

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name <b>CITY OF EAST TAWAS</b>	County <b>IOSCO</b>
Fiscal Year End <b>09/30/2007</b>	Opinion Date <b>01/29/2008</b>	Date Audit Report Submitted to State <b>March 24, 2008</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

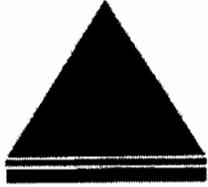
**YES NO** Check each applicable box below. (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b>		Telephone Number <b>(989) 362-4491</b>	
Street Address <b>325 NEWMAN STREET, PO BOX 592</b>		City <b>EAST TAWAS</b>	State Zip <b>MI 48730</b>
Authorizing CPA Signature <b>Don Brannan</b>	Printed Name <b>DONALD W. BRANNAN, CPA</b>	License Number <b>1101021039</b>	



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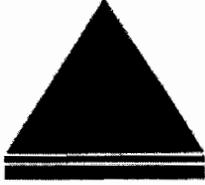
CITY OF EAST TAWAS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 2007

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AUDITORS' REPORT

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January 29, 2008

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2007, which collectively comprise the City's basic financial statements, as listed in the index. These financial statements are the responsibility of the City of East Tawas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Tawas Housing Commission, a component unit. The financial statements, reported discretely, reflect total assets of \$1,720,992 as of December 31, 2006, and total revenues of \$565,610 for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tawas Housing Commission, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of September 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2008, on our consideration of the City of East Tawas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Gracik & 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, 2007. 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 unit reported separately from the primary government.

### Financial Highlights

#### Financial Highlights

The City's assets exceeded its liabilities by \$17,163,203. Business-type activities (Enterprise Funds) account for \$10,231,543 of this total.

The City's total net assets increased by \$761,928. This is a 4.6% increase.

The City's governmental funds reported a combined ending fund balance of \$2,822,843 this year, a decrease of \$21,144. Of this amount, \$2,493,668 is available for spending (*unreserved fund balance*) on behalf of its citizens. The General Fund 2006/2007 fiscal year end fund balance is \$1,276,347. This reflects an increase of \$43,568 over fiscal year 2005/2006.

The City's total bonded and contract indebtedness was reduced by \$365,510. The City issued a 2007 Building Authority Refunding Bond in the current year which defeased a portion of the 1999 Building Authority Limited Tax General Obligation Bond. The City also issued a 2007 Water Supply System Revenue Refunding Bond which defeased a portion of the 1999 Water Supply System Revenue Bond.

### Overview of the Financial Statements

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

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

### Government-wide Financial Statements

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

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

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

With this report, capital assets are listed for the City of East Tawas. These assets are comprised of buildings and improvements, land improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total \$13,189,889.

### **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 and state and federal distributions, grants and other intergovernmental revenue.
- TIFA Fund – This fund accounts for the administration and activities of funds spent in accordance with the Tax Increment Financing plan.
- 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.
- 2007 Building Authority Refunding Bond Fund – This fund accounts for the early payoff of principal and interest of the 1999 Building Authority Limited Tax General Obligation Bond.

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

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

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

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

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

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

### Notes to Financial Statements

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

### Other Information

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

### Government-Wide Financial Analysis

#### Summary of Net Assets:

The following summarizes the net assets of the City of East Tawas at September 30, 2007:

#### Net Assets Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Current Assets	\$ 4,240,699	\$ 1,524,306	\$ 5,765,005	\$ 5,603,213
Restricted Assets	0	890,543	890,543	769,776
Noncurrent Assets	<u>6,499,526</u>	<u>10,392,578</u>	<u>16,892,104</u>	<u>16,569,290</u>
<b>Total Assets</b>	<u>10,740,225</u>	<u>12,807,427</u>	<u>23,547,652</u>	<u>22,942,279</u>
Current Liabilities	1,484,625	325,251	1,809,876	1,615,032
Long-Term Liabilities	<u>2,323,940</u>	<u>2,250,633</u>	<u>4,574,573</u>	<u>4,925,972</u>
<b>Total Liabilities</b>	<u>3,808,565</u>	<u>2,575,884</u>	<u>6,384,449</u>	<u>6,541,004</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	3,571,727	6,000,042	9,571,769	9,068,420
Restricted	79,175	890,543	969,718	841,532
Unrestricted	<u>3,280,758</u>	<u>3,340,958</u>	<u>6,621,716</u>	<u>6,491,323</u>
<b>Total Net Assets</b>	<u>\$ 6,931,660</u>	<u>\$ 10,231,543</u>	<u>\$ 17,163,203</u>	<u>\$ 16,401,275</u>

**Summary of Changes in Net Assets:**

Following is an analysis of the changes in net assets for fiscal year 2007 with comparative totals for 2006.

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

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2007</u>	<u>September 30, 2006</u>
<b>Revenues:</b>				
<b>Program Revenues:</b>				
Charges for Services	\$ 176,499	\$ 1,382,215	\$ 1,558,714	\$ 1,510,523
Operating Grants and Contributions	326,560	58,588	385,148	388,901
Capital Grants and Contributions	0	6,480	6,480	96,464
<b>Total Program Revenues</b>	<u>503,059</u>	<u>1,447,283</u>	<u>1,950,342</u>	<u>1,995,888</u>
<b>General Revenues:</b>				
Property Taxes	1,313,274	246,146	1,559,420	1,539,311
State Revenue Sharing	294,485	0	294,485	303,076
Rent Income	292,020	31,152	323,172	324,464
Interest and Investment Earnings	240,414	102,790	343,204	238,359
Gain on Sale/Disposal of Capital Assets	0	0	0	1,500
Other	1,182	1,160	2,342	5,069
Transfers – Internal Activity	179,061	(179,061)	0	0
<b>Total General Revenues and Transfers</b>	<u>2,320,436</u>	<u>202,187</u>	<u>2,522,623</u>	<u>2,411,779</u>
<b>Total Revenues</b>	<u>2,823,495</u>	<u>1,649,470</u>	<u>4,472,965</u>	<u>4,407,667</u>
<b>Program Expenses:</b>				
General Government	596,948	0	596,948	604,169
Public Safety	434,776	0	434,776	427,663
Public Works	880,394	0	880,394	948,829
Community and Economic Development	112,938	0	112,938	87,793
Recreation and Cultural	155,826	0	155,826	152,546
Interest and Fiscal Charges	111,385	0	111,385	121,171
Amortization of Deferred Bond Costs and Bond Discounts (Net)	2,798	0	2,798	0
Sewer Services	0	414,209	414,209	408,820
Water Services	0	408,946	408,946	403,731
City Park	0	592,817	592,817	600,826
<b>Total Program Expenses</b>	<u>2,295,065</u>	<u>1,415,972</u>	<u>3,711,037</u>	<u>3,755,548</u>

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Change in Net Assets	\$ 528,430	\$ 233,498	\$ 761,928	\$ 652,119
Beginning Net Assets	<u>6,403,230</u>	<u>9,998,045</u>	<u>16,401,275</u>	<u>15,749,156</u>
Ending Net Assets	<u>\$ 6,931,660</u>	<u>\$ 10,231,543</u>	<u>\$ 17,163,203</u>	<u>\$ 16,401,275</u>

**Governmental Activities**

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

Total governmental activities reveal revenues of \$503,059 from *Charges for Services and Operating Grants and Contributions*. The *Charges for Services* are fees for refuse collection, franchises, fire contracts, cemetery sales and openings and penalties. While revenue collected is substantial, operating expenses totaled \$2,295,065 for these same activities. The largest expenses were incurred by General Government offices (\$596,948), Public Safety (\$434,776) and Public Works (\$880,394).

**Business-Type Activities**

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

**Financial Analysis of City Funds**

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

**Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; 2) TIFA Fund – accounts for the administration and activities of funds spent in accordance with the Tax Increment Financing plan; 3) Federal Project Fund – accounts for the collection of note receivable activity as a result of loans to downtown businesses from prior UDAG monies; and 4) 2007 Building Authority Refunding Bond Fund – accounts for the early payoff of principal and interest of the 1999 Building Authority Limited Tax General Obligation Bond.

This year's City audit, following GASB 34 format, shows 14 governmental funds. These funds are maintained by the City as separate units in the General Ledger.

**Enterprise Funds**

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

## **Budgetary Highlights**

The City's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund and TIFA Fund.

During the fiscal year ended September 30, 2007 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 \$1,747,671. That amount is above both the original budget estimate of \$1,688,931 and the final amended budget estimate of \$1,709,706. The variance between the original budget and the amended budget was the result of increased interest earnings and equipment rental. The variance between the actual revenue and the final budget was due to these same factors.

The actual expenditures of the General Fund were \$1,598,785, which is below both the original budget estimates of \$1,725,850 and the final amended budget estimates of \$1,734,693. The variance between the actual expenditures and the final amended budget was due to projects that were expected to be completed during the 2006-2007 fiscal year and decreased spending in various other areas.

The General Fund had total revenues of \$1,747,671 and total expenditures of \$1,598,785 with an ending fund balance of \$1,276,347.

Operating transfers in of \$149,061 include revenues from the City Park which was then paid to the Building Authority as rent for the City Hall and Community Center. The Building Authority then used that money as payment of principal and interest for the bond issue for construction of the City Hall and Community Center.

Operating transfers out of \$254,379 include \$128,000 to the Intragovernmental Service Fund for equipment replacement; \$38,000 to the Community Center Fund for City Hall operations paid through the Community Center budget; \$78,379 to the Major Streets Fund which represents one mill of taxes earmarked by the City Council for road improvements; and \$10,000 to the Local Streets Fund to cover road maintenance.

### **TIFA Fund**

The TIFA Fund actual revenue was \$303,556. That amount is above the original budget estimate of \$275,718 and below the final amended budget estimate of \$303,900.

The variance between the original budget and the amended budget was the result of increased interest earnings. The variance between actual revenues and the final amended budget was the result of interest being slightly less than anticipated.

The actual expenditures of the TIFA Fund were \$298,371 which is below both the original budget estimate of \$550,710 and the final amended budget estimate of \$393,030.

The variance between the original budget and the amended budget was the result of a decision to postpone some projects until the next fiscal year.

The variance between actual expenses and the final amended budget was the result of a determination that a portion of the Wayfinding Project was outside of the TIFA district and could not be paid with TIFA funds.

The TIFA Fund had total revenues of \$303,556 and total expenditures of \$298,371 with an ending fund balance of \$514,470.

Operating transfers out include \$80,008 to the Iosco County Sewer System #2 Fund which was the payment of principal and interest on the bond issue.

### **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 \$7,119,583 with an ending balance of \$7,839,396. Governmental Activities Total Capital Assets – Net of Depreciation was \$5,777,951.

Capital Assets - Business Type Activities beginning balance was \$14,239,510 with an ending balance of \$14,421,534. Business-Type Activities Total Capital Assets – Net of Depreciation was \$7,411,938. An expanded and detailed presentation may be seen in Note 4 of the audit, notes to financial statements.

#### **Long-Term Debt**

At year's end, long-term debt (due in more than one year) amounted to \$4,099,219. Such debt includes *Contracts Payable and Bonds Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

#### **Economic Factors and Next Year's Budget and Rates**

The City Council and management staff are working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for over half of the City's General Fund revenues. Due to new construction and increased property values, the City will be collecting more in property taxes in 2007/2008 than it did in 2006/2007.

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. Although revenue estimates for the State are beginning to rise slightly, the City does not expect it to affect the 2007/2008 budget. At this time the City expects that current year revenues will cover current year expenditures.

Employee related costs account for approximately 32% of the General Fund expenditures. Contracted and professional services account for approximately 28% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 19%. 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.

### **Requests for Information**

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

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
September 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	East Tawas Housing Commission
<b>Assets</b>				
Cash and Cash Equivalents (Note 2)	\$ 1,066,587	\$ 795,366	\$ 1,861,953	\$ 277,830
Investments (Note 2)	1,764,925	445,730	2,210,655	0
Receivables:				
Special Assessments	138	0	138	0
Accounts, Net	3,573	86,543	90,116	330
Interest	2,938	0	2,938	797
Due from Component Unit (Note 3)	75,388	0	75,388	0
Internal Balances	47,819	(47,819)	0	0
Due from Fiduciary Funds (Note 3)	1,279,331	244,486	1,523,817	0
Prepaid Expenses	0	0	0	23,216
Restricted Assets:				
Cash and Cash Equivalents (Note 2)	0	278,525	278,525	0
Investments (Note 2)	0	612,018	612,018	0
Noncurrent Assets:				
Notes Receivable	661,481	0	661,481	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,288,956	1,288,956	0
Investment in Iosco County Waste Water Treatment Plant (Note 13)	0	1,628,600	1,628,600	0
Bond Issuance Costs, Net (Note 1)	60,094	63,084	123,178	0
Capital Assets, Net (Note 4)	5,777,951	7,411,938	13,189,889	1,418,819
Total Assets	<u>10,740,225</u>	<u>12,807,427</u>	<u>23,547,652</u>	<u>1,720,992</u>
<b>Liabilities</b>				
Accounts Payable	179,124	29,080	208,204	29,692
Due to Local Units	0	0	0	16,551
Accrued Interest Payable	44,825	49,165	93,990	2,426
Accrued Liabilities	0	0	0	2,159
Due to Primary Government	0	0	0	59,740
Deferred Revenue	1,260,676	247,006	1,507,682	505
Long Term Liabilities: (Note 6)				
Due Within One Year	165,000	310,354	475,354	120,766
Due In More Than One Year	2,158,940	1,940,279	4,099,219	252,984
Total Liabilities	<u>3,808,565</u>	<u>2,575,884</u>	<u>6,384,449</u>	<u>484,823</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	3,571,727	6,000,042	9,571,769	1,004,079
Restricted For:				
Debt Service	2,110	875,543	877,653	0
Replacement	0	15,000	15,000	0
Perpetual Care	77,065	0	77,065	0
Unrestricted	<u>3,280,758</u>	<u>3,340,958</u>	<u>6,621,716</u>	<u>232,090</u>
Total Net Assets	<u>\$ 6,931,660</u>	<u>\$ 10,231,543</u>	<u>\$ 17,163,203</u>	<u>\$ 1,236,169</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, 2007

Function/Program	Program Revenues						Primary Government			Component Unit
	Expenses	Charges for Services	Operating		Capital		Governmental Activities	Business-Type Activities	Total	
			Grants and Contributions	Grants and Contributions	Grants and Contributions	Grants and Contributions				
<b>Primary Government</b>										
<b>Governmental Activities:</b>										
General Government:										
Legislative and Executive	\$ 112,915	\$ 0	\$ 0	\$ 0	\$ 0	\$ (112,915)	\$ 0	\$ 0	\$ (112,915)	
Financial and Tax Administration	143,216	0	0	0	0	(143,216)	0	0	(143,216)	
Other General Government	340,817	39,800	0	0	0	(301,017)	0	0	(301,017)	
Public Safety:										
Police	242,362	0	0	0	0	(242,362)	0	0	(242,362)	
Fire	192,414	83,600	4,243	0	0	(104,571)	0	0	(104,571)	
Public Works:										
Other Public Works	880,394	14,378	280,497	0	0	(585,519)	0	0	(585,519)	
Community and Economic										
Development	112,938	100	0	0	0	(112,838)	0	0	(112,838)	
Recreation and Cultural	155,826	38,621	41,820	0	0	(75,385)	0	0	(75,385)	
Interest and Fees on Long-Term										
Debt	111,385	0	0	0	0	(111,385)	0	0	(111,385)	
Amortization of Deferred Bond										
Costs and Bond Discounts (Net)	2,798	0	0	0	0	(2,798)	0	0	(2,798)	
<b>Total Governmental Activities</b>	<b>2,295,065</b>	<b>176,499</b>	<b>326,560</b>	<b>0</b>	<b>0</b>	<b>(1,792,006)</b>	<b>0</b>	<b>0</b>	<b>(1,792,006)</b>	
<b>Business-Type Activities:</b>										
Sewer Services	414,209	388,452	58,588	0	0	0	32,831	0	32,831	
Water Services	408,946	365,096	0	0	0	0	(43,850)	0	(43,850)	
City Park	592,817	628,667	0	6,480	0	0	42,330	0	42,330	
<b>Total Business-Type Activities</b>	<b>1,415,972</b>	<b>1,382,215</b>	<b>58,588</b>	<b>6,480</b>	<b>0</b>	<b>0</b>	<b>31,311</b>	<b>0</b>	<b>31,311</b>	
<b>Total Primary Government</b>	<b>\$ 3,711,037</b>	<b>\$ 1,558,714</b>	<b>\$ 385,148</b>	<b>\$ 6,480</b>	<b>\$ 0</b>	<b>(1,792,006)</b>	<b>31,311</b>	<b>0</b>	<b>(1,760,695)</b>	

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, 2007

Function/Program	Net (Expense) Revenue and Changes in Net Assets						Component Unit
	Program Revenues		Primary Government		Total	East Tawas Housing Commission	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities			
Component Unit							
Housing Commission	\$ 455,986	\$ 267,166	\$ 280,643	\$ 0			\$ 91,823
General Revenue:							
Property Taxes Levied For:							
General Operating		\$ 1,040,355			\$ 0	\$ 1,040,355	0
TIFA		272,919			0	272,919	0
Sewer Debt Service		0		152,092	0	152,092	0
Water Debt Service		0		94,054	0	94,054	0
State Revenue Sharing		294,485		0	0	294,485	0
Interest and Investment Earnings		240,414		102,790	0	343,204	5,656
Rent Income		292,020		31,152	0	323,172	0
Other		1,182		1,160	0	2,342	12,145
Transfers		179,061		(179,061)	0	0	0
Total General Revenue and Transfers		2,320,436		202,187		2,522,623	17,801
Change in Net Assets		528,430		233,498		761,928	109,624
Net Assets - Beginning		6,403,230		9,998,045		16,401,275	1,126,545
Net Assets - Ending		\$ 6,931,660		\$ 10,231,543		\$ 17,163,203	\$ 1,236,169

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, 2007

	General Fund	TIFA Fund	Federal Project Fund	2007 Building Authority Refunding Bond Fund	Other Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>						
Cash and Cash Equivalents (Note 2)	\$ 125,548	\$ 421,146	\$ 360,228	\$ 0	\$ 159,665	\$ 1,066,587
Investments (Note 2)	1,045,793	212,254	213,278	0	293,600	1,764,925
Receivables:						
Special Assessments	138	0	0	0	0	138
Accounts, Net	2,655	0	918	0	0	3,573
Interest	2,938	0	0	0	0	2,938
Notes Receivable	0	0	661,481	0	0	661,481
Due from Component Unit (Note 3)	75,388	0	0	0	0	75,388
Due from Other Funds (Note 3)	<u>1,181,170</u>	<u>160,497</u>	<u>0</u>	<u>0</u>	<u>396</u>	<u>1,342,063</u>
<b>Total Assets</b>	<b><u>\$ 2,433,630</u></b>	<b><u>\$ 793,897</u></b>	<b><u>\$ 1,235,905</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 453,661</u></b>	<b><u>\$ 4,917,093</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>						
<b><u>Liabilities</u></b>						
Accounts Payable	\$ 54,166	\$ 118,930	\$ 0	\$ 0	\$ 6,028	\$ 179,124
Due to Other Funds (Note 3)	0	0	0	0	14,913	14,913
Deferred Revenue	<u>1,103,117</u>	<u>160,497</u>	<u>636,599</u>	<u>0</u>	<u>0</u>	<u>1,900,213</u>
<b>Total Liabilities</b>	<b><u>1,157,283</u></b>	<b><u>279,427</u></b>	<b><u>636,599</u></b>	<b><u>0</u></b>	<b><u>20,941</u></b>	<b><u>2,094,250</u></b>
<b><u>Fund Equity</u></b>						
<b>Fund Balances:</b>						
<b>Reserved For:</b>						
Debt Service	0	0	0	0	2,110	2,110
Perpetual Care	0	0	0	0	77,065	77,065
<b>Unreserved:</b>						
<b>Designated For:</b>						
Library	250,000	0	0	0	0	250,000
<b>Undesignated, Reported In:</b>						
General Fund	1,026,347	0	0	0	0	1,026,347
Special Revenue Funds	<u>0</u>	<u>514,470</u>	<u>599,306</u>	<u>0</u>	<u>353,545</u>	<u>1,467,321</u>
<b>Total Fund Equity</b>	<b><u>1,276,347</u></b>	<b><u>514,470</u></b>	<b><u>599,306</u></b>	<b><u>0</u></b>	<b><u>432,720</u></b>	<b><u>2,822,843</u></b>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 2,433,630</u></b>	<b><u>\$ 793,897</u></b>	<b><u>\$ 1,235,905</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 453,661</u></b>	<b><u>\$ 4,917,093</u></b>

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

CITY OF EAST TAWAS  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
September 30, 2007

Total Governmental Fund Balances		\$	2,822,843
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	7,839,396	
Accumulated Depreciation		<u>(2,061,445)</u>	
			5,777,951
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:			
Interest Receivable		2,938	
Notes Receivable		<u>636,599</u>	
Net Difference			639,537
Accrued Interest on Long-Term Liabilities			(44,825)
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)		(2,232,671)	
Compensated Absences Payable		<u>(31,175)</u>	
Total Long-Term Liabilities			<u>(2,263,846)</u>
Total Net Assets - Governmental Activities		\$	<u>6,931,660</u>

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

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2007

	General Fund	TIFA Fund	Federal Project Fund	2007 Building Authority Refunding Bond Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>						
Property Taxes	\$ 1,071,478	\$ 272,919	\$ 0	\$ 0	\$ 0	\$ 1,344,397
State Grants and Revenue	294,485	0	0	0	280,497	574,982
Licenses and Permits	2,534	0	0	0	0	2,534
Charges for Services	98,869	0	100	0	19,211	118,180
Interest and Rentals	233,714	30,637	72,019	0	216,363	552,733
Other Revenue	46,591	0	135,334	0	2,082	184,007
Total Revenue	<u>1,747,671</u>	<u>303,556</u>	<u>207,453</u>	<u>0</u>	<u>518,153</u>	<u>2,776,833</u>
<b>Expenditures</b>						
Current:						
General Government:						
Legislative	41,543	0	0	0	0	41,543
Chief Executive	71,372	0	0	0	0	71,372
Financial and Tax Administration	140,355	0	0	0	0	140,355
Other General Government	252,809	0	0	0	11,008	263,817
Public Safety	385,433	0	0	0	0	385,433
Public Works	394,740	0	0	0	385,698	780,438
Community and Economic Development	66,466	41,505	29,208	0	0	137,179
Recreation and Cultural	41,271	0	0	0	109,566	150,837
Capital Outlay	204,796	256,866	0	0	258,151	719,813
Debt Service:						
Principal	0	0	0	0	170,000	170,000
Refunding Bond Issuance Costs	0	0	0	55,199	0	55,199
Interest and Fiscal Charges	0	0	0	0	116,125	116,125
Total Expenditures	<u>1,598,785</u>	<u>298,371</u>	<u>29,208</u>	<u>55,199</u>	<u>1,050,548</u>	<u>3,032,111</u>
Excess of Revenue Over (Under) Expenditures	<u>148,886</u>	<u>5,185</u>	<u>178,245</u>	<u>(55,199)</u>	<u>(532,395)</u>	<u>(255,278)</u>
<b>Other Financing Sources (Uses)</b>						
Refunding Bond Proceeds	0	0	0	1,575,000	0	1,575,000
Operating Transfers In	149,061	0	0	126	431,623	580,810
Operating Transfers Out	(254,379)	(80,008)	0	0	(67,362)	(401,749)
Payment to Refunded Bond Escrow Agent	0	0	0	(1,513,211)	0	(1,513,211)
Discount on Refunding Bonds Issuance	0	0	0	(6,716)	0	(6,716)
Total Other Financing Sources (Uses)	<u>(105,318)</u>	<u>(80,008)</u>	<u>0</u>	<u>55,199</u>	<u>364,261</u>	<u>234,134</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	43,568	(74,823)	178,245	0	(168,134)	(21,144)
Fund Balances - Beginning of Year	<u>1,232,779</u>	<u>589,293</u>	<u>421,061</u>	<u>0</u>	<u>600,854</u>	<u>2,843,987</u>
Fund Balances - End of Year	<u>\$ 1,276,347</u>	<u>\$ 514,470</u>	<u>\$ 599,306</u>	<u>\$ 0</u>	<u>\$ 432,720</u>	<u>\$ 2,822,843</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, 2007

Total Net Change in Fund Balances - Governmental Funds	\$	(21,144)
Amounts reported for governmental activities in the statement of activities are different because:		
Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:		
Interest Receivable		2,938
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	\$ 719,813	
Current Year Depreciation Expense	<u>(228,936)</u>	
Net difference		490,877
Note receivable repayments and note disbursements are revenue and expenditures respectively in the governmental funds, but the repayments and disbursements reduce and increase the note receivable balances in the statement of net assets. The activity reported in the governmental funds is as follows:		
Current year note receivable loan disbursements	29,208	
Current year note receivable principle receipts	<u>(135,333)</u>	
		(106,125)
Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:		
Bonds Payable		170,000
Governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term liabilities is as follows:		
Refunding Bond Proceeds	(1,575,000)	
Payment to Refunded Bond Escrow Agent	1,513,211	
Bond Issuance Costs	55,199	
Refunding Bond Issuance Discount	6,716	
Amortization of Bond Costs	<u>(2,798)</u>	
		(2,672)
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	4,740	
Net Change in Accrued Compensated Absences	<u>(10,184)</u>	
		<u>(5,444)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>528,430</u></u>

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

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
September 30, 2007

	Enterprise Funds			
	Major Funds			Total
	Sewer Fund	Water Fund	City Park Fund	
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents (Note 2)	\$ 56,600	\$ 247,064	\$ 491,702	\$ 795,366
Investments (Note 2)	216,249	219,481	10,000	445,730
Receivables:				
Accounts, Net	40,701	45,842	0	86,543
Due from Other Funds (Note 3)	145,487	98,999	0	244,486
<b>Restricted Assets:</b>				
Cash and Cash Equivalents (Note 2)	229,466	49,059	0	278,525
Investments (Note 2)	469,929	142,089	0	612,018
<b>Total Current Assets</b>	<u>1,158,432</u>	<u>802,534</u>	<u>501,702</u>	<u>2,462,668</u>
<b>Noncurrent Assets:</b>				
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,288,956	0	1,288,956
Investment in Iosco County Waste Water Treatment Plant (Note 13)	1,628,600	0	0	1,628,600
Bond Issuance Costs, Net (Note 1)	0	63,084	0	63,084
Capital Assets, Net (Note 4)	2,315,617	3,015,189	2,081,132	7,411,938
<b>Total Noncurrent Assets</b>	<u>3,944,217</u>	<u>4,367,229</u>	<u>2,081,132</u>	<u>10,392,578</u>
<b>Total Assets</b>	<u>5,102,649</u>	<u>5,169,763</u>	<u>2,582,834</u>	<u>12,855,246</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts Payable	3,357	7	25,716	29,080
Due to Other Funds (Note 3)	6,289	2,069	39,461	47,819
Accrued Interest Payable	12,892	36,273	0	49,165
Deferred Revenue	145,487	98,999	2,520	247,006
Current Portion of Long-Term Liabilities	184,120	126,234	0	310,354
<b>Total Current Liabilities</b>	<u>352,145</u>	<u>263,582</u>	<u>67,697</u>	<u>683,424</u>
<b>Long-Term Liabilities:</b>				
Due in More Than One Year	376,825	1,552,330	11,124	1,940,279
<b>Total Liabilities</b>	<u>728,970</u>	<u>1,815,912</u>	<u>78,821</u>	<u>2,623,703</u>
<b>Net Assets</b>				
Invested In Capital Assets, Net of Related Debt	2,188,417	1,730,493	2,081,132	6,000,042
Restricted For:				
Debt Service	684,395	191,148	0	875,543
Replacement	15,000	0	0	15,000
Unrestricted	1,485,867	1,432,210	422,881	3,340,958
<b>Total Net Assets</b>	<u>\$ 4,373,679</u>	<u>\$ 3,353,851</u>	<u>\$ 2,504,013</u>	<u>\$ 10,231,543</u>

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

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
For the Year Ended September 30, 2007

	Enterprise Funds			Total
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	
<b>Operating Revenue</b>				
Charges For Services	\$ 381,162	\$ 360,360	\$ 628,667	\$ 1,370,189
Service Connection Charges	2,200	0	0	2,200
Penalties	5,090	4,736	0	9,826
Hydrant Rental	0	31,152	0	31,152
Other Revenue	49	0	1,111	1,160
Total Operating Revenue	<u>388,501</u>	<u>396,248</u>	<u>629,778</u>	<u>1,414,527</u>
<b>Operating Expenses</b>				
Salaries and Wages	44,323	40,302	192,456	277,081
Payroll Taxes and Employee Benefits	29,241	27,341	34,615	91,197
Advertising	0	0	1,860	1,860
Contractual Services	202,640	120,877	4,686	328,203
Depreciation and Amortization	84,456	123,194	180,854	388,504
Insurance and Bonds	2,408	817	22,440	25,665
Office Supplies	2,752	2,759	0	5,511
Operating Supplies	0	0	18,933	18,933
Printing and Advertising	55	0	0	55
Repair and Maintenance	8,148	2,730	38,046	48,924
Travel and Training	0	215	0	215
Utilities	6,319	0	89,394	95,713
Other	0	0	9,533	9,533
Total Operating Expenses	<u>380,342</u>	<u>318,235</u>	<u>592,817</u>	<u>1,291,394</u>
Operating Income	<u>8,159</u>	<u>78,013</u>	<u>36,961</u>	<u>123,133</u>
<b>Nonoperating Revenue (Expenses)</b>				
Property Taxes	152,092	94,054	0	246,146
Interest and Investment Earnings	56,400	33,056	13,334	102,790
Contributions	58,588	0	0	58,588
Interest and Fees Expense	(33,867)	(90,711)	0	(124,578)
Total Nonoperating Revenue (Expenses)	<u>233,213</u>	<u>36,399</u>	<u>13,334</u>	<u>282,946</u>
Income Before Contributions and Operating Transfers	241,372	114,412	50,295	406,079
Capital Contribution - Federal Grants	0	0	6,480	6,480
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>(179,061)</u>	<u>(179,061)</u>
Change in Net Assets	241,372	114,412	(122,286)	233,498
Net Assets - Beginning of Year	<u>4,132,307</u>	<u>3,239,439</u>	<u>2,626,299</u>	<u>9,998,045</u>
Net Assets - End of Year	<u>\$ 4,373,679</u>	<u>\$ 3,353,851</u>	<u>\$ 2,504,013</u>	<u>\$ 10,231,543</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, 2007

	Enterprise Funds			
	Major Funds			Total
	Sewer Fund	Water Fund	City Park Fund	
<b>Cash Flows From Operating Activities</b>				
Receipts From Customers	\$ 387,519	\$ 385,774	\$ 629,778	\$ 1,403,071
Payments to Suppliers for Goods and Services	(223,002)	(128,759)	(178,516)	(530,277)
Payments to Employees for Services	(75,698)	(69,675)	(229,550)	(374,923)
Net Cash Provided by Operating Activities	<u>88,819</u>	<u>187,340</u>	<u>221,712</u>	<u>497,871</u>
<b>Cash Flows From Non-Capital Financing Activities</b>				
Property Taxes Received	144,703	98,899	0	243,602
Cash Received (Paid) to Other Funds	9,224	(3,606)	(158,124)	(152,506)
Intergovernmental Contributions	58,588	0	0	58,588
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>212,515</u>	<u>95,293</u>	<u>(158,124)</u>	<u>149,684</u>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Federal Grants Received	0	0	9,000	9,000
Proceeds from Long-Term Debt Issuance	0	26,430	0	26,430
Acquisition and Construction of Capital Assets	(72,519)	(77,247)	(19,462)	(169,228)
Principal Paid on Long-Term Debt	(187,952)	(117,061)	0	(305,013)
Interest Paid on Long-Term Debt	(38,002)	(93,366)	0	(131,368)
Bond Issuance Costs Paid on Long-Term Debt	0	(66,760)	0	(66,760)
Net Cash Used by Capital and Related Financing Activities	<u>(298,473)</u>	<u>(328,004)</u>	<u>(10,462)</u>	<u>(636,939)</u>
<b>Cash Flows From Investing Activities</b>				
Interest on Investments	56,400	26,657	13,334	96,391
Proceeds from Maturity of Investment Securities	1,208,687	560,955	0	1,769,642
Purchase of Investment Securities	(1,139,374)	(571,920)	0	(1,711,294)
Net Cash Provided by Investing Activities	<u>125,713</u>	<u>15,692</u>	<u>13,334</u>	<u>154,739</u>
Net Increase (Decrease) in Cash and Cash Equivalents	128,574	(29,679)	66,460	165,355
Cash and Cash Equivalents at Beginning of Year	<u>157,492</u>	<u>325,802</u>	<u>425,242</u>	<u>908,536</u>
Cash and Cash Equivalents at End of Year	<u>\$ 286,066</u>	<u>\$ 296,123</u>	<u>\$ 491,702</u>	<u>\$ 1,073,891</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>				
Operating Income	\$ 8,159	\$ 78,013	\$ 36,961	\$ 123,133
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and Amortization Expense	84,456	123,194	180,854	388,504
Change in Assets and Liabilities:				
Accounts Receivable, Net	(982)	(10,474)	0	(11,456)
Accounts and Other Payables	(680)	(1,361)	6,376	4,335
Accrued Liabilities	(2,215)	(2,113)	(6,244)	(10,572)
Accrued Compensated Absences	81	81	3,765	3,927
Net Cash Provided by Operating Activities	<u>\$ 88,819</u>	<u>\$ 187,340</u>	<u>\$ 221,712</u>	<u>\$ 497,871</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, 2007

Supplemental Disclosures:

Noncash Capital and Related Financing Activities

The Water Fund recorded noncash activity in the form of an increase in contracts payable and investment in Huron Shore Regional Utility Authority of \$22,044. This was the result of an increase in the City of East Tawas' actual water usage percentage in the current year's joint venture membership gallon usage calculation.

The Water Fund had an advance refunding of the 1999 Water Supply System Revenue Bonds in the current year which resulted in noncash activity of bond proceeds of \$1,248,570, discount on advance refunding of debt of \$2,685, loss on advance refunding of debt of \$20,778, and long term debt refunded of \$1,230,000.

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, 2007

	<u>Tax Account</u>	<u>Trust and Agency Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents (Note 2)	\$ 1,384,937	\$ 3,559	\$ 1,388,496
Receivables:			
Property Taxes	329,949	0	329,949
<b>Total Assets</b>	<b>\$ 1,714,886</b>	<b>\$ 3,559</b>	<b>\$ 1,718,445</b>
<b><u>LIABILITIES</u></b>			
Due to Local Units	\$ 191,458	\$ 0	\$ 191,458
Due to Other Agencies and Individuals	0	3,170	3,170
Due to Other Funds (Note 3)	1,523,428	389	1,523,817
<b>Total Liabilities</b>	<b>\$ 1,714,886</b>	<b>\$ 3,559</b>	<b>\$ 1,718,445</b>

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

CITY OF EAST TAWAS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of City Operations and Fund Types

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

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

B. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

1. Blended Component Units

a. Governmental Activity and Fund Type Blended Component Units:

**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.

**East Tawas Tax Increment Finance Authority** - The East Tawas Tax Increment Finance Authority (TIFA) is governed by a five member board appointed by the City's governing body. Although it is legally separate from the City of East Tawas, the TIFA is reported as if it were part of the primary government because its sole purpose is to finance improvements within the TIFA District of the City of East Tawas. The financial activities of the TIFA are recorded in a Special Revenue Fund.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

1. Blended Component Units (Continued)

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.

2. Discretely Presented Component Unit

The component unit column on the combined financial statements include the financial data of the City's component unit. It is reported in a separate column to emphasize that it is legally separate from the City.

a. Business-Type Activity and Proprietary Fund Type 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, 2006. 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, 2007 was \$238,231. Complete financial statements can be obtained from the City of Tawas City, Clerk's office, located at 516 Oak Street, Tawas City, Michigan 48763.

Tawas Utility Authority

The Tawas Utility Authority was established as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established for the construction and operation of sewage treatment facilities to service both municipalities. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2007 was \$199,875. Complete financial statements can be obtained from the City of East Tawas, City Manager's office.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

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. The most current estimate of the City's share is 15.73% of the total bond issue of \$7,930,000 or \$1,247,389. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the City of East Tawas is making payments through ad-valorem taxes and charges for services.

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, 2007 was \$118,112. The current value of the City of East Tawas' investment in the Huron Shore Regional Utility Authority is \$1,288,956. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

D. Basis of Presentation

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

**Government-wide Financial Statements**

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

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

**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, state and federal distributions, grants and other intergovernmental revenue.

**TIFA Fund** - This fund is used to account for administrative costs of the Tax Increment Finance Authority.

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

**2007 Building Authority Refunding Bond Fund** - This fund is used to account for the early payoff of principal and interest of the 1999 Building Authority Limited Tax General Obligation Bonds.

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

**Proprietary Funds**

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

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

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

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

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

**Fiduciary Funds**

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

F. Measurement Focus

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting

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

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

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

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

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

**Deferred Revenue**

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

Property taxes for which there was an enforceable legal claim at September 30, 2007, but were levied to finance 2007-2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

**Expenses/Expenditures**

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

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

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. Accounts Receivable

Receivables at September 30, 2007, consist of accounts (fees), special assessments, and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The balances consist primarily of charges for sewer and water services due from various customers.

The allowance for doubtful accounts at September 30, 2007 was \$0 for the primary government and the component unit.

J. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". Balances due from/to fiduciary funds and component units are also reported on the government-wide statement of net assets.

K. Prepaid Items

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

L. Bond Issuance Costs

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

M. Capital Assets

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

CITY OF EAST TAWAS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Capital Assets (Continued)

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

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

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

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

N. Accrued Liabilities and Long-Term Obligations

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

O. Compensated Absences

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

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

CITY OF EAST TAWAS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Governmental Fund Balance Reserves

The City reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for future debt service and perpetual care expenses.

R. Governmental Fund Balance Designations

Designations of portions of the fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance designations have been established for future general fund library expenses.

S. 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.

T. 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.

U. 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, 2007.

V. Budgets and Budgetary Accounting

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**V. Budgets and Budgetary Accounting (Continued)**

1. Prior to September 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 ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the City Council throughout the operating year.

The City adopts budgets for the General Fund and Special Revenue Funds.

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

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

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

**W. 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.

**X. Reclassifications**

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash and Cash Equivalents	\$ 1,066,587	\$ 795,366	\$ 1,388,496	\$ 3,250,449	\$ 277,830
Investments	1,764,925	445,730	0	2,210,655	0
Restricted Cash and Cash Equivalents	0	278,525	0	278,525	0
Restricted Investments	<u>0</u>	<u>612,018</u>	<u>0</u>	<u>612,018</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 2,831,512</u></b>	<b><u>\$ 2,131,639</u></b>	<b><u>\$ 1,388,496</u></b>	<b><u>\$ 6,351,647</u></b>	<b><u>\$ 277,830</u></b>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 3,519,836	\$ 277,630
Investments in Municipal Investment Account Pooled Funds	2,831,281	0
Petty Cash and Cash on Hand	530	200
<b>Total</b>	<b>\$ 6,351,647</b>	<b>\$ 277,830</b>

As of September 30, 2007, the City had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Primary Government: Investment Pools	\$ 2,831,281	Daily

**Interest Rate Risk**

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

**Credit Risk**

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

**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, 2007, \$3,029,583 of the City's bank balance of \$3,579,146 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial Credit Risk - Deposits - Component Unit**

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, 2007, \$161,216 of the East Tawas Housing Commission's bank balance of \$287,086 was exposed to custodial credit risk.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

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

Custodial Credit Risk – Investments

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

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

Foreign Currency Risk

The City's investment policy does not address foreign currency risk.

Investments

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- Accounts of federally insured banks, credit unions and savings and loan associations
- Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- 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' deposits and investments are in accordance with statutory authority.

CITY OF EAST TAWAS  
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of September 30, 2007 were as follows:

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds:		
General Fund	\$ 1,181,170	\$ 0
TIFA Fund	160,497	0
Total Major Governmental Funds	1,341,667	0
Non-major Governmental Funds	396	14,913
Major Enterprise Funds:		
Sewer Fund	145,487	6,289
Water Fund	98,999	2,069
City Park Fund	0	39,461
Total Major Enterprise Funds	244,486	47,819
Fiduciary Funds	0	1,523,817
	\$ 1,586,549	\$ 1,586,549

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

**NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)**

The amounts of interfund receivables and payables for individual funds as of September 30, 2007 are as follows:

<u>Fund</u> <u>Primary Government</u>	<u>Interfund</u> <u>Receivable</u>	<u>Fund</u> <u>Primary Government</u>	<u>Interfund</u> <u>Payable</u>
General Fund	\$ 9,878	Major Streets Fund	\$ 9,878
General Fund	4,541	Local Streets Fund	4,541
General Fund	237	Cemetery Fund	237
General Fund	250	Major Street Construction Bond	250
General Fund	6,289	Sewer Fund	6,289
General Fund	2,069	Water Fund	2,069
General Fund	39,461	City Park Fund	39,461
General Fund	1,118,445	Tax Account	1,118,445
TIFA Fund	160,497	Tax Account	160,497
Major Streets Fund	7	Local Streets Fund	7
Community Center Fund	389	Trust and Agency Fund	389
Sewer Fund	145,487	Tax Account	145,487
Water Fund	<u>98,999</u>	Tax Account	<u>98,999</u>
Total	<u>\$ 1,586,549</u>	Total	<u>\$ 1,586,549</u>
<u>Due from Component Unit</u>		<u>Due to Primary Government</u>	
General Fund	<u>\$ 75,388</u> *	East Tawas Housing Commission	<u>\$ 59,740</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. \$59,740 of this balance will not be repaid within one year. This loan will be repaid by the East Tawas Housing Commission in four annual installments beginning in 2010. Interest will be charged at the prevailing interest rate, which is currently 5.31%. The remaining \$15,648 of the balance is the East Tawas Housing Commission's share of payroll and insurance paid by the City's General Fund subsequent to December 31, 2006.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity of the primary government for the fiscal year ended September 30, 2007, was as follows:

	<u>Balance 10/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 09/30/07</u>
<b><u>Governmental Activities</u></b>				
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 873,064	\$ 131,202	\$ 0	\$ 1,004,266
<b>Capital Assets Being Depreciated:</b>				
Land Improvements	150,032	329,799	0	479,831
Buildings and Improvements	2,930,811	0	0	2,930,811
Machinery and Equipment	806,337	44,752	0	851,089
Vehicles	782,114	188,294	0	970,408
Infrastructure - Roads	1,577,225	25,766	0	1,602,991
Subtotal	<u>6,246,519</u>	<u>588,611</u>	<u>0</u>	<u>6,835,130</u>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements	(11,671)	(9,273)	0	(20,944)
Buildings and Improvements	(633,416)	(71,917)	0	(705,333)
Machinery and Equipment	(534,128)	(58,408)	0	(592,536)
Vehicles	(602,590)	(49,908)	0	(652,498)
Infrastructure - Roads	(50,704)	(39,430)	0	(90,134)
Subtotal	<u>(1,832,509)</u>	<u>(228,936)</u>	<u>0</u>	<u>(2,061,445)</u>
Capital Assets Being Depreciated	<u>4,414,010</u>	<u>359,675</u>	<u>0</u>	<u>4,773,685</u>
Governmental Activities Total Capital Assets - Net of Depreciation	<u>\$ 5,287,074</u>	<u>\$ 490,877</u>	<u>\$ 0</u>	<u>\$ 5,777,951</u>
<b><u>Business-Type Activities</u></b>				
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 240,565	\$ 0	\$ 0	\$ 240,565
Construction in Progress	0	21,163	0	21,163
Subtotal	<u>240,565</u>	<u>21,163</u>	<u>0</u>	<u>261,728</u>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements	3,804,987	11,095	0	3,816,082
Buildings	960,080	0	0	960,080
Machinery and Equipment	614,395	13,932	0	628,327
Water System	4,895,972	70,281	0	4,966,253
Sewer System	3,723,511	65,553	0	3,789,064
Subtotal	<u>13,998,945</u>	<u>160,861</u>	<u>0</u>	<u>14,159,806</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 10/01/06	Additions	Deletions	Balance 09/30/07
<u>Business-Type Activities (Continued)</u>				
Less Accumulated Depreciation for:				
Land Improvements	\$ (2,265,763)	\$ (152,200)	\$ 0	\$ (2,417,963)
Buildings	(473,616)	(28,941)	0	(502,557)
Machinery and Equipment	(408,079)	(10,361)	0	(418,440)
Water System	(1,986,672)	(121,254)	0	(2,107,926)
Sewer System	(1,488,903)	(73,807)	0	(1,562,710)
Subtotal	<u>(6,623,033)</u>	<u>(386,563)</u>	<u>0</u>	<u>(7,009,596)</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 7,616,477</u>	<u>\$ (204,539)</u>	<u>\$ 0</u>	<u>\$ 7,411,938</u>

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

Governmental Activities

General Government:

Other General Government	\$ 77,005
Public Safety	49,343
Public Works	93,342
Community and Economic Development	4,875
Recreation and Cultural	<u>4,371</u>

Total Governmental Activities \$ 228,936

Business-Type Activities

Sewer	\$ 84,456
Water	121,253
City Park	<u>180,854</u>

Total Business-Type Activities \$ 386,563

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

	Balance 01/01/06	Additions	Deletions	Balance 12/31/06
<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:				
Building	2,888,554	0	0	2,888,554
Furniture and Equipment	85,348	855	0	86,203
	<u>2,973,902</u>	<u>855</u>	<u>0</u>	<u>2,974,757</u>
Less Accumulated Depreciation	<u>(1,659,526)</u>	<u>(102,304)</u>	<u>0</u>	<u>(1,761,830)</u>
Net Capital Assets Being Depreciated	<u>1,314,376</u>	<u>(101,449)</u>	<u>0</u>	<u>1,212,927</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 1,520,268</u>	<u>\$ (101,449)</u>	<u>\$ 0</u>	<u>\$ 1,418,819</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, 2007

NOTE 5 - DEFERRED REVENUE

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Real and Personal Property Taxes	\$ 0	\$ 1,505,162	\$ 1,505,162
Interest Receivable	2,938	0	2,938
Notes Receivable	636,599	0	636,599
Grants Receivable	0	2,520	2,520
 Total	 \$ 639,537	 \$ 1,507,682	 \$ 2,147,219

NOTE 6 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

General Obligation Bonds:

\$635,000 Limited Tax General Obligation Sewer Refunding Bonds, dated September 1, 1988 for the purpose of advance refunding the County's Iosco County Sewer System #2 General Obligation Bonds. The bonds bear interest at 3.70% - 4.35% and are due in annual installments through 2008.

<u>Governmental</u>	<u>Business-Type</u>
\$ 70,000	\$ 0

\$2,000,000 1999 Building Authority Limited Tax General Obligation Bonds, dated June 1, 1999 for the purpose of paying the cost of acquiring, constructing and equipping a community center and City Hall Building, which the City has leased in return for the payment of certain rentals pursuant to a Limited Tax Full Faith and Credit General Obligation Contract of Lease between the City and the Authority. The bonds bear interest at 5.10% and are due in annual installments through year 2009.

190,000	0
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\$630,000 Limited Tax General Obligation Construction Bonds, dated August 1, 2003 for the purpose of paying part of the cost of acquiring and constructing street improvements. The bonds bear interest at 4.125% and are due in annual installments through 2018.

490,000	0
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\$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.

1,575,000	0
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Total General Obligation Bonds

2,325,000	0
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CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Primary Government: (Continued)

A. Bonds Payable (Continued)

	<u>Governmental</u>	<u>Business-Type</u>
Revenue Bonds:		
\$1,485,000 Water Supply System Revenue Bonds, dated July 1, 1999 used for the purpose of defraying the cost of acquiring and constructing extensions and improvements to the City of East Tawas water supply system. The bonds bear interest at 5.3% and are due in annual installments through 2009.	\$ 0	\$ 65,000
\$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.	0	1,275,000
\$460,000 Sewage Disposal System Revenue Bonds, dated April 2, 1997 used for the cost of acquiring and constructing sanitary sewer improvements. The bonds bear interest from 4.1% - 5.3% and are due in annual installments through 2009.	<u>0</u>	<u>125,000</u>
Total Revenue Bonds	<u>0</u>	<u>1,465,000</u>
Total Bonds Payable	<u>2,325,000</u>	<u>1,465,000</u>

B. Contracts Payable

	<u>Governmental</u>	<u>Business-Type</u>
Joint waste water treatment plant with the City of Tawas City through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987, due in annual installments through November 1, 2009, bearing interest at the rates of 4.5% to 5.9%. The most current estimate of the City's share is 38.32% of the total Refunding bond issue of \$4,250,000 or \$1,628,600.	0	434,932
Joint water supply system agreement with the City of Tawas City, the Charter Townships of AuSable and Oscoda, and the Township of Baldwin through the Huron Shore Regional Utility Authority, dated May 1, 1996, due in annual installments through November 1, 2010, bearing interest at the rates of 4% to 5.65% to finance the cost of constructing a new water supply system. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 15.73% of the total bond issue cost of \$7,930,000 or \$1,247,389.	<u>0</u>	<u>357,857</u>
Total Contracts Payable	<u>0</u>	<u>792,789</u>
Total Primary Government	<u>\$ 2,325,000</u>	<u>\$ 2,257,789</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Component Unit:

C. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
Business-Type Activities:		
Housing Commission - \$1,130,000 1998 General Obligation Unlimited Tax Refunding Bonds, dated September 29, 1998 used for Section 8 Senior Citizens Housing. The bonds bear interest from 3.65% - 4.15% and are due in annual installments through 2009.	\$ <u>0</u>	\$ <u>355,000</u>

D. Compensated Absences Payable

The City has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of September 30, 2007, the accumulated vested vacation and sick leave benefits of the employees of various City departments and its component unit were as follows:

	<u>Current Liability 09/30/07</u>	<u>Long-Term Liability 09/30/07</u>	<u>Total Balance 09/30/07</u>
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 0	\$ 31,175	\$ 31,175
Business-Type Activities	<u>0</u>	<u>13,150</u>	<u>13,150</u>
	<u>0</u>	<u>44,325</u>	<u>44,325</u>
<u>Component Unit</u>			
East Tawas Housing Commission	<u>\$ 5,766</u>	<u>\$ 12,984</u>	<u>\$ 18,750</u>

E. Defeasance of Debt

On March 29, 2007 the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2009 and ending in 2023. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2007, \$1,480,000 of bonds outstanding are considered defeased.

On March 29, 2007 the City defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2010 and ending in 2029. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2007 \$1,230,000 of bonds outstanding are considered defeased.

F. Advance Refundings

On March 29, 2007, the City issued \$1,575,000 of 2007 Building Authority Refunding Bonds that were placed in an irrevocable trust to refund \$1,480,000 of the 1999 Building Authority Limited Tax General Obligation Bonds, and to pay certain costs and expenses relating to the issuance of the 2007 Building Authority Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

F. Advance Refundings (Continued)

The reacquisition price exceeded the net carrying amount of the old debt by \$33,212. This amount is being netted against the new debt and amortized over the life of the new debt issued, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments.

Details of the refunding are as follows:

Total Debt Service before 2007 Building Authority Refunding Bonds	\$	2,695,437
Total Debt Service after 2007 Building Authority Refunding Bonds		<u>2,569,584</u>
Total Change in Debt Service		125,853
Less: Accrued Interest Funds to Escrow		<u>36,128</u>
Net Savings (Net of Cost of Issuance)	\$	<u><u>89,725</u></u>

On March 29, 2007, the City issued \$1,275,000 of 2007 Water Supply System Revenue Refunding Bonds that were placed in an irrevocable trust to refund \$1,230,000 of the \$1,485,000 Water Supply System Revenue Refunding Bonds, and to pay certain costs and expenses relating to the issuance of the 2007 Water Supply System Revenue Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide and proprietary fund financial statements.

The reacquisition price exceeded the net carrying amount of the old debt by \$20,778. This amount is being netted against the new debt and amortized over the life of the new debt issued, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments.

Details of the refunding are as follows:

Total Debt Service before 2007 Water Supply System Revenue Refunding Bonds	\$	2,364,530
Total Debt Service after 2007 Water Supply System Revenue Refunding Bonds		<u>2,161,792</u>
Total Change in Debt Service		202,738
Less: Accrued Interest Funds to Escrow		<u>28,850</u>
Net Savings (Net of Cost of Issuance)	\$	<u><u>173,888</u></u>

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

G. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2007:

	<u>Balance</u> <u>09/30/06</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/07</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 2,400,000	\$ 1,575,000	\$ (1,650,000)	\$ 2,325,000	\$ 165,000
Deferred Amounts on Refunding	<u>0</u>	<u>(33,212)</u>	<u>977</u>	<u>(32,235)</u>	<u>0</u>
Total Bonds Payable, Net	2,400,000	1,541,788	(1,649,023)	2,292,765	165,000
Compensated Absences	<u>20,991</u>	<u>10,184</u> *	<u>0</u>	<u>31,175</u>	<u>0</u>
Total Primary Government	<u>\$ 2,420,991</u>	<u>\$ 1,551,972</u>	<u>\$ (1,649,023)</u>	<u>\$ 2,323,940</u>	<u>\$ 165,000</u>
<u>Business-Type Activities</u>					
Primary Government:					
Bonds Payable	\$ 1,500,000	\$ 1,275,000	\$ (1,310,000)	\$ 1,465,000	\$ 85,000
Deferred Amounts on Refunding	<u>0</u>	<u>(20,778)</u>	<u>472</u>	<u>(20,306)</u>	<u>0</u>
Total Bonds Payable, Net	1,500,000	1,254,222	(1,309,528)	1,444,694	85,000
Contracts Payable	995,758	0	(202,969)	792,789	225,354
Compensated Absences	<u>9,222</u>	<u>3,928</u> *	<u>0</u>	<u>13,150</u>	<u>0</u>
Total Primary Government	<u>\$ 2,504,980</u>	<u>\$ 1,258,150</u>	<u>\$ (1,512,497)</u>	<u>\$ 2,250,633</u>	<u>\$ 310,354</u>
<u>Component Unit:</u>					
Bonds Payable	\$ 465,000	\$ 0	\$ (110,000)	\$ 355,000	\$ 115,000
Compensated Absences	<u>17,885</u>	<u>865</u> *	<u>0</u>	<u>18,750</u>	<u>5,766</u>
Total Component Unit	<u>\$ 482,885</u>	<u>\$ 865</u>	<u>\$ (110,000)</u>	<u>\$ 373,750</u>	<u>\$ 120,766</u>

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

The interest expenditures on long-term obligations for the year were \$243,672.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

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

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

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of September 30, 2007 are as follows:

Primary Government

Bonds Payable	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2008	\$ 165,000	\$ 98,883	\$ 85,000	\$ 67,872	\$ 416,755
2009	110,000	86,897	115,000	57,956	369,853
2010	115,000	81,739	40,000	53,913	290,652
2011	120,000	76,631	45,000	52,313	293,944
2012	125,000	71,681	45,000	50,681	292,362
2013 - 2017	740,000	274,573	255,000	220,905	1,490,478
2018 - 2022	665,000	124,452	320,000	157,930	1,267,382
2023 - 2027	285,000	11,860	385,000	87,488	769,348
2028 - 2029	0	0	175,000	11,263	186,263
<b>Total</b>	<b>\$ 2,325,000</b>	<b>\$ 826,716</b>	<b>\$ 1,465,000</b>	<b>\$ 760,321</b>	<b>\$ 5,377,037</b>

Contracts Payable	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2008	\$ 0	\$ 0	\$ 225,354	\$ 41,381	\$ 266,735
2009	0	0	241,025	28,079	269,104
2010	0	0	238,322	14,319	252,641
2011	0	0	88,088	4,977	93,065
<b>Total</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 792,789</b>	<b>\$ 88,756</b>	<b>\$ 881,545</b>

Component Unit

Bonds Payable	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2008	\$ 0	\$ 0	\$ 115,000	\$ 9,950	\$ 124,950
2009	0	0	120,000	7,440	127,440
2010	0	0	120,000	4,769	124,769
<b>Total</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 355,000</b>	<b>\$ 22,159</b>	<b>\$ 377,159</b>

**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 August 31 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the City was \$78,378,711. The tax rates were 16.1861 mills for operations and 1.7864 mills for garbage.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

**NOTE 8 - OPERATING TRANSFERS**

During the year ended September 30, 2007, the following transfers were made:

Description	Operating Transfers In	Operating Transfers Out
<b><u>Major Funds</u></b>		
Major Governmental Funds:		
General Fund	\$ 149,061	\$ 254,379
TIFA Fund	0	80,008
2007 Building Authority Refunding Bond Fund	126	0
Major Business-Type Activity Fund:		
City Park Fund	0	179,061
<b>Total Major Funds</b>	<b>149,187</b>	<b>513,448</b>
 Non-major Governmental Funds	 431,623	 67,362
	<b>\$ 580,810</b>	<b>\$ 580,810</b>

During the year ended September 30, 2007, the following individual fund transfers were made:

Fund	Transfer In	Fund	Transfer Out
General Fund	\$ 149,061	City Park Fund	\$ 149,061
2007 Building Authority Refunding Bond Fund	126	Building Authority Fund	126
Major Streets Fund	78,379	General Fund	78,379
Local Streets Fund	10,000	General Fund	10,000
Cemetery Fund	3,733	Cemetery Perpetual Care	3,733
Community Center Fund	38,000	General Fund	38,000
Community Center Fund	30,000	City Park Fund	30,000
Intragovernmental Service Fund	128,000	General Fund	128,000
Major Street Construction Bond	56,656	Major Streets Fund	56,656
Iosco County Sewer System #2	80,008	TIFA Fund	80,008
Cemetery Perpetual Care	6,847	Greenwood Cemetery Chapel	6,847
<b>Total</b>	<b>\$ 580,810</b>	<b>Total</b>	<b>\$ 580,810</b>

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, 2007

**NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS**

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

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

During the year ended September 30, 2007, the City incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Recreation and Cultural	\$ 40,725	\$ 41,271	\$ 546

**NOTE 10 - RETIREMENT PLAN**

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

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

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 \$54,536.

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

**NOTE 11 - DEFERRED COMPENSATION PLAN**

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

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

**NOTE 12 - UNEMPLOYMENT COMPENSATION**

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. Accrued unemployment compensation was \$0 as of September 30, 2007.

**NOTE 13 - INVESTMENT IN IOSCO COUNTY WASTEWATER TREATMENT PLANT**

The City entered into a joint waste water treatment plant contract with the City of Tawas City through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987. The most current estimate of the City's share is 38.32% of the total funding bond issue of \$4,250,000 or \$1,628,600. The initial contract amount is recorded as investment in Iosco County Waste Water Treatment Plant in the Sewer Fund of the City because the assets of the joint waste water treatment plant are the property of Iosco County and therefore are not presented in these financial statements.

**NOTE 14 - 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 3 years.

**NOTE 15 - RESTRICTED ASSETS AND RESERVES**

The City is required, under Ordinance No. 203 on the 1967 revenue bond issue, to maintain certain restricted assets in the Sewer Fund. The ordinance provides that a "Bond and Interest Redemption Fund" be established with quarterly deposits for payment of principal and interest in an amount equal to at least the sum of one-half the amount due on the next ensuing interest due date and one-fourth of the principal next maturing.

The ordinance also requires that a "Bond Reserve Account" be established within the "Bond and Interest Redemption Fund." Quarterly deposits have previously been required under Ordinance No. 158 and the sum of \$43,000 has accumulated in both the Water and Sewer Funds. The monies so used are required to be used solely for payment of principal and interest on bonds that would otherwise be in default. Any monies so used are required to be replaced with the first available revenues not needed for operation and maintenance or for current principal and interest requirements.

The City is also required under Ordinance No. 203 to have established within the Sewer Fund a "Replacement Fund" for the purpose of making major repairs and replacements to the system. Any monies so used are required to be replaced with the first available revenues not needed to fulfill the above requirements. The balance of said account need not exceed the sum of \$15,000.

The City is required, under the 1999 Water Supply System Revenue Bonds and 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 City has met these requirements for the year ended September 30, 2007.

CITY OF EAST TAWAS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 16 - CONTINGENCIES

The City is a defendant in a Tax Tribunal proceeding for tax years 2002 - 2007. The plaintiff is seeking a reduction in the taxable value of two parcels of property. The tax appeals in the Tax Tribunal have been placed in abeyance pending final resolution of the plaintiff's Chapter 11 bankruptcy proceeding. On August 23, 2006, the plaintiff filed a Notice of Termination of Bankruptcy proceeding with the Tribunal, however the Tribunal has not issued a reinstatement order or order removing the case from abeyance status. The City's liability, if any, would be a refund of its millage computed upon any reduction in taxable value which might eventually be awarded.

**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, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Property Taxes	\$ 1,072,281	\$ 1,070,631	\$ 1,071,478	\$ 847
State Grants and Revenue	300,000	295,000	294,485	(515)
Licenses and Permits	1,200	2,100	2,534	434
Charges for Services	97,550	96,975	98,869	1,894
Interest and Rentals	172,900	197,300	233,714	36,414
Other Revenue	45,000	47,700	46,591	(1,109)
Total Revenue	<u>1,688,931</u>	<u>1,709,706</u>	<u>1,747,671</u>	<u>37,965</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	61,850	49,825	41,543	8,282
Chief Executive	84,977	76,725	71,372	5,353
Financial and Tax Administration	167,275	149,370	140,355	9,015
Other General Government	271,573	276,573	252,809	23,764
Public Safety	380,425	391,775	385,433	6,342
Public Works	463,850	461,950	394,740	67,210
Community and Economic Development	67,275	73,750	66,466	7,284
Recreation and Cultural	39,975	40,725	41,271	(546)
Capital Outlay	188,650	214,000	204,796	9,204
Total Expenditures	<u>1,725,850</u>	<u>1,734,693</u>	<u>1,598,785</u>	<u>135,908</u>
Excess of Revenue Over (Under) Expenditures	<u>(36,919)</u>	<u>(24,987)</u>	<u>148,886</u>	<u>173,873</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	149,798	149,798	149,061	(737)
Operating Transfers Out	(116,379)	(254,379)	(254,379)	0
Total Other Financing Sources (Uses)	<u>33,419</u>	<u>(104,581)</u>	<u>(105,318)</u>	<u>(737)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(3,500)	(129,568)	43,568	173,136
Fund Balances - Beginning of Year	<u>1,232,779</u>	<u>1,232,779</u>	<u>1,232,779</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,229,279</u>	<u>\$ 1,103,211</u>	<u>\$ 1,276,347</u>	<u>\$ 173,136</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
TIFA FUND - SPECIAL REVENUE FUND  
For the Year Ended September 30, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Property Taxes	\$ 270,718	\$ 272,900	\$ 272,919	\$ 19
Interest and Rentals	<u>5,000</u>	<u>31,000</u>	<u>30,637</u>	<u>(363)</u>
Total Revenue	<u>275,718</u>	<u>303,900</u>	<u>303,556</u>	<u>(344)</u>
<u>Expenditures</u>				
Current:				
Community and Economic Development	0	50,530	41,505	9,025
Capital Outlay	<u>550,710</u>	<u>342,500</u>	<u>256,866</u>	<u>85,634</u>
Total Expenditures	<u>550,710</u>	<u>393,030</u>	<u>298,371</u>	<u>94,659</u>
Excess of Revenue Over (Under) Expenditures	(274,992)	(89,130)	5,185	94,315
<u>Other Financing Uses</u>				
Operating Transfers Out	<u>(80,008)</u>	<u>(80,008)</u>	<u>(80,008)</u>	<u>0</u>
Excess of Revenue Over (Under) Expenditures and Other Uses	(355,000)	(169,138)	(74,823)	94,315
Fund Balances - Beginning of Year	<u>589,293</u>	<u>589,293</u>	<u>589,293</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 234,293</u>	<u>\$ 420,155</u>	<u>\$ 514,470</u>	<u>\$ 94,315</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, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Charges for Services	\$ 0	\$ 0	\$ 100	\$ 100
Interest and Rentals	50,381	71,641	72,019	378
Other Revenue	<u>78,075</u>	<u>138,536</u>	<u>135,334</u>	<u>(3,202)</u>
Total Revenue	128,456	210,177	207,453	(2,724)
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>128,456</u>	<u>30,300</u>	<u>29,208</u>	<u>1,092</u>
Excess of Revenue Over (Under) Expenditures	0	179,877	178,245	(1,632)
Fund Balances - Beginning of Year	<u>421,061</u>	<u>421,061</u>	<u>421,061</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 421,061</u>	<u>\$ 600,938</u>	<u>\$ 599,306</u>	<u>\$ (1,632)</u>

OTHER INFORMATION

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
September 30, 2007

	Major Streets	Local Streets	Cemetery Fund	Community Center	Intragovernmental Service Fund	Greenwood Cemetery Chapel
Cash and Cash Equivalents	\$ 34,709	\$ 9,702	\$ 4,303	\$ 18,840	\$ 89,663	\$ 0
Investments	0	0	0	0	216,623	0
Due from Other Funds	7	0	0	389	0	0
Total Assets	\$ 34,716	\$ 9,702	\$ 4,303	\$ 19,229	\$ 306,286	\$ 0

ASSETS

Cash and Cash Equivalents  
Investments  
Due from Other Funds  
Total Assets

LIABILITIES AND FUND EQUITY

Liabilities	\$ 3,097	\$ 0	\$ 34	\$ 2,897	\$ 0	\$ 0
Accounts Payable	9,878	4,548	237	0	0	0
Due to Other Funds	12,975	4,548	271	2,897	0	0
Total Liabilities						

Liabilities  
Accounts Payable  
Due to Other Funds  
Total Liabilities

Fund Equity	0	0	0	0	0	0
Fund Balances:						
Reserved For:						
Debt Service	0	0	0	0	0	0
Perpetual Care	0	0	0	0	0	0
Unreserved:						
Undesignated, Reported In:						
Special Revenue Funds	21,741	5,154	4,032	16,332	306,286	0
Total Fund Equity	21,741	5,154	4,032	16,332	306,286	0
Total Liabilities and Fund Equity	\$ 34,716	\$ 9,702	\$ 4,303	\$ 19,229	\$ 306,286	\$ 0

Fund Equity  
Fund Balances:  
Reserved For:  
Debt Service  
Perpetual Care  
Unreserved:  
Undesignated, Reported In:  
Special Revenue Funds  
Total Fund Equity

Total Liabilities and Fund Equity

CITY OF EAST TAWAS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
September 30, 2007

	Major Street Construction Bond	Building Authority Fund	Iosco County Sewer System #2	Cemetery Perpetual Care	Total Other Governmental Funds
\$	1,849	511	0	88	159,665
	0	0	0	76,977	293,600
	0	0	0	0	396
\$	<u>1,849</u>	<u>511</u>	<u>0</u>	<u>77,065</u>	<u>453,661</u>

ASSETS

Cash and Cash Equivalents  
 Investments  
 Due from Other Funds  
 Total Assets

LIABILITIES AND FUND EQUITY

Liabilities

Accounts Payable  
 Due to Other Funds  
 Total Liabilities

Fund Equity

Fund Balances:  
 Reserved For:  
 Debt Service  
 Perpetual Care  
 Unreserved:

Undesignated, Reported In:  
 Special Revenue Funds  
 Total Fund Equity

Total Liabilities and Fund Equity

\$	0	0	0	0	0	6,028
	250	0	0	0	0	14,913
	<u>250</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,941</u>
	1,599	511	0	0	0	2,110
	0	0	0	77,065	0	77,065
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>353,545</u>
	<u>1,599</u>	<u>511</u>	<u>0</u>	<u>77,065</u>	<u>0</u>	<u>432,720</u>
\$	<u>1,849</u>	<u>511</u>	<u>0</u>	<u>77,065</u>	<u>0</u>	<u>453,661</u>

CITY OF EAST TAWAS  
Iosco County, Michigan

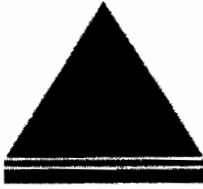
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2007

	Major Streets	Local Streets	Cemetery Fund	Community Center	Intragovernmental Service Fund	Greenwood Cemetery Chapel
<b>Revenue</b>						
State Grants and Revenue	\$ 204,821	\$ 75,676	\$ 0	\$ 0	\$ 0	\$ 0
Charges for Services	0	0	3,825	15,386	0	0
Interest and Rentals	4,095	3,327	196	24,702	30,661	230
Other Revenue	0	0	0	682	500	0
<b>Total Revenue</b>	<b>208,916</b>	<b>79,003</b>	<b>4,021</b>	<b>40,770</b>	<b>31,161</b>	<b>230</b>
<b>Expenditures</b>						
Current:						
General Government:						
Other General Government	0	0	10,172	0	676	0
Public Works	184,089	201,609	0	0	0	0
Recreation and Cultural	0	0	0	109,566	0	0
Capital Outlay	50,841	0	0	0	207,310	0
Debt Service:						
Principal	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>234,930</b>	<b>201,609</b>	<b>10,172</b>	<b>109,566</b>	<b>207,986</b>	<b>0</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(26,014)</b>	<b>(122,606)</b>	<b>(6,151)</b>	<b>(68,796)</b>	<b>(176,825)</b>	<b>230</b>
<b>Other Financing Sources (Uses)</b>						
Operating Transfers In	78,379	10,000	3,733	68,000	128,000	0
Operating Transfers Out	(56,656)	0	0	0	0	(6,847)
<b>Total Other Financing Sources (Uses)</b>	<b>21,723</b>	<b>10,000</b>	<b>3,733</b>	<b>68,000</b>	<b>128,000</b>	<b>(6,847)</b>
<b>Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>(4,291)</b>	<b>(112,606)</b>	<b>(2,418)</b>	<b>(796)</b>	<b>(48,825)</b>	<b>(6,617)</b>
<b>Fund Balances - Beginning of Year</b>	<b>26,032</b>	<b>117,760</b>	<b>6,450</b>	<b>17,128</b>	<b>355,111</b>	<b>6,617</b>
<b>Fund Balances - End of Year</b>	<b>21,741</b>	<b>5,154</b>	<b>4,032</b>	<b>16,332</b>	<b>306,286</b>	<b>0</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, 2007

	Major Street Construction Bond	Building Authority Fund	Iosco County Sewer System #2	Cemetery Perpetual Care	Total Other Governmental Funds
<b>Revenue</b>					
State Grants and Revenue	\$ 0	\$ 0	\$ 0	\$ 0	\$ 280,497
Charges for Services	0	0	0	0	19,211
Interest and Rentals	86	149,181	0	3,885	216,363
Other Revenue	0	0	0	900	2,082
<b>Total Revenue</b>	<u>86</u>	<u>149,181</u>	<u>0</u>	<u>4,785</u>	<u>518,153</u>
<b>Expenditures</b>					
Current:					
General Government:					
Other General Government	0	0	0	160	11,008
Public Works	0	0	0	0	385,698
Recreation and Cultural	0	0	0	0	109,566
Capital Outlay	0	0	0	0	258,151
Debt Service:					
Principal	35,000	60,000	75,000	0	170,000
Interest and Fiscal Charges	21,906	89,211	5,008	0	116,125
<b>Total Expenditures</b>	<u>56,906</u>	<u>149,211</u>	<u>80,008</u>	<u>160</u>	<u>1,050,548</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	<u>(56,820)</u>	<u>(30)</u>	<u>(80,008)</u>	<u>4,625</u>	<u>(532,395)</u>
<b>Other Financing Sources (Uses)</b>					
Operating Transfers In	56,656	0	80,008	6,847	431,623
Operating Transfers Out	0	(126)	0	(3,733)	(67,362)
<b>Total Other Financing Sources (Uses)</b>	<u>56,656</u>	<u>(126)</u>	<u>80,008</u>	<u>3,114</u>	<u>364,261</u>
<b>Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>(164)</u>	<u>(156)</u>	<u>0</u>	<u>7,739</u>	<u>(168,134)</u>
<b>Fund Balances - Beginning of Year</b>	<u>1,763</u>	<u>667</u>	<u>0</u>	<u>69,326</u>	<u>600,854</u>
<b>Fund Balances - End of Year</b>	<u>1,599</u>	<u>511</u>	<u>0</u>	<u>77,065</u>	<u>432,720</u>



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

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Gerald D. Gracik Jr., CPA  
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Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Herman A. Benuleit

January 29, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2007, which collectively comprise the City of East Tawas' basic financial statements and have issued our report thereon dated January 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of East Tawas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of East Tawas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of East Tawas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of East Tawas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of East Tawas' financial statements that is more than inconsequential will not be prevented or detected by the City of East Tawas' internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

The City of East Tawas prepares various financial information throughout the year to assess operations and the financial condition of the City. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the City relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Stephenson, Gracik & Co., P.C.

Members of the City Council  
City of East Tawas  
January 29, 2008

The City of East Tawas has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the City is considered to have a significant control deficiency, since 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of East Tawas' internal control.

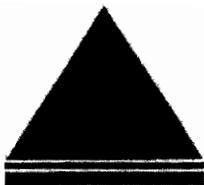
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to not be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of East Tawas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Members of the City Council, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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Herman A. Bertuleit

January 29, 2008

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

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawas for the year ended September 30, 2007, and have issued our report thereon dated January 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 12, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of East Tawas. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of East Tawas' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of East Tawas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of East Tawas during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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.

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

Members of the City Council  
City of East Tawas  
January 29, 2008  
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## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of East Tawas' financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by Management.

## Disagreements with Management

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

## Consultations with Other Independent Accountants

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

## Issues Discussed Prior to Retention of Independent Auditors

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

## Difficulties Encountered in Performing the Audit

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

## Additional Information

As a result of our study and evaluation of the internal controls and compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendation.

## Financial Statement Preparation

The City of East Tawas prepares various financial information throughout the year to assess operations and the financial condition of the City. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the City relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The City of East Tawas has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the City is considered to have a significant control deficiency, since 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.

Stephenson, Gracik & Co., P.C.

Members of the City Council  
City of East Tawas  
January 29, 2008  
Page 3

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of City of East Tawas.

This information is intended solely for the use of management, the Members of the City Council, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

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