

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 CITY OF TAWAS CITY	County IOSCO
Fiscal Year End 06/30/2007	Opinion Date 10/29/2007	Date Audit Report Submitted to State 11/28/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

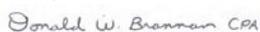
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

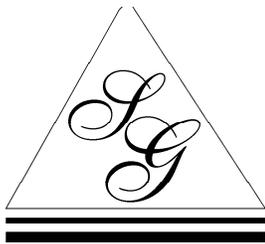
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net 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) STEPHENSON, GRACIK & CO., P.C.		Telephone Number (989) 362-4491	
Street Address 325 NEWMAN STREET, PO BOX 592		City EAST TAWAS	State Zip MI 48730
Authorizing CPA Signature  <small>Signature Valid</small>	Printed Name DONALD W. BRANNAN	License Number 1101021039	

Digitally signed by Stephenson, Gracik and Co., P.C.
DN: cn=Stephenson, Gracik and Co., P.C., o=IOSCO
Date: 2007.11.28 10:46:20 -0500



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Herman A Bertuleit, CPA

CITY OF TAWAS CITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2007

AUDITORS' REPORT

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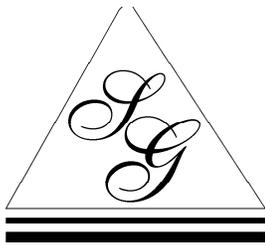
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October 29, 2007

Independent Auditors' Report

Members of the City Council
City of Tawas City
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 Tawas City, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of Tawas City's basic financial statements, as listed in the index. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 provides a reasonable basis for our opinions.

In our opinion, 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 Tawas City, Iosco County, Michigan, as of June 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 October 29, 2007, on our consideration of the City of Tawas City's 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 Tawas City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund 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 TAWAS CITY

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TAWAS CITY, MICHIGAN

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Tawas City's (the City) financial performance provides an overview of the City's financial activities for the year ended June 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, the component unit reported separately from the primary government is not included.

Financial Highlights

- The City's assets exceeded its liabilities by \$10,163,606.
- The City's total net assets increased by 1,056,732.
- The City's governmental funds reported a combined ending fund balance of \$1,312,579 this year, an increase of \$145,840. Of this amount, \$1,147,838 is available for spending (*unreserved fund balance*) on behalf of its citizens. The City General Fund 2006/2007 fiscal year end *fund balance* is \$894,511.

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 Tawas City. These assets are comprised of buildings and improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total over \$9 million. The City Treasurer performed an inventory and evaluation of assets and categorized a depreciation schedule for assets not fully depreciated.

The City's component unit is comprised of the Tawas City Downtown Development Authority. This component unit is described in the *Notes to the Financial Statements*, presented in Exhibit K of this report. The component unit is separate and may buy, sell, lease, and mortgage property in its own name and can sue or be sued in its own name.

The Tawas City Downtown Development Authority displays assets totaling \$210,069.

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.
- Major Streets Fund – This fund accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.

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.

Fiduciary Funds: Fiduciary fund reporting focuses on net assets and changes in net assets. The City’s agency fund accounts for assets held by the City for political subdivisions in which the City acts as fiscal agent for taxes collected and distributed to other political subdivisions.

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 in Exhibit K of this report.

Tawas City Downtown Development Authority related financial data is included throughout the notes to financial statements .

Other Information

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

Government -Wide Financial Analysis

Summary of Net Assets:

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

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current Assets	\$ 1,372,733	\$ 1,091,420	\$ 2,464,153	\$ 2,136,028
Capital Assets – net	3,313,778	2,047,126	5,360,904	5,155,343
Other Noncurrent Assets	<u>0</u>	<u>4,387,404</u>	<u>4,387,404</u>	<u>4,329,491</u>
Total Assets	<u>4,686,511</u>	<u>7,525,950</u>	<u>12,212,461</u>	<u>11,620,862</u>
Current Liabilities	60,154	20,444	80,598	98,618
Long-Term Liabilities	<u>652,463</u>	<u>1,315,794</u>	<u>1,968,257</u>	<u>2,415,370</u>
Total Liabilities	<u>712,617</u>	<u>1,336,238</u>	<u>2,048,855</u>	<u>2,513,988</u>
Net Assets				
Investment in Capital Assets, Net of Related Debt	2,968,027	2,047,126	5,015,153	4,628,589
Restricted	185,100	0	185,100	85,433
Unrestricted	<u>820,767</u>	<u>4,142,586</u>	<u>4,963,353</u>	<u>4,392,852</u>
Total Net Assets	<u>\$ 3,973,894</u>	<u>\$ 6,189,712</u>	<u>\$ 10,163,606</u>	<u>\$ 9,106,874</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2007.

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 Tawas City, 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</u> <u>Activities</u>	<u>Business -Type</u> <u>Activities</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 204,662	\$ 1,015,260	\$ 1,219,922	\$ 1,207,257
Operating Grants and Contributions	238,669	0	238,669	248,481
Capital Grants and Contributions	<u>39,319</u>	<u>201,245</u>	<u>240,564</u>	<u>431,550</u>
Total Program Revenues	<u>482,650</u>	<u>1,216,505</u>	<u>1,699,155</u>	<u>1,887,288</u>
General Revenues:				
Property Taxes	776,621	401,995	1,178,616	1,178,893
State Revenue Sharing	200,262	0	200,262	203,640
Payments From Component Unit	58,313	0	58,313	102,770
Rent Income	71,744	0	71,744	69,224
Investment Earnings and Miscellaneous	<u>94,389</u>	<u>40,738</u>	<u>135,127</u>	<u>108,838</u>
Total General Revenues and Transfers	<u>1,201,329</u>	<u>442,733</u>	<u>1,644,062</u>	<u>1,663,365</u>
Total Revenues	<u>1,683,979</u>	<u>1,659,238</u>	<u>3,343,217</u>	<u>3,550,653</u>
Program Expenses:				
General Government	256,556	0	256,556	193,254
Public Safety	421,603	0	421,603	417,827
Public Works	546,592	0	546,592	581,765
Community and Economic Development	24,210	0	24,210	28,144
Recreation and Cultural	185,666	0	185,666	181,624
Payments to Component Unit	53,400	0	53,400	100,000
Interest on Long-Term Debt	21,770	0	21,770	25,728
Other Expenses	47,744	0	47,744	28,887
Water Services	0	334,102	334,102	345,303
Sewer Services	<u>0</u>	<u>394,842</u>	<u>394,842</u>	<u>409,305</u>
Total Program Expenses	<u>1,557,541</u>	<u>728,944</u>	<u>2,286,485</u>	<u>2,311,837</u>

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Change in Net Assets	\$ 126,438	\$ 930,294	\$ 1,056,732	\$ 1,238,816
Beginning Net Assets	<u>3,847,456</u>	<u>5,259,418</u>	<u>9,106,874</u>	<u>7,868,058</u>
Ending Net Assets	<u>\$ 3,973,894</u>	<u>\$ 6,189,712</u>	<u>\$ 10,163,606</u>	<u>\$ 9,106,874</u>

Governmental Activities

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

Total governmental activities reveal revenues of \$482,650 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees for refuse collection, franchises, fire contracts, cemetery sales and openings and penalties. While revenue collected is substantial, operating expenses totaled \$1,557,541 for these same activities. The largest expenses were incurred by General Government offices (\$256,556), Public Safety (\$421,603) and Public Works (\$546,592).

Business-Type Activities

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

Financial Analysis of City Funds

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

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; and 2) major Streets Fund – accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.

This year's City audit shows 12 funds. These funds are maintained by the City Treasurer 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 comprise these funds. GASB 34 places such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Assets, Statement of Cash Flows*, etc. More specific detail is seen in Exhibits G, H, and I.

Budgetary Highlights

The City's budgets are prepared according to Michigan law. The most significant budgeted funds are the General, Major Streets and Equipment Funds.

During the fiscal year ended June 30, 2007, the City amended the budgets of their major governmental funds a couple of times, none significantly.

General Fund

The General Fund actual revenue was \$1,356,198. That amount is above the original budget estimate of \$1,344,179 and below the final amended budget estimate of \$1,375,924.

The actual expenditures of the General Fund were \$1,145,495, which is below both the original budget estimate of \$1,189,638 and final amended budget estimate of \$1,255,553. The variance between the actual expenditures, the original budget, and the final budget was due to decreased costs in various areas.

The General Fund had total revenues of \$1,356,198 and total expenditures of \$1,145,495 with an ending fund balance of \$894,511.

Major Streets Fund

The Major Streets Fund actual revenue was \$155,752. That amount is above both the original and final amended budget estimates of \$153,920.

The actual expenditures of the Major Streets Fund were \$171,073, which is above the original budget estimate of \$165,150 and below the final amended budget estimate of \$214,583.

The Major Streets Fund had total revenues of \$155,752 and total expenditures of \$171,073 with an ending fund balance of \$83,028.

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 \$5,587,289 with an ending balance of \$5,702,260. Governmental Activities Total Capital Assets – Net of Depreciation was \$3,313,778.

Capital Assets - Business Type Activities beginning balance was \$3,007,128 with an ending balance of \$3,342,225. Business-Type Activities Total Capital Assets – Net of Depreciation was \$2,047,126. An expanded and detailed presentation may be seen in Note 6 of the audit, notes to financial statements.

Long-Term Debt

At year's end, long-term debt (due in more than one year) amounted to \$1,551,513. Such debt includes *Due to State of Michigan, Notes Payable, 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 City staff work together to maintain revenue sources and control expenditures. The main source of revenue is property taxes and is approximately 57% of the City's general fund budget. In 2007-2008 the City will collect more in property taxes due to new businesses and new construction.

Another source of revenue is from the State of Michigan. Each year revenue sharing decreases as the State of Michigan is cutting back. The City uses undesignated fund balances to cover any shortfalls. The City's General Fund realized a 5% increase in fund balance in fiscal year 2006-2007 and these funds will be used to cover any short falls in revenues.

The City Council and City staff will continue to monitor revenues and expenditures due to ongoing economic conditions.

Component Unit

Complete financial statements for the Tawas City Downtown Development Authority may be obtained from the City of Tawas City Clerk's office located at 516 Oak Street, Tawas City, Michigan, 48763.

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 Tawas City Clerk's office located at 516 Oak Street, Tawas City, Michigan, 48763.

CITY OF TAWAS CITY
Iosco County, Michigan

STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
<u>Assets</u>				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 1,198,329	\$ 972,571	\$ 2,170,900	\$ 140,069
Investments - real estate	2,570	0	2,570	0
Receivables:				
Special assessments	0	6,216	6,216	0
Accounts, net	17,814	111,911	129,725	0
Due from state	39,127	2,500	41,627	0
Due from federal government	27,544	0	27,544	0
Internal balances	12,435	(12,435)	0	0
Prepaid expenses	74,914	10,657	85,571	0
Total current assets	<u>1,372,733</u>	<u>1,091,420</u>	<u>2,464,153</u>	<u>140,069</u>
Noncurrent assets:				
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,766,004	1,766,004	0
Investment in Iosco County Waste Water Treatment Plant (Note 5)	0	2,621,400	2,621,400	0
Capital assets, net (Note 6)	3,313,778	2,047,126	5,360,904	70,000
Total noncurrent assets	<u>3,313,778</u>	<u>6,434,530</u>	<u>9,748,308</u>	<u>70,000</u>
 Total Assets	 <u>4,686,511</u>	 <u>7,525,950</u>	 <u>12,212,461</u>	 <u>210,069</u>
<u>Liabilities</u>				
Accounts payable	51,255	18,429	69,684	0
Accrued liabilities	8,899	2,015	10,914	0
Long-term liabilities:				
Due within one year (Note 7)	74,283	342,461	416,744	0
Due in more than one year (Note 7)	578,180	973,333	1,551,513	0
Total Liabilities	<u>712,617</u>	<u>1,336,238</u>	<u>2,048,855</u>	<u>0</u>
<u>Net Assets</u>				
Investment in capital assets, net of related debt	2,968,027	2,047,126	5,015,153	70,000
Restricted for:				
Debt service	159,646	0	159,646	0
Perpetual care	5,095	0	5,095	0
Library activities	20,359	0	20,359	0
Unrestricted	820,767	4,142,586	4,963,353	140,069
 Total Net Assets	 <u>\$ 3,973,894</u>	 <u>\$ 6,189,712</u>	 <u>\$ 10,163,606</u>	 <u>\$ 210,069</u>

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

CITY OF TAWAS CITY
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Downtown Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 256,556	\$ 46,154	\$ 0	\$ 0	\$ (210,402)	\$ 0	\$ (210,402)	
Public safety	421,603	93,597	250	39,319	(288,437)	0	(288,437)	
Public works	546,592	62,400	197,806	0	(286,386)	0	(286,386)	
Community and economic development	24,210	0	0	0	(24,210)	0	(24,210)	
Recreation and cultural	185,666	2,511	40,613	0	(142,542)	0	(142,542)	
Payments to component unit	53,400	0	0	0	(53,400)	0	(53,400)	
Interest on long-term debt	21,770	0	0	0	(21,770)	0	(21,770)	
Other expenses	47,744	0	0	0	(47,744)	0	(47,744)	
Total governmental activities	<u>1,557,541</u>	<u>204,662</u>	<u>238,669</u>	<u>39,319</u>	<u>(1,074,891)</u>	<u>0</u>	<u>(1,074,891)</u>	
Business-type activities:								
Water services	334,102	519,300	0	201,245	0	386,443	386,443	
Sewer services	394,842	495,960	0	0	0	101,118	101,118	
Total business-type activities	<u>728,944</u>	<u>1,015,260</u>	<u>0</u>	<u>201,245</u>	<u>0</u>	<u>487,561</u>	<u>487,561</u>	
Total primary government	<u>\$ 2,286,485</u>	<u>\$ 1,219,922</u>	<u>\$ 238,669</u>	<u>\$ 240,564</u>	<u>(1,074,891)</u>	<u>487,561</u>	<u>(587,330)</u>	
Component Unit:								
Downtown Development Authority	<u>\$ 1,260</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>				<u>\$ (1,260)</u>
General Revenues:								
Property taxes levied for:								
General operating					776,621	0	776,621	0
Sewer					0	255,235	255,235	0
Water					0	146,760	146,760	0
State revenue sharing					200,262	0	200,262	0
Payments from primary government					0	0	0	53,400
Payments from component unit					58,313	0	58,313	(58,313)
Rent income					71,744	0	71,744	0
Interest and investment earnings					67,240	40,856	108,096	5,703
Loss on sale of capital assets					0	(118)	(118)	0
Other					27,149	0	27,149	0
Total general revenues and transfers					<u>1,201,329</u>	<u>442,733</u>	<u>1,644,062</u>	<u>790</u>
Change in net assets					126,438	930,294	1,056,732	(470)
Net assets - beginning of year					<u>3,847,456</u>	<u>5,259,418</u>	<u>9,106,874</u>	<u>210,539</u>
Net assets - end of year					<u>\$ 3,973,894</u>	<u>\$ 6,189,712</u>	<u>\$ 10,163,606</u>	<u>\$ 210,069</u>

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

CITY OF TAWAS CITY
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
June 30, 2007

	<u>General</u>	<u>Major Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 2)	\$ 797,785	\$ 69,649	\$ 330,895	\$ 1,198,329
Investments - real estate	0	0	2,570	2,570
Receivables:				
Accounts	17,814	0	0	17,814
Due from state	4,257	27,254	7,616	39,127
Due from federal government	0	0	27,544	27,544
Due from other funds (Note 3)	23,597	0	491	24,088
Prepaid expenses	74,914	0	0	74,914
Total Assets	<u>\$ 918,367</u>	<u>\$ 96,903</u>	<u>\$ 369,116</u>	<u>\$ 1,384,386</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 16,261	\$ 5,273	\$ 29,721	\$ 51,255
Accrued expenses payable	7,104	1,146	649	8,899
Due to other funds (Note 3)	491	7,456	3,706	11,653
Total liabilities	<u>23,856</u>	<u>13,875</u>	<u>34,076</u>	<u>71,807</u>
<u>Fund Equity</u>				
Fund balances:				
Reserved for:				
Debt service	0	0	159,646	159,646
Perpetual care	0	0	5,095	5,095
Library activities	0	0	20,359	20,359
Unreserved:				
Designated for budget stabilization	526,820	0	0	526,820
Undesignated reported in:				
General Fund	367,691	0	0	367,691
Special revenue funds	0	83,028	149,940	232,968
Total fund equity	<u>894,511</u>	<u>83,028</u>	<u>335,040</u>	<u>1,312,579</u>
Total Liabilities and Fund Equity	<u>\$ 918,367</u>	<u>\$ 96,903</u>	<u>\$ 369,116</u>	<u>\$ 1,384,386</u>

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

CITY OF TAWAS CITY
Losco County, Michigan

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

Total governmental fund balances		\$ 1,312,579
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	\$ 5,702,260	
Capital asset accumulated depreciation	<u>(2,388,482)</u>	3,313,778
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:		
Compensated absences payable	(56,712)	
Due to State of Michigan	(250,000)	
Bonds payable	(240,000)	
Notes payable	<u>(105,751)</u>	
Total long-term liabilities		<u>(652,463)</u>
Total net assets - governmental activities		<u>\$ 3,973,894</u>

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

CITY OF TAWAS CITY
Iosco County, Michigan

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

	<u>General</u>	<u>Major Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
Current property taxes	\$ 776,621	\$ 0	\$ 0	\$ 776,621
Federal grants	0	0	38,394	38,394
State grants and revenue	200,262	151,424	46,382	398,068
Contributions from local units	0	0	63,397	63,397
Charges for services	264,181	0	5,750	269,931
Interest and rentals	114,567	2,017	22,400	138,984
Other revenue	567	2,311	4,612	7,490
Total revenue	<u>1,356,198</u>	<u>155,752</u>	<u>180,935</u>	<u>1,692,885</u>
<u>Expenditures</u>				
Current:				
General government	245,843	0	0	245,843
Public safety	352,008	0	0	352,008
Public works	373,866	120,960	68,393	563,219
Community and economic development	24,210	0	0	24,210
Recreation and cultural	80,639	0	36,059	116,698
Other	44,486	0	3,258	47,744
Capital outlay	24,443	50,113	40,415	114,971
Debt service:				
Principal	0	0	65,495	65,495
Interest and fiscal charges	0	0	21,770	21,770
Total expenditures	<u>1,145,495</u>	<u>171,073</u>	<u>235,390</u>	<u>1,551,958</u>
Excess of revenue over (under) expenditures	<u>210,703</u>	<u>(15,321)</u>	<u>(54,455)</u>	<u>140,927</u>
Other Financing Sources (Uses):				
Operating transfers in	43,073	49,432	154,454	246,959
Transfers from component unit	0	0	58,313	58,313
Operating transfers out	(154,454)	0	(92,505)	(246,959)
Transfers to component unit	(53,400)	0	0	(53,400)
Total other financing sources (uses)	<u>(164,781)</u>	<u>49,432</u>	<u>120,262</u>	<u>4,913</u>
Excess of revenue and other sources over expenditures and other uses	45,922	34,111	65,807	145,840
Fund balances - beginning of year	<u>848,589</u>	<u>48,917</u>	<u>269,233</u>	<u>1,166,739</u>
Fund balances - end of year	<u>\$ 894,511</u>	<u>\$ 83,028</u>	<u>\$ 335,040</u>	<u>\$ 1,312,579</u>

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

CITY OF TAWAS CITY
Osco 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 June 30, 2007

Total net change in fund balances - governmental funds	\$	145,840
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current year depreciation expense	\$ (188,064)	
Capital assets reported as capital outlays in the governmental funds	<u>114,971</u>	
Net difference		(73,093)
Principal repayments on notes are 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:		
Notes payable	14,495	
Bonds payable	<u>51,000</u>	
Net difference		65,495
Net change in accrued compensated absences:		
Accrued compensated absences June 30, 2006	44,908	
Accrued compensated absences June 30, 2007	<u>(56,712)</u>	
Net change		<u>(11,804)</u>
Change in net assets of governmental activities	\$	<u>126,438</u>

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

CITY OF TAWAS CITY
Iosco County, Michigan

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
June 30, 2007

	Enterprise Funds		Total
	Major Funds		
	Sewer Fund	Water Fund	
<u>Assets</u>			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 344,575	\$ 627,996	\$ 972,571
Receivables:			
Special assessments	6,216	0	6,216
Accounts, net	53,260	58,651	111,911
Due from state	0	2,500	2,500
Due from other funds (Note 3)	423	0	423
Prepaid expenses	0	10,657	10,657
Total current assets	404,474	699,804	1,104,278
Noncurrent assets:			
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,766,004	1,766,004
Investment in Iosco County Waste Water Treatment Plant (Note 5)	2,621,400	0	2,621,400
Capital assets, net (Note 6)	693,630	1,353,496	2,047,126
Total noncurrent assets	3,315,030	3,119,500	6,434,530
 Total Assets	 3,719,504	 3,819,304	 7,538,808
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	16,500	1,929	18,429
Accrued liabilities	844	1,171	2,015
Due to other funds (Note 3)	6,290	6,568	12,858
Contracts payable, current	215,880	126,581	342,461
Total current liabilities	239,514	136,249	375,763
Noncurrent liabilities:			
Contracts payable	484,188	489,145	973,333
Total Liabilities	723,702	625,394	1,349,096
<u>Net Assets</u>			
Investment in capital assets, net of related debt	693,630	1,353,496	2,047,126
Unrestricted	2,302,172	1,840,414	4,142,586
 Total Net Assets	 \$ 2,995,802	 \$ 3,193,910	 \$ 6,189,712

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

CITY OF TAWAS CITY
Losco County, Michigan

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

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Major Funds</u>		
	<u>Sewer Fund</u>	<u>Water Fund</u>	
<u>Operating Revenue</u>			
Charges for services	\$ 483,940	\$ 497,966	\$ 981,906
Service connection charges	2,350	7,600	9,950
Penalties	8,505	8,294	16,799
Miscellaneous	1,165	5,440	6,605
Total operating revenue	<u>495,960</u>	<u>519,300</u>	<u>1,015,260</u>
<u>Operating Expenses</u>			
Salaries	47,336	56,273	103,609
Fringe benefits	20,385	23,758	44,143
Contracted services	209,599	151,201	360,800
Administrative costs	3,932	4,693	8,625
Insurance	2,500	3,000	5,500
Maintenance	0	7,516	7,516
Equipment rental	10,298	13,511	23,809
System supplies	10,425	0	10,425
Travel and training	245	1,776	2,021
Utilities	14,009	0	14,009
Other	520	948	1,468
Depreciation	27,683	36,972	64,655
Total operating expenses	<u>346,932</u>	<u>299,648</u>	<u>646,580</u>
Operating income	<u>149,028</u>	<u>219,652</u>	<u>368,680</u>
<u>Non-operating Revenue (Expenses)</u>			
Current property taxes	255,235	146,760	401,995
State grants	0	201,245	201,245
Interest income	15,018	25,838	40,856
Loss on sale of capital assets	0	(118)	(118)
Interest expense and paying agent fees	(47,910)	(34,454)	(82,364)
Total non-operating revenue (expenses)	<u>222,343</u>	<u>339,271</u>	<u>561,614</u>
Change in net assets	371,371	558,923	930,294
Net assets - beginning of year	<u>2,624,431</u>	<u>2,634,987</u>	<u>5,259,418</u>
Net assets - end of year	<u>\$ 2,995,802</u>	<u>\$ 3,193,910</u>	<u>\$ 6,189,712</u>

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

CITY OF TAWAS CITY
Losco County, Michigan

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
For the Year Ended June 30, 2007

	<u>Enterprise Funds</u>		
	<u>Major Funds</u>		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities</u>			
Cash received from customers	\$ 489,266	\$ 503,204	\$ 992,470
Cash payments for operating expenses	(336,373)	(286,194)	(622,567)
Net cash provided by operating activities	<u>152,893</u>	<u>217,010</u>	<u>369,903</u>
<u>Cash Flows From Noncapital Financing Activities</u>			
Property taxes received	255,235	146,760	401,995
Special assessments received	1,555	0	1,555
Cash received from (paid to) other funds	1,306	(1,155)	151
Net cash provided by noncapital financing activities	<u>258,096</u>	<u>145,605</u>	<u>403,701</u>
<u>Cash Flows From Capital and Related Financing Activities</u>			
Acquisition and construction of capital assets	(43,137)	(317,947)	(361,084)
State grants received	0	198,745	198,745
Proceeds from the sale of capital assets	0	7,000	7,000
Principal paid on long-term debt	(222,048)	(229,287)	(451,335)
Interest and fees paid on long-term debt	(47,910)	(34,454)	(82,364)
Net cash used by capital and related financing activities	<u>(313,095)</u>	<u>(375,943)</u>	<u>(689,038)</u>
<u>Cash Flows From Investing Activities</u>			
Interest received	15,018	25,838	40,856
Net increase in cash and cash equivalents	112,912	12,510	125,422
Cash and cash equivalents at beginning of year (Note 1)	<u>231,663</u>	<u>615,486</u>	<u>847,149</u>
Cash and cash equivalents at end of year (Note 1)	<u>\$ 344,575</u>	<u>\$ 627,996</u>	<u>\$ 972,571</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>			
Operating income	\$ 149,028	\$ 219,652	\$ 368,680
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	27,683	36,972	64,655
Change in assets and liabilities:			
Accounts receivable, net	(6,694)	(16,096)	(22,790)
Accounts payable	(16,661)	(21,204)	(37,865)
Accrued liabilities	(463)	(2,314)	(2,777)
Net cash provided by operating activities	<u>\$ 152,893</u>	<u>\$ 217,010</u>	<u>\$ 369,903</u>
<u>Noncash Capital and Related Financing Activities</u>			
The Water Fund recorded noncash activity in the form of an increase in contracts payable and investment in Huron Shore Regional Utility Authority of \$57,913. This was the result of an increase in City of Tawas City's actual water usage percentage in the current year's joint venture membership gallon usage calculation.			

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

CITY OF TAWAS CITY
Losco County, MichiganSTATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2007

	<u>Tax Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents (Note 2)	<u>\$ 71,922</u>
<u>LIABILITIES</u>	
Due to others	<u>\$ 71,922</u>

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

CITY OF TAWAS CITY
Losco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Tawas City conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. 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 Tawas City was organized in 1885 and covers an area of approximately 1 1/4 square miles. The City operates under an elected City Council (seven members) and provides services to its more than 2,000 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 for fiscal matters of the entity. On this basis, the financial statements of certain other governmental organizations listed below are not included in the financial statements of the City. 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 Unit

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation.

The City of Tawas City Building Authority is legally separate from the City. The Building Authority is reported as if it were part of the primary government because its sole purpose is to finance, construct and maintain buildings, parking facilities and recreation facilities for use for any legitimate public purpose of the City. The financial activities of the City of Tawas City Building Authority are recorded as a governmental activity and a special revenue fund.

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

2. Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above, but do not meet the criteria for blending. The component unit columns on the combined financial statements include the financial data of the City's discretely presented component units. They are reported in separate columns to emphasize that they are legally separate from the City.

The Downtown Development Authority 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 Authority was established to eliminate the causes of property value deterioration and promote economic growth in the business district of the City of Tawas City. Complete financial statements for the Tawas City Downtown Development Authority can be obtained from the City of Tawas City Clerk's office located at 516 Oak Street, Tawas City, Michigan, 48763.

C. Joint Ventures

The City of Tawas 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 Tawas City and the City of East Tawas. The Authority was established to provide police protection to the constituent municipalities, the City of Tawas City and the City of East Tawas, and other municipalities by contract. Each municipality makes contributions based on their share of the adopted annual budget. The City of Tawas City's contribution for the year ended June 30, 2007 was \$234,308. 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 Tawas City and the City of East Tawas. The Authority was established for the construction and operation of sewage treatment facilities to service both municipalities. Each municipality makes monthly operation and maintenance payments based on their share of the adopted annual budget. The City of Tawas City's cost for the year ended June 30, 2007 was \$199,200. Complete financial statements can be obtained from the City of East Tawas City Manager's office.

Huron Shore Regional Utility Authority

The Huron Shore Regional Utility Authority was established as a joint venture between the City of Tawas City, City of East Tawas, 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

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

Huron Shore Regional Utility Authority (Continued)

amount plus any adjustment for the City of Tawas City's 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 18.92% of the total bond issue of \$7,930,000 or \$1,500,356. 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 Tawas City is making payments through ad-valorem taxes and charges for services.

In 1995, the City entered into a joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water and Sewer System No. 1, with the Charter Townships of Oscoda and AuSable and the Township of Baldwin. The most current estimate of the City's share is 22.46% of the total bond issue of \$1,300,000 or \$291,980. 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 Tawas City 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 Tawas City's contribution for the year ended June 30, 2007 was \$138,160. The current value of the City of Tawas City's investment in the Huron Shore Regional Utility Authority is \$1,766,004. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

D. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government and its component units except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental 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 support.

CITY OF TAWAS CITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 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 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 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 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 is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Major Streets Fund – This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

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

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.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency fund accounts for assets held by the City for political subdivisions in which the City acts as fiscal agent for taxes, collected and distributed to other political subdivisions.

F. Measurement Focus

Government-Wide Financial Statements

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

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund 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.

CITY OF TAWAS CITY
Osco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in 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.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and enterprise fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the 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 Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days after 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 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 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

CITY OF TAWAS CITY
Oshtemo County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

Expenses/Expenditures

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

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

H. Budgets and Budgetary Accounting

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

1. The City Clerk submits to the City Council a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the City Council.

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 activity level.

The legal level of control is at the activity level for the General Fund, and at fund expenditure totals for the 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.

I. Cash and Cash Equivalents

For presentation on the financial statements, investments in 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. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Receivables

Receivables at June 30, 2007, consist of accounts (fees) and special assessments. 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.

K. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". 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".

L. 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.

M. Inventories

Inventories have not been recognized in the financial statements as they are not material and have been expensed when purchased.

N. Capital Assets

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

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

The City's infrastructure consists of roads, bridges, dams, and water and sewer lines. Improvements are capitalized. 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.

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Capital Assets (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Building Improvements	7 to 40 years
Land Improvements	20 years
Water and Sewer Lines	50 years
Dams	30 - 50 years
Construction Equipment	5 - 10 years
Vehicles	5 - 15 years
Office Equipment	5 years
Computer Equipment	5 years
Firefighting Equipment	10 years
Grounds Equipment	15 years
Infrastructure – Roads	40 years

O. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration limits specified in the City's termination policy. 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 governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "accrued compensated absences payable" in the fund from which the employees who have accumulated leave is paid. The noncurrent portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

P. 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 the 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.

CITY OF TAWAS CITY
Osco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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.

R. 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. Fund balance reserves have been established for future debt service, library and perpetual care expenditures.

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 and sewer 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. 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 Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

U. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. 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.

CITY OF TAWAS CITY
Iosco County, Michigan

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

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	<u>\$ 1,198,329</u>	<u>\$ 972,571</u>	<u>\$ 71,922</u>	<u>\$ 2,242,822</u>	<u>\$ 140,069</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank deposits (checking and savings accounts)	\$ 232,517	\$ 0
Investments in financial institution pooled funds	2,010,155	140,069
Petty cash and cash on hand	<u>150</u>	<u>0</u>
Total	<u>\$ 2,242,822</u>	<u>\$ 140,069</u>

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 2,010,155</u>	Daily

Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to change 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 on the open market prior to maturity; and investing operating funds primarily in shorter-term securities, 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 governmental unit in Michigan. The City's investment pools are unrated.

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.

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 June 30, 2007, \$132,518 of the City's bank balance of \$232,518 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the City's investment policy which is in accordance with State law.

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
- * United States government or federal agency obligation repurchase agreements
- * 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 and 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 23,597	\$ 491
Major Streets Fund	<u>0</u>	<u>7,456</u>
Total Major Governmental Funds	<u>23,597</u>	<u>7,947</u>
Non-major Governmental Funds	<u>491</u>	<u>3,706</u>
Major Enterprise Funds:		
Sewer Fund	423	6,290
Water Fund	<u>0</u>	<u>6,568</u>
Total Major Enterprise Funds	<u>423</u>	<u>12,858</u>
	<u>\$ 24,511</u>	<u>\$ 24,511</u>

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
<u>Primary Government</u>		<u>Primary Government</u>	
General Fund	\$ 7,456	Major Streets Fund	\$ 7,456
General Fund	6,290	Sewer Fund	6,290
General Fund	6,145	Water Fund	6,145
General Fund	3,706	Local Streets Fund	3,706
Equipment Fund	491	General Fund	491
Sewer Fund	<u>423</u>	Water Fund	<u>423</u>
Total	<u>\$ 24,511</u>		<u>\$ 24,511</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.

NOTE 4 - 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 \$63,808,958. The tax rates were 11.676 for operations and 6.3 for debt retirement.

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 5 - INVESTMENT IN IOSCO COUNTY WASTEWATER TREATMENT PLANT

The City entered into a joint waste water treatment plant contract with the City of East Tawas 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 61.68% of the total funding bond issue of \$4,250,000 or \$2,621,400. 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 6 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,305,324	\$ 9,553	\$ 0	\$ 1,314,877
Construction in process	<u>10,581</u>	<u>0</u>	<u>0</u>	<u>10,581</u>
Subtotal	<u>1,315,905</u>	<u>9,553</u>	<u>0</u>	<u>1,325,458</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	1,530,754	0	0	1,530,754
Land Improvements	900,723	5,200	0	905,923
Machinery and Equipment	377,209	40,415	0	417,624
Vehicles	1,079,382	0	0	1,079,382
Infrastructure - Roads	<u>383,316</u>	<u>59,803</u>	<u>0</u>	<u>443,119</u>
Subtotal	<u>4,271,384</u>	<u>105,418</u>	<u>0</u>	<u>4,376,802</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	725,776	31,971	0	757,747
Land Improvements	583,427	45,297	0	628,724
Machinery and Equipment	286,420	30,623	0	317,043
Vehicles	590,380	69,095	0	659,475
Infrastructure - Roads	<u>14,415</u>	<u>11,078</u>	<u>0</u>	<u>25,493</u>
Subtotal	<u>2,200,418</u>	<u>188,064</u>	<u>0</u>	<u>2,388,482</u>
Net Capital Assets Being Depreciated	<u>2,070,966</u>	<u>(82,646)</u>	<u>0</u>	<u>1,988,320</u>
Governmental Activities Total				
Capital Assets—Net of Depreciation	<u>\$ 3,386,871</u>	<u>\$ (73,093)</u>	<u>\$ 0</u>	<u>\$ 3,313,778</u>

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 6 - CAPITAL ASSETS (CONTINUED)

<u>Business -Type</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated :				
Land	\$ 79,700	\$ 0	\$ 0	\$ 79,700
Construction in process	<u>68,060</u>	<u>0</u>	<u>11,668</u>	<u>56,392</u>
Subtotal	<u>147,760</u>	<u>0</u>	<u>11,668</u>	<u>136,092</u>
Capital Assets Being Depreciated :				
Buildings	176,878	0	0	176,878
Machinery and Equipment	<u>2,682,490</u>	<u>362,095</u>	<u>15,330</u>	<u>3,029,255</u>
Subtotal	<u>2,859,368</u>	<u>362,095</u>	<u>15,330</u>	<u>3,206,133</u>
Less Accumulated Depreciation for:				
Buildings	168,338	2,537	0	170,875
Machinery and Equipment	<u>1,070,318</u>	<u>62,118</u>	<u>8,212</u>	<u>1,124,224</u>
Subtotal	<u>1,238,656</u>	<u>64,655</u>	<u>8,212</u>	<u>1,295,099</u>
Net Capital Assets Being Depreciated	<u>1,620,712</u>	<u>297,440</u>	<u>7,118</u>	<u>1,911,034</u>
Business-Type Activities Total				
Capital Assets—Net of Depreciation	<u>\$ 1,768,472</u>	<u>\$ 297,440</u>	<u>\$ 18,786</u>	<u>\$ 2,047,126</u>

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

Governmental Activities	
General government	\$ 2,465
Public safety	69,595
Public works	47,669
Recreation and cultural	<u>68,335</u>
Total Governmental Activities	<u>\$ 188,064</u>
Business-Type Activities	
Sewer	\$ 27,683
Water	<u>36,972</u>
Total Business-Type Activities	<u>\$ 64,655</u>

Capital asset activity of the Downtown Development Authority for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	<u>\$ 70,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 70,000</u>

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 7 - LONG-TERM DEBT

At June 30, 2007, long-term debt consists of the following individual issues:

<u>Primary Government:</u>	<u>Governmental</u>	<u>Business-Type</u>
A. Due to State of Michigan:		
\$250,000 loan from the Michigan Department of Commerce which was passed on to the Iosco County Board of Public Works for the construction of a new Waste water treatment system. Program income is to be remitted to the State of Michigan with payback commencing upon notification from the State of Michigan. The amount is to be amortized over 20 years with a balloon payment in one year. Terms are renegotiable at 10 years, however the loan is interest free. As of June 30, 2007, the State of Michigan has not notified the City for commencement of repayment.	<u>\$ 250,000</u>	<u>\$ 0</u>
B. Notes Payable:		
\$222,350 Note Payable to Huron Community Bank for the purchase of a Pierce Sabre Fire Truck. The note was refinanced during the 6/30/07 fiscal year and is repayable in monthly installments of \$1,682 including interest at the rate of 4.5% on the unpaid balance.	<u>105,751</u>	<u>0</u>
C. Contracts Payable:		
Joint waste water treatment plant with the City of East Tawas 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 61.68% of the total refunding bond issue of \$4,250,000 or \$2,621,400.	0	700,068
Joint water supply system agreement with the City of East Tawas, 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 18.92% of the total bond issue of \$7,930,000 or \$1,500,356.	0	430,431

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	<u>Governmental</u>	<u>Business -Type</u>
<u>Primary Government:</u> (Continued)		
C. <u>Contracts Payable:</u> (Continued)		
Joint water supply system agreement with the Charter Townships of AuSable and Oscoda, and the Township of Baldwin to finance the cost of constructing additions, extensions, improvements and related appurtenances to Sewer System No. 1 of the Huron Shores Regional Utility Authority, dated November 1, 1995, due in annual installments through May 1, 2015, bearing interest at the rates of 4.4% to 5.625%. The construction was originally funded with the proceeds of the Limited Tax General Obligation Bonds dated November 5, 1995. The most current estimate of the City's share is 22.46% of the total bond issue of \$1,300,000 or \$291,980.	<u>\$ 0</u> <u>0</u>	<u>\$ 185,295</u> <u>1,315,794</u>
D. <u>Bonds Payable:</u>		
\$535,000 Limited Tax General Obligation Building Authority notes, dated December 1, 1994 used for the purpose of constructing and acquiring recreational facilities and parking improvements in the City of Tawas City. The bonds bear interest from 5.7% to 7% and are due in annual installments through 2009.	150,000	0
\$175,000 General Obligation Building Authority Bond, dated October 21, 1981 used for the purpose of the construction of a fire hall. The bonds bear interest at 5% and are due in annual installments through 2020.	<u>90,000</u> <u>240,000</u>	<u>0</u> <u>0</u>
Total Primary Government	<u>\$ 595,751</u>	<u>\$ 1,315,794</u>

E. Compensated Absences

The City has an employee benefit plan that allows employees to accumulate unused vacation hours and also to accumulate sick pay days at the rate of one day per month up to a maximum of 45 days. Upon accumulation of 45 days, full time employees will be paid at the individual's computed hourly rate for each sick day earned in excess of the 45 days not used during the preceding calendar year. This payment will be made every January to those employees who qualify. As of June 30, 2007, the amount of accumulated vacation and sick pay liability for the City is as follows:

CITY OF TAWAS CITY
Osco County, Michigan

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

NOTE 7 - LONG-TERM DEBT (CONTINUED)

E. Compensated Absences (Continued)

	Current Liability <u>6/30/07</u>	Long-Term Liability <u>6/30/07</u>	Total Balance <u>6/30/07</u>
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	<u>\$ 2,535</u>	<u>\$ 54,177</u>	<u>\$ 56,712</u>

F. Changes in Long-Term Liabilities

	Balance <u>July 1, 2006</u>	Issues or <u>Additions</u>	Payments or <u>Expenditures</u>	Balance <u>June 30, 2007</u>	Due Within <u>One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Due to State of Michigan	\$ 250,000	\$ 0	\$ 0	\$ 250,000	\$ 0
Notes payable	120,246	0	14,495	105,751	15,748
Bonds payable	291,000	0	51,000	240,000	56,000
Accrued employee benefits payable	<u>44,908</u>	<u>11,804*</u>	<u>0</u>	<u>56,712</u>	<u>2,535</u>
Total primary government	<u>\$ 706,154</u>	<u>\$ 11,804</u>	<u>\$ 65,495</u>	<u>\$ 652,463</u>	<u>\$ 74,283</u>
<u>Business-Type Activities</u>					
Primary Government:					
Contracts payable	<u>\$ 1,709,216</u>	<u>\$ 0</u>	<u>\$ 393,422</u>	<u>\$ 1,315,794</u>	<u>\$ 342,461</u>

*Represents net of additions and retirements for the year.

The annual aggregate maturities for all debt outstanding (excluding Due to State of Michigan and compensated absences) as of June 30, 2007 are as follows:

Primary Government

Governmental Activities

Notes Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 15,748	\$ 4,436	\$ 20,184
2009	16,471	3,713	20,184
2010	17,228	2,956	20,184
2011	18,019	2,165	20,184
2012	18,847	1,337	20,184
2013	<u>19,438</u>	<u>472</u>	<u>19,910</u>
	<u>\$ 105,751</u>	<u>\$ 15,079</u>	<u>\$ 120,830</u>

CITY OF TAWAS CITY
Iosco County, Michigan

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

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Contracts Payable

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 342,461	\$ 71,873	\$ 414,334
2009	368,325	51,562	419,887
2010	369,910	30,476	400,386
2011	128,413	16,217	144,630
2012	22,460	8,994	31,454
2013 – 2015	<u>84,225</u>	<u>9,474</u>	<u>93,699</u>
	<u>\$ 1,315,794</u>	<u>\$ 188,596</u>	<u>\$ 1,504,390</u>

Bonds Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 56,000	\$ 12,162	\$ 68,162
2009	56,000	8,737	64,737
2010	57,000	5,288	62,288
2011	7,000	3,375	10,375
2012	7,000	3,025	10,025
2013 – 2017	35,000	9,875	44,875
2018 – 2020	<u>22,000</u>	<u>1,700</u>	<u>23,700</u>
	<u>\$ 240,000</u>	<u>\$ 44,162</u>	<u>\$ 284,162</u>

NOTE 8 - OPERATING TRANSFERS

During 2007, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 43,073	\$ 207,854
Major Streets Fund	<u>49,432</u>	<u>0</u>
Total Major Funds	92,505	207,854
Nonmajor Governmental Funds	212,767	92,505
Component Unit:		
Downtown Development Authority	<u>53,400</u>	<u>58,313</u>
	<u>\$ 358,672</u>	<u>\$ 358,672</u>

CITY OF TAWAS CITY
Losco County, Michigan

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

NOTE 8 - OPERATING TRANSFERS (CONTINUED)

During 2007, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
General Fund	\$ 43,073	Equipment Fund	\$ 43,073
Equipment Fund	491	General Fund	491
Major Streets Fund	49,432	Local Streets Fund	49,432
Equipment Fund	30,580	General Fund	30,580
Local Streets Fund	40,000	General Fund	40,000
Library Fund	15,397	General Fund	15,397
Building Authority Fund	58,313	Downtown Development Authority	58,313
Wal-Mart Debt Service Bond Fund	<u>67,986</u>	General Fund	<u>67,986</u>
Total governmental funds	<u>305,272</u>		<u>305,272</u>
Component Unit:			
Downtown Development Authority	<u>53,400</u>	General Fund	<u>53,400</u>
Total	<u>\$ 358,672</u>	Total	<u>\$ 358,672</u>

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

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS 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 to the activity level.

During the year ended June 30, 2007, the City incurred expenditures in certain budgetary funds 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/Capital Outlay	\$ 15,000	\$ 24,443	\$ 9,443
General Fund/Operating Transfers Out	\$ 148,580	\$ 154,454	\$ 5,874

CITY OF TAWAS CITY
Losco County, Michigan

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

NOTE 10 - PENSION PLAN

The City has a defined contribution pension plan covering substantially all its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is operated through the Farmers New World Life Insurance Company.

As established by the City Council, the City is required to contribute an amount equal to 13% of the earnings of salaried personnel and 8.5% of all other employee's gross earnings.

During the year, the City's required and actual contributions amounted to \$38,720.

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

NOTE 12 - NON-CANCELABLE OPERATING LEASE

Tawas City Fire Department

The Tawas City Fire Department leases facilities from the Tawas City Building Authority under a standard lease agreement. Total lease payments for the year ended June 30, 2007 were \$10,650.

NOTE 13 - RISK MANAGEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TAWAS CITY
Losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Current property taxes	\$ 771,000	\$ 771,000	\$ 776,621	\$ 5,621
State grants and revenue	204,500	204,500	200,262	(4,238)
Charges for services	276,078	276,078	264,181	(11,897)
Interest and rentals	92,501	124,246	114,567	(9,679)
Other revenue	100	100	567	467
Total revenue	<u>1,344,179</u>	<u>1,375,924</u>	<u>1,356,198</u>	<u>(19,726)</u>
<u>Expenditures</u>				
Current:				
General government	284,970	304,570	245,843	58,727
Public safety	343,858	352,498	352,008	490
Public works	417,250	415,650	373,866	41,784
Community and economic development	15,050	29,525	24,210	5,315
Recreation and cultural	89,410	89,410	80,639	8,771
Other	29,100	48,900	44,486	4,414
Capital outlay	10,000	15,000	24,443	(9,443)
Total expenditures	<u>1,189,638</u>	<u>1,255,553</u>	<u>1,145,495</u>	<u>110,058</u>
Excess of revenue over expenditures	<u>154,541</u>	<u>120,371</u>	<u>210,703</u>	<u>90,332</u>
Other Financing Sources (Uses):				
Operating transfers in	0	0	43,073	43,073
Operating transfers out	(176,150)	(148,580)	(154,454)	(5,874)
Transfers to component unit	(60,000)	(53,400)	(53,400)	0
Total other financing sources (uses)	<u>(236,150)</u>	<u>(201,980)</u>	<u>(164,781)</u>	<u>37,199</u>
Excess of revenue and other sources over (under) expenditures and other uses	(81,609)	(81,609)	45,922	127,531
Fund balances - beginning of year	<u>848,589</u>	<u>848,589</u>	<u>848,589</u>	<u>0</u>
Fund balances - end of year	<u>\$ 766,980</u>	<u>\$ 766,980</u>	<u>\$ 894,511</u>	<u>\$ 127,531</u>

CITY OF TAWAS CITY
Iosco County, Michigan

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

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
State grants and revenue	\$ 153,320	\$ 153,320	\$ 151,424	\$ (1,896)
Interest and rentals	100	100	2,017	1,917
Other revenue	<u>500</u>	<u>500</u>	<u>2,311</u>	<u>1,811</u>
Total revenue	<u>153,920</u>	<u>153,920</u>	<u>155,752</u>	<u>1,832</u>
<u>Expenditures</u>				
Current:				
Public works	165,150	160,053	120,960	39,093
Capital outlay	<u>0</u>	<u>54,530</u>	<u>50,113</u>	<u>4,417</u>
Total expenditures	<u>165,150</u>	<u>214,583</u>	<u>171,073</u>	<u>43,510</u>
Excess of revenue over (under) expenditures	(11,230)	(60,663)	(15,321)	45,342
Other Financing Sources:				
Operating transfers in	<u>11,230</u>	<u>60,663</u>	<u>49,432</u>	<u>(11,231)</u>
Excess of revenue and other sources over expenditures	0	0	34,111	34,111
Fund balances - beginning of year	<u>48,917</u>	<u>48,917</u>	<u>48,917</u>	<u>0</u>
Fund balances - end of year	<u>\$ 48,917</u>	<u>\$ 48,917</u>	<u>\$ 83,028</u>	<u>\$ 34,111</u>

OTHER INFORMATION

CITY OF TAWAS CITY
Iosco County, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
June 30, 2007

	<u>Local Streets</u>	<u>Equipment Fund</u>	<u>Library Fund</u>	<u>Building Authority Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Building Authority Debt Retirement Fund</u>	<u>Wal-Mart Debt Service Bond Fund</u>	<u>Total Other Governmental Funds</u>
<u>ASSETS</u>								
Cash and cash equivalents	\$ 37,283	\$ 47,234	\$ 20,755	\$ 63,452	\$ 2,525	\$ 11	\$ 159,635	\$ 330,895
Investments - real estate	0	0	0	0	2,570	0	0	2,570
Due from state	7,616	0	0	0	0	0	0	7,616
Due from federal government	0	27,544	0	0	0	0	0	27,544
Due from other funds	0	491	0	0	0	0	0	491
Total Assets	<u>\$ 44,899</u>	<u>\$ 75,269</u>	<u>\$ 20,755</u>	<u>\$ 63,452</u>	<u>\$ 5,095</u>	<u>\$ 11</u>	<u>\$ 159,635</u>	<u>\$ 369,116</u>
<u>LIABILITIES AND FUND EQUITY</u>								
Liabilities:								
Accounts payable	\$ 42	\$ 29,597	\$ 82	\$ 0	\$ 0	\$ 0	\$ 0	\$ 29,721
Accrued expenses payable	335	0	314	0	0	0	0	649
Due to other funds	3,706	0	0	0	0	0	0	3,706
Total liabilities	<u>4,083</u>	<u>29,597</u>	<u>396</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>34,076</u>
<u>Fund Equity</u>								
Fund balances:								
Reserved for:								
Debt service	0	0	0	0	0	11	159,635	159,646
Perpetual care	0	0	0	0	5,095	0	0	5,095
Library activities	0	0	20,359	0	0	0	0	20,359
Unreserved, reported in:								
Special revenue funds	40,816	45,672	0	63,452	0	0	0	149,940
Total fund equity	<u>40,816</u>	<u>45,672</u>	<u>20,359</u>	<u>63,452</u>	<u>5,095</u>	<u>11</u>	<u>159,635</u>	<u>335,040</u>
Total Liabilities and Fund Equity	<u>\$ 44,899</u>	<u>\$ 75,269</u>	<u>\$ 20,755</u>	<u>\$ 63,452</u>	<u>\$ 5,095</u>	<u>\$ 11</u>	<u>\$ 159,635</u>	<u>\$ 369,116</u>

CITY OF TAWAS CITY
losco County, Michigan

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

	Local Streets	Equipment Fund	Library Fund	Building Authority Fund	Cemetery Perpetual Care	Building Authority Debt Retirement Fund	Wal-Mart Debt Service Bond Fund	Total Other Governmental Funds
<u>Revenue</u>								
Federal grants	\$ 0	\$ 38,394	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 38,394
State grants and revenue	46,382	0	0	0	0	0	0	46,382
Contributions from local units	0	0	40,613	0	0	0	22,784	63,397
Charges for services	0	5,750	0	0	0	0	0	5,750
Interest and rentals	2,231	3,246	408	2,010	61	10,651	3,793	22,400
Other revenue	1,950	2,582	0	0	80	0	0	4,612
Total revenue	<u>50,563</u>	<u>49,972</u>	<u>41,021</u>	<u>2,010</u>	<u>141</u>	<u>10,651</u>	<u>26,577</u>	<u>180,935</u>
<u>Expenditures</u>								
Current:								
Public works	68,393	0	0	0	0	0	0	68,393
Recreation and cultural	0	0	36,059	0	0	0	0	36,059
Other	0	3,258	0	0	0	0	0	3,258
Capital outlay	0	40,415	0	0	0	0	0	40,415
Debt service:								
Principal	0	14,495	0	45,000	0	6,000	0	65,495
Interest and fiscal charges	0	6,350	0	10,770	0	4,650	0	21,770
Total expenditures	<u>68,393</u>	<u>64,518</u>	<u>36,059</u>	<u>55,770</u>	<u>0</u>	<u>10,650</u>	<u>0</u>	<u>235,390</u>
Excess of revenue over (under) expenditures	<u>(17,830)</u>	<u>(14,546)</u>	<u>4,962</u>	<u>(53,760)</u>	<u>141</u>	<u>1</u>	<u>26,577</u>	<u>(54,455)</u>
Other Financing Sources (Uses):								
Operating transfers in	40,000	31,071	15,397	0	0	0	67,986	154,454
Transfers from component unit	0	0	0	58,313	0	0	0	58,313
Operating transfers out	(49,432)	(43,073)	0	0	0	0	0	(92,505)
Total other financing sources (uses)	<u>(9,432)</u>	<u>(12,002)</u>	<u>15,397</u>	<u>58,313</u>	<u>0</u>	<u>0</u>	<u>67,986</u>	<u>120,262</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(27,262)</u>	<u>(26,548)</u>	<u>20,359</u>	<u>4,553</u>	<u>141</u>	<u>1</u>	<u>94,563</u>	<u>65,807</u>
Fund balances - beginning of year	<u>68,078</u>	<u>72,220</u>	<u>0</u>	<u>58,899</u>	<u>4,954</u>	<u>10</u>	<u>65,072</u>	<u>269,233</u>
Fund balances - end of year	<u>\$ 40,816</u>	<u>\$ 45,672</u>	<u>\$ 20,359</u>	<u>\$ 63,452</u>	<u>\$ 5,095</u>	<u>\$ 11</u>	<u>\$ 159,635</u>	<u>\$ 335,040</u>

CITY OF TAWAS CITY
Losco County, Michigan

GENERAL FUND
 BALANCE SHEET
 June 30, 2007

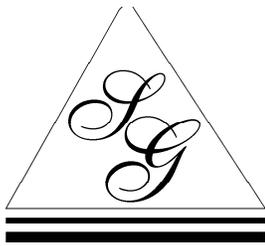
With Comparative Totals for June 30, 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 797,785	\$ 807,906
Accounts receivable	17,814	17,528
Due from state	4,257	0
Due from other funds	23,597	38,719
Prepaid expenses	<u>74,914</u>	<u>6,344</u>
Total Assets	<u>\$ 918,367</u>	<u>\$ 870,497</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$ 16,261	\$ 14,424
Accrued expenses payable	7,104	7,484
Due to other funds	<u>491</u>	<u>0</u>
Total liabilities	<u>23,856</u>	<u>21,908</u>
<u>Fund Equity</u>		
Fund balances:		
Reserved for:		
Library activities	0	15,397
Unreserved:		
Designated for budget stabilization	526,820	466,310
Undesignated	<u>367,691</u>	<u>366,882</u>
Total fund equity	<u>894,511</u>	<u>848,589</u>
Total Liabilities and Fund Equity	<u>\$ 918,367</u>	<u>\$ 870,497</u>

CITY OF TAWAS CITY
Losco County, Michigan

GENERAL FUND
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u> Actual	<u>2006</u> Actual
<u>Revenue</u>		
Current property taxes	\$ 776,621	\$ 825,193
State grants and revenue	200,262	203,640
Contributions from local units	0	48,402
Charges for services	264,181	265,274
Interest and rentals	114,567	90,502
Other revenue	<u>567</u>	<u>30,001</u>
Total revenue	<u>1,356,198</u>	<u>1,463,012</u>
<u>Expenditures</u>		
Current:		
General government	245,843	190,784
Public safety	352,008	352,274
Public works	373,866	365,099
Community and economic development	24,210	28,144
Recreation and cultural	80,639	113,438
Other	44,486	25,915
Capital outlay	<u>24,443</u>	<u>39,415</u>
Total expenditures	<u>1,145,495</u>	<u>1,115,069</u>
Excess of revenue over expenditures	<u>210,703</u>	<u>347,943</u>
Other Financing Sources (Uses):		
Sale of fixed assets	0	1
Operating transfers in	43,073	7,482
Operating transfers out	(154,454)	(148,071)
Transfers to component unit	<u>(53,400)</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>(164,781)</u>	<u>(240,588)</u>
Excess of revenue and other sources over expenditures and other uses	45,922	107,355
Fund balances - beginning of year	<u>848,589</u>	<u>741,234</u>
Fund balances - end of year	<u>\$ 894,511</u>	<u>\$ 848,589</u>



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Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

October 29, 2007

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 Tawas City
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 Tawas City, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of Tawas City's basic financial statements and have issued our report thereon dated October 29, 2007. 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 Tawas City's 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 Tawas City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Tawas City's 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Tawas City's 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 Tawas City's financial statements that is more than inconsequential will not be prevented or detected by the City of Tawas City's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate to account for the financial activity of the City but could be strengthened by a few minor changes in the personnel assigned to perform certain functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

Financial Statement Preparation

The City of Tawas City 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 Tawas City 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 Tawas City's 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 deficiencies described above to be material weaknesses.

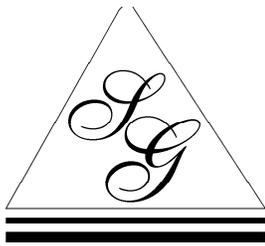
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tawas City's 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*.

We noted certain matters that we reported to management of the City of Tawas City in a separate letter dated October 29, 2007.

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

Stephenson, Grails & Co., P.C.



Stephenson Gracik & Co., P.C.

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October 29, 2007

Members of the City Council
City of Tawas City
Iosco, 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 Tawas City for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. 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 March 16, 2007, 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 Tawas City. 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 its 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 Tawas City 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 Tawas City 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.

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 Tawas City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Tawas City, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Tawas City's financial reporting process.

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 Tawas City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

Additional Information

As a result of our tests of 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 recommendations:

Separation of Duties in the Performance of Functions

The present system of internal control does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate for the financial activity of the City but could be strengthened by a few minor changes in the personnel assigned to perform cash functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

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Budget Control

We noted that the City's General Fund included expenditures in some functions that exceeded appropriated amounts. We recommend that the City Council continue to amend the budgets for all funds as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

Members of the City Council
City of Tawas City
October 29, 2007
Page Three

Bank Accounts

We noted that bank accounts were closed in various funds during the current year with no approval by the City Council. It was also noted that one bank account was transferred from the Equipment Fund to the General Fund and a new bank account was opened for the Library Fund with no approval by the City Council. We recommend that all bank account openings, closings, and transfers be approved by the City Council.

Operating Transfers Out

We noted that the Local Streets Fund transferred money to the Major Streets Fund without Council resolution. The Michigan Department of Transportation requires Council resolution for this type of activity. We recommend that Council resolution be obtained for all transfers out of the Local Streets Fund in the future.

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

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

Stephenson, Grails & Co., P.C.