

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 type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name TAWAS UTILITY AUTHORITY	County IOSCO
Fiscal Year End 06/30/07	Opinion Date 11/13/07	Date Audit Report Submitted to State 11/28/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

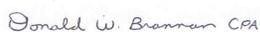
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

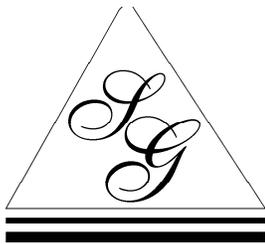
YES NO **Check each applicable box below.** (See instructions for further detail.)

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>Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., o=IOSCO Date: 2007.10.29 10:22:03 -0500</small>	Printed Name DONALD W BRANNAN, CPA	License Number 1101021039	



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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

Herman A Bertuleit, CPA

TAWAS UTILITY AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2007

I_N_D_E_X

PAGE

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT 1

BASIC FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

EXHIBIT A BALANCE SHEET - GOVERNMENTAL FUNDS 2

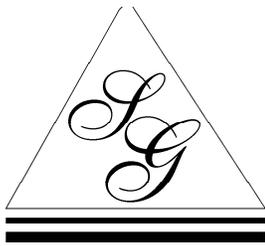
EXHIBIT B STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS 3

EXHIBIT C **NOTES TO FINANCIAL STATEMENTS** 4 - 10

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT D STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND 11

**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*** 12 - 13



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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

Herman A Bertuleit, CPA

November 13, 2007

Independent Auditors' Report

Members of the Authority Board
Tawas Utility Authority
Iosco County, Michigan

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Tawas Utility Authority, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise a portion of the Utility Authority's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority'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.

As described more fully in Note 2, management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Authority's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Tawas Utility Authority, Iosco County, Michigan, as of June 30, 2007, or the changes in its financial position for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2007, on our consideration of the Tawas Utility Authority'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 budgetary comparison information is not a required part of the basic financial statements but is 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. The Tawas Utility Authority, Iosco County, Michigan, has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Stephenson, Gracik & Co., P.C.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2007
With Comparative Totals for June 30, 2006

	<u>General Fund</u>	<u>Industrial Park Project Sewer System #2 Debt Service Fund</u>	<u>Other Governmental Fund Industrial Park Project Sewer System #2 Construction Fund</u>	<u>Totals</u>	
				<u>June 30, 2007</u>	<u>June 30, 2006</u>
<u>ASSETS</u>					
Cash and cash equivalents (Note 3)	\$ 174,009	\$ 222	\$ 0	\$ 174,231	\$ 143,472
Accounts receivable	0	0	0	0	210
Due from other units	36,217	0	0	36,217	35,485
Prepaid expense (Note 1)	<u>7,468</u>	<u>0</u>	<u>0</u>	<u>7,468</u>	<u>9,850</u>
Total Assets	<u>\$ 217,694</u>	<u>\$ 222</u>	<u>\$ 0</u>	<u>\$ 217,916</u>	<u>\$ 189,017</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts payable	<u>\$ 29,641</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,641</u>	<u>\$ 28,421</u>
<u>Fund Equity</u>					
Fund balances:					
Reserved for:					
Debt service	0	222	0	222	0
Unreserved:					
Designated for capital improvements	89,416	0	0	89,416	100,513
Undesignated, reported in:					
General fund	98,637	0	0	98,637	59,892
Capital project fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>191</u>
Total fund equity	<u>188,053</u>	<u>222</u>	<u>0</u>	<u>188,275</u>	<u>160,596</u>
Total Liabilities and Fund Equity	<u>\$ 217,694</u>	<u>\$ 222</u>	<u>\$ 0</u>	<u>\$ 217,916</u>	<u>\$ 189,017</u>

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

TAWAS UTILITY AUTHORITY
Losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007

With Comparative Totals for the Year Ended June 30, 2006

	General Fund	Industrial Park Project Sewer System #2 Debt Service Fund	Other Governmental Fund Industrial Park Project Sewer System #2 Construction Fund	Totals	
				June 30, 2007	June 30, 2006
<u>Revenue</u>					
Contributions from local units	\$ 0	\$ 63,690	\$ 0	\$ 63,690	\$ 65,978
Charges for services	429,228	0	0	429,228	423,739
Interest earned	8,276	31	0	8,307	1,961
Miscellaneous	1,477	0	0	1,477	210
Total revenue	<u>438,981</u>	<u>63,721</u>	<u>0</u>	<u>502,702</u>	<u>491,888</u>
<u>Expenditures</u>					
Current:					
Public works:					
Professional services	348,587	0	0	348,587	345,813
Office supplies	11	0	0	11	0
Insurance	13,457	0	0	13,457	13,840
Miscellaneous	8,181	0	0	8,181	7,183
Capital outlay	41,097	0	0	41,097	15,601
Debt service:					
Principal	0	45,000	0	45,000	45,000
Interest and fiscal charges	0	18,690	0	18,690	20,978
Total expenditures	<u>411,333</u>	<u>63,690</u>	<u>0</u>	<u>475,023</u>	<u>448,415</u>
Excess of revenue over (under) expenditures	<u>27,648</u>	<u>31</u>	<u>0</u>	<u>27,679</u>	<u>43,473</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfers in	0	191	0	191	65,978
Operating transfers out	0	0	(191)	(191)	(65,978)
Total other financing sources (uses)	<u>0</u>	<u>191</u>	<u>(191)</u>	<u>0</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	27,648	222	(191)	27,679	43,473
Fund balances - beginning of year	<u>160,405</u>	<u>0</u>	<u>191</u>	<u>160,596</u>	<u>117,123</u>
Fund balances - end of year	<u>\$ 188,053</u>	<u>\$ 222</u>	<u>\$ 0</u>	<u>\$ 188,275</u>	<u>\$ 160,596</u>

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

TAWAS UTILITY AUTHORITY
Iosco 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 Tawas Utility Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Authority's Operations

The Tawas Utility Authority operates under the supervision and control of a Board consisting of the Mayors and City Managers of both the City of Tawas City and the City of East Tawas. The accompanying basic financial statements of the Authority have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, except as noted in Note 2. All activities over which the Authority 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.

B. Joint Venture

The Tawas Utility Authority functions 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 water and sewage treatment facilities to service both municipalities. Effective May 1, 1997, the Tawas Utility Authority no longer handles water operations. These operations were taken over by the Huron Shore Regional Utility Authority.

C. Fund Accounting

The Authority 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.

Governmental Funds

Governmental funds are those through which all of the governmental functions of the Authority 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 major governmental funds of the Authority:

General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from charges for services and contributions from local governmental units.

Industrial Park Project Sewer System #2 Debt Service Fund – This fund is used to record revenues which are restricted for the payment of principal and interest on long-term debt.

The other governmental fund of the Authority is used to account for the acquisition or construction of major facilities other than those financed by general fund operations.

TAWAS UTILITY AUTHORITY
losco 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

The Authority's basic financial statements consist of fund financial statements which provide a detailed level of financial information.

Fund Financial Statements

During the year, the Authority segregates transactions related to certain Authority 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 Authority at a detailed level. The focus of governmental 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. All of the Authority's funds are considered major funds, except for the Industrial Park Project Sewer System #2 Construction Fund.

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions:

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 Authority, available means expected to be received within 60 days after year-end.

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, entitlements and donations. 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 Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority 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: contributions from local units, charges for services, fines and forfeitures, and interest.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

Expenditures:

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.

F. Budgets and Budgetary Accounting

The Tawas Utility Authority normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Authority Treasurer submits to the Authority Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. Prior to July 1, the budget is legally enacted through passage of a Board motion.

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

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Authority Board.

G. 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 Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

H. Prepaid Items

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

I. Use of Estimates

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

TAWAS UTILITY AUTHORITY
Losco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Interfund Activity

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

K. Fund Equity

Designated fund balance represents the assets in the general fund to be used for future capital improvements.

L. Governmental Fund Balance Reserves

The Authority 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.

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

NOTE 2 - OMITTED FINANCIAL STATEMENTS

The Authority did not adopt GASB 34 and GASB 37 in its entirety, as permitted by the Local Audit and Finance Division of the Treasury Department of the State of Michigan (State of Michigan), because the Authority believes that the cost of implementing the statements may exceed the benefit of the additional information. However, because the management has not recorded certain fixed assets, general infrastructure assets and long term debt in the governmental activities and because the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable, an adverse opinion was issued on the financial statements taken as a whole.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	Governmental <u>Funds</u>
Cash and Cash Equivalents	<u>\$ 174,231</u>

TAWAS UTILITY AUTHORITY
Losco County, Michigan

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

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 1,364
Investments in financial institution pooled funds	<u>172,867</u>
Total	<u>\$ 174,231</u>

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 172,867</u>	Daily

Interest Rate Risk

The Authority 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 Authority'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 Authority's investment pool is unrated.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority'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.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2007, \$0 of the Authority's bank balance of \$1,364 was exposed to custodial credit risk.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

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

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Investments

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

The Authority 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 Authority's investment policy which is in accordance with State law.

Foreign Currency Risk

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

Investments:

The Authority Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority 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 matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

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

NOTE 4 - OPERATING TRANSFERS

During the year ended June 30, 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:		
Industrial Park Project Sewer System #2 Debt Service Fund	\$ 191	\$ 0
Nonmajor Governmental Funds	<u>0</u>	<u>191</u>
	<u>\$ 191</u>	<u>\$ 191</u>

TAWAS UTILITY AUTHORITY
losco County, Michigan

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

NOTE 4 – OPERATING TRANSFERS (CONTINUED)

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

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Industrial Park Project Sewer System #2 Debt Service Fund	<u>\$ 191</u>	Industrial Park Project Sewer System #2 Construction Fund	<u>\$ 191</u>

Transfers are used to move receipts restricted to debt service from the fund collecting the receipts to the fund servicing the debt as debt payments become due.

NOTE 5 - LEASE AGREEMENT

Sewer System #3

The Authority entered into a capital lease agreement with the County of losco. The agreement calls for lease payments in an amount equal to the debt payments due on the County's requirement on a \$4,650,000 bond issue used to partially finance the construction of the sewage treatment facilities. Ownership of the facilities will transfer to the Authority at the expiration of the lease. The debt service requirements mentioned above are being directly made by each municipality involved in the joint agreement. The Authority was established for maintenance of the facilities therefore no debt has been reflected on the books of the Authority.

NOTE 6 - MAINTENANCE CONTRACT

The Tawas Utility Authority contracts with an outside firm to provide all routine operation and maintenance of the Authority's facilities. A monthly fee is paid to the firm for standard services and is subject to an annual review. As of June 30, 2007, the monthly fee was \$29,231. For the year ended June 30, 2007, the total amount paid to the firm was \$345,912.

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and physical injuries. The Authority has purchased commercial insurance for general liability, auto liability, errors and omissions and physical damage (equipment, buildings and contents). Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8 - COMPARATIVE DATA

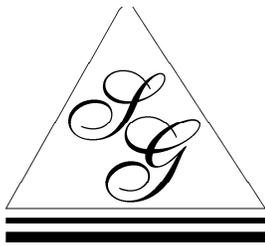
Comparative totals for the prior year have been presented in Exhibits A & B, in order to provide an understanding of changes in the Authority's financial position and operations.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS UTILITY AUTHORITY
losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 GENERAL 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>				
Charges for services	\$ 423,400	\$ 426,400	\$ 429,228	\$ 2,828
Interest earned	1,500	8,000	8,276	276
Miscellaneous	200	1,475	1,477	2
Total revenue	<u>425,100</u>	<u>435,875</u>	<u>438,981</u>	<u>3,106</u>
<u>Expenditures</u>				
Current:				
Public works:				
Professional services	350,500	350,500	348,587	1,913
Office supplies	100	100	11	89
Insurance	15,000	15,000	13,457	1,543
Miscellaneous	8,050	9,050	8,181	869
Capital outlay	51,450	61,225	41,097	20,128
Total expenditures	<u>425,100</u>	<u>435,875</u>	<u>411,333</u>	<u>24,542</u>
Excess of revenue over (under) expenditures	0	0	27,648	27,648
Fund balances - beginning of year	<u>160,405</u>	<u>160,405</u>	<u>160,405</u>	<u>0</u>
Fund balances - end of year	<u>\$ 160,405</u>	<u>\$ 160,405</u>	<u>\$ 188,053</u>	<u>\$ 27,648</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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

Herman A Bertuleit, CPA

November 13, 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 Authority Board
Tawas Utility Authority
Iosco County, Michigan

We have audited the financial statements of each major fund and the aggregate remaining fund information of the Tawas Utility Authority, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise a portion of the Authority's basic financial statements and have issued our report thereon dated November 13, 2007. The report on the governmental activities was adverse because the Government-Wide Financial Statements were not included in the basic financial statements. Except as discussed in the preceding sentence, 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 Tawas Utility Authority'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 Tawas Utility Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tawas Utility Authority'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 one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Tawas Utility Authority'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 Tawas Utility Authority's financial statements that is more than inconsequential will not be prevented or detected by the Tawas Utility Authority's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

The Tawas Utility Authority prepares various financial information throughout the year to assess operations and the financial condition of the Authority. Also, the Authority relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Members of the Authority Board
Tawas Utility Authority
November 13, 2007
Page Two

The Tawas Utility Authority 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 Authority 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 Authority 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 Tawas Utility Authority'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 deficiency described above to be a material weakness.

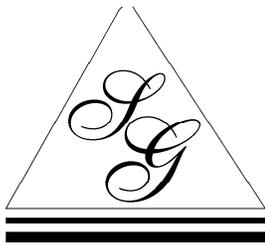
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tawas Utility Authority'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 have reported to management of the Tawas Utility Authority in a separate letter dated November 13, 2007.

This report is intended solely for the information and use of management, the Authority Board 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, Grubb & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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

Herman A Bertuleit, CPA

November 13, 2007

Members of the Authority Board
Tawas Utility Authority
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of each major fund and the aggregate remaining fund information of the Tawas Utility Authority for the year ended June 30, 2007, and have issued our report thereon dated November 13, 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 August 31, 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 Tawas Utility Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Tawas Utility Authority's 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 Tawas Utility Authority 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 Tawas Utility Authority 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 Tawas Utility Authority'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 Tawas Utility Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority'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 Tawas Utility Authority'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 study and evaluation of the internal controls and tests of compliance as described in the third and fourth paragraphs, two matters came to our attention upon which we would like to comment and offer the following recommendations.

Financial Statement Preparation

The Tawas Utility Authority prepares various financial information throughout the year to assess operations and the financial condition of the Authority. Also, the Authority relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Tawas Utility Authority 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 Authority 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 Authority would not be in a position to detect the errors or omissions.

Adopting GASB 34

Governmental Accounting Standards Board Statement No. 34 requires a governmental entity to include a management's discussion and analysis letter, present government wide financial statements on a full accrual basis of accounting, and to report the value of all equipment and vehicles in the financial statements. This standard was applicable for the year ended June 30, 2005, but was not adopted in its entirety by the Tawas Utility Authority because a fixed asset listing was not available. Prior to December 15, 2005, the Michigan Department of Treasury had allowed partial adoption of GASB 34. On November 16, 2006 the Michigan Department of Treasury rescinded MCGAA Statement No 7 allowing partial adoption. All counties and local units of government will be required to adopt GASB 34 in its entirety. For the year ending June 30, 2008, we recommend that GASB 34 be adopted in its entirety, a capitalization policy be adopted, and a fixed asset listing be prepared based on the historical cost of the items. The items should be depreciated over their estimated useful lives. Please feel free to contact us if we may provide further consultation on this matter.

Members of the Authority Board
Tawas Utility Authority
November 13, 2007
Page Three

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

This information is intended solely for the use of management, the Authority Board 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, Graich & Co., P.C.