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CITY OF EAST TAWAS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 2013

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## AUDITORS' REPORT

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January 27, 2014

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the index.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Tawas Housing Commission, a component unit, which represent 37 percent, 73 percent, and 66 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tawas Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As described in Note 2 to the financial statements, the City of East Tawas has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items previously reported as Assets and Liabilities*, as of September 30, 2013. Our opinion is not modified with respect to this matter.

**Other Matters**

**Required Supplementary Information**

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

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Tawas' basic financial statements. The combining nonmajor and East Tawas TIFA - component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

*Stephenson, Grain & 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, 2013. 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 \$17,608,150. Business-type activities (Enterprise Funds) account for \$9,056,012 of this total.

The City's total net position increased by \$302,171. This is a 1.7% increase, which was the result of revenues exceeding expenses for the current year.

The City's governmental funds reported a combined ending fund balance of \$3,334,614 this year, an increase of \$66,415. Of this amount, \$1,144,713 is available for spending (*unassigned fund balance*) on behalf of its citizens. The General Fund 2012/2013 fiscal year end fund balance is \$1,893,461. This reflects a decrease of \$81,902 from fiscal year 2011/2012.

The City's total bonded and contract indebtedness was reduced by \$434,483.

### Overview of the Financial Statements

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

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

### Government-wide Financial Statements

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

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

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

With this report, capital assets are listed for the City of East Tawas. These assets are comprised of buildings and improvements, land improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total \$13,296,460 net of accumulated depreciation.

### **Fund Financial Statements**

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

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

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

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue.
- Federal Project Fund – This fund accounts for the collection of note receivable activity as a result of loans to downtown businesses from previous UDAG monies.

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

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

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

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

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

## Notes to Financial Statements

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

### Other Information

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

## Government -Wide Financial Analysis

### Summary of Net Position:

The following summarizes the net position of the City of East Tawas at September 30, 2013 and 2012:

#### Net Position Summary

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>September 30, 2013</u>	<u>September 30, 2012</u>
Current Assets	\$ 4,655,601	\$ 1,603,653	\$ 6,259,254	\$ 6,459,301
Restricted Assets	0	207,273	207,273	175,990
Other Noncurrent Assets	235,913	1,321,788	1,557,701	1,599,970
Capital Assets – net	<u>6,259,265</u>	<u>7,037,195</u>	<u>13,296,460</u>	<u>13,273,278</u>
<b>Total Assets</b>	<u>11,150,779</u>	<u>10,169,909</u>	<u>21,320,688</u>	<u>21,508,539</u>
<b>Deferred Outflows of Resources</b>	<u>20,513</u>	<u>14,639</u>	<u>35,152</u>	<u>38,050</u>
Current Liabilities	65,196	31,960	97,156	135,720
Long-Term Liabilities	<u>1,334,445</u>	<u>1,096,576</u>	<u>2,431,021</u>	<u>2,864,917</u>
<b>Total Liabilities</b>	<u>1,399,641</u>	<u>1,128,536</u>	<u>2,528,177</u>	<u>3,000,637</u>
<b>Deferred Inflows of Resources</b>	<u>1,219,513</u>	<u>0</u>	<u>1,219,513</u>	<u>1,239,973</u>
<b>Net Position</b>				
Net Investment in				
Capital Assets	4,983,926	5,552,735	10,536,661	10,492,884
Restricted	1,733,037	207,273	1,940,310	1,468,576
Unrestricted	<u>1,835,175</u>	<u>3,296,004</u>	<u>5,131,179</u>	<u>5,344,519</u>
<b>Total Net Position</b>	<u>\$ 8,552,138</u>	<u>\$ 9,056,012</u>	<u>\$ 17,608,150</u>	<u>\$ 17,305,979</u>

### Summary of Changes in Net Position:

Following is an analysis of the changes in net position for fiscal year 2013 with comparative totals for 2012.

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

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

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2013</u>	<u>September 30, 2012</u>
<b>Revenues:</b>				
<b>Program Revenues:</b>				
Charges for Services	\$ 224,880	\$ 1,669,167	\$ 1,894,047	\$ 1,789,110
Operating Grants and Contributions	367,718	3,000	370,718	334,121
Capital Grants and Contributions	<u>20,109</u>	<u>44,475</u>	<u>64,584</u>	<u>185,338</u>
<b>Total Program Revenues</b>	<u>612,707</u>	<u>1,716,642</u>	<u>2,329,349</u>	<u>2,308,569</u>
<b>General Revenues:</b>				
Property Taxes	1,271,481	0	1,271,481	1,317,450
State Revenue Sharing	255,597	0	255,597	256,325
Interest and Investment Earnings	31,825	5,907	37,732	39,009
Rent Income	249,048	1,700	250,748	249,088
Sale of Capital Assets	815	(526)	289	21,721
Other	519	7,736	8,255	18,158
Transfers – Internal Activity	<u>164,156</u>	<u>(164,156)</u>	<u>0</u>	<u>0</u>
<b>Total General Revenues and Transfers</b>	<u>1,973,441</u>	<u>(149,339)</u>	<u>1,824,102</u>	<u>1,901,751</u>
<b>Total Revenues</b>	<u>2,586,148</u>	<u>1,567,303</u>	<u>4,153,451</u>	<u>4,210,320</u>
<b>Program Expenses:</b>				
General Government	637,951	0	637,951	633,273
Public Safety	406,333	0	406,333	384,256
Public Works	889,511	0	889,511	812,685
Health and Welfare	30,002	0	30,002	27,710
Community and Economic Development	77,461	0	77,461	76,631
Recreation and Cultural	161,906	0	161,906	203,298
Interest and Fiscal Charges	60,165	0	60,165	69,826
Amortization of Bond Discounts (Net)	2,349	0	2,349	2,348
Sewer Services	0	527,533	527,533	552,673
Water Services	0	426,593	426,593	459,165
City Park	<u>0</u>	<u>631,476</u>	<u>631,476</u>	<u>649,566</u>
<b>Total Program Expenses</b>	<u>2,265,678</u>	<u>1,585,602</u>	<u>3,851,280</u>	<u>3,871,431</u>
<b>Change in Net Position</b>	320,470	(18,299)	302,171	338,889
<b>Beginning Net Position (Restated)</b>	<u>8,231,668</u>	<u>9,074,311</u>	<u>17,305,979</u>	<u>16,967,090</u>
<b>Ending Net Position</b>	<u>\$ 8,552,138</u>	<u>\$ 9,056,012</u>	<u>\$ 17,608,150</u>	<u>\$ 17,305,979</u>



## **Governmental Activities**

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

Total governmental activities reveal revenues of \$612,707 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 \$2,265,678 for these same activities. The largest expenses were incurred by General Government offices (\$637,951), Public Safety (\$406,333) and Public Works (\$889,511).

## **Business-Type Activities**

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

## **Financial Analysis of City Funds**

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

### **Governmental Funds**

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

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

- The General Fund fund balance decreased by \$81,902. This decrease is primarily due to increased transfers out to the Major Street Fund.
- The Federal Project Fund fund balance increased by \$60,654. This increase is due to the excess of revenues over expenditures for the current year.
- The Aggregate Remaining Governmental Funds fund balance increased by \$87,663. This increase is due in large part to an increase in transfers in for the Major Street Fund as well as less local street projects in the current year.

### **Enterprise Funds**

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

- The Sewer Fund net position decreased by \$81,732, due primarily to excess expenditures over revenues.
- The Water Fund net position increased by \$43,662, due in large part to decreases in various expenses including contractual services, depreciation and amortization, and operating supplies.

- The City Park Fund did not have significant fluctuations in net position for the current year.

### **Budgetary Highlights**

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

During the fiscal year ended September 30, 2013 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 \$1,859,682. That amount is below the original budget estimate of \$1,952,161 and below the final amended budget estimate of \$1,939,193. The variance between the original budget and the amended budget was mainly the result of reclassification of reimbursements for expenditures of the Department of Public Works.

The actual expenditures of the General Fund were \$1,634,518, which is below both the original budget estimates of \$2,059,102 and the final amended budget estimates of \$1,992,447. The variance between the actual expenditures and the final amended budget was due to projects that were expected to be completed during the 2012-2013 fiscal year and were not, and decreased spending in various other areas.

The General Fund had total revenues of \$1,859,682 and total expenditures of \$1,634,518 with an ending fund balance of \$1,893,461.

### **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 \$9,613,931 with an ending balance of \$9,770,251. Governmental Activities Total Capital Assets – Net of Depreciation was \$6,259,265.

During the year ended September 30, 2013, the City's governmental capital asset additions totaled \$373,767. \$271,319 of this was for reconstruction and paving on various roads including, Tawas Beach Road, Main Street, Washington Street, Evans Street, and Alice Street, \$162,947 of which was a reclassification from construction in progress, \$10,249 for reconstruction and paving on Church Street and Lincoln Street, which is included in construction in progress, \$12,623 for a sidewalk on Westover Street, \$14,999 for an air compressor, \$7,699 for a trailer, and \$56,878 for a new Ford F450 truck. The disposals in the year ended September 30, 2013 totaled \$54,500. This included \$10,000 for an air compressor, \$16,500 for a truck, and \$28,000 for a dump truck, all of which were fully depreciated.

Capital Assets – Business-Type Activities beginning balance was \$15,835,147 with an ending balance of \$16,170,575. Business-Type Activities Total Capital Assets – Net of Depreciation was \$7,037,195.

During the year ended September 30, 2013 the City's business type capital asset additions totaled \$551,962, including \$35,946 for a well point pump system, \$433,193 was for land at 609 and 617 W. Bay St., and \$82,823 for building additions on the playhouse, \$58,648 of which was a reclassification from construction in progress. The year ended September 30, 2013 disposals totaled \$157,886, consisting of various sewer equipment for \$14,841, various water equipment and computers for \$140,278, and various park equipment for \$2,767.

An expanded and detailed presentation may be seen in Note 5 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 \$2,286,538. 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. In the current year, the City paid off the remaining \$300,000 balance on their 2003 Limited Tax General Obligation Construction Bonds early.

### **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 slightly in 2013 and are expected to hold steady in 2014. The City Council maintained the same operational millage rate for 2013 of 17.6177 mills as was levied in 2012. The City also levies an extra voted millage of .40 mills for mosquito control and suppression that was approved by voters in 2011 and first levied in 2012. As in past years, the City will make every effort to keep services at a level that the City's taxpayers have come to expect while being cognizant of the taxpayers' ability to pay.

Revenue sharing from the State of Michigan is the next largest revenue source for the City and this source is beyond the control of the City. There was relatively no change in this revenue source from 2012 to 2014. Revenue sharing payments for 2013 were approximately 6% higher than the payments received in 2012. State of Michigan projections for the revenue sharing program for fiscal year 2013-2014 show an increase of approximately 3.5%.

Employee related costs account for approximately 31.5% of the General Fund budgeted expenditures. Contracted and professional services account for approximately 23.4% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 18.4%. 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 POSITION  
September 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
<b>Assets</b>					
Cash and Cash Equivalents (Note 3)	\$ 488,853	\$ 1,525,346	\$ 2,014,199	\$ 265,784	\$ 290,004
Investments (Note 3)	2,340,564	408,701	2,749,265	0	355,808
Receivables:					
Property Taxes	1,219,983	0	1,219,983	208,496	0
Special Assessments	1,871	0	1,871	0	0
Accounts, Net	3,729	96,558	100,287	0	120
Interest	0	0	0	0	271
Notes Receivable (Note 1)	56,222	0	56,222	0	0
Due from Local Units	2,833	0	2,833	0	0
Due from Component Unit (Note 4)	15,214	0	15,214	0	0
Due from State	85,697	0	85,697	0	0
Internal Balances	427,997	(427,997)	0	0	0
Prepaid Expenses	12,638	1,045	13,683	121	2,214
Restricted Assets:					
Cash and Cash Equivalents (Note 3)	0	109,341	109,341	0	0
Investments (Note 3)	0	97,932	97,932	0	0
Noncurrent Assets:					
Notes Receivable	235,913	0	235,913	0	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,321,788	1,321,788	0	0
Capital Assets Not Being Depreciated (Note 5)	1,014,515	773,137	1,787,652	0	205,892
Capital Assets, Net of Accumulated Depreciation	5,244,750	6,264,058	11,508,808	2,428,981	884,412
Total Assets	11,150,779	10,169,909	21,320,688	2,903,382	1,738,721
<b>Deferred Outflows of Resources</b>					
Deferred Charge on Refunding	20,513	14,639	35,152	0	0
<b>Liabilities</b>					
Accounts Payable	23,061	9,997	33,058	76	41,924
Due to Local Units	0	0	0	0	19,507
Accrued Interest Payable	21,815	19,430	41,245	40,010	0
Accrued Liabilities	20,320	2,533	22,853	916	15,542
Unearned Revenue	0	0	0	0	650
Long Term Liabilities: (Note 6)					
Due Within One Year	94,605	49,878	144,483	53,850	5,918
Due In More Than One Year	1,239,840	1,046,698	2,286,538	1,978,444	9,714
Total Liabilities	1,399,641	1,128,536	2,528,177	2,073,296	93,255
<b>Deferred Inflows of Resources</b>					
Property Taxes Levied for 2013/14	1,219,513	0	1,219,513	208,496	0
<b>Net Position</b>					
Net Investment in Capital Assets	4,983,926	5,552,735	10,536,661	303,802	1,090,304
Restricted For:					
Debt Service	0	207,273	207,273	51,282	0
Mosquito Control	4,103	0	4,103	0	0
Major Streets	179,784	0	179,784	0	0
Local Streets	51,765	0	51,765	0	0
Cemetery	2,517	0	2,517	0	0
Economic Development	1,409,578	0	1,409,578	266,506	0
Permanent Funds:					
Nonexpendable	85,290	0	85,290	0	0
Unrestricted	1,835,175	3,296,004	5,131,179	0	555,162
Total Net Position	\$ 8,552,138	\$ 9,056,012	\$ 17,608,150	\$ 621,590	\$ 1,645,466

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, 2013

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
Primary Government									
Governmental Activities:									
General Government:									
Legislative and Executive	\$ 126,172	\$ 0	\$ 0	\$ 0	\$ (126,172)	\$ 0	\$ (126,172)		
Financial and Tax									
Administration	174,983	0	0	0	(174,983)	0	(174,983)		
Other General Government	336,796	45,332	0	500	(290,964)	0	(290,964)		
Public Safety:									
Police	204,156	0	0	0	(204,156)	0	(204,156)		
Fire	202,177	100,797	3,224	0	(98,156)	0	(98,156)		
Public Works:									
Other Public Works	889,511	45,006	317,319	19,609	(507,577)	0	(507,577)		
Health and Welfare:									
Other Health and Welfare	30,002	0	0	0	(30,002)	0	(30,002)		
Community and Economic									
Development	77,461	0	0	0	(77,461)	0	(77,461)		
Recreation and Cultural	161,906	33,745	47,175	0	(80,986)	0	(80,986)		
Interest and Fees on Long-Term									
Debt	60,165	0	0	0	(60,165)	0	(60,165)		
Amortization of Deferred Bond									
Costs and Bond Discounts (Net)	<u>2,349</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,349)</u>	<u>0</u>	<u>(2,349)</u>		
Total Governmental Activities	<u>2,265,678</u>	<u>224,880</u>	<u>367,718</u>	<u>20,109</u>	<u>(1,652,971)</u>	<u>0</u>	<u>(1,652,971)</u>		
Business-Type Activities:									
Sewer Services	527,533	443,753	0	0	0	(83,780)	(83,780)		
Water Services	426,593	466,083	0	0	0	39,490	39,490		
City Park	<u>631,476</u>	<u>759,331</u>	<u>3,000</u>	<u>44,475</u>	<u>0</u>	<u>175,330</u>	<u>175,330</u>		
Total Business-Type Activities	<u>1,585,602</u>	<u>1,669,167</u>	<u>3,000</u>	<u>44,475</u>	<u>0</u>	<u>131,040</u>	<u>131,040</u>		
Total Primary Government	<u>\$ 3,851,280</u>	<u>\$ 1,894,047</u>	<u>\$ 370,718</u>	<u>\$ 64,584</u>	<u>(1,652,971)</u>	<u>131,040</u>	<u>(1,521,931)</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, 2013

Function/Program					Net (Expense) Revenue and Changes in Net Position				
	Expenses	Program Revenues			Primary Government			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
<u>Component Units</u>									
TIFA	\$ 351,702	\$ 0	\$ 1,773	\$ 0				\$ (349,929)	\$ 0
Housing Commission	<u>538,806</u>	<u>289,918</u>	<u>142,052</u>	<u>0</u>				<u>0</u>	<u>(106,836)</u>
Total Component Units	<u>\$ 890,508</u>	<u>\$ 289,918</u>	<u>\$ 143,825</u>	<u>\$ 0</u>				<u>(349,929)</u>	<u>(106,836)</u>
General Revenue:									
Property Taxes Levied For:									
General Operating					\$ 1,236,359	\$ 0	\$ 1,236,359	0	0
Mosquito Control					30,622	0	30,622	0	0
TIFA					0	0	0	218,527	0
Payment in Lieu of Taxes					4,500	0	4,500	0	0
State Revenue Sharing					255,597	0	255,597	0	0
Interest and Investment Earnings					31,825	5,907	37,732	406	3,020
Rent Income					249,048	1,700	250,748	0	0
Sale of Capital Assets					815	(526)	289	0	0
Other					519	7,736	8,255	5,807	6,308
Transfers					<u>164,156</u>	<u>(164,156)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total General Revenue and Transfers					<u>1,973,441</u>	<u>(149,339)</u>	<u>1,824,102</u>	<u>224,740</u>	<u>9,328</u>
Change in Net Position					320,470	(18,299)	302,171	(125,189)	(97,508)
Net Position - Beginning (Restated) (Note 14)					<u>8,231,668</u>	<u>9,074,311</u>	<u>17,305,979</u>	<u>746,779</u>	<u>1,742,974</u>
Net Position - Ending					<u>\$ 8,552,138</u>	<u>\$ 9,056,012</u>	<u>\$ 17,608,150</u>	<u>\$ 621,590</u>	<u>\$ 1,645,466</u>

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

CITY OF EAST TAWAS  
Iosco County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2013

		Special Revenue Fund		
	General Fund	Federal Project Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash and Cash Equivalents (Note 3)	\$ 94,052	\$ 195,683	\$ 199,118	\$ 488,853
Investments (Note 3)	1,744,541	510,767	85,256	2,340,564
Receivables:				
Property Taxes	1,219,983	0	0	1,219,983
Special Assessments	0	0	1,871	1,871
Accounts, Net	3,729	0	0	3,729
Notes Receivable	0	292,135	0	292,135
Due from Local Units	0	0	2,833	2,833
Due from Component Unit (Note 4)	15,214	0	0	15,214
Due from State	44,847	0	40,850	85,697
Due from Other Funds (Note 4)	17,004	410,993	0	427,997
Prepaid Expenses	9,349	0	3,289	12,638
Total Assets	<u>\$ 3,148,719</u>	<u>\$ 1,409,578</u>	<u>\$ 333,217</u>	<u>\$ 4,891,514</u>
<u>Liabilities</u>				
Accounts Payable	\$ 17,413	\$ 0	\$ 5,648	\$ 23,061
Accrued Liabilities	18,332	0	1,988	20,320
Total Liabilities	<u>35,745</u>	<u>0</u>	<u>7,636</u>	<u>43,381</u>
<u>Deferred Inflows of Resources</u>				
Property Taxes Levied for 2013/14	1,219,513	0	0	1,219,513
Unavailable Revenue - Special Assessments	0	0	1,871	1,871
Unavailable Revenue - Notes Receivable	0	292,135	0	292,135
Total Deferred Inflows of Resources	<u>1,219,513</u>	<u>292,135</u>	<u>1,871</u>	<u>1,513,519</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Cemetery Perpetual Care	0	0	85,290	85,290
Prepaid Expenses	9,349	0	3,289	12,638
Restricted For:				
Major Streets	0	0	177,502	177,502
Local Streets	0	0	50,898	50,898
Cemetery	0	0	2,377	2,377
Economic Development	0	1,117,443	0	1,117,443
Mosquito Control	0	0	4,103	4,103
Committed To:				
Debt Retirement	0	0	251	251
Library	250,000	0	0	250,000
Community Center	13,188	0	0	13,188
Capital Equipment	346,460	0	0	346,460
Assigned For:				
2013/14 Budgeted Expenditures	129,751	0	0	129,751
Unassigned	1,144,713	0	0	1,144,713
Total Fund Equity	<u>1,893,461</u>	<u>1,117,443</u>	<u>323,710</u>	<u>3,334,614</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Equity	<u>\$ 3,148,719</u>	<u>\$ 1,409,578</u>	<u>\$ 333,217</u>	<u>\$ 4,891,514</u>

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

CITY OF EAST TAWAS  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
September 30, 2013

Total Governmental Fund Balances	\$	3,334,614
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Amounts reported for governmental activities in the statement of net position are different because:

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

Capital Asset Cost	\$ 9,770,251	
Accumulated Depreciation	<u>(3,510,986)</u>	
		6,259,265

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

Notes Receivable	292,135	
Special Assessments Receivable	<u>1,871</u>	
		294,006

Accrued Interest on Long-Term Liabilities		(21,815)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Bonds Payable (Net of Unamortized Discount)	(1,295,852)	
Deferred Charge on Refunding	20,513	
Compensated Absences Payable	<u>(38,593)</u>	
Total Long-Term Liabilities		<u>(1,313,932)</u>

Total Net Position - Governmental Activities	\$	<u>8,552,138</u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2013

		Special Revenue Fund		
	General Fund	Federal Project Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>				
Property Taxes	\$ 1,272,178	\$ 0	\$ 57,904	\$ 1,330,082
Federal Grants and Revenue	0	0	19,609	19,609
State Grants and Revenue	255,597	0	299,717	555,314
Local Grants	500	0	0	500
Contributions from Local Units	0	0	17,602	17,602
Licenses and Permits	2,391	0	0	2,391
Charges for Services	139,079	0	4,295	143,374
Interest and Rentals	136,833	13,887	145,354	296,074
Other Revenue	53,104	59,231	1,227	113,562
Total Revenue	<u>1,859,682</u>	<u>73,118</u>	<u>545,708</u>	<u>2,478,508</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	47,716	0	0	47,716
Chief Executive	69,160	0	0	69,160
Financial and Tax Administration	174,299	0	0	174,299
Other General Government	263,233	0	10,199	273,432
Public Safety	316,335	0	0	316,335
Public Works	436,241	0	307,219	743,460
Health and Welfare	0	0	30,002	30,002
Community and Economic Development	75,637	12,464	0	88,101
Recreation and Cultural	153,955	0	0	153,955
Capital Outlay	97,942	0	125,841	223,783
Debt Service:				
Principal	0	0	390,000	390,000
Interest and Fiscal Charges	0	0	66,821	66,821
Total Expenditures	<u>1,634,518</u>	<u>12,464</u>	<u>930,082</u>	<u>2,577,064</u>
Excess of Revenue Over (Under) Expenditures	<u>225,164</u>	<u>60,654</u>	<u>(384,374)</u>	<u>(98,556)</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	815	0	0	815
Operating Transfers In	163,734	0	784,756	948,490
Operating Transfers Out	(471,615)	0	(312,719)	(784,334)
Total Other Financing Sources (Uses)	<u>(307,066)</u>	<u>0</u>	<u>472,037</u>	<u>164,971</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(81,902)	60,654	87,663	66,415
Fund Balances - Beginning of Year	<u>1,975,363</u>	<u>1,056,789</u>	<u>236,047</u>	<u>3,268,199</u>
Fund Balances - End of Year	<u>\$ 1,893,461</u>	<u>\$ 1,117,443</u>	<u>\$ 323,710</u>	<u>\$ 3,334,614</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, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	66,415
Amounts reported for governmental activities in the statement of activities are different because:		
Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:		
Special Assessments	\$	1,871
Interest Receivable	<u>29</u>	1,900
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	210,820	
Current Year Depreciation Expense	<u>(303,918)</u>	(93,098)
Net difference		
Note receivable repayments and note disbursements are revenue and expenditures respectively in the governmental funds, but the repayments and disbursements reduce and increase the note receivable balances in the statement of net position. The activity reported in the governmental funds is as follows:		
Current Year Note Receivable Loan Disbursements	12,381	
Current Year Note Receivable Principal Receipts	<u>(59,231)</u>	(46,850)
Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The amount of repayments reported as expenditures in the governmental funds consist of:		
Bonds Payable		390,000
Governmental funds report the effect of discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of this difference in the treatment of long-term liabilities is as follows:		
Amortization of Bond Discount		(2,349)
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	6,656	
Net Change in Accrued Compensated Absences	<u>(2,204)</u>	4,452
Change in Net Position of Governmental Activities	\$	<u>320,470</u>

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

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
September 30, 2013

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents (Note 3)	\$ 502,013	\$ 280,587	\$ 742,746	\$ 1,525,346
Investments (Note 3)	0	408,701	0	408,701
Receivables:				
Accounts, Net	49,064	47,494	0	96,558
Prepaid Expenses	463	582	0	1,045
Restricted Assets:				
Cash and Cash Equivalents (Note 3)	0	109,341	0	109,341
Investments (Note 3)	0	97,932	0	97,932
Total Current Assets	<u>551,540</u>	<u>944,637</u>	<u>742,746</u>	<u>2,238,923</u>
Noncurrent Assets:				
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,321,788	0	1,321,788
Capital Assets Not Being Depreciated (Note 5)	6,500	0	766,637	773,137
Capital Assets, Net (Note 5)	<u>2,925,038</u>	<u>2,258,084</u>	<u>1,080,936</u>	<u>6,264,058</u>
Total Noncurrent Assets	<u>2,931,538</u>	<u>3,579,872</u>	<u>1,847,573</u>	<u>8,358,983</u>
Total Assets	<u>3,483,078</u>	<u>4,524,509</u>	<u>2,590,319</u>	<u>10,597,906</u>
<u>Deferred Outflows of Resources</u>				
Deferred Charge on Refunding	<u>0</u>	<u>14,639</u>	<u>0</u>	<u>14,639</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	642	13	9,342	9,997
Due to Other Funds (Note 4)	0	0	427,997	427,997
Accrued Interest Payable	0	19,430	0	19,430
Accrued Liabilities	1,294	1,239	0	2,533
Current Portion of Long-Term Liabilities (Note 6)	<u>0</u>	<u>49,878</u>	<u>0</u>	<u>49,878</u>
Total Current Liabilities	<u>1,936</u>	<u>70,560</u>	<u>437,339</u>	<u>509,835</u>
Long-Term Liabilities:				
Due in More Than One Year (Note 6)	<u>0</u>	<u>1,038,231</u>	<u>8,467</u>	<u>1,046,698</u>
Total Liabilities	<u>1,936</u>	<u>1,108,791</u>	<u>445,806</u>	<u>1,556,533</u>
<u>Net Position</u>				
Net Investment in Capital Assets	2,931,538	1,184,614	1,436,583	5,552,735
Restricted For:				
Debt Service	0	207,273	0	207,273
Unrestricted	<u>549,604</u>	<u>2,038,470</u>	<u>707,930</u>	<u>3,296,004</u>
Total Net Position	<u>\$ 3,481,142</u>	<u>\$ 3,430,357</u>	<u>\$ 2,144,513</u>	<u>\$ 9,056,012</u>

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

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended September 30, 2013

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Operating Revenue</u>				
Charges For Services	\$ 433,653	\$ 459,939	\$ 761,031	\$ 1,654,623
Service Connection Charges	4,000	0	0	4,000
Penalties	6,100	6,144	0	12,244
Other Revenue	149	1,188	6,399	7,736
Total Operating Revenue	<u>443,902</u>	<u>467,271</u>	<u>767,430</u>	<u>1,678,603</u>
<u>Operating Expenses</u>				
Salaries and Wages	54,127	55,662	190,355	300,144
Payroll Taxes and Employee Benefits	38,832	40,472	58,757	138,061
Advertising	0	0	610	610
Contractual Services	272,031	143,409	11,648	427,088
Depreciation and Amortization	131,822	96,672	149,080	377,574
Equipment	0	0	18,188	18,188
Equipment Rental	7,778	7,773	0	15,551
Insurance and Bonds	1,269	601	18,180	20,050
Office Supplies	3,572	3,572	0	7,144
Operating Supplies	1,278	22,167	18,451	41,896
Printing and Advertising	125	0	0	125
Repair and Maintenance	7,628	6,897	47,839	62,364
Travel and Training	336	1,206	0	1,542
Utilities	8,517	0	99,278	107,795
Other	218	218	19,090	19,526
Total Operating Expenses	<u>527,533</u>	<u>378,649</u>	<u>631,476</u>	<u>1,537,658</u>
Operating Income (Loss)	<u>(83,631)</u>	<u>88,622</u>	<u>135,954</u>	<u>140,945</u>
<u>Nonoperating Revenue (Expenses)</u>				
Interest and Investment Earnings	1,899	3,510	498	5,907
Contributions	0	0	3,000	3,000
Interest and Fees Expense	0	(47,944)	0	(47,944)
Gain or (Loss) on Sale of Capital Assets	0	(526)	0	(526)
Total Nonoperating Revenue (Expenses)	<u>1,899</u>	<u>(44,960)</u>	<u>3,498</u>	<u>(39,563)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(81,732)</u>	<u>43,662</u>	<u>139,452</u>	<u>101,382</u>
Capital Contributions	0	0	44,475	44,475
Operating Transfers Out	0	0	(164,156)	(164,156)
Net Capital Contributions and Operating Transfers	<u>0</u>	<u>0</u>	<u>(119,681)</u>	<u>(119,681)</u>
Change in Net Position	(81,732)	43,662	19,771	(18,299)
Net Position - Beginning of Year (Restated) (Note 14)	<u>3,562,874</u>	<u>3,386,695</u>	<u>2,124,742</u>	<u>9,074,311</u>
Net Position - End of Year	<u>\$ 3,481,142</u>	<u>\$ 3,430,357</u>	<u>\$ 2,144,513</u>	<u>\$ 9,056,012</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, 2013

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<b>Cash Flows From Operating Activities</b>				
Receipts From Customers	\$ 438,857	\$ 464,655	\$ 767,430	\$ 1,670,942
Payments to Suppliers for Goods and Services	(303,248)	(186,436)	(231,192)	(720,876)
Payments to Employees for Services	(92,497)	(95,694)	(250,729)	(438,920)
Net Cash Provided (Used) by Operating Activities	<u>43,112</u>	<u>182,525</u>	<u>285,509</u>	<u>511,146</u>
<b>Cash Flows From Non-Capital Financing Activities</b>				
Local Contributions Received	0	0	3,000	3,000
Cash Received from (Paid to) Other funds	<u>0</u>	<u>0</u>	<u>240,972</u>	<u>240,972</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>0</u>	<u>0</u>	<u>243,972</u>	<u>243,972</u>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Cash received from Capital Grant	0	0	20,300	20,300
Acquisition and Construction of Capital Assets	(17,973)	(17,973)	(433,193)	(469,139)
Principal Paid on Long-Term Debt	0	(45,000)	0	(45,000)
Interest and Fees Paid on Long-Term Debt	<u>0</u>	<u>(48,881)</u>	<u>0</u>	<u>(48,881)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(17,973)</u>	<u>(111,854)</u>	<u>(412,893)</u>	<u>(542,720)</u>
<b>Cash Flows From Investing Activities</b>				
Interest on Investments	1,899	3,291	498	5,688
Proceeds from Maturity of Investment Securities	427,060	605,135	0	1,032,195
Purchase of Investment Securities	<u>0</u>	<u>(454,261)</u>	<u>0</u>	<u>(454,261)</u>
Net Cash Provided (Used) by Investing Activities	<u>428,959</u>	<u>154,165</u>	<u>498</u>	<u>583,622</u>
Net Increase (Decrease) in Cash and Cash Equivalents	454,098	224,836	117,086	796,020
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>47,915</u>	<u>165,092</u>	<u>625,660</u>	<u>838,667</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 502,013</u>	<u>\$ 389,928</u>	<u>\$ 742,746</u>	<u>\$ 1,634,687</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
Operating Income (Loss)	\$ (83,631)	\$ 88,622	\$ 135,954	\$ 140,945
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	131,822	96,672	149,080	377,574
Change in Assets and Liabilities:				
Accounts Receivable, Net	(5,045)	(2,616)	0	(7,661)
Prepaid Expenses	(463)	(582)	0	(1,045)
Accounts Payable and Accrued Liabilities	429	429	2,092	2,950
Accrued Compensated Absences	<u>0</u>	<u>0</u>	<u>(1,617)</u>	<u>(1,617)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 43,112</u>	<u>\$ 182,525</u>	<u>\$ 285,509</u>	<u>\$ 511,146</u>

Supplemental Disclosures:

Noncash Capital and Related Financing Activities

The City Park Fund recorded noncash activity in the form of capital asset acquisition costs of \$24,175 being paid directly by the Tawas Bay Players.

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, 2013

	<u>Tax Account</u>	<u>Trust and Agency Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash and Cash Equivalents (Note 3)	\$ 1,256,235	\$ 6,267	\$ 1,262,502
Receivables:			
Property Taxes	<u>296,430</u>	<u>0</u>	<u>296,430</u>
Total Assets	<u>\$ 1,552,665</u>	<u>\$ 6,267</u>	<u>\$ 1,558,932</u>
<u>Liabilities</u>			
Due to Local Units	\$ 1,552,665	\$ 0	\$ 1,552,665
Due to Other Agencies and Individuals	<u>0</u>	<u>6,267</u>	<u>6,267</u>
Total Liabilities	<u>\$ 1,552,665</u>	<u>\$ 6,267</u>	<u>\$ 1,558,932</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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Tawas (City) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The following is a summary of the significant accounting policies:

A. Description of City Operations and Fund Types

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

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

B. Reporting Entity

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

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

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

1. Blended Component Units

a. Governmental Activity and Fund Type Blended Component Unit:

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

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

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

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, 2012. 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, 2013 was \$196,625. 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, 2013 was \$249,750. 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, 2013

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 that was adjusted on an annual basis through the life of the debt. 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, 2013 was \$139,567. The current value of the City of East Tawas' investment in the Huron Shore Regional Utility Authority is \$1,321,788. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

D. Basis of Presentation

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

**Government-Wide Financial Statements**

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

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

**Fund Financial Statements**

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

E. Fund Accounting

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

**Governmental Funds**

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

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

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

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

**Proprietary Funds**

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

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

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

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

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

**Fiduciary Funds**

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

F. Measurement Focus

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

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

G. Basis of Accounting

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

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

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



CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items, which arise under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the items, unavailable revenue and property taxes levied for use in 2013/14, are reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: special assessments receivable and notes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Property taxes levied for use in 2013/14 are reported as a deferred inflow of resources for the statement of net position as well.

**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, 2013

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

Of the \$292,135 balance for notes receivable, \$235,913 will not be collected in the next fiscal year. Therefore \$235,913 of notes receivable is also considered to be long-term.

The allowance for doubtful accounts at September 30, 2013 was \$0 for the primary government and \$490 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 position.

K. Prepaid Items

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

L. Capital Assets

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

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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

M. Accrued Liabilities and Long-Term Obligations

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

N. Compensated Absences

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

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Position

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

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

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

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

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

P. Fund Balances

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

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

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

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

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

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance (Continued)

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

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

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

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

Q. Operating Revenues and Expenses

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

R. Interfund Activity

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2013.

T. Budgets and Budgetary Accounting

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

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgets and Budgetary Accounting (Continued)

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

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

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

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

U. Use of Estimates

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

V. Reclassifications

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

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2013, the City has implemented Governmental Accounting Standards Board (GASB) Statement Number 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement amends the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65 establishes standards that reclassify and recognize certain items that were previously reported as assets and liabilities, as deferred outflows of resources or deferred inflows of resources. GASB No. 65 also provides guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in major fund determination and limited use of the term deferred in financial statement presentations.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 3 - 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	\$ 488,853	\$ 1,525,346	\$ 1,262,502	\$ 3,276,701	\$ 555,788
Investments	2,340,564	408,701	0	2,749,265	355,808
Restricted Cash and Cash Equivalents	0	109,341	0	109,341	0
Restricted Investments	<u>0</u>	<u>97,932</u>	<u>0</u>	<u>97,932</u>	<u>0</u>
Total	<u>\$ 2,829,417</u>	<u>\$ 2,141,320</u>	<u>\$ 1,262,502</u>	<u>\$ 6,233,239</u>	<u>\$ 911,596</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 6,204,823	\$ 806,614
Investments in Financial Institution Pooled Funds	27,876	104,782
Petty Cash and Cash on Hand	<u>540</u>	<u>200</u>
Total	<u>\$ 6,233,239</u>	<u>\$ 911,596</u>

As of September 30, 2013, the City had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government:		
Investment Pools	\$ <u>27,876</u>	Daily
Component Units:		
Investment Pools	\$ <u>104,782</u>	Daily

Interest Rate Risk

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

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

Custodial Credit Risk - Deposits - Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2013, \$3,744,768 of the City's bank balance of \$6,401,402 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, 2013, \$109,720 of the TIFA's bank balance of \$161,003 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, 2012, \$139,935 of the East Tawas Housing Commission's bank balance of \$645,612 was exposed to custodial credit risk.

Concentration of Credit Risk - Primary Government and TIFA Component Unit

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 - Primary Government and TIFA Component Unit

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

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

Foreign Currency Risk

The City's and TIFA Component Unit's investment policy does not address foreign currency risk.

The Housing Commission Component Unit's audit report does not address foreign currency risk.



CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of September 30, 2013 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 17,004	\$ 0
Federal Project Fund	<u>410,993</u>	<u>0</u>
Total Major Governmental Funds	427,997	0
Major Enterprise Funds:		
City Park Fund	<u>0</u>	<u>427,997</u>
	<u>\$ 427,997</u>	<u>\$ 427,997</u>
<u>Due from Component Unit</u>		<u>Due to Primary Government</u>
General Fund	\$ <u>15,214</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.

\* 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, 2012.

The Federal Project Fund's interfund receivable balance represents a long-term loan to the City Park at September 30, 2013.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended September 30, 2013, was as follows:

	Balance 10/01/12	Additions	Deletions	Balance 09/30/13
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,004,266	\$ 0	\$ 0	\$ 1,004,266
Construction in Progress	162,947	10,249	(162,947)	10,249
Subtotal	<u>1,167,213</u>	<u>10,249</u>	<u>(162,947)</u>	<u>1,014,515</u>
Capital Assets Being Depreciated:				
Land Improvements	224,705	12,623	0	237,328
Buildings and Improvements	2,930,811	0	0	2,930,811
Machinery and Equipment	1,180,071	22,698	(10,000)	1,192,769
Vehicles	1,370,054	56,878	(44,500)	1,382,432
Infrastructure - Roads	<u>2,741,077</u>	<u>271,319</u>	<u>0</u>	<u>3,012,396</u>
Subtotal	<u>8,446,718</u>	<u>363,518</u>	<u>(54,500)</u>	<u>8,755,736</u>
Less Accumulated Depreciation for:				
Land Improvements	(62,595)	(12,068)	0	(74,663)
Buildings and Improvements	(1,064,917)	(71,917)	0	(1,136,834)
Machinery and Equipment	(834,984)	(58,845)	10,000	(883,829)
Vehicles	(945,234)	(84,785)	44,500	(985,519)
Infrastructure - Roads	<u>(353,838)</u>	<u>(76,303)</u>	<u>0</u>	<u>(430,141)</u>
Subtotal	<u>(3,261,568)</u>	<u>(303,918)</u>	<u>54,500</u>	<u>(3,510,986)</u>
Capital Assets Being Depreciated	<u>5,185,150</u>	<u>59,600</u>	<u>0</u>	<u>5,244,750</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 6,352,363</u>	<u>\$ 69,849</u>	<u>\$ (162,947)</u>	<u>\$ 6,259,265</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	Balance 10/01/12	Additions	Deletions	Balance 09/30/13
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 339,944	\$ 433,193	\$ 0	\$ 773,137
Construction in Progress	<u>58,648</u>	<u>0</u>	<u>(58,648)</u>	<u>0</u>
Subtotal	<u>398,592</u>	<u>433,193</u>	<u>(58,648)</u>	<u>773,137</u>
Capital Assets Being Depreciated:				
Land Improvements	3,928,790	0	0	3,928,790
Buildings	960,080	82,823	(476)	1,042,427
Machinery and Equipment	755,458	35,946	(157,410)	633,994
Water System	3,908,312	0	0	3,908,312
Sewer System	<u>5,883,915</u>	<u>0</u>	<u>0</u>	<u>5,883,915</u>
Subtotal	<u>15,436,555</u>	<u>118,769</u>	<u>(157,886)</u>	<u>15,397,438</u>
Less Accumulated Depreciation for:				
Land Improvements	(3,125,191)	(118,034)	0	(3,243,225)
Buildings	(630,245)	(25,650)	476	(655,419)
Machinery and Equipment	(603,739)	(25,670)	156,884	(472,525)
Water System	(1,618,983)	(89,149)	0	(1,708,132)
Sewer System	<u>(2,936,074)</u>	<u>(118,005)</u>	<u>0</u>	<u>(3,054,079)</u>
Subtotal	<u>(8,914,232)</u>	<u>(376,508)</u>	<u>157,360</u>	<u>(9,133,380)</u>
Capital Assets Being Depreciated	<u>6,522,323</u>	<u>(257,739)</u>	<u>(526)</u>	<u>6,264,058</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 6,920,915</u>	<u>\$ 175,454</u>	<u>\$ (59,174)</u>	<u>\$ 7,037,195</u>

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

Governmental Activities

General Government:	
Legislative and Executive	\$ 5,829
Other General Government	59,621
Public Safety:	
Fire	70,373
Public Works:	
Other Public Works	160,187
Community and Economic Development	1,741
Recreation and Cultural	<u>6,167</u>

Total Governmental Activities \$ 303,918

Business-Type Activities

Sewer	\$ 131,822
Water	95,606
City Park	<u>149,080</u>

Total Business-Type Activities \$ 376,508

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 5 - CAPITAL ASSETS (CONTINUED)

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

	Balance 10/01/12	Additions	Deletions	Balance 09/30/13
<u>Governmental Activities</u>				
Capital Assets Being Depreciated				
Land Improvements	\$ 2,925,478	\$ 0	\$ 0	\$ 2,925,478
Machinery and Equipment	<u>25,735</u>	<u>0</u>	<u>0</u>	<u>25,735</u>
Subtotal	<u>2,951,213</u>	<u>0</u>	<u>0</u>	<u>2,951,213</u>
Less Accumulated Depreciation for:				
Land Improvements	(354,611)	(146,273)	0	(500,884)
Machinery and Equipment	<u>(19,998)</u>	<u>(1,350)</u>	<u>0</u>	<u>(21,348)</u>
Subtotal	<u>(374,609)</u>	<u>(147,623)</u>	<u>0</u>	<u>(522,232)</u>
Capital Assets Being Depreciated	<u>2,576,604</u>	<u>(147,623)</u>	<u>0</u>	<u>2,428,981</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 2,576,604</u>	<u>\$ (147,623)</u>	<u>\$ 0</u>	<u>\$ 2,428,981</u>

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

<u>Governmental Activities</u>	
Community and Economic Development	<u>\$ 147,623</u>

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

	Balance 01/01/12	Additions	Deletions	Balance 12/31/12
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ <u>205,892</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>205,892</u>
Capital Assets Being Depreciated:				
Buildings	3,157,763	25,635	0	3,183,398
Furniture and Equipment	<u>97,694</u>	<u>3,602</u>	<u>0</u>	<u>101,296</u>
Subtotal	<u>3,255,457</u>	<u>29,237</u>	<u>0</u>	<u>3,284,694</u>
Less Accumulated Depreciation	<u>(2,287,874)</u>	<u>(112,408)</u>	<u>0</u>	<u>(2,400,282)</u>
Capital Assets Being Depreciated	<u>967,583</u>	<u>(83,171)</u>	<u>0</u>	<u>884,412</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 1,173,475</u>	<u>\$ (83,171)</u>	<u>\$ 0</u>	<u>\$ 1,090,304</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, 2013

NOTE 6 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
General Obligation Bonds:		
\$1,575,000 2007 Building Authority Refunding Bonds Limited Tax General Obligation Bonds, dated March 29, 2007 for the purpose of advance refunding the 1999 Building Authority Limited Tax General Obligation Bonds. The bonds bear interest at 4% - 4.125% and are due in annual installments through 2023.	\$ <u>1,300,000</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>1,090,000</u>
Total Bonds Payable	<u>1,300,000</u>	<u>1,090,000</u>
Total Primary Government	\$ <u><u>1,300,000</u></u>	\$ <u><u>1,090,000</u></u>

Component Units:

B. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
Governmental Activities		
East Tawas TIFA - \$2,300,000 Limited Tax General Obligation 2008 Development Bonds, dated June 23, 2008 for the purpose of paying the cost of streetscape improvements. The bonds bear interest from 3.8% - 5% and are due in annual installments through 2033.	\$ <u><u>2,055,000</u></u>	\$ <u><u>0</u></u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

C. Compensated Absences Payable

The City has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of September 30, 2013, the accumulated vested vacation and sick leave benefits of the employees of various City departments and its component unit were as follows:

	Current Liability 09/30/13	Long-Term Liability 09/30/13	Total Balance 09/30/13
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 0	\$ 38,593	\$ 38,593
Business-Type Activities	<u>0</u>	<u>8,467</u>	<u>8,467</u>
	<u>\$ 0</u>	<u>\$ 47,060</u>	<u>\$ 47,060</u>
<u>Component Unit</u>			
East Tawas Housing Commission	<u>\$ 5,918</u>	<u>\$ 9,714</u>	<u>\$ 15,632</u>

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2013:

	Balance 10/01/12	Issues or Additions	Payments or Expenditures	Balance 09/30/13	Due Within One Year
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 1,690,000	\$ 0	\$ (390,000)	\$ 1,300,000	\$ 95,000
Deferred Amounts on Issuance Discount	<u>(4,543)</u>	<u>0</u>	<u>395</u>	<u>(4,148)</u>	<u>(395)</u>
Total Bonds Payable, Net	1,685,457	0	(389,605)	1,295,852	94,605
Compensated Absences	<u>36,389</u>	<u>2,204</u> *	<u>0</u>	<u>38,593</u>	<u>0</u>
Total Primary Government	<u>\$ 1,721,846</u>	<u>\$ 2,204</u>	<u>\$ (389,605)</u>	<u>\$ 1,334,445</u>	<u>\$ 94,605</u>
Component Units:					
Bonds Payable	\$ 2,110,000	\$ 0	\$ (55,000)	\$ 2,055,000	\$ 55,000
Deferred Amounts on Issuance Discount	<u>(23,856)</u>	<u>0</u>	<u>1,150</u>	<u>(22,706)</u>	<u>(1,150)</u>
Total Component Units	<u>\$ 2,086,144</u>	<u>\$ 0</u>	<u>\$ (53,850)</u>	<u>\$ 2,032,294</u>	<u>\$ 53,850</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

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

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

	<u>Balance 10/01/12</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/13</u>	<u>Due Within One Year</u>
<b><u>Business-Type Activities</u></b>					
Primary Government:					
Bonds Payable	\$ 1,135,000	\$ 0	\$ (45,000)	\$ 1,090,000	\$ 50,000
Deferred Amounts on Issuance Discount	<u>(2,013)</u>	<u>0</u>	<u>122</u>	<u>(1,891)</u>	<u>(122)</u>
Total Bonds Payable, Net	1,132,987	0	(44,878)	1,088,109	49,878
Compensated Absences	<u>10,084</u>	<u>0</u>	<u>(1,617)*</u>	<u>8,467</u>	<u>0</u>
Total Primary Government	<u>\$ 1,143,071</u>	<u>\$ 0</u>	<u>\$ (46,495)</u>	<u>\$ 1,096,576</u>	<u>\$ 49,878</u>
	<u>Balance 10/01/12</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/13</u>	<u>Due Within One Year</u>
Component Units:					
Compensated Absences	<u>\$ 13,058</u>	<u>\$ 2,574</u>	<u>\$ 0</u>	<u>\$ 15,632</u>	<u>\$ 5,918</u>

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

The interest expenditures on long-term obligations for the year were \$108,109.

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, 2013 are as follows:

**Primary Government**

<b>Bonds Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	\$ 95,000	\$ 50,456	\$ 50,000	\$ 46,631	\$ 242,087
2015	100,000	46,556	50,000	44,131	240,687
2016	105,000	42,456	55,000	42,006	244,462
2017	105,000	38,256	55,000	39,256	237,512
2018	110,000	33,956	60,000	36,506	240,462
2019 - 2023	640,000	97,096	330,000	145,043	1,212,139
2024 - 2028	145,000	2,991	400,000	71,307	619,298
2029	<u>0</u>	<u>0</u>	<u>90,000</u>	<u>3,825</u>	<u>93,825</u>
Total	<u>\$ 1,300,000</u>	<u>\$ 311,767</u>	<u>\$ 1,090,000</u>	<u>\$ 428,705</u>	<u>\$ 3,130,472</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

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

Component Units

<b>Bonds Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
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	70,000	86,302	0	0	156,302
2019 - 2023	425,000	381,824	0	0	806,824
2024 - 2028	575,000	272,476	0	0	847,476
2029 - 2033	<u>740,000</u>	<u>114,750</u>	<u>0</u>	<u>0</u>	<u>854,750</u>
Total	\$ <u>2,055,000</u>	\$ <u>1,225,802</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>3,280,802</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 2012 tax levy was \$78,041,357. The corresponding tax rates were 15.5677 mills for operations and 2.0500 mills for garbage collection.

The mosquito control millage is recognized in the same year as it is levied. The taxable value for properties located within the City for the 2013 tax levy was \$76,479,969 and the corresponding tax rate was 0.4000 mills for mosquito control.

**NOTE 8 - OPERATING TRANSFERS**

During the year ended September 30, 2013, 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	\$ 163,734	\$ 471,615
Major Business-Type Activity Funds:		
City Park Fund	<u>0</u>	<u>164,156</u>
Total Major Funds	163,734	635,771
Non-major Governmental Funds	<u>784,756</u>	<u>312,719</u>
	\$ <u>948,490</u>	\$ <u>948,490</u>

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



CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 9 - RETIREMENT PLAN

The City has adopted a defined contribution pension plan covering substantially all of its general employees and Housing Commission 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 \$61,033.

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

NOTE 10 - DEFERRED COMPENSATION PLAN

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

NOTE 11 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. Accrued unemployment compensation was \$1,257 as of September 30, 2013.

NOTE 12 - RISK MANAGEMENT

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

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, 2013.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

Adjustment 1 - In prior years, bond issuance costs were recorded as assets, however, GASB Statement No. 65 now requires that debt issuance costs are expensed when incurred. Therefore, a prior period adjustment was made to decrease the Water Fund Net Position and Business-Type Activities Net Position by \$46,401, decrease the Governmental Activities Net Position by \$37,341, and decrease the East Tawas TIFA Net Position by \$47,942.

Adjustment 2 - On August 12, 2011, the City transferred capital assets to Huron Shore Regional Utility Authority, these assets should have been removed from the City's capital asset listing in the fiscal year ending September 30, 2011. A prior period adjustment was made to decrease the Water Fund Net Position and Business-Type Activities Net Position by \$137,553.

Adjustment 3 - Assets were included in the City's capital asset listing that were disposed of several years ago and should have been removed from the financial statements at that time. A prior period adjustment was made to decrease the Water Fund Net Position and Business-Type Activities Net Position by \$14,914.

	<u>Water Fund</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>East Tawas TIFA</u>
Beginning Net Position	\$ 3,585,563	\$ 9,273,179	\$ 8,269,009	\$ 794,721
Adjustment 1	(46,401)	(46,401)	(37,341)	(47,942)
Adjustment 2	(137,553)	(137,553)	0	0
Adjustment 3	<u>(14,914)</u>	<u>(14,914)</u>	<u>0</u>	<u>0</u>
Beginning Net Position (Restated)	\$ <u>3,386,695</u>	\$ <u>9,074,311</u>	\$ <u>8,231,668</u>	\$ <u>746,779</u>

NOTE 15 - RELATED PARTY TRANSACTIONS

The City of East Tawas has entered into contracts with Bolen Asphalt Paving, Inc. and Bolen Trucking Co., Inc. for bituminous paving for fiscal years 2013 - 2015 and snow removal for fiscal years 2012 - 2014. 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 \$74,316 for bituminous paving and Bolen Trucking Co., Inc. was paid \$8,395 for snow removal.

The City of East Tawas has also entered into contracts with Tawas Bay Insurance Agency for liability insurance for the 2013 fiscal year. Tawas Bay Insurance Agency is owned and operated by a member of the Park Board, which does not vote on the insurance of the City. During the current year, Tawas Bay Insurance Agency was paid \$69,134 for insurance coverage.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

NOTE 16 - COMMITMENTS

The City has contractual commitments in the amount of \$384,470 outstanding at September 30, 2013.

**Construction contracts**

As of September 30, 2013, the City had the following construction contract in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at September 30, 2013</u>	<u>Contract Payable at September 30, 2013</u>
Church Street Project	\$ 54,470	\$ 54,470	\$ 0
Sanitary Sewer Project	<u>330,000</u>	<u>330,000</u>	<u>0</u>
Total	<u>\$ 384,470</u>	<u>\$ 384,470</u>	<u>\$ 0</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, 2013

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 1,303,400	\$ 1,271,958	\$ 1,272,178	\$ 220
State Grants and Revenue	241,061	247,000	255,597	8,597
Local Grants	0	500	500	0
Licenses and Permits	2,500	2,140	2,391	251
Charges for Services	124,400	136,375	139,079	2,704
Interest and Rentals	146,300	142,945	136,833	(6,112)
Other Revenue	134,500	138,275	53,104	(85,171)
Total Revenue	<u>1,952,161</u>	<u>1,939,193</u>	<u>1,859,682</u>	<u>(79,511)</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	46,850	50,250	47,716	2,534
Chief Executive	77,795	80,150	69,160	10,990
Financial and Tax Administration	173,775	178,500	174,299	4,201
Other General Government	246,332	286,072	263,233	22,839
Public Safety	315,225	325,250	316,335	8,915
Public Works	567,875	569,625	436,241	133,384
Health and Welfare	31,500	0	0	0
Community and Economic Development	90,350	85,125	75,637	9,488
Recreation and Cultural	159,700	163,100	153,955	9,145
Capital Outlay	349,700	254,375	97,942	156,433
Total Expenditures	<u>2,059,102</u>	<u>1,992,447</u>	<u>1,634,518</u>	<u>357,929</u>
Excess of Revenue Over (Under) Expenditures	<u>(106,941)</u>	<u>(53,254)</u>	<u>225,164</u>	<u>278,418</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	4,275	815	(3,460)
Operating Transfers In	175,082	164,157	163,734	(423)
Operating Transfers Out	(144,303)	(471,638)	(471,615)	23
Total Other Financing Sources (Uses)	<u>30,779</u>	<u>(303,206)</u>	<u>(307,066)</u>	<u>(3,860)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(76,162)	(356,460)	(81,902)	274,558
Fund Balances - Beginning of Year	<u>1,975,363</u>	<u>1,975,363</u>	<u>1,975,363</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,899,201</u>	<u>\$ 1,618,903</u>	<u>\$ 1,893,461</u>	<u>\$ 274,558</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, 2013

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Interest and Rentals	\$ 16,376	\$ 14,376	\$ 13,887	\$ (489)
Other Revenue	<u>58,890</u>	<u>58,890</u>	<u>59,231</u>	<u>341</u>
Total Revenue	75,266	73,266	73,118	(148)
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>75,266</u>	<u>440,266</u>	<u>12,464</u>	<u>427,802</u>
Excess of Revenue Over (Under) Expenditures	0	(367,000)	60,654	427,654
Fund Balances - Beginning of Year	<u>1,056,789</u>	<u>1,056,789</u>	<u>1,056,789</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,056,789</u>	<u>\$ 689,789</u>	<u>\$ 1,117,443</u>	<u>\$ 427,654</u>

OTHER INFORMATION

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
September 30, 2013

	Special Revenue Funds					Debt Retirement Funds		Permanent Fund	Total Other Governmental Funds
	Major Streets	Local Streets	Cemetery Fund	Mosquito Control Fund	Tawas Lake Public Improvement Fund	Major Street Construction Bond	2007 Building Authority Refunding Bond Fund	Cemetery Perpetual Care	
<b>Assets</b>									
Cash and Cash Equivalents	\$ 150,705	\$ 39,599	\$ 2,401	\$ 6,128	\$ 0	\$ 0	\$ 251	\$ 34	\$ 199,118
Investments	0	0	0	0	0	0	0	85,256	85,256
Receivables:									
Special Assessments	0	0	0	0	1,871	0	0	0	1,871
Due from Local Units	0	0	0	2,833	0	0	0	0	2,833
Due from State	28,736	12,114	0	0	0	0	0	0	40,850
Prepaid Expenses	2,282	867	140	0	0	0	0	0	3,289
<b>Total Assets</b>	<b>\$ 181,723</b>	<b>\$ 52,580</b>	<b>\$ 2,541</b>	<b>\$ 8,961</b>	<b>\$ 1,871</b>	<b>\$ 0</b>	<b>\$ 251</b>	<b>\$ 85,290</b>	<b>\$ 333,217</b>
<b>Liabilities</b>									
Accounts Payable	\$ 742	\$ 24	\$ 24	\$ 4,858	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,648
Accrued Liabilities	1,197	791	0	0	0	0	0	0	1,988
<b>Total Liabilities</b>	<b>1,939</b>	<b>815</b>	<b>24</b>	<b>4,858</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,636</b>
<b>Deferred Inflows of Resources</b>									
Unavailable Revenue - Special Assessments	0	0	0	0	1,871	0	0	0	1,871
<b>Fund Equity</b>									
Fund Balances:									
Nonspendable:									
Cemetery Perpetual Care	0	0	0	0	0	0	0	85,290	85,290
Prepaid Expenses	2,282	867	140	0	0	0	0	0	3,289
Restricted For:									
Major Streets	177,502	0	0	0	0	0	0	0	177,502
Local Streets	0	50,898	0	0	0	0	0	0	50,898
Cemetery	0	0	2,377	0	0	0	0	0	2,377
Mosquito Control	0	0	0	4,103	0	0	0	0	4,103
Committed To:									
Debt Retirement	0	0	0	0	0	0	251	0	251
<b>Total Fund Equity</b>	<b>179,784</b>	<b>51,765</b>	<b>2,517</b>	<b>4,103</b>	<b>0</b>	<b>0</b>	<b>251</b>	<b>85,290</b>	<b>323,710</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Equity</b>	<b>\$ 181,723</b>	<b>\$ 52,580</b>	<b>\$ 2,541</b>	<b>\$ 8,961</b>	<b>\$ 1,871</b>	<b>\$ 0</b>	<b>\$ 251</b>	<b>\$ 85,290</b>	<b>\$ 333,217</b>



CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2013

	Special Revenue Funds					Debt Retirement Funds		Permanent Fund	Total Other Governmental Funds
	Major Streets	Local Streets	Cemetery Fund	Mosquito Control Fund	Tawas Lake Public Improvement Fund	Major Street Construction Bond	2007 Building Authority Refunding Bond Fund	Cemetery Perpetual Care	
<b>Revenue</b>									
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 30,722	\$ 27,182	\$ 0	\$ 0	\$ 0	\$ 57,904
Federal Grants and Revenue	19,609	0	0	0	0	0	0	0	19,609
State Grants and Revenue	223,705	76,012	0	0	0	0	0	0	299,717
Contributions from Local Units	17,602	0	0	0	0	0	0	0	17,602
Charges for Services	0	0	4,295	0	0	0	0	0	4,295
Interest and Rentals	479	53	0	2	9	1	144,156	654	145,354
Other Revenue	124	58	15	0	0	0	0	1,030	1,227
Total Revenue	<u>261,519</u>	<u>76,123</u>	<u>4,310</u>	<u>30,724</u>	<u>27,191</u>	<u>1</u>	<u>144,156</u>	<u>1,684</u>	<u>545,708</u>
<b>Expenditures</b>									
Current:									
General Government:									
Other General Government	0	0	9,239	0	0	0	0	960	10,199
Public Works	215,168	64,438	0	0	27,613	0	0	0	307,219
Health and Welfare	0	0	0	30,002	0	0	0	0	30,002
Capital Outlay	34,487	91,354	0	0	0	0	0	0	125,841
Debt Service:									
Principal	0	0	0	0	0	300,000	90,000	0	390,000
Interest and Fiscal Charges	0	0	0	0	0	12,666	54,155	0	66,821
Total Expenditures	<u>249,655</u>	<u>155,792</u>	<u>9,239</u>	<u>30,002</u>	<u>27,613</u>	<u>312,666</u>	<u>144,155</u>	<u>960</u>	<u>930,082</u>
Excess of Revenue Over (Under) Expenditures	<u>11,864</u>	<u>(79,669)</u>	<u>(4,929)</u>	<u>722</u>	<u>(422)</u>	<u>(312,665)</u>	<u>1</u>	<u>724</u>	<u>(384,374)</u>
<b>Other Financing Sources (Uses)</b>									
Operating Transfers In	355,430	111,185	5,977	0	422	311,742	0	0	784,756
Operating Transfers Out	(311,742)	0	0	0	0	0	0	(977)	(312,719)
Total Other Financing Sources (Uses)	<u>43,688</u>	<u>111,185</u>	<u>5,977</u>	<u>0</u>	<u>422</u>	<u>311,742</u>	<u>0</u>	<u>(977)</u>	<u>472,037</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	55,552	31,516	1,048	722	0	(923)	1	(253)	87,663
Fund Balances - Beginning of Year	<u>124,232</u>	<u>20,249</u>	<u>1,469</u>	<u>3,381</u>	<u>0</u>	<u>923</u>	<u>250</u>	<u>85,543</u>	<u>236,047</u>
Fund Balances - End of Year	<u>\$ 179,784</u>	<u>\$ 51,765</u>	<u>\$ 2,517</u>	<u>\$ 4,103</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 251</u>	<u>\$ 85,290</u>	<u>\$ 323,710</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
EAST TAWAS TIFA - COMPONENT UNIT  
GOVERNMENTAL FUNDS  
September 30, 2013

	<u>Special Revenue Fund</u>	<u>Debt Retirement Fund</u>	
	<u>TIFA Fund</u>	<u>TIFA Streetscape Debt Service</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$ 214,502	\$ 51,282	\$ 265,784
Receivables:			
Property Taxes	208,496	0	208,496
Prepaid Expenses	<u>121</u>	<u>0</u>	<u>121</u>
Total Assets	<u>\$ 423,119</u>	<u>\$ 51,282</u>	<u>\$ 474,401</u>
<u>Liabilities</u>			
Accounts Payable	\$ 76	\$ 0	\$ 76
Accrued Liabilities	<u>916</u>	<u>0</u>	<u>916</u>
Total Liabilities	<u>992</u>	<u>0</u>	<u>992</u>
<u>Deferred Inflows of Resources</u>			
Property Taxes Levied for 2013/14	<u>208,496</u>	<u>0</u>	<u>208,496</u>
<u>Fund Equity</u>			
Fund Balances:			
Nonspendable:			
Prepaid Expenses	121	0	121
Restricted For:			
Debt Retirement	0	51,282	51,282
Economic Development	<u>213,510</u>	<u>0</u>	<u>213,510</u>
Total Fund Equity	<u>213,631</u>	<u>51,282</u>	<u>264,913</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Equity	<u>\$ 423,119</u>	<u>\$ 51,282</u>	<u>\$ 474,401</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

EAST TAWAS TIFA - COMPONENT UNIT -  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
September 30, 2013

Total Governmental Fund Balances		\$	264,913
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	2,951,213	
Accumulated Depreciation		<u>(522,232)</u>	
			2,428,981
Accrued Interest on Long-Term Liabilities			(40,010)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (Net of Unamortized Discount)			<u>(2,032,294)</u>
Total Net Position - Governmental Activities		\$	<u>621,590</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, 2013

	Special Revenue Fund	Debt Retirement Fund	Total Governmental Funds
	TIFA Fund	TIFA Streetscape Debt Service	
<u>Revenue</u>			
Property Taxes	\$ 218,527	\$ 0	\$ 218,527
Interest and Rentals	375	31	406
Other Revenue	7,580	0	7,580
Total Revenue	<u>226,482</u>	<u>31</u>	<u>226,513</u>
<u>Expenditures</u>			
Current:			
Public Works	17,602	0	17,602
Community and Economic Development	87,985	0	87,985
Debt Service:			
Principal	0	55,000	55,000
Interest and Fiscal Charges	<u>0</u>	<u>98,230</u>	<u>98,230</u>
Total Expenditures	<u>105,587</u>	<u>153,230</u>	<u>258,817</u>
Excess of Revenue Over (Under) Expenditures	<u>120,895</u>	<u>(153,199)</u>	<u>(32,304)</u>
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	0	153,305	153,305
Operating Transfers Out	<u>(153,305)</u>	<u>0</u>	<u>(153,305)</u>
Total Other Financing Sources (Uses)	<u>(153,305)</u>	<u>153,305</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(32,410)	106	(32,304)
Fund Balances - Beginning of Year	<u>246,041</u>	<u>51,176</u>	<u>297,217</u>
Fund Balances - End of Year	<u>\$ 213,631</u>	<u>\$ 51,282</u>	<u>\$ 264,913</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, 2013

Total Net Change in Fund Balances - Governmental Funds	\$ (32,304)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Current Year Depreciation Expense	(147,623)
Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The amount of repayments reported as expenditures in the governmental funds consist of:	
Bonds Payable	55,000
Governmental funds report the effect of discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term liabilities is as follows:	
Amortization of Bond Discount	(1,150)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Net Change in Accrued Interest	<u>888</u>
Change in Net Position of Governmental Activities	<u>\$ (125,189)</u>



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

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

January 27, 2014

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, 2013 and have issued our report dated January 27, 2014. Our opinions on the financial statements and this report, insofar as they relate to the East Tawas Housing Commission, are based solely on the report of other auditors. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 13, 2013. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the City during the audit and met with management on January 27, 2014. We would also be pleased to meet with you to discuss these matters at your convenience.

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

Very truly yours,

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

## **APPENDIX I**

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

#### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated November 13, 2013, 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.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

We performed the audit as outlined in our engagement letter related to planning matters dated November 13, 2013.

#### **Significant Audit Findings**

##### **Qualitative Aspects of Accounting Practices**

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of East Tawas are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the City of East Tawas changed their accounting policies by adopting Statement of Governmental Accounting Standards Board (GASB Statement) No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and No. 65, "Items Previously Reported as Assets and Liabilities" in 2013. We noted no transactions entered into by the government unit 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 financial statement disclosures are neutral, consistent, and clear.

##### **Difficulties Encountered in Performing the Audit**

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

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

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to management on January 27, 2014. 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, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated January 27, 2014.

#### **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 auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit'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, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City of East Tawas' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of East Tawas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of East Tawas' internal control.

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

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

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

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

View of Responsible Officials:

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

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

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

**STATUS OF PRIOR YEAR COMMENTS:**

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

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls		X		
Review of Utility Bills and Associated Reports	X			