u>	<u>27,618</u>	<u>20,812</u>	<u>143,958</u>	<u>2,048</u>	<u>325,612</u>
<u>Expenditures</u>							
Current:							
General Government:							
Other General Government	0	13,168	0	0	0	0	13,168
Public Works	87,322	0	0	21,801	0	0	109,123
Health and Welfare	0	0	30,600	0	0	0	30,600
Capital Outlay	75,674	0	0	0	0	0	75,674
Debt Service:							
Principal	0	0	0	0	110,000	0	110,000
Interest and Fiscal Charges	0	0	0	0	33,956	0	33,956
Total Expenditures	<u>162,996</u>	<u>13,168</u>	<u>30,600</u>	<u>21,801</u>	<u>143,956</u>	<u>0</u>	<u>372,521</u>
Excess of Revenue Over (Under) Expenditures	<u>(34,901)</u>	<u>(10,087)</u>	<u>(2,982)</u>	<u>(989)</u>	<u>2</u>	<u>2,048</u>	<u>(46,909)</u>
<u>Other Financing Sources (Uses)</u>							
Operating Transfers In	89,475	11,368	0	0	0	0	100,843
Operating Transfers Out	0	0	0	0	0	(1,868)	(1,868)
Total Other Financing Sources (Uses)	<u>89,475</u>	<u>11,368</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,868)</u>	<u>98,975</u>
Net Change in Fund Balances	54,574	1,281	(2,982)	(989)	2	180	52,066
Fund Balances - Beginning of Year	<u>268,705</u>	<u>759</u>	<u>4,285</u>	<u>1,076</u>	<u>253</u>	<u>91,301</u>	<u>366,379</u>
Fund Balances - End of Year	<u>\$ 323,279</u>	<u>\$ 2,040</u>	<u>\$ 1,303</u>	<u>\$ 87</u>	<u>\$ 255</u>	<u>\$ 91,481</u>	<u>\$ 418,445</u>



CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
EAST TAWAS TIFA - COMPONENT UNIT  
GOVERNMENTAL FUNDS  
September 30, 2018

	Special Revenue Fund	Debt Retirement Funds		Total Governmental Funds
	TIFA Fund	TIFA Streetscape Debt Service	2017 TIFA Refunding Debt Service Fund	
<u>Assets</u>				
Cash and Cash Equivalents	\$ 247,832	\$ 0	\$ 55,106	\$ 302,938
Investments	101,887	0	0	101,887
Receivables:				
Property Taxes	188,151	0	0	188,151
Due from State	<u>57,223</u>	<u>0</u>	<u>0</u>	<u>57,223</u>
Total Assets	\$ <u>595,093</u>	\$ <u>0</u>	\$ <u>55,106</u>	\$ <u>650,199</u>
Liabilities	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
<u>Deferred Inflows of Resources</u>				
Property Taxes Levied for 2018/19	<u>245,374</u>	<u>0</u>	<u>0</u>	<u>245,374</u>
<u>Fund Equity</u>				
Fund Balances:				
Restricted For:				
Debt Retirement	0	0	55,106	55,106
Economic Development	<u>349,719</u>	<u>0</u>	<u>0</u>	<u>349,719</u>
Total Fund Equity	<u>349,719</u>	<u>0</u>	<u>55,106</u>	<u>404,825</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Equity	\$ <u>595,093</u>	\$ <u>0</u>	\$ <u>55,106</u>	\$ <u>650,199</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, 2018

Total Governmental Fund Balances		\$	404,825
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	\$	3,111,683	
Accumulated Depreciation		<u>(1,388,592)</u>	
			1,723,091
Accrued Interest on Long-Term Liabilities			(22,219)
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 Premium and Deferred Amounts on Refunding)			<u>(1,760,250)</u>
Total Net Position - Governmental Activities		\$	<u><u>345,447</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, 2018

	Special Revenue Fund	Debt Retirement Funds		Total Governmental Funds
		TIFA	2017 TIFA	
	TIFA Fund	Streetscape Debt Service	Refunding Debt Service Fund	
<u>Revenue</u>				
Property Taxes	\$ 194,262	\$ 0	\$ 0	\$ 194,262
State Revenue	51,463	0	0	51,463
Interest and Rentals	3,995	61	49	4,105
Total Revenue	<u>249,720</u>	<u>61</u>	<u>49</u>	<u>249,830</u>
<u>Expenditures</u>				
Current:				
Community and Economic Development	5,675	0	0	5,675
Capital Outlay	2,237	0	0	2,237
Debt Service:				
Principal	0	70,000	20,000	90,000
Interest and Fiscal Charges	<u>0</u>	<u>3,090</u>	<u>47,984</u>	<u>51,074</u>
Total Expenditures	<u>7,912</u>	<u>73,090</u>	<u>67,984</u>	<u>148,986</u>
Excess of Revenue Over (Under) Expenditures	<u>241,808</u>	<u>(73,029)</u>	<u>(67,935)</u>	<u>100,844</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0	71,470	119,721	191,191
Operating Transfers Out	<u>(145,245)</u>	<u>(45,946)</u>	<u>0</u>	<u>(191,191)</u>
Total Other Financing Sources (Uses)	<u>(145,245)</u>	<u>25,524</u>	<u>119,721</u>	<u>0</u>
Net Change in Fund Balances	96,563	(47,505)	51,786	100,844
Fund Balances - Beginning of Year	<u>253,156</u>	<u>47,505</u>	<u>3,320</u>	<u>303,981</u>
Fund Balances - End of Year	<u>\$ 349,719</u>	<u>\$ 0</u>	<u>\$ 55,106</u>	<u>\$ 404,825</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, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ 100,844
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	(178,568)
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	90,000
The issuance of long-term debt provides current financial resources to governmental funds but has no net effect on net position.	
Governmental funds report the effect of discounts and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term liabilities is as follows:	
Amortization of Bond Discount and Deferred Amounts on Refunding	(650)
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>(2,015)</u>
Change in Net Position of Governmental Activities	<u>\$ 9,611</u>



# *Stephenson & Company, P.C.*

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Donald W. Brannan, CPA  
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Robert J. Morand, CPA  
Brenden A. Stephenson, CPA/PFS, CFP®  
Cynthia R. Scott, CPA, CFE

February 5, 2019

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 aggregate 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, 2018. 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 19, 2018. 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 February 5, 2019. 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 19, 2018, 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 19, 2018.

#### **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, 2018. 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. 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 February 5, 2019 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 February 5, 2019.

##### **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

## **APPENDIX I**

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

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 aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas as of and for the year ended September 30, 2018, 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.

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.

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



**APPENDIX II**  
**MANAGEMENT COMMENTS**

**STATUS OF PRIOR YEAR COMMENTS:**

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

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls		X		
Compliance with Bond Ordinance	X			
Credit Card Policy	X			