

## 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<br><input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                            | Local Unit Name<br>TAWAS POLICE AUTHORITY          | County<br>IOSCO |
| Fiscal Year End<br>06/30/2007  | Opinion Date<br>10/29/2007 | Date Audit Report Submitted to State<br>11/28/2007 |                 |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

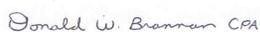
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

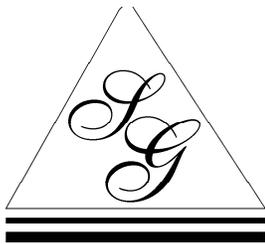
1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted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

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

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

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

Digitally signed by Stephenson, Gracik and Co., P.C.  
DN: cn=Stephenson, Gracik and Co., P.C., o=IOS  
Date: 2007.11.28 10:58:57 -0500



*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

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Herman A Bertuleit, CPA

TAWAS POLICE AUTHORITY  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2007

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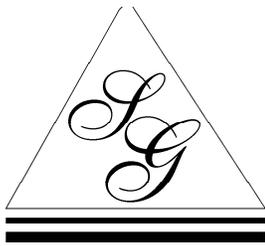
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*Stephenson Gracik & Co., P.C.*

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-----  
Herman A Bertuleit, CPA

October 29, 2007

Independent Auditors' Report

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

We have audited the accompanying financial statements of the major fund of the Tawas Police Authority, Iosco County, Michigan, as of and for the year ended June 30, 2007, 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 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 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 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, 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 Police Authority, Iosco County, Michigan, as of June 30, 2007, or the changes in financial position thereof for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2007, on our consideration of the Tawas Police 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.

Tawas Police Authority, Iosco County, Michigan, has not presented the 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 POLICE AUTHORITY  
Iosco County, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUND - GENERAL FUND  
 June 30, 2007  
With Comparative Totals for June 30, 2006

|   | <u>June 30, 2007</u> | <u>June 30, 2006</u> |
|---|----------------------|----------------------|
| <u>ASSETS</u>                           |                      |                      |
| Cash and cash equivalents (Note 3)      | \$ 179,368           | \$ 141,738           |
| Prepaid expenses (Note 1)               | 4,990                | 5,124                |
| Inventory - forfeited property (Note 1) | <u>0</u>             | <u>42,750</u>        |
| Total Assets                            | <u>\$ 184,358</u>    | <u>\$ 189,612</u>    |
| <u>LIABILITIES AND FUND EQUITY</u>      |                      |                      |
| <u>Liabilities</u>                      |                      |                      |
| Accounts payable                        | \$ 1,247             | \$ 4,574             |
| Accrued expenses payable                | <u>5,310</u>         | <u>5,779</u>         |
| Total liabilities                       | 6,557                | 10,353               |
| <u>Fund Equity</u>                      |                      |                      |
| Fund balances:                          |                      |                      |
| Unreserved - undesignated               | <u>177,801</u>       | <u>179,259</u>       |
| Total Liabilities and Fund Equity       | <u>\$ 184,358</u>    | <u>\$ 189,612</u>    |

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

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, 2007  
With Comparative Totals for the Year Ended June 30, 2006

|   | <u>June 30, 2007</u> | <u>June 30, 2006</u> |
|---|----------------------|----------------------|
| <u>Revenue</u>  |                      |                      |
| Federal grants  | \$ 0                 | \$ 4,785             |
| Charges for services  | 468,615              | 480,950              |
| Fines and forfeits  | 27,356               | 76,303               |
| Interest earned   | 8,377                | 1,972                |
| Other   | 8,353                | 17,775               |
| Total revenue   | <u>512,701</u>       | <u>581,785</u>       |
| <u>Expenditures</u>   |                      |                      |
| Salaries, wages and fees                                      | 265,530              | 267,347              |
| Payroll taxes and employee benefits                           | 132,294              | 117,489              |
| Operating supplies  | 3,405                | 2,824                |
| Communications  | 6,561                | 6,540                |
| Transportation  | 13,597               | 13,634               |
| Insurance   | 39,667               | 39,749               |
| Training  | 1,756                | 1,057                |
| Repair and maintenance  | 19,461               | 18,917               |
| Clothing  | 3,880                | 3,332                |
| Professional  | 16,173               | 14,963               |
| Rents and leases  | 7,200                | 7,200                |
| Property taxes  | 686                  | 913                  |
| Capital outlay  | 0                    | 42,533               |
| Other   | 3,949                | 48                   |
| Total expenditures  | <u>514,159</u>       | <u>536,546</u>       |
| Excess of revenue over (under) expenditures                   | (1,458)              | 45,239               |
| <u>Other Financing Sources</u>                                |                      |                      |
| Sale of fixed assets  | <u>0</u>             | <u>1,300</u>         |
| Excess of revenue and other sources over (under) expenditures | (1,458)              | 46,539               |
| Fund balances - beginning of year                             | <u>179,259</u>       | <u>132,720</u>       |
| Fund balances - end of year                                   | <u>\$ 177,801</u>    | <u>\$ 179,259</u>    |

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, 2007

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.

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.

TAWAS POLICE AUTHORITY  
Iosco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

The 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.

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.

TAWAS POLICE AUTHORITY  
Iosco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

I. Inventory – Forfeited Property

Inventory – forfeited property consists of a house that was received in the current year as a fine/forfeiture. The house has been recorded at its estimated fair market value based on a comparative market analysis.

J. 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.

TAWAS POLICE AUTHORITY  
Iosco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 management has not recorded certain fixed assets and general infrastructure assets 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:

Cash and Cash Equivalents \$ 179,368

The breakdown between deposits and investments is as follows:

Investments in financial institution pooled funds \$ 179,368

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 pool        | <u>\$ 179,368</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.

TAWAS POLICE AUTHORITY  
Iosco County, Michigan

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

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

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

For an investment, that 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 mature not more than 270 days after the date of purchase
- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

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

TAWAS POLICE AUTHORITY  
Iosco County, Michigan

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

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.

During the year ended June 30, 2007, the Authority incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

|                                     | <u>Total<br/>Appropriations</u> | <u>Amount of<br/>Expenditures</u> | <u>Budget<br/>Variance</u> |
|-------------------------------------|---------------------------------|-----------------------------------|----------------------------|
| General Fund:                       |                                 |                                   |                            |
| Payroll taxes and employee benefits | \$ 117,850                      | \$ 132,294                        | \$ 14,444                  |
| Communications                      | \$ 6,200                        | \$ 6,561                          | \$ 361                     |
| Transportation                      | \$ 13,500                       | \$ 13,597                         | \$ 97                      |
| Repair and maintenance              | \$ 11,000                       | \$ 19,461                         | \$ 8,461                   |
| Professional                        | \$ 15,000                       | \$ 16,173                         | \$ 1,173                   |
| Property taxes                      | \$ 0                            | \$ 686                            | \$ 686                     |
| Other                               | \$ 500                          | \$ 3,949                          | \$ 3,449                   |

NOTE 5 - 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 12% of annual covered payroll. The contribution requirements of the plan members is 11.93% 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, 2007

NOTE 5 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Annual Pension Cost

For 2007, the Authority's annual pension cost of \$30,283 was equal to the Authority's and employee's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, (c) additional projected salary increases of 0.0% to 8.4% 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, 2007.

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, 2006

Actuarial Valuation

|  |                           |
|--|---------------------------|
| Retirees and beneficiaries currently receiving benefits                                  | \$ 212,533                |
| Terminated employees (vested former members) not yet receiving benefits                  | 25,144                    |
| Non-vested terminated employees  | 0                         |
| Current employees -  |                           |
| Accumulated employee contributions including allocated investment income                 | 143,812                   |
| Employer financed  | <u>396,274</u>            |
| <br>Total Actuarial Accrued Liability  | <br>777,763               |
| <br>Net assets available for benefits, at actuarial value<br>(Market value is \$408,704) | <br><br><u>403,066</u>    |
| <br>Unfunded Actuarial Accrued Liability   | <br><br><u>\$ 374,697</u> |

Trend Information

| <u>Fiscal Year</u><br><u>Ending</u> | <u>Annual Pension</u><br><u>Cost (APC)</u> | <u>Percentage of</u><br><u>APC Contributed</u> | <u>Net Pension</u><br><u>Obligation</u> |
|-------------------------------------|--|--|---|
| 06/30/05                            | \$ 28,117                                  | 100%   | \$ 0                                    |
| 06/30/06                            | \$ 29,572                                  | 100%   | \$ 0                                    |
| 06/30/07                            | \$ 30,283                                  | 100%   | \$ 0                                    |

Schedule of Funding Progress

| <u>Actuarial</u><br><u>Valuation</u><br><u>Date</u> | <u>Actuarial</u><br><u>Value of</u><br><u>Assets</u><br><u>(a)</u> | <u>Actuarial Accrued</u><br><u>Liability (AAL)</u><br><u>-Entry Age</u><br><u>(b)</u> | <u>Unfunded</u><br><u>AAL (UAAL)</u><br><u>(b-a)</u> | <u>Funded</u><br><u>Ratio</u><br><u>(a/b)</u> | <u>Covered</u><br><u>Payroll</u><br><u>(c)</u> | <u>UAAL as a</u><br><u>Percentage</u><br><u>of Covered</u><br><u>Payroll</u><br><u>((b-a)/c)</u> |
|---|--|---|--|---|--|--|
| 12/31/04  | \$ 285,462   | \$ 640,857  | \$ 355,395   | 45%   | \$ 192,886                                     | 184%   |
| 12/31/05  | \$ 341,473   | \$ 725,319  | \$ 383,846   | 47%   | \$ 207,940                                     | 185%   |
| 12/31/06  | \$ 403,066   | \$ 777,763  | \$ 374,697   | 52%   | \$ 229,207                                     | 163%   |

TAWAS POLICE AUTHORITY  
Iosco County, Michigan

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

NOTE 6 - 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 7 - COMPARATIVE DATA

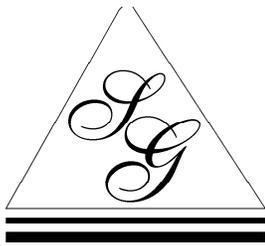
Comparative totals for the prior year have been presented in Exhibits A & B, in order to provide an understanding of changes in the Authority's financial position and operations.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS POLICE 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

|   | Original<br>Budget | Amended<br>Budget | Actual            | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|-------------------|-------------------|--|
| <u>Revenue</u>                              |                    |                   |                   |  |
| Charges for services                        | \$ 468,615         | \$ 468,615        | \$ 468,615        | \$ 0                                   |
| Fines and forfeits                          | 27,100             | 27,100            | 27,356            | 256                                    |
| Interest earned                             | 800                | 800               | 8,377             | 7,577                                  |
| Other                                       | <u>2,000</u>       | <u>2,000</u>      | <u>8,353</u>      | <u>6,353</u>                           |
| Total revenue                               | <u>498,515</u>     | <u>498,515</u>    | <u>512,701</u>    | <u>14,186</u>                          |
| <u>Expenditures</u>                         |                    |                   |                   |  |
| Salaries, wages and fees                    | 272,365            | 272,365           | 265,530           | 6,835                                  |
| Payroll taxes and employee benefits         | 117,850            | 117,850           | 132,294           | (14,444)                               |
| Operating supplies                          | 3,500              | 3,500             | 3,405             | 95                                     |
| Communications                              | 6,200              | 6,200             | 6,561             | (361)                                  |
| Transportation                              | 13,500             | 13,500            | 13,597            | (97)                                   |
| Insurance                                   | 42,000             | 42,000            | 39,667            | 2,333                                  |
| Training                                    | 2,000              | 2,000             | 1,756             | 244                                    |
| Repair and maintenance                      | 11,000             | 11,000            | 19,461            | (8,461)                                |
| Clothing                                    | 5,400              | 5,400             | 3,880             | 1,520                                  |
| Professional                                | 15,000             | 15,000            | 16,173            | (1,173)                                |
| Rents and leases                            | 7,200              | 7,200             | 7,200             | 0                                      |
| Property taxes                              | 0                  | 0                 | 686               | (686)                                  |
| Capital outlay                              | 2,000              | 2,000             | 0                 | 2,000                                  |
| Other                                       | <u>500</u>         | <u>500</u>        | <u>3,949</u>      | <u>(3,449)</u>                         |
| Total expenditures                          | <u>498,515</u>     | <u>498,515</u>    | <u>514,159</u>    | <u>(15,644)</u>                        |
| Excess of revenue over (under) expenditures | 0                  | 0                 | (1,458)           | (1,458)                                |
| Fund balances - beginning of year           | <u>179,259</u>     | <u>179,259</u>    | <u>179,259</u>    | <u>0</u>                               |
| Fund balances - end of year                 | <u>\$ 179,259</u>  | <u>\$ 179,259</u> | <u>\$ 177,801</u> | <u>\$ (1,458)</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

October 29, 2007

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

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

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

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

Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate to account for the financial activity of the 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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Members of the Authority Board  
Tawas Police Authority  
October 29, 2007  
Page Two

#### Financial Statement Preparation

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

The Tawas Police 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 Police 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 deficiencies described above to be material weaknesses.

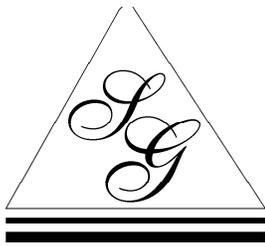
#### Compliance and Other Matters

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 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*.

However, we noted certain matters that we have reported to management of the Tawas Police Authority in a separate letter date October 29, 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, Grain & Co., P.C.*



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

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Herman A Bertuleit, CPA

October 29, 2007

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

Dear Board Members:

We have audited the financial statements of the major fund of the Tawas Police Authority for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated May 24, 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 Tawas Police Authority's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Tawas Police 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 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.

Members of the Authority Board  
Tawas Police Authority  
October 29, 2007  
Page Two

#### 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 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 tests of controls and compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendations.

#### Separation of Duties in the Performance of Functions

The present system of internal 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.

#### Financial Statement Preparation

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The Tawas Police 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.

#### Budget Control

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

Members of the Authority Board  
Tawas Police Authority  
October 29, 2007  
Page Three

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 Police Authority. 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.

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, Grubb & Co., P.C.*