



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

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

CITY OF EAST TAWAS
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2011

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AUDITORS' REPORT

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January 11, 2011

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, 2011, which collectively comprise the City's basic financial statements, as listed in the index. These financial statements are the responsibility of the City of East Tawas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Tawas Housing Commission, a component unit, which represent 37%, 68% and 72%, respectively, of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tawas Housing Commission, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City of East Tawas has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as of September 30, 2011. As a result of this required implementation, the Community Center Fund and Intragovernmental Service Fund are now being reported within the General Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

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 the 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 assurance.

Members of the City Council
City of East Tawas
January 11, 2011
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Tawas' financial statements as a whole. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stephenson, Grain & Co., P.C.

City of East Tawas

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

www.easttawas.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of East Tawas' (the City) financial performance provides an overview of the City's financial activities for the year ended September 30, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole. The discussion focuses on the City's primary government and, unless otherwise noted, does not include the component units reported separately from the primary government.

Financial Highlights

Financial Highlights

The City's assets exceeded its liabilities by \$17,236,695. Business-type activities (Enterprise Funds) account for \$9,450,676 of this total.

The City's total net assets increased by \$163,487. This is a 1.0% increase.

The City's governmental funds reported a combined ending fund balance of \$3,101,485 this year, an increase of \$239,982. Of this amount, \$1,182,470 is available for spending (*unassigned fund balance*) on behalf of its citizens. The General Fund 2010/2011 fiscal year end fund balance is \$1,851,099. This reflects an increase of \$240,760 from fiscal year 2009/2010.

The City's total bonded and contract indebtedness was reduced by \$263,647.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

With this report, capital assets are listed for the City of East Tawas. These assets are comprised of buildings and improvements, land improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total \$13,396,552 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.

Proprietary Funds:

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

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

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

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

Notes to Financial Statements

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

Other Information

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

Government -Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the City of East Tawas at September 30, 2011 and 2010:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Current Assets	\$ 4,509,159	\$ 1,818,406	\$ 6,269,395	\$ 6,358,345
Restricted Assets	0	172,092	172,092	171,407
Other Noncurrent Assets	377,816	1,371,001	1,806,987	1,769,492
Capital Assets – net	<u>6,099,069</u>	<u>7,297,483</u>	<u>13,396,552</u>	<u>13,502,981</u>
Total Assets	<u>10,986,044</u>	<u>10,658,982</u>	<u>21,645,026</u>	<u>21,802,225</u>
Current Liabilities	1,380,080	37,673	1,417,753	1,474,029
Long-Term Liabilities	<u>1,819,945</u>	<u>1,170,633</u>	<u>2,990,578</u>	<u>3,254,988</u>
Total Liabilities	<u>3,200,025</u>	<u>1,208,306</u>	<u>4,408,331</u>	<u>4,729,017</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,354,015	6,185,359	10,539,374	10,435,884
Restricted	1,193,686	172,092	1,365,778	256,267
Unrestricted	<u>2,238,318</u>	<u>3,093,225</u>	<u>5,331,543</u>	<u>6,381,057</u>
Total Net Assets	<u>\$ 7,786,019</u>	<u>\$ 9,450,676</u>	<u>\$ 17,236,695</u>	<u>\$ 17,073,208</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2011 with comparative totals for 2010.

Generally speaking, the City's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The City of East Tawas, through its governing body, i.e., City Council, has taken a sensible approach vis-à-vis capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are

Summary of Changes in Net Assets (Continued):

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 assets are available.

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 202,747	\$ 1,536,191	\$ 1,738,938	\$ 1,651,604
Operating Grants and Contributions	394,650	0	394,650	336,645
Capital Grants and Contributions	<u>52,361</u>	<u>3,000</u>	<u>55,361</u>	<u>0</u>
Total Program Revenues	<u>649,758</u>	<u>1,539,191</u>	<u>2,188,949</u>	<u>1,988,249</u>
General Revenues:				
Property Taxes	1,243,054	94,782	1,337,836	1,441,544
State Revenue Sharing	241,078	0	241,078	254,678
Interest and Investment Earnings	45,232	12,836	58,068	69,588
Rent Income	276,527	1,700	278,227	244,790
Sale of Capital Assets	3,451	0	3,451	0
Other	27,768	9,362	37,130	6,024
Transfers – Internal Activity	<u>184,040</u>	<u>(184,040)</u>	<u>0</u>	<u>0</u>
Total General Revenues and Transfers	<u>2,021,150</u>	<u>(65,360)</u>	<u>1,955,790</u>	<u>2,016,624</u>
Total Revenues	<u>2,670,908</u>	<u>1,473,831</u>	<u>4,144,739</u>	<u>4,004,873</u>
Program Expenses:				
General Government	615,640	0	615,640	580,960
Public Safety	399,383	0	399,383	398,485
Public Works	947,909	0	947,909	797,550
Community and Economic Development	72,754	0	72,754	105,997
Recreation and Cultural	208,912	0	208,912	161,437
Interest and Fiscal Charges	74,861	0	74,861	80,090
Amortization of Deferred Bond Costs and Bond Discounts (Net)	5,596	0	5,596	5,595
Sewer Services	0	592,499	592,499	521,156
Water Services	0	456,504	456,504	437,593
City Park	<u>0</u>	<u>607,194</u>	<u>607,194</u>	<u>626,396</u>
Total Program Expenses	<u>2,325,055</u>	<u>1,656,197</u>	<u>3,981,252</u>	<u>3,715,259</u>
Change in Net Assets	345,853	(182,366)	163,487	289,614
Beginning Net Assets	<u>7,440,166</u>	<u>9,633,042</u>	<u>17,073,208</u>	<u>16,783,594</u>
Ending Net Assets	<u>\$ 7,786,019</u>	<u>\$ 9,450,676</u>	<u>\$ 17,236,695</u>	<u>\$ 17,073,208</u>

Governmental Activities

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

Total governmental activities reveal revenues of \$649,758 from *Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions*. The *Charges for Services* are fees for refuse collection,

franchises, fire contracts, cemetery sales and openings and penalties . While revenue collected is substantial, operating expenses totaled \$2,325,055 for these same activities. The largest expenses were incurred by General Government offices (\$615,640), Public Safety (\$399,383) and Public Works (\$947,909).

Business -Type Activities

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

Financial Analysis of City Funds

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

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources , except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue and 2) Federal Project Fund – accounts for the collection of note receivable activity as a result of loans to downtown businesses from prior UDAG monies.

This year's City audit, following GASB 34 format, shows 8 governmental funds. These funds are maintained by the City as separate units in the General Ledger.

Enterprise Funds

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

Budgetary Highlights

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

During the fiscal year ended September 30, 2011 the City Council amended the budget to take into account events occurring during the year. These budget amendments fall into two categories:

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

General Fund

The General Fund actual revenue was \$1,996,921. That amount is above the original budget estimate of \$1,976,456 and below the final amended budget estimate of \$2,074,903. The variance between the original budget and the amended budget was mainly the result of decreases in state grants and increases in federal grants and revenue and other revenue.

The actual expenditures of the General Fund were \$1,666,785, which is below both the original budget estimates of \$2,074,075 and the final amended budget estimates of \$1,888,988. The variance between the actual expenditures and the final amended budget was due to projects that were expected to be completed during the 2010-2011 fiscal year and were not, and decreased spending in various other areas.

The General Fund had total revenues of \$1,996,921 and total expenditures of \$1,666,785 with an ending fund balance of \$1,851,099.

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 \$8,898,558 with an ending balance of \$9,128,626. Governmental Activities Total Capital Assets – Net of Depreciation was \$6,099,069.

During the year ended September 30, 2011, the City's governmental capital asset additions totaled \$251,528. \$153,119 of this was for reconstruction on Airport Road, State Street, Wilkenson Street, and Grant Street, \$76,385 for construction in progress on Bridge Street, Washington Street, and River Street. \$6,750 for a Department of Public Works Boiler, \$7,374 for a Thermal Camera for the Fire Department, and \$7,900 for a portable pressure washer. There was one disposal of a dump truck for \$21,460 in the year ended September 30, 2011.

Capital Assets - Business Type Activities beginning balance was \$16,443,780 with an ending balance of \$16,757,313. Business-Type Activities Total Capital Assets – Net of Depreciation was \$7,297,483.

During the year ended September 30, 2011 the City's business type capital asset additions totaled \$363,568, including \$277,920 for the Bay St. Lift Station, \$22,700 of which was a reclassification from construction in progress. \$28,750 was for meters, \$22,100 was for meter transceivers, \$23,199 was for land at 706 Newman Street, and \$11,599 was for brick paving at the fountain and Bolen bench. The year ended September 30, 2011 saw disposals of Machinery and Equipment consisting of various computers, fences, lawn mowers, and blowers for \$27,335.

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 \$2,823,993. Such debt includes *Contracts Payable and Bonds Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

Economic Factors and Next Year's Budget and Rates

The City Council and management staff are working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for more than half of the City's General Fund revenues. Due to economic conditions and a negative adjustment to taxable values throughout the State of Michigan, property values in the City of East Tawas decreased in 2011 and are expected to decrease again in 2012. The City Council lowered the millage rate for 2011 from the 17.8817 mills that was levied in 2010 to 17.6177 mills. The City

currently has an additional .5000 mills that could legally be levied under the Headlee Amendment to the Michigan Constitution. In 2011 voters of the City of East Tawas approved an extra voted millage of .40 mills for five years for mosquito control and suppression. The first year this millage will be levied is 2012 and is in addition to the City's operational millage. 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 2011 were approximately 5% lower than the payments received in 2010. Due to the decrease in the City's population from 2000 to 2010 and changes to the State of Michigan revenue sharing program, revenue sharing payments are expected to decrease again in 2012.

Employee related costs account for approximately 25% of the General Fund budgeted expenditures. Contracted and professional services account for approximately 19% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 15%. The remaining portion of the budget is comprised of operating expenses such as supplies, services, maintenance, and capital improvements.

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

Component Units

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

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

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of East Tawas Clerk's office located at 760 Newman Street, P.O. Box 672, East Tawas, Michigan, 48730.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF NET ASSETS
September 30, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
Assets					
Cash and Cash Equivalents (Note 2)	\$ 536,628	\$ 950,587	\$ 1,487,215	\$ 431,518	\$ 208,260
Investments (Note 2)	2,495,693	816,865	3,312,558	0	350,182
Receivables:					
Property Taxes	1,295,236	0	1,295,236	157,230	0
Special Assessments	171	0	171	0	0
Accounts, Net	8,400	75,935	84,335	0	1,579
Interest	9	0	9	0	1,402
Notes Receivable (Note 1)	58,170	0	58,170	0	0
Due from Component Unit (Note 3)	13,684	0	13,684	0	0
Due from State	76,187	0	76,187	0	0
Internal Balances	24,981	(24,981)	0	0	0
Prepaid Expenses	0	0	0	0	1,521
Restricted Assets:					
Cash and Cash Equivalents (Note 2)	0	73,838	73,838	0	0
Investments (Note 2)	0	98,254	98,254	0	0
Noncurrent Assets:					
Notes Receivable	337,228	0	337,228	0	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,321,788	1,321,788	0	0
Bond Issuance Costs, Net (Note 1)	40,588	49,213	89,801	50,252	0
Capital Assets Not Being Depreciated (Note 4)	1,080,651	290,833	1,371,484	12,248	205,892
Capital Assets, Net of Accumulated Depreciation	5,018,418	7,006,650	12,025,068	2,512,009	1,061,338
Total Assets	10,986,044	10,658,982	21,645,026	3,163,257	1,830,174
Liabilities					
Accounts Payable	41,084	14,983	56,067	199	47,109
Due to Local Units	0	0	0	0	19,330
Accrued Interest Payable	30,576	21,117	51,693	41,705	0
Accrued Liabilities	13,184	1,573	14,757	740	20,578
Due to Primary Government (Note 3)	0	0	0	1,332	0
Deferred Revenue	1,295,236	0	1,295,236	157,230	725
Long Term Liabilities: (Note 6)					
Due Within One Year	122,652	43,933	166,585	48,850	12,040
Due In More Than One Year	1,697,293	1,126,700	2,823,993	2,086,144	0
Total Liabilities	3,200,025	1,208,306	4,408,331	2,336,200	99,782
Net Assets					
Invested in Capital Assets, Net of Related Debt	4,354,015	6,185,359	10,539,374	439,515	1,251,374
Restricted For:					
Debt Service	669	172,092	172,761	51,311	0
Capital Projects	0	0	0	44,754	0
Major Streets	61,413	0	61,413	0	0
Local Streets	62,429	0	62,429	0	0
Cemetery	1,243	0	1,243	0	0
Economic Development	984,203	0	984,203	204,632	0
Permanent Funds:					
Nonexpendable	83,729	0	83,729	0	0
Unrestricted	2,238,318	3,093,225	5,331,543	86,845	479,018
Total Net Assets	\$ 7,786,019	\$ 9,450,676	\$ 17,236,695	\$ 827,057	\$ 1,730,392

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, 2011

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
Primary Government									
Governmental Activities:									
General Government:									
Legislative and Executive	\$ 122,455	\$ 0	\$ 0	\$ 0	\$ (122,455)	\$ 0	\$ (122,455)		
Financial and Tax									
Administration	170,796	0	0	0	(170,796)	0	(170,796)		
Other General Government	322,389	44,512	0	0	(277,877)	0	(277,877)		
Public Safety:									
Police	212,069	0	0	0	(212,069)	0	(212,069)		
Fire	187,314	98,740	900	7,763	(79,911)	0	(79,911)		
Public Works:									
Other Public Works	947,909	17,165	344,391	44,598	(541,755)	0	(541,755)		
Community and Economic									
Development	72,754	100	0	0	(72,654)	0	(72,654)		
Recreation and Cultural	208,912	42,230	49,359	0	(117,323)	0	(117,323)		
Interest and Fees on Long-									
Term Debt	74,861	0	0	0	(74,861)	0	(74,861)		
Amortization of Deferred Bond									
Costs and Bond Discounts									
(Net)	<u>5,596</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,596)</u>	<u>0</u>	<u>(5,596)</u>		
Total Governmental									
Activities	<u>2,325,055</u>	<u>202,747</u>	<u>394,650</u>	<u>52,361</u>	<u>(1,675,297)</u>	<u>0</u>	<u>(1,675,297)</u>		
Business-Type Activities:									
Sewer Services	592,499	390,765	0	0	0	(201,734)	(201,734)		
Water Services	456,504	454,178	0	0	0	(2,326)	(2,326)		
City Park	<u>607,194</u>	<u>691,248</u>	<u>0</u>	<u>3,000</u>	<u>0</u>	<u>87,054</u>	<u>87,054</u>		
Total Business-Type									
Activities	<u>1,656,197</u>	<u>1,536,191</u>	<u>0</u>	<u>3,000</u>	<u>0</u>	<u>(117,006)</u>	<u>(117,006)</u>		
Total Primary Government	<u>\$ 3,981,252</u>	<u>\$ 1,738,938</u>	<u>\$ 394,650</u>	<u>\$ 55,361</u>	<u>(1,675,297)</u>	<u>(117,006)</u>	<u>(1,792,303)</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, 2011

Function/Program					Net (Expense) Revenue and Changes in Net Assets				
	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	\$ 307,765	\$ 0	\$ 0	\$ 65,000				\$ (242,765)	\$ 0
Housing Commission	<u>482,406</u>	<u>298,076</u>	<u>228,674</u>	<u>224,482</u>				<u>0</u>	<u>268,826</u>
Total Component Units	<u>\$ 790,171</u>	<u>\$ 298,076</u>	<u>\$ 228,674</u>	<u>\$ 289,482</u>				<u>(242,765)</u>	<u>268,826</u>
General Revenue:									
Property Taxes Levied For:									
General Operating					\$ 1,238,734	\$ 0	\$ 1,238,734	0	0
TIFA					0	0	0	217,526	0
Payment in Lieu of Taxes					4,320	0	4,320	0	0
Water Debt Service					0	94,782	94,782	0	0
State Revenue Sharing					241,078	0	241,078	0	0
Interest and Investment Earnings					45,232	12,836	58,068	981	4,544
Rent Income					276,527	1,700	278,227	0	0
Sale of Capital Assets					3,451	0	3,451	0	0
Other					27,768	9,362	37,130	13,433	8,912
Transfers					<u>184,040</u>	<u>(184,040)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total General Revenue and Transfers					<u>2,021,150</u>	<u>(65,360)</u>	<u>1,955,790</u>	<u>231,940</u>	<u>13,456</u>
Change in Net Assets					345,853	(182,366)	163,487	(10,825)	282,282
Net Assets - Beginning, Restated					<u>7,440,166</u>	<u>9,633,042</u>	<u>17,073,208</u>	<u>837,882</u>	<u>1,448,110</u>
Net Assets - Ending					<u>\$ 7,786,019</u>	<u>\$ 9,450,676</u>	<u>\$ 17,236,695</u>	<u>\$ 827,057</u>	<u>\$ 1,730,392</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, 2011

		Special Revenue Fund		
	General Fund	Federal Project Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents (Note 2)	\$ 350,559	\$ 29,097	\$ 156,972	\$ 536,628
Investments (Note 2)	1,457,338	955,106	83,249	2,495,693
Receivables:				
Property Taxes	1,295,236	0	0	1,295,236
Special Assessments	171	0	0	171
Accounts, Net	8,400	0	0	8,400
Interest	9	0	0	9
Notes Receivable	0	395,398	0	395,398
Due from Component Unit (Note 3)	14,027	0	0	14,027
Due from State	34,976	0	41,211	76,187
Due from Other Funds (Note 3)	<u>27,187</u>	<u>0</u>	<u>0</u>	<u>27,187</u>
Total Assets	<u>\$ 3,187,903</u>	<u>\$ 1,379,601</u>	<u>\$ 281,432</u>	<u>\$ 4,848,936</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 27,518	\$ 0	\$ 13,566	\$ 41,084
Due to Other Funds (Note 3)	2,206	0	0	2,206
Due to Component Unit	343	0	0	343
Accrued Liabilities	11,501	0	1,683	13,184
Deferred Revenue (Note 5)	<u>1,295,236</u>	<u>395,398</u>	<u>0</u>	<u>1,690,634</u>
Total Liabilities	<u>1,336,804</u>	<u>395,398</u>	<u>15,249</u>	<u>1,747,451</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Cemetery Perpetual Care	0	0	83,729	83,729
Restricted For:				
Debt Retirement	0	0	669	669
Major Streets	0	0	61,413	61,413
Local Streets	0	0	62,429	62,429
Cemetery	0	0	1,243	1,243
Economic Development	0	984,203	0	984,203
Committed To:				
Debt Retirement	0	0	250	250
Library	250,000	0	0	250,000
Community Center	13,615	0	0	13,615
Capital Equipment	271,925	0	0	271,925
Assigned For:				
2011/12 Budgeted Expenditures	133,089	0	56,450	189,539
Unassigned	<u>1,182,470</u>	<u>0</u>	<u>0</u>	<u>1,182,470</u>
Total Fund Equity	<u>1,851,099</u>	<u>984,203</u>	<u>266,183</u>	<u>3,101,485</u>
Total Liabilities and Fund Equity	<u>\$ 3,187,903</u>	<u>\$ 1,379,601</u>	<u>\$ 281,432</u>	<u>\$ 4,848,936</u>

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

CITY OF EAST TAWAS
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
September 30, 2011

Total Governmental Fund Balances	\$	3,101,485
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Capital Asset Cost	\$ 9,128,626	
Accumulated Depreciation	<u>(3,029,557)</u>	
		6,099,069

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

Notes Receivable	395,398
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Accrued Interest on Long-Term Liabilities	(30,576)
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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 and Bond Issuance Costs)	(1,745,054)	
Compensated Absences Payable	<u>(34,303)</u>	
Total Long-Term Liabilities		<u>(1,779,357)</u>

Total Net Assets - Governmental Activities	\$	<u>7,786,019</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, 2011

	<u>General Fund</u>	<u>Special Revenue Fund</u> <u>Federal Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
Property Taxes	\$ 1,275,579	\$ 0	\$ 0	\$ 1,275,579
Federal Grants and Revenue	68,085	0	44,598	112,683
State Grants and Revenue	241,078	0	294,391	535,469
Licenses and Permits	2,543	0	0	2,543
Charges for Services	133,231	100	4,240	137,571
Interest and Rentals	189,624	21,878	141,979	353,481
Other Revenue	83,330	56,446	1,265	141,041
Total Revenue	<u>1,993,470</u>	<u>78,424</u>	<u>486,473</u>	<u>2,558,367</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	39,411	0	0	39,411
Chief Executive	71,459	0	0	71,459
Financial and Tax Administration	168,865	0	0	168,865
Other General Government	222,439	0	9,981	232,420
Public Safety	310,204	0	0	310,204
Public Works	523,233	0	297,557	820,790
Community and Economic Development	70,785	100,228	0	171,013
Recreation and Cultural	157,560	0	0	157,560
Capital Outlay	102,829	0	234,444	337,273
Debt Service:				
Principal	0	0	120,000	120,000
Interest and Fiscal Charges	0	0	76,881	76,881
Total Expenditures	<u>1,666,785</u>	<u>100,228</u>	<u>738,863</u>	<u>2,505,876</u>
Excess of Revenue Over (Under) Expenditures	<u>326,685</u>	<u>(21,804)</u>	<u>(252,390)</u>	<u>52,491</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	3,451	0	0	3,451
Operating Transfers In	184,040	0	330,300	514,340
Operating Transfers Out	(273,416)	0	(56,884)	(330,300)
Total Other Financing Sources (Uses)	<u>(85,925)</u>	<u>0</u>	<u>273,416</u>	<u>187,491</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	240,760	(21,804)	21,026	239,982
Fund Balances - Beginning of Year (Restated)	<u>1,610,339</u>	<u>1,006,007</u>	<u>245,157</u>	<u>2,861,503</u>
Fund Balances - End of Year	<u>\$ 1,851,099</u>	<u>\$ 984,203</u>	<u>\$ 266,183</u>	<u>\$ 3,101,485</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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	239,982
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Amounts reported for governmental activities in the statement of activities are different because:

Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:

Interest Receivable	\$ (8,182)		
Grants Receivable	(10,322)		
Net difference			(18,504)

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	251,528		
Current Year Depreciation Expense	(285,452)		
Net difference			(33,924)

Note receivable repayments and note disbursements are revenue and expenditures respectively in the governmental funds, but the repayments and disbursements reduce and increase the note receivable balances in the statement of net assets. The activity reported in the governmental funds is as follows:

Current Year Note Receivable Loan Disbursements	100,000		
Current Year Note Receivable Principal Receipts	(56,446)		
			43,554

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

Bonds Payable			120,000
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Governmental funds report the effect of issuance costs and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term liabilities is as follows:

Amortization of Bond Costs			(5,596)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Net Change in Accrued Interest	2,020		
Net Change in Accrued Compensated Absences	(1,679)		
			341

Change in Net Assets of Governmental Activities	\$	<u>345,853</u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2011

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 207,985	\$ 96,670	\$ 645,932	\$ 950,587
Investments (Note 2)	307,641	509,224	0	816,865
Receivables:				
Accounts, Net	36,392	39,543	0	75,935
Due from Other Funds (Note 3)	0	0	2,206	2,206
Restricted Assets:				
Cash and Cash Equivalents (Note 2)	0	73,838	0	73,838
Investments (Note 2)	0	98,254	0	98,254
Total Current Assets	<u>552,018</u>	<u>817,529</u>	<u>648,138</u>	<u>2,017,685</u>
Noncurrent Assets:				
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,321,788	0	1,321,788
Bond Issuance Costs, Net (Note 1)	0	49,213	0	49,213
Capital Assets Not Being Depreciated (Note 4)	6,500	0	284,333	290,833
Capital Assets, Net (Note 4)	<u>3,127,366</u>	<u>2,611,649</u>	<u>1,267,635</u>	<u>7,006,650</u>
Total Noncurrent Assets	<u>3,133,866</u>	<u>3,982,650</u>	<u>1,551,968</u>	<u>8,668,484</u>
Total Assets	<u>3,685,884</u>	<u>4,800,179</u>	<u>2,200,106</u>	<u>10,686,169</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	577	154	14,252	14,983
Due to Other Funds (Note 3)	999	999	25,189	27,187
Accrued Interest Payable	0	21,117	0	21,117
Accrued Liabilities	764	809	0	1,573
Current Portion of Long-Term Liabilities (Note 6)	0	43,933	0	43,933
Total Current Liabilities	<u>2,340</u>	<u>67,012</u>	<u>39,441</u>	<u>108,793</u>
Long-Term Liabilities:				
Due in More Than One Year (Note 6)	0	1,117,404	9,296	1,126,700
Total Liabilities	<u>2,340</u>	<u>1,184,416</u>	<u>48,737</u>	<u>1,235,493</u>
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt	3,133,866	1,499,525	1,551,968	6,185,359
Restricted For:				
Debt Service	0	172,092	0	172,092
Unrestricted	<u>549,678</u>	<u>1,944,146</u>	<u>599,401</u>	<u>3,093,225</u>
Total Net Assets	<u>\$ 3,683,544</u>	<u>\$ 3,615,763</u>	<u>\$ 2,151,369</u>	<u>\$ 9,450,676</u>

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

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2011

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Operating Revenue</u>				
Charges For Services	\$ 382,648	\$ 447,903	\$ 692,948	\$ 1,523,499
Penalties	8,117	6,275	0	14,392
Other Revenue	248	2,719	6,395	9,362
Total Operating Revenue	<u>391,013</u>	<u>456,897</u>	<u>699,343</u>	<u>1,547,253</u>
<u>Operating Expenses</u>				
Salaries and Wages	63,922	54,458	182,489	300,869
Payroll Taxes and Employee Benefits	49,632	42,860	55,380	147,872
Advertising	0	0	878	878
Contractual Services	307,763	148,911	5,477	462,151
Depreciation and Amortization	128,269	125,846	163,136	417,251
Equipment	0	0	10,220	10,220
Equipment Rental	11,267	7,988	0	19,255
Insurance and Bonds	1,157	548	17,063	18,768
Office Supplies	3,540	5,581	0	9,121
Operating Supplies	10,433	13,474	18,248	42,155
Repair and Maintenance	8,638	3,629	50,608	62,875
Travel and Training	213	1,064	0	1,277
Utilities	7,665	0	93,737	101,402
Other	0	0	9,958	9,958
Total Operating Expenses	<u>592,499</u>	<u>404,359</u>	<u>607,194</u>	<u>1,604,052</u>
Operating Income (Loss)	<u>(201,486)</u>	<u>52,538</u>	<u>92,149</u>	<u>(56,799)</u>
<u>Nonoperating Revenue (Expenses)</u>				
Property Taxes	0	94,782	0	94,782
Interest and Investment Earnings	4,187	8,004	645	12,836
Contributions	0	0	3,000	3,000
Interest and Fees Expense	0	(52,145)	0	(52,145)
Total Nonoperating Revenue (Expenses)	<u>4,187</u>	<u>50,641</u>	<u>3,645</u>	<u>58,473</u>
Income (Loss) Before Transfers	(197,299)	103,179	95,794	1,674
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>(184,040)</u>	<u>(184,040)</u>
Change in Net Assets	(197,299)	103,179	(88,246)	(182,366)
Net Assets - Beginning of Year	<u>3,880,843</u>	<u>3,512,584</u>	<u>2,239,615</u>	<u>9,633,042</u>
Net Assets - End of Year	<u>\$ 3,683,544</u>	<u>\$ 3,615,763</u>	<u>\$ 2,151,369</u>	<u>\$ 9,450,676</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, 2011

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
Cash Flows From Operating Activities				
Receipts From Customers	\$ 392,943	\$ 454,359	\$ 699,343	\$ 1,546,645
Payments to Suppliers for Goods and Services	(365,545)	(181,066)	(216,339)	(762,950)
Payments to Employees for Services	(114,740)	(98,256)	(227,864)	(440,860)
Net Cash Provided (Used) by Operating Activities	<u>(87,342)</u>	<u>175,037</u>	<u>255,140</u>	<u>342,835</u>
Cash Flows From Non-Capital Financing Activities				
Property Taxes Received	0	94,782	0	94,782
Local Contributions Received	0	0	3,000	3,000
Cash Received from (Paid to) Other funds	143	(50)	(184,138)	(184,045)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>143</u>	<u>94,732</u>	<u>(181,138)</u>	<u>(86,263)</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition and Construction of Capital Assets	(262,259)	(50,850)	(34,798)	(347,907)
Principal Paid on Long-Term Debt	0	(147,062)	0	(147,062)
Interest and Fees Paid on Long-Term Debt	0	(55,228)	0	(55,228)
Net Cash Used by Capital and Related Financing Activities	<u>(262,259)</u>	<u>(253,140)</u>	<u>(34,798)</u>	<u>(550,197)</u>
Cash Flows From Investing Activities				
Interest on Investments	4,187	6,674	645	11,506
Proceeds from Maturity of Investment Securities	405,168	559,309	0	964,477
Purchase of Investment Securities	(482,641)	(606,148)	0	(1,088,789)
Net Cash Provided (Used) by Investing Activities	<u>(73,286)</u>	<u>(40,165)</u>	<u>645</u>	<u>(112,806)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(422,744)	(23,536)	39,849	(406,431)
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>630,729</u>	<u>194,044</u>	<u>606,083</u>	<u>1,430,856</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 207,985</u>	<u>\$ 170,508</u>	<u>\$ 645,932</u>	<u>\$ 1,024,425</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ (201,486)	\$ 52,538	\$ 92,149	\$ (56,799)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	128,269	125,846	163,136	417,251
Change in Assets and Liabilities:				
Accounts Receivable, Net	1,930	(2,538)	0	(608)
Accounts Payable and Accrued Liabilities	(14,841)	405	(131)	(14,567)
Accrued Compensated Absences	(1,214)	(1,214)	(14)	(2,442)
Net Cash Provided (Used) by Operating Activities	<u>\$ (87,342)</u>	<u>\$ 175,037</u>	<u>\$ 255,140</u>	<u>\$ 342,835</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, 2011

	<u>Tax Account</u>	<u>Trust and Agency Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents (Note 2)	\$ 1,341,769	\$ 5,445	\$ 1,347,214
Receivables:			
Property Taxes	<u>304,027</u>	<u>0</u>	<u>304,027</u>
Total Assets	<u>\$ 1,645,796</u>	<u>\$ 5,445</u>	<u>\$ 1,651,241</u>
<u>LIABILITIES</u>			
Due to Local Units	\$ 1,645,796	\$ 13	\$ 1,645,809
Due to Other Agencies and Individuals	<u>0</u>	<u>5,432</u>	<u>5,432</u>
Total Liabilities	<u>\$ 1,645,796</u>	<u>\$ 5,445</u>	<u>\$ 1,651,241</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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of City Operations and Fund Types

The City of East Tawas is organized under Michigan's Comprehensive Home Rule City Act. The City operates under an elected City Council (seven members) and provides services to its residents in many areas, including 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 City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

1. Blended Component Units

a. Governmental Activity and Fund Type Blended Component Unit:

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

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

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

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, 2010. 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, 2011 was \$204,338. 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 Utility Authority

The Tawas Utility Authority was established as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established for the construction and operation of sewage treatment facilities to service both municipalities. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2011 was \$224,500. 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, 2011

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, 2011 was \$143,008. 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 assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

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

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

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.

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

Proprietary Funds

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

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

Sewer Fund - This fund accounts for fees collected for sewer services provided by the City.

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

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

Fiduciary Funds

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

F. Measurement Focus

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

G. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

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

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

Deferred Revenue

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

Property taxes for which there was an enforceable legal claim at September 30, 2011, but were levied to finance 2011-2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

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.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Receivables

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

The allowance for doubtful accounts at September 30, 2011 was \$0 for the primary government and \$101 for the component units.

J. Interfund Receivables and Payables

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

K. Prepaid Items

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

L. Bond Issuance Costs

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

M. Capital Assets

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

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

The City's infrastructure consists of roads, bridges, 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.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Capital Assets (Continued)

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

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

N. Accrued Liabilities and Long-Term Obligations

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

O. Compensated Absences

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

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net asset reserves have been established for future cemetery operations, major and local street maintenance, debt service and capital projects, as well as, permanently reserved funds for cemetery perpetual care.

Q. 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.

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.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. 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.

S. 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.

T. 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, 2011.

U. Budgets and Budgetary Accounting

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

1. Prior to June 1, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following July 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 July 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 the General Fund and Special Revenue Funds.

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

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

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. 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.

W. Reclassifications

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 536,628	\$ 950,587	\$ 1,347,214	\$ 2,834,429	\$ 639,778
Investments	2,495,693	816,865	0	3,312,558	350,182
Restricted Cash and Cash Equivalents	0	73,838	0	73,838	0
Restricted Investments	<u>0</u>	<u>98,254</u>	<u>0</u>	<u>98,254</u>	<u>0</u>
Total	<u>\$ 3,032,321</u>	<u>\$ 1,939,544</u>	<u>\$ 1,347,214</u>	<u>\$ 6,319,079</u>	<u>\$ 989,960</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 6,151,742	\$ 824,995
Investments in Financial Institution Pooled Funds	166,807	164,765
Petty Cash and Cash on Hand	<u>530</u>	<u>200</u>
Total	<u>\$ 6,319,079</u>	<u>\$ 989,960</u>

As of September 30, 2011, the City had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government: Investment Pools	\$ <u>166,807</u>	Daily
Component Units: Investment Pools	\$ <u>164,765</u>	Daily

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Credit Risk

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

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, 2011, \$4,419,793 of the City's bank balance of \$6,255,079 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, 2011, \$70,130 of the TIFA's bank balance of \$266,638 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, 2010, \$0 of the East Tawas Housing Commission's bank balance of \$558,242 was exposed to custodial credit risk.

Concentration of Credit Risk

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

Custodial Credit Risk – Investments

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of September 30, 2011 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 27,187	\$ 2,206
Major Enterprise Funds:		
Sewer Fund	0	999
Water Fund	0	999
City Park Fund	<u>2,206</u>	<u>25,189</u>
	<u>\$ 29,393</u>	<u>\$ 29,393</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

<u>Due from Component Unit</u>		<u>Due to Primary Government</u>	
General Fund	\$ 12,352 *	East Tawas Housing Commission	\$ 0
General Fund	<u>1,332</u>	East Tawas TIFA	<u>1,332</u>
Total	\$ <u>13,684</u>	Total	\$ <u>1,332</u>

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

* The Due from (to) component unit does not offset due to different fiscal year ends between the City and the East Tawas Housing Commission. The balance is the East Tawas Housing Commission's share of payroll, insurance and various other expenses paid by the City's General Fund subsequent to December 31, 2010.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended September 30, 2011, was as follows:

	<u>Balance 10/01/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 09/30/11</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,004,266	\$ 0	\$ 0	\$ 1,004,266
Construction in Progress	<u>0</u>	<u>76,385</u>	<u>0</u>	<u>76,385</u>
Subtotal	<u>1,004,266</u>	<u>76,385</u>	<u>0</u>	<u>1,080,651</u>
Capital Assets Being Depreciated:				
Land Improvements	201,411	0	0	201,411
Buildings and Improvements	2,930,811	0	0	2,930,811
Machinery and Equipment	1,106,876	22,024	0	1,128,900
Vehicles	1,361,514	0	(21,460)	1,340,054
Infrastructure - Roads	<u>2,293,680</u>	<u>153,119</u>	<u>0</u>	<u>2,446,799</u>
Subtotal	<u>7,894,292</u>	<u>175,143</u>	<u>(21,460)</u>	<u>8,047,975</u>
Less Accumulated Depreciation for:				
Land Improvements	(40,942)	(10,681)	0	(51,623)
Buildings and Improvements	(921,083)	(71,918)	0	(993,001)
Machinery and Equipment	(769,659)	(63,309)	0	(832,968)
Vehicles	(802,308)	(81,568)	21,460	(862,416)
Infrastructure - Roads	<u>(231,573)</u>	<u>(57,976)</u>	<u>0</u>	<u>(289,549)</u>
Subtotal	<u>(2,765,565)</u>	<u>(285,452)</u>	<u>21,460</u>	<u>(3,029,557)</u>
Capital Assets Being Depreciated	<u>5,128,727</u>	<u>(110,309)</u>	<u>0</u>	<u>5,018,418</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ <u>6,132,993</u>	\$ <u>(33,924)</u>	\$ <u>0</u>	\$ <u>6,099,069</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 10/01/10	Additions	Deletions	Balance 09/30/11
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 267,634	\$ 23,199	\$ 0	\$ 290,833
Construction in Progress	<u>22,700</u>	<u>0</u>	<u>(22,700)</u>	<u>0</u>
Subtotal	<u>290,334</u>	<u>23,199</u>	<u>(22,700)</u>	<u>290,833</u>
Capital Assets Being Depreciated:				
Land Improvements	3,917,191	11,599	0	3,928,790
Buildings	960,080	0	0	960,080
Machinery and Equipment	705,217	50,850	(27,335)	728,732
Water System	5,001,692	0	0	5,001,692
Sewer System	<u>5,569,266</u>	<u>277,920</u>	<u>0</u>	<u>5,847,186</u>
Subtotal	<u>16,153,446</u>	<u>340,369</u>	<u>(27,335)</u>	<u>16,466,480</u>
Less Accumulated Depreciation for:				
Land Improvements	(2,857,129)	(139,987)	0	(2,997,116)
Buildings	(581,188)	(24,660)	0	(605,848)
Machinery and Equipment	(602,249)	(20,333)	27,335	(595,247)
Water System	(2,325,735)	(117,374)	0	(2,443,109)
Sewer System	<u>(2,707,491)</u>	<u>(111,019)</u>	<u>0</u>	<u>(2,818,510)</u>
Subtotal	<u>(9,073,792)</u>	<u>(413,373)</u>	<u>27,335</u>	<u>(9,459,830)</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 7,369,988</u>	<u>\$ (49,805)</u>	<u>\$ (22,700)</u>	<u>\$ 7,297,483</u>

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

Governmental Activities

General Government:	
Legislative and Executive	\$ 5,830
Other General Government	65,332
Public Safety:	
Fire	79,157
Public Works:	
Other Public Works	127,225
Community and Economic Development	1,741
Recreation and Cultural	<u>6,167</u>
Total Governmental Activities	<u>\$ 285,452</u>

Business-Type Activities

Sewer	\$ 128,269
Water	121,968
City Park	<u>163,136</u>
Total Business-Type Activities	<u>\$ 413,373</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

	Balance 10/01/10	Additions	Deletions	Balance 09/30/11
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 12,136	\$ 12,248	\$ (12,136)	\$ 12,248
Capital Assets Being Depreciated				
Land Improvements	2,486,841	233,339	0	2,720,180
Machinery and Equipment	25,735	0	0	25,735
Subtotal	2,512,576	233,339	0	2,745,915
Less Accumulated Depreciation for:				
Land Improvements	(83,798)	(133,092)	0	(216,890)
Machinery and Equipment	(13,219)	(3,797)	0	(17,016)
Subtotal	(97,017)	(136,889)	0	(233,906)
Capital Assets Being Depreciated	2,415,559	96,450	0	2,512,009
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ 2,427,695	\$ 108,698	\$ (12,136)	\$ 2,524,257

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

<u>Governmental Activities</u>	
Community and Economic Development	\$ 136,889

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

	Balance 01/01/10	Additions	Deletions	Balance 12/31/10
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 205,892	\$ 0	\$ 0	\$ 205,892
Capital Assets Being Depreciated:				
Buildings	2,888,554	64,765	0	2,953,319
Furniture and Equipment	88,126	2,055	0	90,181
Leasehold Improvements	18,035	169,757	0	187,792
	2,994,715	236,577	0	3,231,292
Less Accumulated Depreciation	(2,065,998)	(103,956)	0	(2,169,954)
Net Capital Assets Being Depreciated	928,717	132,621	0	1,061,338
Business-Type Activities				
Capital Assets - Net	\$ 1,134,609	\$ 132,621	\$ 0	\$ 1,267,230

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, 2011

NOTE 5 - DEFERRED REVENUE

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Real and Personal Property Taxes	\$ 0	\$ 1,295,236	\$ 1,295,236
Notes Receivable	<u>395,398</u>	<u>0</u>	<u>395,398</u>
Total	<u>\$ 395,398</u>	<u>\$ 1,295,236</u>	<u>\$ 1,690,634</u>

Of the \$395,398 balance for notes receivable, \$337,228 will not be collected in the next fiscal year. Therefore \$337,228 of notes receivable is also considered to be long-term.

NOTE 6 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
\$630,000 Limited Tax General Obligation Construction Bonds, dated August 1, 2003 for the purpose of paying part of the cost of acquiring and constructing street improvements. The bonds bear interest at 4.125% and are due in annual installments through 2018.	\$ 340,000	\$ 0
\$1,575,000 2007 Building Authority Refunding Bonds Limited Tax General Obligation Bonds, dated March 29, 2007 for the purpose of advance refunding the 1999 Building Authority Limited Tax General Obligation Bonds. The bonds bear interest at 4% - 4.125% and are due in annual installments through 2023.	<u>1,475,000</u>	<u>0</u>
Total General Obligation Bonds	<u>1,815,000</u>	<u>0</u>
Revenue Bonds:		
\$1,275,000 2007 Water Supply System Refunding Bonds, dated March 29, 2007 for the purpose of advance refunding the \$1,485,000 Water Supply System Revenue Bonds. The bonds bear interest at 3.625% - 5% and are due in annual installments through 2029.	<u>0</u>	<u>1,180,000</u>
Total Bonds Payable	<u>1,815,000</u>	<u>1,180,000</u>
Total Primary Government	<u>\$ 1,815,000</u>	<u>\$ 1,180,000</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Component Units:

B. Bonds Payable

Governmental Business-Type

Governmental Activities

East Tawas TIFA - \$2,300,000 Limited Tax General Obligation 2008 Development Bonds, dated June 23, 2008 for the purpose of paying the cost of streetscape improvements. The bonds bear interest from 3.8% - 5% and are due in annual installments through 2033.

\$ 2,160,000 \$ 0

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, 2011, the accumulated vested vacation and sick leave benefits of the employees of various City departments and its component unit were as follows:

	Current Liability 09/30/11	Long-Term Liability 09/30/11	Total Balance 09/30/11
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 0	\$ 34,303	\$ 34,303
Business-Type Activities	<u>0</u>	<u>9,296</u>	<u>9,296</u>
	<u>\$ 0</u>	<u>\$ 43,599</u>	<u>\$ 43,599</u>
<u>Component Unit</u>			
East Tawas Housing Commission	<u>\$ 12,040</u>	<u>\$ 0</u>	<u>\$ 12,040</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

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, 2011:

	<u>Balance 10/01/10</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/11</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 1,935,000	\$ 0	\$ (120,000)	\$ 1,815,000	\$ 125,000
Deferred Amounts on Issuance Discount	(5,333)	0	395	(4,938)	(395)
Deferred Amounts on Refunding	<u>(26,374)</u>	<u>0</u>	<u>1,954</u>	<u>(24,420)</u>	<u>(1,953)</u>
Total Bonds Payable, Net	1,903,293	0	(117,651)	1,785,642	122,652
Compensated Absences	<u>32,624</u>	<u>1,679</u> *	<u>0</u>	<u>34,303</u>	<u>0</u>
Total Primary Government	<u>\$ 1,935,917</u>	<u>\$ 1,679</u>	<u>\$ (117,651)</u>	<u>\$ 1,819,945</u>	<u>\$ 122,652</u>
Component Units:					
Bonds Payable	\$ 2,210,000	\$ 0	\$ (50,000)	\$ 2,160,000	\$ 50,000
Deferred Amounts on Issuance Discount	<u>(26,156)</u>	<u>0</u>	<u>1,150</u>	<u>(25,006)</u>	<u>(1,150)</u>
Total Component Units	<u>\$ 2,183,844</u>	<u>\$ 0</u>	<u>\$ (48,850)</u>	<u>\$ 2,134,994</u>	<u>\$ 48,850</u>
	<u>Balance 10/01/10</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/11</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Bonds Payable	\$ 1,225,000	\$ 0	\$ (45,000)	\$ 1,180,000	\$ 45,000
Deferred Amounts on Issuance Discount	(2,257)	0	122	(2,135)	(122)
Deferred Amounts on Refunding	<u>(17,472)</u>	<u>0</u>	<u>944</u>	<u>(16,528)</u>	<u>(945)</u>
Total Bonds Payable, Net	1,205,271	0	(43,934)	1,161,337	43,933
Contracts Payable	102,062	0	(102,062)	0	0
Compensated Absences	<u>11,738</u>	<u>0</u>	<u>(2,442) *</u>	<u>9,296</u>	<u>0</u>
Total Primary Government	<u>\$ 1,319,071</u>	<u>\$ 0</u>	<u>\$ (148,438)</u>	<u>\$ 1,170,633</u>	<u>\$ 43,933</u>
Component Units:					
Compensated Absences	<u>\$ 30,914</u>	<u>\$ 0</u>	<u>\$ (18,874) *</u>	<u>\$ 12,040</u>	<u>\$ 12,040</u>

*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$127,006.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities (Continued)

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, 2011 are as follows:

Primary Government

Bonds Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 125,000	\$ 71,681	\$ 45,000	\$ 50,681	\$ 292,362
2013	135,000	66,531	45,000	48,881	295,412
2014	140,000	60,975	50,000	46,631	297,606
2015	150,000	55,218	50,000	44,131	299,349
2016	155,000	49,056	55,000	42,006	301,062
2017 - 2021	690,000	152,788	305,000	170,680	1,318,468
2022 - 2026	420,000	26,317	370,000	102,944	919,261
2027 - 2029	<u>0</u>	<u>0</u>	<u>260,000</u>	<u>22,313</u>	<u>282,313</u>
Total	<u>\$ 1,815,000</u>	<u>\$ 482,566</u>	<u>\$ 1,180,000</u>	<u>\$ 528,267</u>	<u>\$ 4,005,833</u>

Component Units

Bonds Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 50,000	\$ 100,092	\$ 0	\$ 0	\$ 150,092
2013	55,000	98,155	0	0	153,155
2014	55,000	96,024	0	0	151,024
2015	60,000	93,892	0	0	153,892
2016	65,000	91,567	0	0	156,567
2017 - 2021	375,000	415,387	0	0	790,387
2022 - 2026	505,000	321,182	0	0	826,182
2027 - 2031	675,000	183,500	0	0	858,500
2032 - 2033	<u>320,000</u>	<u>24,250</u>	<u>0</u>	<u>0</u>	<u>344,250</u>
Total	<u>\$ 2,160,000</u>	<u>\$ 1,424,049</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,584,049</u>

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the City. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on 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 was \$82,041,617. The tax rates were 15.9303 mills for operations and 1.9514 mills for garbage collection.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 8 - OPERATING TRANSFERS

During the year ended September 30, 2011, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 184,040	\$ 273,416
Major Business-Type Activity Funds:		
City Park Fund	<u>0</u>	<u>184,040</u>
Total Major Funds	184,040	457,456
 Non-major Governmental Funds		
	<u>330,300</u>	<u>56,884</u>
	<u>\$ 514,340</u>	<u>\$ 514,340</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.

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the activity level.

During the year ended September 30, 2011, the City incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Legislative	\$ 39,025	\$ 39,411	\$ 386

NOTE 10 - RETIREMENT PLAN

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

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

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

During the year, the City's required and actual contributions amounted to \$58,761.

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

NOTE 11 - 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 12 - 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, 2011.

NOTE 13 - RISK MANAGEMENT

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

NOTE 14 - 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, 2011.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 15 - PRIOR PERIOD ADJUSTMENT

Because of GASB 54 implementation, the Community Center Fund and Intragovernmental Fund are now included as a part of the General Fund.

	<u>Original 2010</u>	<u>Restatement</u>	<u>Restated 2010</u>
General Fund - Fund Balance	\$ 1,441,622	\$ 168,717	\$ 1,610,339
Community Center Fund - Fund Balance	5,288	(5,288)	-
Intragovernmental Fund - Fund Balance	<u>163,429</u>	<u>(163,429)</u>	<u>-</u>
	<u>\$ 1,610,339</u>	<u>\$ -</u>	<u>\$ 1,610,339</u>

NOTE 16 - RELATED PARTY TRANSACTIONS

The City of East Tawas has entered into contracts with Bolen Asphalt Paving, Inc. and Bolen Trucking Co., Inc. for bituminous paving and snow removal for fiscal years 2010 - 2012. 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 \$223,883 for bituminous paving and Bolen Trucking Co., Inc. was paid \$20,839 for snow removal.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 17 - COMMITMENTS

The City has contractual commitments in the amount of \$149,811 outstanding at September 30, 2011.

Construction contracts

As of September 30, 2011, the City had the following construction contracts in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at September 30, 2011</u>	<u>Contract Payable at September 30, 2011</u>
State St. Parking Lot Project	\$ 140,811	\$ 140,811	\$ 0
Community Center Gym HVAC Unit Replacement	\$ 41,000	\$ 9,000	\$ 0
Total	\$ 181,811	\$ 149,811	\$ 0

NOTE 18 - FUND CHANGES AND FUND BALANCES

Amounts for specific purposes by fund and fund balance classifications for the year ended September 30, 2011, are as follows:

<u>Classification/Fund</u>	<u>Purpose</u>	
Nonspendable		
Cemetery Perpetual Care Fund	Cemetery Perpetual Care	\$ 83,729
Restricted		
Federal Project Fund	Economic Development	984,203
Major Street Construction Bond	Debt Retirement on Major Street Bond	669
Major Streets Fund	Maintenance of Major Streets	61,413
Local Streets Fund	Maintenance of Local Streets	62,429
Cemetery Fund	Cemetery Services and Maintenance	1,243
Committed		
General Fund	Library Services, Community Center, Purchase of Capital Equipment	535,540
2007 Building Authority Refunding Bond Fund	Debt Service	250
Assigned		
General Fund	2011/12 Budgeted Expenditures	133,089
Major Streets Fund	2011/12 Budgeted Expenditures	56,000
Cemetery Fund	2011/12 Budgeted Expenditures	450
Unassigned		
General Fund		1,182,470
Total fund balances		\$ 3,101,485

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, 2011

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 1,274,356	\$ 1,275,570	\$ 1,275,579	\$ 9
Federal Grants and Revenue	0	68,085	68,085	0
State Grants and Revenue	246,900	234,300	241,078	6,778
Licenses and Permits	2,200	2,275	2,543	268
Charges for Services	136,750	132,553	133,231	678
Interest and Rentals	180,150	181,420	189,624	8,204
Other Revenue	136,100	177,250	83,330	(93,920)
Total Revenue	<u>1,976,456</u>	<u>2,071,453</u>	<u>1,993,470</u>	<u>(77,983)</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	44,350	39,025	39,411	(386)
Chief Executive	76,075	80,700	71,459	9,241
Financial and Tax Administration	158,550	173,975	168,865	5,110
Other General Government	270,825	247,755	222,439	25,316
Public Safety	329,300	314,500	310,204	4,296
Public Works	569,635	668,210	523,233	144,977
Community and Economic Development	83,725	82,175	70,785	11,390
Recreation and Cultural	156,475	165,600	157,560	8,040
Capital Outlay	385,140	117,048	102,829	14,219
Total Expenditures	<u>2,074,075</u>	<u>1,888,988</u>	<u>1,666,785</u>	<u>222,203</u>
Excess of Revenue Over (Under) Expenditures	<u>(97,619)</u>	<u>182,465</u>	<u>326,685</u>	<u>144,220</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	3,450	3,451	1
Operating Transfers In	170,960	184,043	184,040	(3)
Operating Transfers Out	(87,041)	(273,416)	(273,416)	0
Total Other Financing Sources (Uses)	<u>83,919</u>	<u>(85,923)</u>	<u>(85,925)</u>	<u>(2)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(13,700)</u>	<u>96,542</u>	<u>240,760</u>	<u>144,218</u>
Fund Balances - Beginning of Year (Restated)	<u>1,610,339</u>	<u>1,610,339</u>	<u>1,610,339</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,596,639</u>	<u>\$ 1,706,881</u>	<u>\$ 1,851,099</u>	<u>\$ 144,218</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, 2011

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Charges for Services	\$ 0	\$ 0	\$ 100	\$ 100
Interest and Rentals	23,525	21,954	21,878	(76)
Other Revenue	<u>55,560</u>	<u>56,420</u>	<u>56,446</u>	<u>26</u>
Total Revenue	79,085	78,374	78,424	50
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>79,085</u>	<u>100,300</u>	<u>100,228</u>	<u>72</u>
Excess of Revenue Over (Under) Expenditures	0	(21,926)	(21,804)	122
Fund Balances - Beginning of Year	<u>1,006,007</u>	<u>1,006,007</u>	<u>1,006,007</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,006,007</u>	<u>\$ 984,081</u>	<u>\$ 984,203</u>	<u>\$ 122</u>

OTHER INFORMATION

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
September 30, 2011

	Special Revenue Funds			Debt Retirement Funds		Permanent Fund	Total Other Governmental Funds
	Major Streets	Local Streets	Cemetery Fund	Major Street Construction Bond	2007 Building Authority Refunding Bond Fund	Cemetery Perpetual Care	
ASSETS							
Cash and Cash Equivalents	\$ 102,776	\$ 51,087	\$ 1,710	\$ 669	\$ 250	\$ 480	\$ 156,972
Investments	0	0	0	0	0	83,249	83,249
Due from State	<u>29,202</u>	<u>12,009</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>41,211</u>
Total Assets	<u>\$ 131,978</u>	<u>\$ 63,096</u>	<u>\$ 1,710</u>	<u>\$ 669</u>	<u>\$ 250</u>	<u>\$ 83,729</u>	<u>\$ 281,432</u>
LIABILITIES AND FUND EQUITY							
<u>Liabilities</u>							
Accounts Payable	\$ 13,549	\$ 0	\$ 17	\$ 0	\$ 0	\$ 0	\$ 13,566
Accrued Liabilities	<u>1,016</u>	<u>667</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,683</u>
Total Liabilities	<u>14,565</u>	<u>667</u>	<u>17</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,249</u>
<u>Fund Equity</u>							
Fund Balances:							
Nonspendable:							
Cemetery Perpetual Care	0	0	0	0	0	83,729	83,729
Restricted For:							
Debt Retirement	0	0	0	669	0	0	669
Major Streets	61,413	0	0	0	0	0	61,413
Local Streets	0	62,429	0	0	0	0	62,429
Cemetery	0	0	1,243	0	0	0	1,243
Committed To:							
Debt Retirement	0	0	0	0	250	0	250
Assigned For:							
2011/12 Budgeted Expenditures	<u>56,000</u>	<u>0</u>	<u>450</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>56,450</u>
Total Fund Equity	<u>117,413</u>	<u>62,429</u>	<u>1,693</u>	<u>669</u>	<u>250</u>	<u>83,729</u>	<u>266,183</u>
Total Liabilities and Fund Equity	<u>\$ 131,978</u>	<u>\$ 63,096</u>	<u>\$ 1,710</u>	<u>\$ 669</u>	<u>\$ 250</u>	<u>\$ 83,729</u>	<u>\$ 281,432</u>

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended September 30, 2011

	Special Revenue Funds			Debt Retirement Funds		Permanent Fund	Total Other Governmental Funds
	Major Streets	Local Streets	Cemetery Fund	Major Street Construction Bond	2007 Building Authority Refunding Bond Fund	Cemetery Perpetual Care	
Revenue							
Federal Grants and Revenue	\$ 44,598	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 44,598
State Grants and Revenue	221,204	73,187	0	0	0	0	294,391
Charges for Services	0	0	4,240	0	0	0	4,240
Interest and Rentals	207	46	3	1	140,956	766	141,979
Other Revenue	172	91	42	0	0	960	1,265
Total Revenue	<u>266,181</u>	<u>73,324</u>	<u>4,285</u>	<u>1</u>	<u>140,956</u>	<u>1,726</u>	<u>486,473</u>
Expenditures							
Current:							
General Government:							
Other General Government	0	0	9,501	0	0	480	9,981
Public Works	215,205	82,352	0	0	0	0	297,557
Capital Outlay	76,385	158,059	0	0	0	0	234,444
Debt Service:							
Principal	0	0	0	40,000	80,000	0	120,000
Interest and Fiscal Charges	0	0	0	15,925	60,956	0	76,881
Total Expenditures	<u>291,590</u>	<u>240,411</u>	<u>9,501</u>	<u>55,925</u>	<u>140,956</u>	<u>480</u>	<u>738,863</u>
Excess of Revenue Over (Under) Expenditures	<u>(25,409)</u>	<u>(167,087)</u>	<u>(5,216)</u>	<u>(55,924)</u>	<u>0</u>	<u>1,246</u>	<u>(252,390)</u>
Other Financing Sources (Uses)							
Operating Transfers In	82,041	186,375	6,209	55,675	0	0	330,300
Operating Transfers Out	(55,675)	0	0	0	0	(1,209)	(56,884)
Total Other Financing Sources (Uses)	<u>26,366</u>	<u>186,375</u>	<u>6,209</u>	<u>55,675</u>	<u>0</u>	<u>(1,209)</u>	<u>273,416</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	957	19,288	993	(249)	0	37	21,026
Fund Balances - Beginning of Year	<u>116,456</u>	<u>43,141</u>	<u>700</u>	<u>918</u>	<u>250</u>	<u>83,692</u>	<u>245,157</u>
Fund Balances - End of Year	<u>\$ 117,413</u>	<u>\$ 62,429</u>	<u>\$ 1,693</u>	<u>\$ 669</u>	<u>\$ 250</u>	<u>\$ 83,729</u>	<u>\$ 266,183</u>

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
EAST TAWAS TIFA - COMPONENT UNIT
GOVERNMENTAL FUNDS
September 30, 2011

	<u>Special Revenue Fund</u>	<u>Debt Retirement Fund</u>	<u>Capital Project Fund</u>	
		TIFA Streetscape Debt Service	Downtown Development Construction Fund	Total Governmental Funds
	<u>TIFA Fund</u>			
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 335,309	\$ 51,311	\$ 44,898	\$ 431,518
Receivables:				
Property Taxes	<u>157,230</u>	<u>0</u>	<u>0</u>	<u>157,230</u>
Total Assets	<u>\$ 492,539</u>	<u>\$ 51,311</u>	<u>\$ 44,898</u>	<u>\$ 588,748</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 55	\$ 0	\$ 144	\$ 199
Due to Primary Government	1,332	0	0	1,332
Accrued Liabilities	740	0	0	740
Deferred Revenue	<u>157,230</u>	<u>0</u>	<u>0</u>	<u>157,230</u>
Total Liabilities	<u>159,357</u>	<u>0</u>	<u>144</u>	<u>159,501</u>
<u>Fund Equity</u>				
Fund Balances:				
Restricted For:				
Debt Retirement	0	51,311	0	51,311
Capital Projects	0	0	44,754	44,754
Economic Development	204,632	0	0	204,632
Assigned For:				
2011/12 Budgeted Expenditures	<u>128,550</u>	<u>0</u>	<u>0</u>	<u>128,550</u>
Total Fund Equity	<u>333,182</u>	<u>51,311</u>	<u>44,754</u>	<u>429,247</u>
Total Liabilities and Fund Equity	<u>\$ 492,539</u>	<u>\$ 51,311</u>	<u>\$ 44,898</u>	<u>\$ 588,748</u>

CITY OF EAST TAWAS
Iosco County, Michigan

EAST TAWAS TIFA - COMPONENT UNIT -
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
September 30, 2011

Total Governmental Fund Balances		\$	429,247
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	2,758,163	
Accumulated Depreciation		<u>(233,906)</u>	
			2,524,257
Accrued Interest on Long-Term Liabilities			(41,705)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (Net of Bond Issuance Costs)			<u>(2,084,742)</u>
Total Net Assets - Governmental Activities		\$	<u>827,057</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, 2011

	Special Revenue Fund	Debt Retirement Fund	Capital Project Fund	
		TIFA Streetscape Debt Service	Downtown Development Construction Fund	Total Governmental Funds
	TIFA Fund			
<u>Revenue</u>				
Property Taxes	\$ 217,526	\$ 0	\$ 0	\$ 217,526
Federal Grants and Revenue	0	0	65,000	65,000
Interest and Rentals	760	129	92	981
Other Revenue	10,339	0	3,094	13,433
Total Revenue	<u>228,625</u>	<u>129</u>	<u>68,186</u>	<u>296,940</u>
<u>Expenditures</u>				
Current:				
Public Works	0	0	2,507	2,507
Community and Economic Development	63,543	0	0	63,543
Capital Outlay	0	0	233,451	233,451
Debt Service:				
Principal	0	50,000	0	50,000
Interest and Fiscal Charges	0	102,168	0	102,168
Total Expenditures	<u>63,543</u>	<u>152,168</u>	<u>235,958</u>	<u>451,669</u>
Excess of Revenue Over (Under) Expenditures	<u>165,082</u>	<u>(152,039)</u>	<u>(167,772)</u>	<u>(154,729)</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0	152,166	0	152,166
Operating Transfers Out	(152,166)	0	0	(152,166)
Total Other Financing Sources (Uses)	<u>(152,166)</u>	<u>152,166</u>	<u>0</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	12,916	127	(167,772)	(154,729)
Fund Balances - Beginning of Year	<u>320,266</u>	<u>51,184</u>	<u>212,526</u>	<u>583,976</u>
Fund Balances - End of Year	<u>\$ 333,182</u>	<u>\$ 51,311</u>	<u>\$ 44,754</u>	<u>\$ 429,247</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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	(154,729)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Outlay	\$	233,451	
Current Year Depreciation Expense		<u>(136,889)</u>	
Net difference			96,562

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

Bonds Payable		50,000
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Governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term liabilities is as follows:

Amortization of Bond Costs		(3,460)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Net Change in Accrued Interest		<u>802</u>
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Change in Net Assets of Governmental Activities	\$	<u>(10,825)</u>
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Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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

January 11, 2012

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

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas for the year ended September 30, 2011 and have issued our report dated January 11, 2012. Our opinions on the financial statements and this report, insofar as they relate to the East Tawas Housing Commission, are based solely on the report of other auditors. 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. 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 January 11, 2012. We would also be pleased to meet with you to discuss these matters at your convenience.

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

Very truly yours,

Stephenson, Gracik & Co., P.C.

APPENDIX I

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 30, 2011, 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 30, 2011.

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. As described in Note 1 to the financial statements, the City changed their accounting policies related to Fund Balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", in 2011. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Balance Sheet. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City of East Tawas' financial statements was:

The most sensitive estimate was management's estimate of the City's investment in the Huron Shore Regional Utility Authority which is based on the City's annual water usage compared to the total usage of the Authority as a whole. The investment value fluctuates annually based on the above percentage calculation of annual water usage. We evaluated the key factors and assumptions used to develop the investment in determining that it is reasonable in relation to the financial statements taken as a whole

- Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users.

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 trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to management on January 11, 2012. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

APPENDIX I

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 as of the date of the audit report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' 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's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with 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, 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, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City of East Tawas' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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

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

FINANCIAL STATEMENT PREPARATION CONTROLS

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

View of Responsible Officials:

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

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

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		X		
Review of Cancelled Checks	X			