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CITY OF EAST TAWAS
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2012

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AUDITORS' REPORT

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January 22, 2013

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, 2012, 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%, 69% and 66%, 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of September 30, 2012, 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.

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 22, 2013
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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, Graub & Co., P.C.

City of East Tawas

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of East Tawas' (the City) financial performance provides an overview of the City's financial activities for the year ended September 30, 2012. 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 \$17,542,188. Business-type activities (Enterprise Funds) account for \$9,273,179 of this total.

The City's total net assets increased by \$305,493. This is a 1.8% increase.

The City's governmental funds reported a combined ending fund balance of \$3,268,199 this year, an increase of \$166,714. Of this amount, \$1,297,489 is available for spending (*unassigned fund balance*) on behalf of its citizens. The General Fund 2011/2012 fiscal year end fund balance is \$1,975,363. This reflects an increase of \$124,264 from fiscal year 2010/2011.

The City's total bonded and contract indebtedness was reduced by \$166,585.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

With this report, capital assets are listed for the City of East Tawas. These assets are comprised of buildings and improvements, land improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total \$13,425,745 net of accumulated depreciation.

Fund Financial Statements

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

Governmental Funds:

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

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue.
- Federal Project Fund – This fund accounts for the collection of note receivable activity as a result of loans to downtown businesses from previous UDAG monies.
- Major Streets Fund – This fund accounts for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA1951, as amended) for major street and highway purposes.

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.
- 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, 2012 and 2011:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Current Assets	\$ 4,646,248	\$ 1,813,053	\$ 6,459,301	\$ 6,269,395
Restricted Assets	0	175,990	175,990	172,092
Other Noncurrent Assets	315,523	1,368,189	1,683,712	1,806,987
Capital Assets – net	<u>6,352,363</u>	<u>7,073,382</u>	<u>13,425,745</u>	<u>13,396,552</u>
Total Assets	<u>11,314,134</u>	<u>10,430,614</u>	<u>21,744,748</u>	<u>21,645,026</u>
Current Liabilities	1,345,746	29,947	1,375,693	1,417,753
Long-Term Liabilities	<u>1,699,379</u>	<u>1,127,488</u>	<u>2,826,867</u>	<u>2,990,578</u>
Total Liabilities	<u>3,045,125</u>	<u>1,157,435</u>	<u>4,202,560</u>	<u>4,408,331</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,726,714	6,002,379	10,729,093	10,539,374
Restricted	1,292,586	175,990	1,468,576	1,365,778
Unrestricted	<u>2,249,709</u>	<u>3,094,810</u>	<u>5,344,519</u>	<u>5,331,543</u>
Total Net Assets	<u>\$ 8,269,009</u>	<u>\$ 9,273,179</u>	<u>\$ 17,542,188</u>	<u>\$ 17,236,695</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2012 with comparative totals for 2011.

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, 2012</u>	<u>September 30, 2011</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 184,513	\$ 1,604,597	\$ 1,789,110	\$ 1,738,938
Operating Grants and Contributions	316,121	18,000	334,121	394,650
Capital Grants and Contributions	126,690	58,648	185,338	55,361
Total Program Revenues	<u>627,324</u>	<u>1,681,245</u>	<u>2,308,569</u>	<u>2,188,949</u>
General Revenues:				
Property Taxes	1,317,450	0	1,317,450	1,337,836
State Revenue Sharing	256,325	0	256,325	241,078
Interest and Investment Earnings	30,547	8,462	39,009	58,068
Rent Income	247,388	1,700	249,088	278,227
Sale of Capital Assets	15,000	6,721	21,721	3,451
Other	10,709	7,449	18,158	37,130
Transfers – Internal Activity	191,521	(191,521)	0	0
Total General Revenues and Transfers	<u>2,068,940</u>	<u>(167,189)</u>	<u>1,901,751</u>	<u>1,955,790</u>
Total Revenues	<u>2,696,264</u>	<u>1,514,056</u>	<u>4,210,320</u>	<u>4,144,739</u>
Program Expenses:				
General Government	633,273	0	633,273	615,640
Public Safety	384,256	0	384,256	399,383
Public Works	812,685	0	812,685	947,909
Health and Welfare	27,710	0	27,710	0
Community and Economic Development	76,631	0	76,631	72,754
Recreation and Cultural	203,298	0	203,298	208,912
Interest and Fiscal Charges	69,826	0	69,826	74,861
Amortization of Deferred Bond Costs and Bond Discounts (Net)	5,595	0	5,595	5,596
Sewer Services	0	552,673	552,673	592,499
Water Services	0	489,314	489,314	456,504
City Park	0	649,566	649,566	607,194
Total Program Expenses	<u>2,213,274</u>	<u>1,691,553</u>	<u>3,904,827</u>	<u>3,981,252</u>
Change in Net Assets	482,990	(177,497)	305,493	163,487
Beginning Net Assets	<u>7,786,019</u>	<u>9,450,676</u>	<u>17,236,695</u>	<u>17,073,208</u>
Ending Net Assets	<u>\$ 8,269,009</u>	<u>\$ 9,273,179</u>	<u>\$ 17,542,188</u>	<u>\$ 17,236,695</u>

Governmental Activities

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

Total governmental activities reveal revenues of \$627,324 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 \$2,213,274 for these same activities. The largest expenses were incurred by General Government offices (\$633,273), Public Safety (\$384,256) and Public Works (\$812,685).

Business-Type Activities

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

Financial Analysis of City Funds

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

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue, 2) Federal Project Fund – accounts for the collection of note receivable activity as a result of loans to downtown businesses from prior UDAG monies, and 3) Major Streets Fund – accounts for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA1951, as amended) for major street and highway purposes.

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

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, 2012 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 \$1,899,197. That amount is below the original budget estimate of \$1,913,096 and below the final amended budget estimate of \$1,997,846. The variance between the original budget and the amended budget was mainly the result of increases in state grants and property taxes and decreases in other revenue.

The actual expenditures of the General Fund were \$1,700,789, which is below both the original budget estimates of \$1,979,256 and the final amended budget estimates of \$1,978,671. The variance between the actual expenditures and the final amended budget was due to projects that were expected to be completed during the 2011-2012 fiscal year and were not, and decreased spending in various other areas.

The General Fund had total revenues of \$1,899,197 and total expenditures of \$1,700,789 with an ending fund balance of \$1,975,363.

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 \$9,128,626 with an ending balance of \$9,613,931. Governmental Activities Total Capital Assets – Net of Depreciation was \$6,352,363.

During the year ended September 30, 2012, the City's governmental capital asset additions totaled \$614,285. \$457,225 of this was for reconstruction and paving on various roads including, Tawas Beach Road, Bridge Street, Washington Street, River Street, Tawas Street, Airport Road, Smith Street, Badger Street, Alice Street, Woodlawn Avenue, Bennington Street, and Schirmer Drive, \$76,385 of which was a reclassification from construction in progress, \$17,527 for fencing at the Department of Public Works garage, \$5,767 for a sidewalk on Tawas Beach Road, \$23,200 for portable Jaws of Life, \$80,566 for a backhoe, and \$30,000 for a lift truck. There was one disposal of a backhoe for \$52,595 in the year ended September 30, 2012.

Capital Assets - Business Type Activities beginning balance was \$16,757,313 with an ending balance of \$16,928,527. Business-Type Activities Total Capital Assets – Net of Depreciation was \$7,073,382.

During the year ended September 30, 2012 the City's business type capital asset additions totaled \$186,909, including \$36,729 for the replacement of sewer lines for the State Street parking lot. \$5,800 was for a submersible pump, \$36,621 was for a truck, \$49,111 was for land at 700 Newman Street, and construction in progress of \$58,648 for a building addition on the playhouse. The year ended September 30, 2012 saw one disposal of a truck for \$15,695.

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 \$2,650,282. Such debt includes *Bonds Payable* as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

Economic Factors and Next Year's Budget and Rates

The City Council and management staff are working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for more than half of the City's General Fund revenues. Due to economic conditions within the State of Michigan, property values in the City of East Tawas decreased in 2012 and are expected to decrease again slightly in 2013. The City Council lowered the operational millage rate for 2012 from the 17.8817 mills that was levied in 2011 to 17.6177 mills. The City currently has an additional .5876 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 was levied was 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 2012 were approximately 6% higher than the payments received in 2011. City officials expect that 2013 revenues from the State of Michigan revenue sharing program will be similar to the revenue received in 2012.

Employee related costs account for approximately 28% of the General Fund budgeted expenditures. Contracted and professional services account for approximately 23% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 18%. 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, 2012

	Primary Government			Component Units	
	Governmental	Business-Type		East Tawas TIFA	East Tawas Housing Commission
	Activities	Activities	Total		
Assets					
Cash and Cash Equivalents (Note 2)	\$ 815,082	\$ 762,206	\$ 1,577,288	\$ 197,915	\$ 263,237
Investments (Note 2)	2,402,537	984,819	3,387,356	100,069	353,518
Receivables:					
Property Taxes	1,241,125	0	1,241,125	163,928	0
Accounts, Net	4,611	88,897	93,508	0	31,747
Interest	6	0	6	0	0
Notes Receivable (Note 1)	60,774	0	60,774	0	0
Due from Local Units	2,678	0	2,678	0	0
Due from Component Unit (Note 3)	11,029	0	11,029	0	0
Due from State	85,537	0	85,537	0	0
Internal Balances	22,869	(22,869)	0	0	0
Prepaid Expenses	0	0	0	0	25,629
Restricted Assets:					
Cash and Cash Equivalents (Note 2)	0	76,461	76,461	0	0
Investments (Note 2)	0	99,529	99,529	0	0
Noncurrent Assets:					
Notes Receivable	278,182	0	278,182	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)	37,341	46,401	83,742	47,942	0
Capital Assets Not Being Depreciated (Note 4)	1,167,213	398,592	1,565,805	0	205,892
Capital Assets, Net of Accumulated Depreciation	5,185,150	6,674,790	11,859,940	2,576,604	967,582
Total Assets	11,314,134	10,430,614	21,744,748	3,086,458	1,847,605
Liabilities					
Accounts Payable	62,955	7,949	70,904	4	42,460
Due to Local Units	0	0	0	0	18,788
Accrued Interest Payable	28,471	20,367	48,838	40,898	0
Accrued Liabilities	14,347	1,631	15,978	763	6,028
Deferred Revenue	1,239,973	0	1,239,973	163,928	24,297
Long Term Liabilities: (Note 6)					
Due Within One Year	132,651	43,934	176,585	53,850	9,428
Due In More Than One Year	1,566,728	1,083,554	2,650,282	2,032,294	3,630
Total Liabilities	3,045,125	1,157,435	4,202,560	2,291,737	104,631
Net Assets					
Invested in Capital Assets, Net of Related Debt	4,726,714	6,002,379	10,729,093	538,402	1,173,474
Restricted For:					
Debt Service	923	175,990	176,913	51,176	0
Mosquito Control	3,381	0	3,381	0	0
Major Streets	124,232	0	124,232	0	0
Local Streets	20,249	0	20,249	0	0
Cemetery	1,469	0	1,469	0	0
Economic Development	1,056,789	0	1,056,789	205,143	0
Permanent Funds:					
Nonexpendable	85,543	0	85,543	0	0
Unrestricted	2,249,709	3,094,810	5,344,519	0	569,500
Total Net Assets	\$ 8,269,009	\$ 9,273,179	\$ 17,542,188	\$ 794,721	\$ 1,742,974

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, 2012

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		East Tawas TIFA	East Tawas Housing Commission	
					Governmental Activities	Business-Type Activities			Total
<u>Primary Government</u>									
Governmental Activities:									
General Government:									
Legislative and Executive	\$ 122,674	\$ 0	\$ 0	\$ 0	\$ (122,674)	\$ 0	\$ (122,674)		
Financial and Tax Administration	172,635	0	0	0	(172,635)	0	(172,635)		
Other General Government	337,964	44,702	0	0	(293,262)	0	(293,262)		
Public Safety:									
Police	201,922	0	0	0	(201,922)	0	(201,922)		
Fire	182,334	90,754	950	0	(90,630)	0	(90,630)		
Public Works:									
Other Public Works	812,685	15,696	266,568	126,690	(403,731)	0	(403,731)		
Health and Welfare:									
Other Health and Welfare	27,710	0	0	0	(27,710)	0	(27,710)		
Community and Economic Development									
	76,631	0	0	0	(76,631)	0	(76,631)		
Recreation and Cultural	203,298	33,361	48,603	0	(121,334)	0	(121,334)		
Interest and Fees on Long-Term Debt									
	69,826	0	0	0	(69,826)	0	(69,826)		
Amortization of Deferred Bond Costs and Bond Discounts (Net)									
	<u>5,595</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,595)</u>	<u>0</u>	<u>(5,595)</u>		
Total Governmental Activities									
	<u>2,213,274</u>	<u>184,513</u>	<u>316,121</u>	<u>126,690</u>	<u>(1,585,950)</u>	<u>0</u>	<u>(1,585,950)</u>		
Business-Type Activities:									
Sewer Services	552,673	428,824	0	0	0	(123,849)	(123,849)		
Water Services	489,314	452,454	0	0	0	(36,860)	(36,860)		
City Park	<u>649,566</u>	<u>723,319</u>	<u>18,000</u>	<u>58,648</u>	<u>0</u>	<u>150,401</u>	<u>150,401</u>		
Total Business-Type Activities									
	<u>1,691,553</u>	<u>1,604,597</u>	<u>18,000</u>	<u>58,648</u>	<u>0</u>	<u>(10,308)</u>	<u>(10,308)</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, 2012

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
Total Primary Government	\$ 3,904,827	\$ 1,789,110	\$ 334,121	\$ 185,338	\$ (1,585,950)	\$ (10,308)	\$ (1,596,258)		
<u>Component Units</u>									
TIFA	\$ 311,159	\$ 0	\$ 4,024	\$ 50,000				\$ (257,135)	\$ 0
Housing Commission	518,755	295,246	208,601	16,652				0	1,744
Total Component Units	\$ 829,914	\$ 295,246	\$ 212,625	\$ 66,652				(257,135)	1,744
General Revenue:									
Property Taxes Levied For:									
General Operating					\$ 1,282,079	\$ 0	\$ 1,282,079	0	0
Mosquito Control					31,091	0	31,091	0	0
TIFA					0	0	0	220,679	0
Payment in Lieu of Taxes					4,280	0	4,280	0	0
State Revenue Sharing					256,325	0	256,325	0	0
Interest and Investment Earnings					30,547	8,462	39,009	936	3,864
Rent Income					247,388	1,700	249,088	0	0
Sale of Capital Assets					15,000	6,721	21,721	0	0
Other					10,709	7,449	18,158	3,184	6,974
Transfers					191,521	(191,521)	0	0	0
Total General Revenue and Transfers					2,068,940	(167,189)	1,901,751	224,799	10,838
Change in Net Assets					482,990	(177,497)	305,493	(32,336)	12,582
Net Assets - Beginning					7,786,019	9,450,676	17,236,695	827,057	1,730,392
Net Assets - Ending					\$ 8,269,009	\$ 9,273,179	\$ 17,542,188	\$ 794,721	\$ 1,742,974

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, 2012

	Special Revenue Funds			Other	Total
	General Fund	Major Streets	Federal Project Fund	Governmental Funds	Governmental Funds
ASSETS					
Cash and Cash Equivalents (Note 2)	\$ 227,793	\$ 117,962	\$ 450,005	\$ 19,322	\$ 815,082
Investments (Note 2)	1,711,150	0	606,784	84,603	2,402,537
Receivables:					
Property Taxes	1,241,125	0	0	0	1,241,125
Accounts, Net	4,611	0	0	0	4,611
Interest	6	0	0	0	6
Notes Receivable	0	0	338,956	0	338,956
Due from Local Units	0	0	0	2,678	2,678
Due from Component Unit (Note 3)	11,029	0	0	0	11,029
Due from State	43,709	29,723	0	12,105	85,537
Due from Other Funds (Note 3)	22,869	0	0	0	22,869
Total Assets	<u>\$ 3,262,292</u>	<u>\$ 147,685</u>	<u>\$ 1,395,745</u>	<u>\$ 118,708</u>	<u>\$ 4,924,430</u>
LIABILITIES AND FUND EQUITY					
<u>Liabilities</u>					
Accounts Payable	\$ 34,583	\$ 21,840	\$ 0	\$ 6,532	\$ 62,955
Accrued Liabilities	12,373	1,613	0	361	14,347
Deferred Revenue (Note 5)	1,239,973	0	338,956	0	1,578,929
Total Liabilities	<u>1,286,929</u>	<u>23,453</u>	<u>338,956</u>	<u>6,893</u>	<u>1,656,231</u>
<u>Fund Equity</u>					
Fund Balances:					
Nonspendable:					
Cemetery Perpetual Care	0	0	0	85,543	85,543
Restricted For:					
Debt Retirement	0	0	0	923	923
Major Streets	0	124,232	0	0	124,232
Local Streets	0	0	0	20,249	20,249
Cemetery	0	0	0	1,469	1,469
Economic Development	0	0	1,056,789	0	1,056,789
Mosquito Control	0	0	0	3,381	3,381
Committed To:					
Debt Retirement	0	0	0	250	250
Library	250,000	0	0	0	250,000
Community Center	15,252	0	0	0	15,252
Capital Equipment	346,460	0	0	0	346,460
Assigned For:					
2012/13 Budgeted Expenditures	66,162	0	0	0	66,162
Unassigned	1,297,489	0	0	0	1,297,489
Total Fund Equity	<u>1,975,363</u>	<u>124,232</u>	<u>1,056,789</u>	<u>111,815</u>	<u>3,268,199</u>
Total Liabilities and Fund Equity	<u>\$ 3,262,292</u>	<u>\$ 147,685</u>	<u>\$ 1,395,745</u>	<u>\$ 118,708</u>	<u>\$ 4,924,430</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, 2012

Total Governmental Fund Balances		\$ 3,268,199
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	\$ 9,613,931	
Accumulated Depreciation	<u>(3,261,568)</u>	
		6,352,363
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:		
Notes Receivable		338,956
Accrued Interest on Long-Term Liabilities		(28,471)
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)	(1,625,649)	
Compensated Absences Payable	<u>(36,389)</u>	
Total Long-Term Liabilities		<u>(1,662,038)</u>
Total Net Assets - Governmental Activities		\$ <u>8,269,009</u>

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

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	<u>Special Revenue Funds</u>			Other	Total
	<u>General Fund</u>	<u>Major Streets</u>	<u>Federal Project Fund</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
<u>Revenue</u>					
Property Taxes	\$ 1,318,323	\$ 0	\$ 0	\$ 31,091	\$ 1,349,414
Federal Grants and Revenue	0	126,690	0	0	126,690
State Grants and Revenue	256,325	191,990	0	74,578	522,893
Licenses and Permits	2,849	0	0	0	2,849
Charges for Services	124,377	0	0	4,000	128,377
Interest and Rentals	133,706	255	16,166	143,420	293,547
Other Revenue	63,617	161	56,605	2,032	122,415
Total Revenue	<u>1,899,197</u>	<u>319,096</u>	<u>72,771</u>	<u>255,121</u>	<u>2,546,185</u>
<u>Expenditures</u>					
Current:					
General Government:					
Legislative	40,967	0	0	0	40,967
Chief Executive	70,741	0	0	0	70,741
Financial and Tax Administration	172,051	0	0	0	172,051
Other General Government	228,594	0	0	10,077	238,671
Public Safety	309,381	0	0	0	309,381
Public Works	433,545	182,856	0	57,628	674,029
Health and Welfare	0	0	0	27,710	27,710
Community and Economic Development	74,706	0	185	0	74,891
Recreation and Cultural	144,402	0	0	0	144,402
Capital Outlay	226,402	186,981	0	207,835	621,218
Debt Service:					
Principal	0	0	0	125,000	125,000
Interest and Fiscal Charges	0	0	0	71,931	71,931
Total Expenditures	<u>1,700,789</u>	<u>369,837</u>	<u>185</u>	<u>500,181</u>	<u>2,570,992</u>
Excess of Revenue Over (Under) Expenditures	<u>198,408</u>	<u>(50,741)</u>	<u>72,586</u>	<u>(245,060)</u>	<u>(24,807)</u>
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In	191,521	112,085	0	208,828	512,434
Operating Transfers Out	(265,665)	(54,525)	0	(723)	(320,913)
Total Other Financing Sources (Uses)	<u>(74,144)</u>	<u>57,560</u>	<u>0</u>	<u>208,105</u>	<u>191,521</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	124,264	6,819	72,586	(36,955)	166,714
Fund Balances - Beginning of Year	<u>1,851,099</u>	<u>117,413</u>	<u>984,203</u>	<u>148,770</u>	<u>3,101,485</u>
Fund Balances - End of Year	<u>\$ 1,975,363</u>	<u>\$ 124,232</u>	<u>\$ 1,056,789</u>	<u>\$ 111,815</u>	<u>\$ 3,268,199</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, 2012

Total Net Change in Fund Balances - Governmental Funds		\$	166,714
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			163
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	\$	522,900	
Current Year Depreciation Expense		(284,606)	
Gain on Disposal of Capital Assets		<u>15,000</u>	
Net difference			253,294
Note receivable repayments and note disbursements are revenue and expenditures respectively in the governmental funds, but the repayments and disbursements reduce and increase the note receivable balances in the statement of net assets. The activity reported in the governmental funds is as follows:			
Current Year Note Receivable Principal Receipts			(56,605)
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			125,000
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			(5,595)
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		2,105	
Net Change in Accrued Compensated Absences		<u>(2,086)</u>	
			<u>19</u>
Change in Net Assets of Governmental Activities		\$	<u><u>482,990</u></u>

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

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2012

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 47,915	\$ 88,631	\$ 625,660	\$ 762,206
Investments (Note 2)	427,060	557,759	0	984,819
Receivables:				
Accounts, Net	44,019	44,878	0	88,897
Restricted Assets:				
Cash and Cash Equivalents (Note 2)	0	76,461	0	76,461
Investments (Note 2)	0	99,529	0	99,529
Total Current Assets	<u>518,994</u>	<u>867,258</u>	<u>625,660</u>	<u>2,011,912</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	46,401	0	46,401
Capital Assets Not Being Depreciated (Note 4)	6,500	0	392,092	398,592
Capital Assets, Net (Note 4)	<u>3,038,887</u>	<u>2,488,710</u>	<u>1,147,193</u>	<u>6,674,790</u>
Total Noncurrent Assets	<u>3,045,387</u>	<u>3,856,899</u>	<u>1,539,285</u>	<u>8,441,571</u>
Total Assets	<u>3,564,381</u>	<u>4,724,157</u>	<u>2,164,945</u>	<u>10,453,483</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	675	24	7,250	7,949
Due to Other Funds (Note 3)	0	0	22,869	22,869
Accrued Interest Payable	0	20,367	0	20,367
Accrued Liabilities	832	799	0	1,631
Current Portion of Long-Term Liabilities (Note 6)	0	43,934	0	43,934
Total Current Liabilities	<u>1,507</u>	<u>65,124</u>	<u>30,119</u>	<u>96,750</u>
Long-Term Liabilities:				
Due in More Than One Year (Note 6)	0	1,073,470	10,084	1,083,554
Total Liabilities	<u>1,507</u>	<u>1,138,594</u>	<u>40,203</u>	<u>1,180,304</u>
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt	3,045,387	1,417,707	1,539,285	6,002,379
Restricted For:				
Debt Service	0	175,990	0	175,990
Unrestricted	<u>517,487</u>	<u>1,991,866</u>	<u>585,457</u>	<u>3,094,810</u>
Total Net Assets	<u>\$ 3,562,874</u>	<u>\$ 3,585,563</u>	<u>\$ 2,124,742</u>	<u>\$ 9,273,179</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, 2012

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Operating Revenue</u>				
Charges For Services	\$ 422,890	\$ 446,544	\$ 725,019	\$ 1,594,453
Penalties	5,934	5,910	0	11,844
Other Revenue	270	1,572	5,607	7,449
Total Operating Revenue	<u>429,094</u>	<u>454,026</u>	<u>730,626</u>	<u>1,613,746</u>
<u>Operating Expenses</u>				
Salaries and Wages	56,833	49,294	188,769	294,896
Payroll Taxes and Employee Benefits	43,659	39,695	56,030	139,384
Advertising	0	0	1,269	1,269
Contractual Services	283,627	161,163	12,088	456,878
Depreciation and Amortization	131,008	126,818	157,063	414,889
Equipment	0	0	24,889	24,889
Equipment Rental	11,353	8,674	0	20,027
Insurance and Bonds	1,269	601	18,018	19,888
Office Supplies	3,560	3,656	0	7,216
Operating Supplies	7,803	43,007	25,733	76,543
Repair and Maintenance	3,665	5,588	61,740	70,993
Travel and Training	287	422	0	709
Utilities	9,144	0	93,767	102,911
Other	465	465	10,200	11,130
Total Operating Expenses	<u>552,673</u>	<u>439,383</u>	<u>649,566</u>	<u>1,641,622</u>
Operating Income (Loss)	<u>(123,579)</u>	<u>14,643</u>	<u>81,060</u>	<u>(27,876)</u>
<u>Nonoperating Revenue (Expenses)</u>				
Federal Grants and Revenue	0	0	15,000	15,000
Interest and Investment Earnings	2,909	5,088	465	8,462
Contributions	0	0	3,000	3,000
Interest and Fees Expense	0	(49,931)	0	(49,931)
Gain or (Loss) on Sale of Capital Assets	0	0	6,721	6,721
Total Nonoperating Revenue (Expenses)	<u>2,909</u>	<u>(44,843)</u>	<u>25,186</u>	<u>(16,748)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(120,670)</u>	<u>(30,200)</u>	<u>106,246</u>	<u>(44,624)</u>
Capital Contributions	0	0	58,648	58,648
Operating Transfers Out	0	0	(191,521)	(191,521)
Net Capital Contributions and Operating Transfers	<u>0</u>	<u>0</u>	<u>(132,873)</u>	<u>(132,873)</u>
Change in Net Assets	(120,670)	(30,200)	(26,627)	(177,497)
Net Assets - Beginning of Year	<u>3,683,544</u>	<u>3,615,763</u>	<u>2,151,369</u>	<u>9,450,676</u>
Net Assets - End of Year	<u>\$ 3,562,874</u>	<u>\$ 3,585,563</u>	<u>\$ 2,124,742</u>	<u>\$ 9,273,179</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, 2012

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Cash Flows From Operating Activities</u>				
Receipts From Customers	\$ 421,467	\$ 448,691	\$ 730,626	\$ 1,600,784
Payments to Suppliers for Goods and Services	(321,075)	(223,706)	(254,706)	(799,487)
Payments to Employees for Services	(100,424)	(88,999)	(244,011)	(433,434)
Net Cash Provided (Used) by Operating Activities	<u>(32)</u>	<u>135,986</u>	<u>231,909</u>	<u>367,863</u>
<u>Cash Flows From Non-Capital Financing Activities</u>				
Local Contributions Received	0	0	3,000	3,000
Cash Received from (Paid to) Other funds	(999)	(999)	(191,635)	(193,633)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(999)</u>	<u>(999)</u>	<u>(188,635)</u>	<u>(190,633)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>				
Federal Grants Received	0	0	15,000	15,000
Proceeds from Sale of Fixed Asset	0	0	6,721	6,721
Acquisition and Construction of Capital Assets	(42,529)	(3,879)	(85,732)	(132,140)
Principal Paid on Long-Term Debt	0	(43,933)	0	(43,933)
Interest and Fees Paid on Long-Term Debt	0	(50,681)	0	(50,681)
Net Cash Used by Capital and Related Financing Activities	<u>(42,529)</u>	<u>(98,493)</u>	<u>(64,011)</u>	<u>(205,033)</u>
<u>Cash Flows From Investing Activities</u>				
Interest on Investments	2,909	6,383	465	9,757
Proceeds from Maturity of Investment Securities	307,641	609,082	0	916,723
Purchase of Investment Securities	(427,060)	(657,375)	0	(1,084,435)
Net Cash Provided (Used) by Investing Activities	<u>(116,510)</u>	<u>(41,910)</u>	<u>465</u>	<u>(157,955)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(160,070)	(5,416)	(20,272)	(185,758)
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>207,985</u>	<u>170,508</u>	<u>645,932</u>	<u>1,024,425</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 47,915</u>	<u>\$ 165,092</u>	<u>\$ 625,660</u>	<u>\$ 838,667</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>				
Operating Income (Loss)	\$ (123,579)	\$ 14,643	\$ 81,060	\$ (27,876)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	131,008	126,818	157,063	414,889
Change in Assets and Liabilities:				
Accounts Receivable, Net	(7,627)	(5,335)	0	(12,962)
Accounts Payable and Accrued Liabilities	166	(140)	(7,002)	(6,976)
Accrued Compensated Absences	0	0	788	788
Net Cash Provided (Used) by Operating Activities	<u>\$ (32)</u>	<u>\$ 135,986</u>	<u>\$ 231,909</u>	<u>\$ 367,863</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, 2012

	<u>Tax Account</u>	<u>Trust and Agency Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents (Note 2)	\$ 1,291,750	\$ 5,073	\$ 1,296,823
Receivables:			
Property Taxes	<u>260,340</u>	<u>0</u>	<u>260,340</u>
Total Assets	<u>\$ 1,552,090</u>	<u>\$ 5,073</u>	<u>\$ 1,557,163</u>
<u>LIABILITIES</u>			
Due to Local Units	\$ 1,552,090	\$ 6	\$ 1,552,096
Due to Other Agencies and Individuals	<u>0</u>	<u>5,067</u>	<u>5,067</u>
Total Liabilities	<u>\$ 1,552,090</u>	<u>\$ 5,073</u>	<u>\$ 1,557,163</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, 2012

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, 2012

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, 2011. 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, 2012 was \$194,191. Complete financial statements can be obtained from the City of Tawas City, Clerk's office, located at 505 W. Lake Street, Tawas City, Michigan 48763.

Tawas Utilities Authority

The Tawas Utilities Authority was established as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established for the construction and operation of sewage treatment facilities to service both municipalities. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2012 was \$257,750. 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, 2012

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, 2012 was \$154,999. 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, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Fund Financial Statements

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

E. Fund Accounting

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

Governmental Funds

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

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

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

Major Streets Fund - This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA1951, as amended) for major street and highway purposes.

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

Proprietary Funds

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

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

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

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

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

Fiduciary Funds

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

F. Measurement Focus

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

Property taxes for which there was an enforceable legal claim at September 30, 2012, but were levied to finance 2012-2013 operations, have been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Cash Equivalents

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

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

I. Receivables

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

The allowance for doubtful accounts at September 30, 2012 was \$0 for the primary government and \$117 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.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Capital Assets (Continued)

The City's infrastructure consists of roads and water and sewer lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized. The City is a Phase 3 government and has elected not to report general infrastructure assets retroactively.

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

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

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, 2012

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, mosquito control, 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, 2012

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, 2012.

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

The City adopts budgets for all funds including the required budgets for the General Fund and Special Revenue Funds.

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

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

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

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	\$ 815,082	\$ 762,206	\$ 1,296,823	\$ 2,874,111	\$ 461,152
Investments	2,402,537	984,819	0	3,387,356	453,587
Restricted Cash and Cash Equivalents	0	76,461	0	76,461	0
Restricted Investments	<u>0</u>	<u>99,529</u>	<u>0</u>	<u>99,529</u>	<u>0</u>
Total	<u>\$ 3,217,619</u>	<u>\$ 1,923,015</u>	<u>\$ 1,296,823</u>	<u>\$ 6,437,457</u>	<u>\$ 914,739</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)	\$ 5,224,014	\$ 809,841
Investments in Financial Institution Pooled Funds	1,212,903	104,698
Petty Cash and Cash on Hand	<u>540</u>	<u>200</u>
Total	<u>\$ 6,437,457</u>	<u>\$ 914,739</u>

As of September 30, 2012, the City had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government: Investment Pools	\$ <u>1,212,903</u>	Daily
Component Units: Investment Pools	\$ <u>104,698</u>	Daily

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

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, 2012, \$1,946,497 of the City's bank balance of \$5,284,330 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, 2012, \$0 of the TIFA's bank balance of \$193,286 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, 2011, \$0 of the East Tawas Housing Commission's bank balance of \$616,755 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, 2012

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, 2012 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 22,869	\$ 0
Major Enterprise Funds:		
City Park Fund	<u>0</u>	<u>22,869</u>
	<u>\$ 22,869</u>	<u>\$ 22,869</u>
<u>Due from Component Unit</u>		<u>Due to Primary Government</u>
General Fund	\$ <u>11,029</u> *	East Tawas Housing Commission
		\$ <u>0</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.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

* 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, 2011.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended September 30, 2012, was as follows:

	Balance 10/01/11	Additions	Deletions	Balance 09/30/12
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,004,266	\$ 0	\$ 0	\$ 1,004,266
Construction in Progress	76,385	162,947	(76,385)	162,947
Subtotal	<u>1,080,651</u>	<u>162,947</u>	<u>(76,385)</u>	<u>1,167,213</u>
Capital Assets Being Depreciated:				
Land Improvements	201,411	23,294	0	224,705
Buildings and Improvements	2,930,811	0	0	2,930,811
Machinery and Equipment	1,128,900	103,766	(52,595)	1,180,071
Vehicles	1,340,054	30,000	0	1,370,054
Infrastructure - Roads	2,446,799	294,278	0	2,741,077
Subtotal	<u>8,047,975</u>	<u>451,338</u>	<u>(52,595)</u>	<u>8,446,718</u>
Less Accumulated Depreciation for:				
Land Improvements	(51,623)	(10,972)	0	(62,595)
Buildings and Improvements	(993,001)	(71,916)	0	(1,064,917)
Machinery and Equipment	(832,968)	(54,611)	52,595	(834,984)
Vehicles	(862,416)	(82,818)	0	(945,234)
Infrastructure - Roads	(289,549)	(64,289)	0	(353,838)
Subtotal	<u>(3,029,557)</u>	<u>(284,606)</u>	<u>52,595</u>	<u>(3,261,568)</u>
Capital Assets Being Depreciated	<u>5,018,418</u>	<u>166,732</u>	<u>0</u>	<u>5,185,150</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 6,099,069</u>	<u>\$ 329,679</u>	<u>\$ (76,385)</u>	<u>\$ 6,352,363</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 10/01/11	Additions	Deletions	Balance 09/30/12
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 290,833	\$ 49,111	\$ 0	\$ 339,944
Construction in Progress	<u>0</u>	<u>58,648</u>	<u>0</u>	<u>58,648</u>
Subtotal	<u>290,833</u>	<u>107,759</u>	<u>0</u>	<u>398,592</u>
Capital Assets Being Depreciated:				
Land Improvements	3,928,790	0	0	3,928,790
Buildings	960,080	0	0	960,080
Machinery and Equipment	728,732	42,421	(15,695)	755,458
Water System	5,001,692	0	0	5,001,692
Sewer System	<u>5,847,186</u>	<u>36,729</u>	<u>0</u>	<u>5,883,915</u>
Subtotal	<u>16,466,480</u>	<u>79,150</u>	<u>(15,695)</u>	<u>16,529,935</u>
Less Accumulated Depreciation for:				
Land Improvements	(2,997,116)	(128,075)	0	(3,125,191)
Buildings	(605,848)	(24,397)	0	(630,245)
Machinery and Equipment	(595,247)	(24,187)	15,695	(603,739)
Water System	(2,443,109)	(116,787)	0	(2,559,896)
Sewer System	<u>(2,818,510)</u>	<u>(117,564)</u>	<u>0</u>	<u>(2,936,074)</u>
Subtotal	<u>(9,459,830)</u>	<u>(411,010)</u>	<u>15,695</u>	<u>(9,855,145)</u>
Capital Assets Being Depreciated	<u>7,006,650</u>	<u>(311,860)</u>	<u>0</u>	<u>6,674,790</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 7,297,483</u>	<u>\$ (224,101)</u>	<u>\$ 0</u>	<u>\$ 7,073,382</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	59,621
Public Safety:	
Fire	73,557
Public Works:	
Other Public Works	137,691
Community and Economic Development	1,740
Recreation and Cultural	<u>6,167</u>

Total Governmental Activities \$ 284,606

Business-Type Activities

Sewer	\$ 131,008
Water	122,939
City Park	<u>157,063</u>

Total Business-Type Activities \$ 411,010

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

	Balance 10/01/11	Additions	Deletions	Balance 09/30/12
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 12,248	\$ 0	\$ (12,248)	\$ 0
Capital Assets Being Depreciated				
Land Improvements	2,720,180	205,298	0	2,925,478
Machinery and Equipment	25,735	0	0	25,735
Subtotal	<u>2,745,915</u>	<u>205,298</u>	<u>0</u>	<u>2,951,213</u>
Less Accumulated Depreciation for:				
Land Improvements	(216,890)	(137,721)	0	(354,611)
Machinery and Equipment	(17,016)	(2,982)	0	(19,998)
Subtotal	<u>(233,906)</u>	<u>(140,703)</u>	<u>0</u>	<u>(374,609)</u>
Capital Assets Being Depreciated	<u>2,512,009</u>	<u>64,595</u>	<u>0</u>	<u>2,576,604</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ <u>2,524,257</u>	\$ <u>64,595</u>	\$ <u>(12,248)</u>	\$ <u>2,576,604</u>

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

<u>Governmental Activities</u>	
Community and Economic Development	\$ <u>140,703</u>

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

	Balance 01/01/11	Additions	Deletions	Balance 12/31/11
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 205,892	\$ 0	\$ 0	\$ 205,892
Construction in Progress	187,792	0	(187,792)	0
Subtotal	<u>393,684</u>	<u>0</u>	<u>(187,792)</u>	<u>205,892</u>
Capital Assets Being Depreciated:				
Buildings	2,953,319	204,444	0	3,157,763
Furniture and Equipment	90,181	7,513	0	97,694
	3,043,500	211,957	0	3,255,457
Less Accumulated Depreciation	<u>(2,169,954)</u>	<u>(117,921)</u>	<u>0</u>	<u>(2,287,875)</u>
Capital Assets Being Depreciated	<u>873,546</u>	<u>94,036</u>	<u>0</u>	<u>967,582</u>
Business-Type Activities				
Capital Assets - Net	\$ <u>1,267,230</u>	\$ <u>94,036</u>	\$ <u>(187,792)</u>	\$ <u>1,173,474</u>

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

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	\$ 1,239,973	\$ 1,239,973
Notes Receivable	<u>338,956</u>	<u>0</u>	<u>338,956</u>
Total	<u>\$ 338,956</u>	<u>\$ 1,239,973</u>	<u>\$ 1,578,929</u>

Of the \$338,956 balance for notes receivable, \$278,182 will not be collected in the next fiscal year. Therefore \$278,182 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.	\$ 300,000	\$ 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>1,390,000</u>	<u>0</u>
Total General Obligation Bonds	<u>1,690,000</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>1,135,000</u>
Total Bonds Payable	<u>1,690,000</u>	<u>1,135,000</u>
Total Primary Government	<u>\$ 1,690,000</u>	<u>\$ 1,135,000</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Component Units:

B. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
Governmental Activities		
East Tawas TIFA - \$2,300,000 Limited Tax General Obligation 2008 Development Bonds, dated June 23, 2008 for the purpose of paying the cost of streetscape improvements. The bonds bear interest from 3.8% - 5% and are due in annual installments through 2033.	\$ <u>2,110,000</u>	\$ <u>0</u>

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, 2012, the accumulated vested vacation and sick leave benefits of the employees of various City departments and its component unit were as follows:

	Current Liability 09/30/12	Long-Term Liability 09/30/12	Total Balance 09/30/12
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 0	\$ 36,389	\$ 36,389
Business-Type Activities	<u>0</u>	<u>10,084</u>	<u>10,084</u>
	<u>\$ 0</u>	<u>\$ 46,473</u>	<u>\$ 46,473</u>
<u>Component Unit</u>			
East Tawas Housing Commission	<u>\$ 9,428</u>	<u>\$ 3,630</u>	<u>\$ 13,058</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

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, 2012:

	<u>Balance 10/01/11</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/12</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 1,815,000	\$ 0	\$ (125,000)	\$ 1,690,000	\$ 135,000
Deferred Amounts on Issuance Discount	(4,938)	0	395	(4,543)	(395)
Deferred Amounts on Refunding	<u>(24,420)</u>	<u>0</u>	<u>1,953</u>	<u>(22,467)</u>	<u>(1,954)</u>
Total Bonds Payable, Net	1,785,642	0	(122,652)	1,662,990	132,651
Compensated Absences	<u>34,303</u>	<u>2,086</u> *	<u>0</u>	<u>36,389</u>	<u>0</u>
Total Primary Government	<u>\$ 1,819,945</u>	<u>\$ 2,086</u>	<u>\$ (122,652)</u>	<u>\$ 1,699,379</u>	<u>\$ 132,651</u>
Component Units:					
Bonds Payable	\$ 2,160,000	\$ 0	\$ (50,000)	\$ 2,110,000	\$ 55,000
Deferred Amounts on Issuance Discount	<u>(25,006)</u>	<u>0</u>	<u>1,150</u>	<u>(23,856)</u>	<u>(1,150)</u>
Total Component Units	<u>\$ 2,134,994</u>	<u>\$ 0</u>	<u>\$ (48,850)</u>	<u>\$ 2,086,144</u>	<u>\$ 53,850</u>
	<u>Balance 10/01/11</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/12</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Bonds Payable	\$ 1,180,000	\$ 0	\$ (45,000)	\$ 1,135,000	\$ 45,000
Deferred Amounts on Issuance Discount	(2,135)	0	122	(2,013)	(122)
Deferred Amounts on Refunding	<u>(16,528)</u>	<u>0</u>	<u>945</u>	<u>(15,583)</u>	<u>(944)</u>
Total Bonds Payable, Net	1,161,337	0	(43,933)	1,117,404	43,934
Compensated Absences	<u>9,296</u>	<u>788</u> *	<u>0</u>	<u>10,084</u>	<u>0</u>
Total Primary Government	<u>\$ 1,170,633</u>	<u>\$ 788</u>	<u>\$ (43,933)</u>	<u>\$ 1,127,488</u>	<u>\$ 43,934</u>
Component Units:					
Compensated Absences	<u>\$ 12,040</u>	<u>\$ 1,018</u> *	<u>\$ 0</u>	<u>\$ 13,058</u>	<u>\$ 9,428</u>

*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$119,757.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

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, 2012 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>	
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	160,000	42,793	55,000	39,256	297,049
2018 - 2022	665,000	124,452	320,000	157,930	1,267,382
2023 - 2027	285,000	11,860	385,000	87,488	769,348
2028 - 2029	<u>0</u>	<u>0</u>	<u>175,000</u>	<u>11,263</u>	<u>186,263</u>
Total	<u>\$ 1,690,000</u>	<u>\$ 410,885</u>	<u>\$ 1,135,000</u>	<u>\$ 477,586</u>	<u>\$ 3,713,471</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>	
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	65,000	88,967	0	0	153,967
2018 - 2022	400,000	399,298	0	0	799,298
2023 - 2027	540,000	297,804	0	0	837,804
2028 - 2032	705,000	150,000	0	0	855,000
2033	<u>165,000</u>	<u>8,250</u>	<u>0</u>	<u>0</u>	<u>173,250</u>
Total	<u>\$ 2,110,000</u>	<u>\$ 1,323,957</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,433,957</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 for the 2011 tax levy was \$80,765,691. The corresponding tax rates were 15.6553 mills for operations and 1.9624 mills for garbage collection.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 7 - PROPERTY TAXES (CONTINUED)

The mosquito control millage is recognized in the same year as it is levied. The taxable value for properties located within the City for the 2012 tax levy was \$78,041,357 and the corresponding tax rate was 0.4000 mills for mosquito control.

NOTE 8 - OPERATING TRANSFERS

During the year ended September 30, 2012, 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	\$ 191,521	\$ 265,665
Major Streets	112,085	54,525
Major Business-Type Activity Funds:		
City Park Fund	<u>0</u>	<u>191,521</u>
Total Major Funds	303,606	511,711
 Non-major Governmental Funds	 <u>208,828</u>	 <u>723</u>
	<u>\$ 512,434</u>	<u>\$ 512,434</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 - RETIREMENT PLAN

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

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

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

During the year, the City's required and actual contributions amounted to \$58,992.

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

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 10 - DEFERRED COMPENSATION PLAN

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

NOTE 11 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. Accrued unemployment compensation was \$0 as of September 30, 2012.

NOTE 12 - RISK MANAGEMENT

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

NOTE 13 - RESTRICTED ASSETS AND RESERVES

The City is required, under the 2007 Water Supply System Revenue Refunding Bonds, to maintain certain restricted assets in the Water Fund. The Bonds provide that a Bond Reserve Account be established "at the lesser of" (1) the maximum annual debt service due in the current or any future year (2) 125% of the average annual debt service or (3) 10% of the principal amount of the Bonds. The 2007 Water Supply System Revenue Refunding Bonds also require certain assets be deposited into the Bond and Interest Redemption Depository account. The City did meet all of these requirements for the year ended September 30, 2012.

NOTE 14 - RELATED PARTY TRANSACTIONS

The City of East Tawas has entered into contracts with Bolen Asphalt Paving, Inc. and Bolen Trucking Co., Inc. for bituminous paving and snow removal for fiscal years 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 \$257,830 for bituminous paving and Bolen Trucking Co., Inc. was paid \$5,005 for snow removal.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

NOTE 15 - COMMITMENTS

The City has contractual commitments in the amount of \$15,055 outstanding at September 30, 2012.

Construction contracts

As of September 30, 2012, the City had the following construction contract in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at September 30, 2012</u>	<u>Contract Payable at September 30, 2012</u>
Tawas Beach Road Project	\$ <u>165,510</u>	\$ <u>15,055</u>	\$ <u>13,970</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2012

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 1,319,064	\$ 1,345,334	\$ 1,318,323	\$ (27,011)
State Grants and Revenue	188,000	240,000	256,325	16,325
Licenses and Permits	2,500	2,430	2,849	419
Charges for Services	127,307	122,832	124,377	1,545
Interest and Rentals	141,725	135,950	133,706	(2,244)
Other Revenue	134,500	151,300	63,617	(87,683)
Total Revenue	<u>1,913,096</u>	<u>1,997,846</u>	<u>1,899,197</u>	<u>(98,649)</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	46,150	45,325	40,967	4,358
Chief Executive	78,670	79,680	70,741	8,939
Financial and Tax Administration	168,750	175,985	172,051	3,934
Other General Government	252,486	243,876	228,594	15,282
Public Safety	311,100	315,300	309,381	5,919
Public Works	584,200	568,150	433,545	134,605
Health and Welfare	0	32,000	0	32,000
Community and Economic Development	90,500	88,075	74,706	13,369
Recreation and Cultural	158,400	150,980	144,402	6,578
Capital Outlay	289,000	279,300	226,402	52,898
Total Expenditures	<u>1,979,256</u>	<u>1,978,671</u>	<u>1,700,789</u>	<u>277,882</u>
Excess of Revenue Over (Under) Expenditures	<u>(66,160)</u>	<u>19,175</u>	<u>198,408</u>	<u>179,233</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	189,256	196,481	191,521	(4,960)
Operating Transfers Out	(256,185)	(265,665)	(265,665)	0
Total Other Financing Sources (Uses)	<u>(66,929)</u>	<u>(69,184)</u>	<u>(74,144)</u>	<u>(4,960)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(133,089)</u>	<u>(50,009)</u>	<u>124,264</u>	<u>174,273</u>
Fund Balances - Beginning of Year	<u>1,851,099</u>	<u>1,851,099</u>	<u>1,851,099</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,718,010</u>	<u>\$ 1,801,090</u>	<u>\$ 1,975,363</u>	<u>\$ 174,273</u>

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREETS - SPECIAL REVENUE FUND
For the Year Ended September 30, 2012

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal Grants and Revenue	\$ 94,000	\$ 144,000	\$ 126,690	\$ (17,310)
State Grants and Revenue	195,000	189,425	191,990	2,565
Interest and Rentals	250	250	255	5
Other Revenue	0	150	161	11
Total Revenue	<u>289,250</u>	<u>333,825</u>	<u>319,096</u>	<u>(14,729)</u>
<u>Expenditures</u>				
Current:				
Public Works	244,810	195,785	182,856	12,929
Capital Outlay	<u>158,000</u>	<u>197,650</u>	<u>186,981</u>	<u>10,669</u>
Total Expenditures	<u>402,810</u>	<u>393,435</u>	<u>369,837</u>	<u>23,598</u>
Excess of Revenue Over (Under) Expenditures	<u>(113,560)</u>	<u>(59,610)</u>	<u>(50,741)</u>	<u>8,869</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	112,085	112,085	112,085	0
Operating Transfers Out	<u>(54,525)</u>	<u>(54,525)</u>	<u>(54,525)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>57,560</u>	<u>57,560</u>	<u>57,560</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(56,000)	(2,050)	6,819	8,869
Fund Balances - Beginning of Year	<u>117,413</u>	<u>117,413</u>	<u>117,413</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 61,413</u>	<u>\$ 115,363</u>	<u>\$ 124,232</u>	<u>\$ 8,869</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, 2012

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Interest and Rentals	\$ 19,577	\$ 15,612	\$ 16,166	\$ 554
Other Revenue	<u>57,377</u>	<u>57,047</u>	<u>56,605</u>	<u>(442)</u>
Total Revenue	76,954	72,659	72,771	112
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>76,954</u>	<u>420,550</u>	<u>185</u>	<u>420,365</u>
Excess of Revenue Over (Under) Expenditures	0	(347,891)	72,586	420,477
Fund Balances - Beginning of Year	<u>984,203</u>	<u>984,203</u>	<u>984,203</u>	<u>0</u>
Fund Balances - End of Year	<u><u>\$ 984,203</u></u>	<u><u>\$ 636,312</u></u>	<u><u>\$ 1,056,789</u></u>	<u><u>\$ 420,477</u></u>

OTHER INFORMATION

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
September 30, 2012

	<u>Special Revenue Funds</u>			<u>Debt Retirement Funds</u>		<u>Permanent Fund</u>	
	<u>Local Streets</u>	<u>Cemetery Fund</u>	<u>Mosquito Control Fund</u>	<u>Major Street Construction Bond</u>	<u>2007 Building Authority Refunding Bond Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Total Other Governmental Funds</u>
<u>ASSETS</u>							
Cash and Cash Equivalents	\$ 8,480	\$ 1,516	\$ 7,213	\$ 923	\$ 250	\$ 940	\$ 19,322
Investments	0	0	0	0	0	84,603	84,603
Due from Local Units	0	0	2,678	0	0	0	2,678
Due from State	<u>12,105</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,105</u>
Total Assets	<u>\$ 20,585</u>	<u>\$ 1,516</u>	<u>\$ 9,891</u>	<u>\$ 923</u>	<u>\$ 250</u>	<u>\$ 85,543</u>	<u>\$ 118,708</u>
<u>LIABILITIES AND FUND EQUITY</u>							
<u>Liabilities</u>							
Accounts Payable	\$ 0	\$ 22	\$ 6,510	\$ 0	\$ 0	\$ 0	\$ 6,532
Accrued Liabilities	<u>336</u>	<u>25</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>361</u>
Total Liabilities	<u>336</u>	<u>47</u>	<u>6,510</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,893</u>
<u>Fund Equity</u>							
Fund Balances:							
Nonspendable:							
Cemetery Perpetual Care	0	0	0	0	0	85,543	85,543
Restricted For:							
Debt Retirement	0	0	0	923	0	0	923
Local Streets	20,249	0	0	0	0	0	20,249
Cemetery	0	1,469	0	0	0	0	1,469
Mosquito Control	0	0	3,381	0	0	0	3,381
Committed To:							
Debt Retirement	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>250</u>	<u>0</u>	<u>250</u>
Total Fund Equity	<u>20,249</u>	<u>1,469</u>	<u>3,381</u>	<u>923</u>	<u>250</u>	<u>85,543</u>	<u>111,815</u>
Total Liabilities and Fund Equity	<u>\$ 20,585</u>	<u>\$ 1,516</u>	<u>\$ 9,891</u>	<u>\$ 923</u>	<u>\$ 250</u>	<u>\$ 85,543</u>	<u>\$ 118,708</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, 2012

	Special Revenue Funds			Debt Retirement Funds		Permanent Fund	Total Other Governmental Funds
	Local Streets	Cemetery Fund	Mosquito Control Fund	Major Street Construction Bond	2007 Building Authority Refunding Bond Fund	Cemetery Perpetual Care	
Revenue							
Property Taxes	\$ 0	\$ 0	\$ 31,091	\$ 0	\$ 0	\$ 0	\$ 31,091
State Grants and Revenue	74,578	0	0	0	0	0	74,578
Charges for Services	0	4,000	0	0	0	0	4,000
Interest and Rentals	41	2	0	4	142,656	717	143,420
Other Revenue	84	48	0	0	0	1,900	2,032
Total Revenue	<u>74,703</u>	<u>4,050</u>	<u>31,091</u>	<u>4</u>	<u>142,656</u>	<u>2,617</u>	<u>255,121</u>
Expenditures							
Current:							
General Government:							
Other General Government	0	9,997	0	0	0	80	10,077
Public Works	57,628	0	0	0	0	0	57,628
Health and Welfare	0	0	27,710	0	0	0	27,710
Capital Outlay	207,835	0	0	0	0	0	207,835
Debt Service:							
Principal	0	0	0	40,000	85,000	0	125,000
Interest and Fiscal Charges	0	0	0	14,275	57,656	0	71,931
Total Expenditures	<u>265,463</u>	<u>9,997</u>	<u>27,710</u>	<u>54,275</u>	<u>142,656</u>	<u>80</u>	<u>500,181</u>
Excess of Revenue Over (Under) Expenditures	<u>(190,760)</u>	<u>(5,947)</u>	<u>3,381</u>	<u>(54,271)</u>	<u>0</u>	<u>2,537</u>	<u>(245,060)</u>
Other Financing Sources (Uses)							
Operating Transfers In	148,580	5,723	0	54,525	0	0	208,828
Operating Transfers Out	0	0	0	0	0	(723)	(723)
Total Other Financing Sources (Uses)	<u>148,580</u>	<u>5,723</u>	<u>0</u>	<u>54,525</u>	<u>0</u>	<u>(723)</u>	<u>208,105</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(42,180)</u>	<u>(224)</u>	<u>3,381</u>	<u>254</u>	<u>0</u>	<u>1,814</u>	<u>(36,955)</u>
Fund Balances - Beginning of Year	<u>62,429</u>	<u>1,693</u>	<u>0</u>	<u>669</u>	<u>250</u>	<u>83,729</u>	<u>148,770</u>
Fund Balances - End of Year	<u>\$ 20,249</u>	<u>\$ 1,469</u>	<u>\$ 3,381</u>	<u>\$ 923</u>	<u>\$ 250</u>	<u>\$ 85,543</u>	<u>\$ 111,815</u>

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
EAST TAWAS TIFA - COMPONENT UNIT
GOVERNMENTAL FUNDS
September 30, 2012

	Special Revenue Fund	Debt Retirement Fund	Capital Project Fund	
		TIFA Streetscape Debt Service	Downtown Development Construction Fund	Total Governmental Funds
	<u>TIFA Fund</u>			
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 146,739	\$ 51,176	\$ 0	\$ 197,915
Investments	100,069	0	0	100,069
Receivables:				
Property Taxes	<u>163,928</u>	<u>0</u>	<u>0</u>	<u>163,928</u>
Total Assets	<u>\$ 410,736</u>	<u>\$ 51,176</u>	<u>\$ 0</u>	<u>\$ 461,912</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 4	\$ 0	\$ 0	\$ 4
Accrued Liabilities	763	0	0	763
Deferred Revenue	<u>163,928</u>	<u>0</u>	<u>0</u>	<u>163,928</u>
Total Liabilities	<u>164,695</u>	<u>0</u>	<u>0</u>	<u>164,695</u>
<u>Fund Equity</u>				
Fund Balances:				
Restricted For:				
Debt Retirement	0	51,176	0	51,176
Economic Development	<u>246,041</u>	<u>0</u>	<u>0</u>	<u>246,041</u>
Total Fund Equity	<u>246,041</u>	<u>51,176</u>	<u>0</u>	<u>297,217</u>
Total Liabilities and Fund Equity	<u>\$ 410,736</u>	<u>\$ 51,176</u>	<u>\$ 0</u>	<u>\$ 461,912</u>

CITY OF EAST TAWAS
Iosco County, Michigan

EAST TAWAS TIFA - COMPONENT UNIT -
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
September 30, 2012

Total Governmental Fund Balances		\$	297,217
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	\$	2,951,213	
Accumulated Depreciation		<u>(374,609)</u>	
			2,576,604
Accrued Interest on Long-Term Liabilities			(40,898)
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>(2,038,202)</u>
Total Net Assets - Governmental Activities		\$	<u>794,721</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, 2012

	Special Revenue Fund	Debt Retirement Fund	Capital Project Fund	
	TIFA Fund	TIFA Streetscape Debt Service	Downtown Development Construction Fund	Total Governmental Funds
<u>Revenue</u>				
Property Taxes	\$ 220,679	\$ 0	\$ 0	\$ 220,679
Federal Grants and Revenue	0	0	50,000	50,000
Interest and Rentals	903	0	33	936
Other Revenue	4,033	0	3,175	7,208
Total Revenue	<u>225,615</u>	<u>0</u>	<u>53,208</u>	<u>278,823</u>
<u>Expenditures</u>				
Current:				
Public Works	0	0	1,105	1,105
Community and Economic Development	64,533	0	264	64,797
Capital Outlay	0	0	194,573	194,573
Debt Service:				
Principal	0	50,000	0	50,000
Interest and Fiscal Charges	0	100,378	0	100,378
Total Expenditures	<u>64,533</u>	<u>150,378</u>	<u>195,942</u>	<u>410,853</u>
Excess of Revenue Over (Under) Expenditures	<u>161,082</u>	<u>(150,378)</u>	<u>(142,734)</u>	<u>(132,030)</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0	150,243	97,980	248,223
Operating Transfers Out	(248,223)	0	0	(248,223)
Total Other Financing Sources (Uses)	<u>(248,223)</u>	<u>150,243</u>	<u>97,980</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(87,141)	(135)	(44,754)	(132,030)
Fund Balances - Beginning of Year	<u>333,182</u>	<u>51,311</u>	<u>44,754</u>	<u>429,247</u>
Fund Balances - End of Year	<u>\$ 246,041</u>	<u>\$ 51,176</u>	<u>\$ 0</u>	<u>\$ 297,217</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, 2012

Total Net Change in Fund Balances - Governmental Funds	\$ (132,030)
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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	\$ 193,050	
Current Year Depreciation Expense	<u>(140,703)</u>	
Net difference		52,347

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>807</u>
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Change in Net Assets of Governmental Activities	<u>\$ (32,336)</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 22, 2013

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, 2012 and have issued our report dated January 22, 2013. 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 22, 2013. 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 October 10, 2012, 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 October 10, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of East Tawas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the City during the year where 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 was based on the City's annual water usage compared to the total usage of the Authority as a whole until the debt was paid off in the current year. The investment value did fluctuate annually based on the above percentage calculation of annual water usage. Now that the debt is paid off, the estimate will remain the same unless the asset is impaired. 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

- The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are 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 22, 2013. 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 Matters

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, 2012, 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 auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of East Tawas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of East Tawas' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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

REVIEW OF UTILITY BILLS AND ASSOCIATED REPORTS

During our audit procedures related to utility billing, we observed a utility bill that was sent to a customer with a usage error of 9,999 gallons. This resulted in a material difference between the actual usage and the billed usage. The City's current system of internal control did not detect the error. It was not discovered until the customer complained. We recommend that the City Management determine which reports to print with each utility billing cycle. We recommend at a minimum, a report that details abnormal usage and zero usage is printed and reviewed each billing cycle by an individual other than the individual processing the utility bills. Any unusual usage should be investigated by the reviewer. This review should be done before bills are sent out and should be documented by the initialing and filing of such reports.

View of Responsible Officials:

The City Treasurer/Clerk will immediately work with staff to determine which usage reports are to be printed and which individual will be responsible for the review each month.

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

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.

APPENDIX II MANAGEMENT COMMENTS

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

STATUS OF PRIOR YEAR COMMENTS:

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

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