Michigan Dept. of Treasury, Local Audit & Finance Division
496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☑ Other	TAWAS POLICE AUTHORITY	IOSCO

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
06/30/2004	09/23/2004	12/22/2004

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ yes ☑ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☑ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☑ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☑ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☑ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☑ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☑ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☑ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☑ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✔		
Reports on individual federal financial assistance programs (program audits).			✔
Single Audit Reports (ASLGU).			✔

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature ✓ Stephenson, Gracik & Co., P.C.		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.06.12 09:06:29 -05'00' Reason: I am approving this document	

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

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TAWAS POLICE AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2004

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Herman A Bertuleit, CPA

September 23, 2004

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tawas Police Authority, Iosco County, Michigan, as of and for the year ended June 30, 2004, as shown on pages 3 and 4, which comprise a portion of the Police 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 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 the management discussion and analysis and the 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 the management discussion and analysis and the government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Police Authority's governmental activities is not reasonably determinable.

In our opinion except for the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of each major fund of the Tawas Police Authority, Iosco County, Michigan, as of June 30, 2004, and the respective changes in financial position 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 September 23, 2004, on our consideration of the Tawas Police Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Tawas Police Authority has partially implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* as of June 30, 2004.

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 supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.

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EXHIBIT A

TAWAS POLICE AUTHORITY
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUND - GENERAL FUND
June 30, 2004
With Comparative Totals for June 30, 2003

	June 30, 2004	June 30, 2003
ASSETS		
Cash and cash equivalents (Note 3)	$ 107,941	$ 106,347
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	$ 505	$ 1,571
Accrued expenses payable	9,376	9,712
Total liabilities	9,881	11,283
Fund Equity		
Fund balances:		
Reserved for vehicle replacement (Note 1)	98,060	95,064
Total Liabilities and Fund Equity	$ 107,941	$ 106,347

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

EXHIBIT B

TAWAS POLICE AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND - GENERAL FUND
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	June 30, 2004	June 30, 2003
Revenue		
Charges for services	$ 458,555	$ 449,065
Fines and forfeits	39,905	27,539
Interest earned	346	551
Other	9,525	2,912
Total revenue	508,331	480,067
Expenditures		
Salaries, wages and fees	253,607	240,494
Payroll taxes and employee benefits	106,807	97,718
Operating supplies	4,638	6,727
Communications	6,113	5,400
Transportation	8,466	6,924
Insurance	35,952	28,216
Training	1,246	1,053
Repair and maintenance	11,101	6,901
Clothing	2,544	4,350
Professional	10,287	9,045
Rents and leases	7,200	7,200
Debt service:		
Principal	7,710	15,236
Interest	238	822
Capital outlay	51,713	1,449
Other	739	600
Total expenditures	508,361	432,135
Excess of revenue over (under) expenditures	(30)	47,932
Other Financing Sources		
Sale of fixed assets	3,026	0
Excess of revenue and other sources over expenditures	2,996	47,932
Fund balances - beginning of year	95,064	47,132
Fund balances - end of year	$ 98,060	$ 95,064

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

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tawas Police 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 Police Authority operates under the supervision and control of a Board consisting of the Chief Executive Officer of Tawas City and three (3) members as provided by ACT 35. 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 Police Authority functions as a joint venture between the City of Tawas City and the City of East Tawas. The purpose of the entity is to provide police protection to the constituent municipalities and other municipalities by contract.

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 is the sole fund of the Authority which is considered to be a major fund:

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.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

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. The sole fund of the Authority is considered to be a major 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 POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

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 Police Authority normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Police Chief 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. 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 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.

I. Fund Equity

Reserved fund balance represents the restricted assets in the general fund to be used for vehicle replacement.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change in Accounting Principles

For 2004, the Authority has implemented, with exceptions as noted below, Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the Authority's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the programs between governmental activities and business-type activities.

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. The Authority also believes that the omissions of the Management Discussion and Analysis, Government-wide Financial Statements and certain permitted note disclosures were not material to the statements as a whole due to the disclosure of the fixed assets and long-term debt in separate notes in this report. These amounts are not included as account groups in the fund statement, as in the past, per the requirements of GASB 34.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	Governmental Funds
Cash and Cash Equivalents	$ 107,941

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

All of the cash and cash equivalents are considered bank deposits (check and savings accounts) of the primary government.

Deposits:

Deposits are carried at cost. Deposits of the Authority are held at Huron Community Bank, East Tawas, Michigan, in the name of the Authority. At June 30, 2004, the carrying amounts of the Authority's deposits were classified to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	$ 100,000	$ 100,000
Uninsured – uncollateralized	7,941	13,888
	$ 107,941	$ 113,888

Investments:

The Authority 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 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 Authority's deposits and investments are in accordance with statutory authority.

NOTE 4 - 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 Authority's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets of the Authority for these budgetary funds were adopted to the activity level.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 4 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS (CONTINUED)

During the year ended June 30, 2004, the Authority incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund:			
Communications	$ 5,000	$ 6,113	$ 1,113
Transportation	$ 6,000	$ 8,466	$ 2,466
Insurance	$ 30,300	$ 35,952	$ 5,652
Repair and maintenance	$ 8,000	$ 11,101	$ 3,101
Debt Service:			
Principal	$ 7,600	$ 7,710	$ 110
Interest	$ 235	$ 238	$ 3
Capital outlay	$ 48,175	$ 51,713	$ 3,538

NOTE 5 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance 07/01/03	Additions	Deletions	Balance 06/30/04
Machinery and equipment	$ 109,372	$ 51,713	$ 40,326	$ 120,759

The Authority has opted to disclose these assets in order to maintain their identity and related costs.

NOTE 6 - LONG-TERM DEBT

GASB 34 Statements do not include General Long-term Debt Account Groups and as the Authority has opted to not adopt GASB 34 in its entirety, the long-term debt information is not included in the basic financial statements. The Authority has opted to disclose this information as follows:

Equipment Note Payable

The Tawas Police Authority purchased a 2001 Ford Crown Victoria squad car financed completely by a three year note from Dean Arbour Ford Mercury, which was subsequently assigned to Huron Community Bank on July 11, 2001. The amount of the note is $21,730 with monthly payments of $650 which includes interest at 4.87%. The remaining balance at June 30, 2004 was $657.

Annual Principal and Interest Requirements

Fiscal Year	Principal	Interest	Total Requirements
2004-05	$ 657	$ 3	$ 660

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Compensated Absences

The Authority has an employee benefit plan that allows employees to accumulate sick pay days at the rate of one day per month up to a maximum of 60 days. The Police Authority also has a vacation pay policy that allows employees to accumulate unused vacation days which are payable upon separation of employment. The amount of accumulated sick pay and vacation pay liability at June 30, 2004 was $24,380.

The following is a summary of long-term debt transactions of the Authority:

	Balance 07/01/03	Increases	Decreases	Balance 06/30/04
Equipment notes payable	$ 8,367	$ 0	$ 7,710	$ 657
Compensated absences	38,376	0	13,996*	24,380
Total	$ 46,743	$ 0	$ 21,706	$ 25,037

* Represents net of additions and reductions for the year.

NOTE 7 - RETIREMENT SYSTEM - MERS OPERATED

Plan Description

The Authority's defined benefit pension plan, covering its employees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple - employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Authority is required to contribute at an actuarially determined rate. The current rate is 10% of annual covered payroll. The contribution requirements of the plan members is 13.84% of their annual compensation. If a member leaves the employ of the Authority, or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (plus interest at a rate determined by MERS) will be refunded to the member, if living, or to the member's beneficiary.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 7 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Annual Pension Cost

For 2004, the Authority's annual pension cost of $22,823 was equal to the Authority's and employee's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit , and (d) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component. The Authority's unfunded actuarial accrued liability has been calculated and accrued at June 30, 2004.

The Authority has adopted GASB 27 *Accounting for Pensions by State and Local Governmental Employer*. The following pension information is presented in accordance with GASB 27:

Actuarial Accrued Liability from December 31, 2003

Actuarial Valuation	
Retirees and beneficiaries currently receiving benefits	$ 140,747
Terminated employees (vested former members) not yet receiving benefits	0
Non-vested terminated employees	0
Current employees -	
Accumulated employee contributions including allocated investment income	113,081
Employer financed	337,558
Total Actuarial Accrued Liability	591,386
Net assets available for benefits, at actuarial value (Market value is $208,228)	228,043
Unfunded Actuarial Accrued Liability	$ 363,343

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/02	$ 19,268	100%	$ 0
06/30/03	$ 21,460	100%	$ 0
06/30/04	$ 22,823	100%	$ 0

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	$ 121,620	$ 465,756	$ 344,136	26%	$ 174,897	197%
12/31/02	$ 165,979	$ 528,851	$ 362,872	31%	$ 212,029	171%
12/31/03	$ 228,043	$ 591,386	$ 363,343	39%	$ 229,610	158%

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 8 - RISK MANAGEMENT

The Authority 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 Authority has purchased commercial insurance for medical benefits claims and workers compensation, and participate in the Michigan Township Participating Plan risk pool for claims relating to property, general liability, wrongful acts, law enforcement, automobile, bond, crime, inland marine and boiler claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

The Michigan Township's Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

NOTE 9 - 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. Some prior year balances have been reclassified to conform with the current year presentation.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT D

TAWAS POLICE AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Charges for services	$ 458,555	$ 458,555	$ 458,555	$ 0
Fines and forfeits	25,500	25,500	39,905	14,405
Interest earned	300	300	346	46
Other	1,000	1,000	9,525	8,525
Total revenue	485,355	485,355	508,331	22,976
Expenditures				
Salaries, wages and fees	266,390	266,390	253,607	12,783
Payroll taxes and employee benefits	114,050	114,050	106,807	7,243
Operating supplies	3,735	4,955	4,638	317
Communications	5,000	5,000	6,113	(1,113)
Transportation	6,000	6,000	8,466	(2,466)
Insurance	30,300	30,300	35,952	(5,652)
Training	3,000	3,000	1,246	1,754
Repair and maintenance	8,000	8,000	11,101	(3,101)
Clothing	5,400	5,400	2,544	2,856
Professional	13,000	13,000	10,287	2,713
Rents and leases	7,200	7,200	7,200	0
Debt service:				
Principal	5,316	7,600	7,710	(110)
Interest	164	235	238	(3)
Capital outlay	36,050	48,175	51,713	(3,538)
Other	750	750	739	11
Total expenditures	504,355	520,055	508,361	11,694
Excess of revenue over (under) expenditures	(19,000)	(34,700)	(30)	34,670
Other Financing Sources				
Sale of fixed assets	4,000	7,000	3,026	(3,974)
Excess of revenue and other sources over (under) expenditures	(15,000)	(27,700)	2,996	30,696
Fund balances - beginning of year	95,064	95,064	95,064	0
Fund balances - end of year	$ 80,064	$ 67,364	$ 98,060	$ 30,696

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September 23, 2004

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

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

We have audited the financial statements of the governmental activities and each major fund of the Tawas Police Authority, Iosco County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 23, 2004. The report on the governmental activities was qualified because the Management Discussion and Analysis and 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.

Compliance
As part of obtaining reasonable assurance about whether the Tawas Police Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of the Tawas Police Authority in a separate letter dated September 23, 2004.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Tawas Police Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Tawas Police Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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 Authority 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, 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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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

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.

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September 23, 2004

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

Dear Board Members:

We have audited the financial statements of the Tawas Police Authority for the year ended June 30, 2004, and have issued our report thereon dated September 23, 2004. 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 May 4, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. 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.

In planning and performing our audit, we considered the Tawas Police Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Tawas Police Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Significant Accounting Policies
Management has the responsibility for 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 Police Authority are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Tawas Police Authority changed accounting policies as a result of adopting, with certain exceptions, Statements of Governmental Accounting Standards (GASB Statements) no. 34, 33, 36, 37, 38 and Interpretation No. 6 in the year ended June 30, 2004. We noted no transactions entered into by the Tawas Police 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 Police 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 Police 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 basic 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 Police 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 as described in the third paragraph and our tests of compliance as described in the fourth paragraph, 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 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 Authority 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, without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

Budget Control
We noted that the Authority's General Fund included expenditures in some activities that exceeded appropriated amounts. We recommend that the Authority continue to review the budget periodically throughout the year and amend as needed as actual activity fluctuates from estimates, especially with personnel expenditures.

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.