

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY	County IOSCO
Fiscal Year End 06/30/2007	Opinion Date 10/29/2007	Date Audit Report Submitted to State 11/28/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

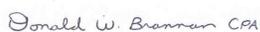
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

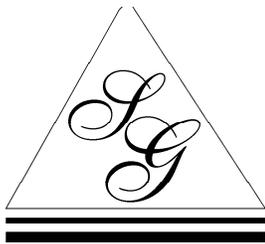
YES NO **Check each applicable box below.** (See instructions for further detail.)

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

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

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

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



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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

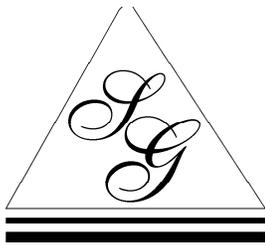
Herman A Bertuleit, CPA

TAWAS CITY
DOWNTOWN DEVELOPMENT AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2007

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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 City Downtown Development Authority
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund of the Tawas City Downtown Development Authority, Iosco County, Michigan, a component unit of the City of Tawas City, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, as listed in the index. These component unit 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.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Tawas City Downtown Development Authority, Iosco County, Michigan, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2007, on our consideration of the Tawas City Downtown Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tawas City Downtown Development Authority's basic financial statements.

Stephenson, Gracik & Co., P.C.

CITY OF TAWAS CITY

CITY HALL

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TAWAS CITY, MICHIGAN

48764-0568

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Tawas City Downtown Development Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2007. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. The discussion focuses on the Authority's primary government.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$210,069.
- The Authority's total net assets decreased by \$470.
- The Authority's governmental fund reported combined ending fund balance of \$140,069 this year, shows a decrease of \$470. The entire amount is available for spending (*unreserved fund balance*).

Overview of the Financial Statements

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

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

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Authority as a whole. These statements include the financial activities of the primary government.

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

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



With this report, capital assets are listed for the Tawas City Downtown Development Authority. These assets are comprised solely of land owned by the Authority. These assets total \$70,000.

Fund Financial Statements

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. The Authority operates under one fund which is considered a *Governmental Fund*.

Governmental Funds:

Governmental funds are those through which most 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.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Authority's *government-wide* and *fund* financial statements. The notes to financial statements are presented in Exhibit F of this report.

Government-Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the Tawas City Downtown Development Authority:

Net Assets Summary

	Governmental Activities	
	Year Ended June 30, 2007	Year Ended June 30, 2006
Current Assets	\$ 140,069	\$ 140,539
Capital Assets	70,000	70,000
Total Assets	210,069	210,539
Liabilities	0	0
Net Assets		
Invested in Capital Assets	70,000	70,000
Unrestricted	140,069	140,539
Total Net Assets	\$ 210,069	\$ 210,539

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets of the Tawas City Downtown Development Authority:

Generally speaking, the Authority's net assets represent the difference between assets and liabilities.

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2007</u>	<u>Year Ended June 30, 2006</u>
Program Expenses:		
Community and Economic Development	\$ <u>1,260</u>	\$ <u>3,210</u>
General Revenues:		
Transfers from primary government	53,400	100,000
Transfers to primary government	(58,313)	(102,770)
Investment earnings	<u>5,703</u>	<u>1,696</u>
Total General Revenue and Transfers	<u>790</u>	<u>(1,074)</u>
Change in Net Assets	<u>\$ (470)</u>	<u>\$ (4,284)</u>

Governmental Activities

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

Total governmental activities reveal expenses of \$1,260 for community and economic development.

Financial Analysis of Authority Fund

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

Governmental Funds

Governmental funds are those through which most governmental functions of the Authority are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The Authority operates under one fund which is considered a major governmental fund.

Budgetary Highlights

The Authority's budget is prepared according to Michigan law. During the fiscal year ended June 30, 2007, the Authority amended its budget a couple of times, none significantly.

Capital Asset

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

Capital Assets – Government Activities beginning balance was \$70,000 with an ending balance of \$70,000.

Economic Factors and Next Year’s Budget and Rates

The Tawas City Downtown Development Authority staff work together to maintain revenue sources and control expenditures. The main source of revenue is transfers from the primary government.

The major expense for the Authority is transfers to the primary government and various community and economic development expenditures.

The Tawas City Downtown Development Authority staff will continue to monitor revenues and expenditures due to ongoing economic conditions.

Requests for Information

This financial report is designed to provide a general overview of the Authority’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Tawas City Clerk, P.O. Box 568, Tawas City, Michigan 48764-0568.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Losco County, Michigan

STATEMENT OF NET ASSETS
June 30, 2007

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents (Note 2)	\$ 140,069
Capital assets (Note 3)	70,000
Total Assets	210,069
<u>Liabilities</u>	
	0
<u>Net Assets</u>	
Invested in capital assets	70,000
Unrestricted	140,069
Total Net Assets	\$ 210,069

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

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
losco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

<u>Function/Program</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expenses) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
Community and economic development	\$ 1,260	\$ 0	\$ 0	\$ 0	\$ (1,260)
General revenues:					
Transfers from primary government					53,400
Transfers to primary government					(58,313)
Investment earnings					5,703
Total general revenue and transfers					790
Change in net assets					(470)
Net assets - beginning of year					210,539
Net assets - end of year					\$ 210,069

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

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
losco County, MichiganBALANCE SHEET
June 30, 2007ASSETS

Cash and cash equivalents (Note 2)	\$ <u>140,069</u>
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LIABILITIES AND FUND EQUITY

Liabilities	\$ 0
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Fund Equity

Fund balance:

Unreserved - undesignated	<u>140,069</u>
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Total Liabilities and Fund Equity	\$ <u>140,069</u>
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The accompanying notes to financial statements are an integral part of this statement.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, MichiganRECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2007

Total governmental fund balances	\$ 140,069
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:	
Capital asset cost	<u>70,000</u>
Amounts reported for governmental activities in the statement of net assets	
Total net assets - governmental activities	<u>\$ 210,069</u>

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

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCE
For the Year Ended June 30, 2007

<u>Revenue</u>	
Interest income	\$ 5,703
 <u>Expenditures</u>	
Community and economic development	<u>1,260</u>
Excess of revenue over expenditures	<u>4,443</u>
 <u>Other Financing Sources (Uses)</u>	
Transfers from primary government	53,400
Transfers to primary government	<u>(58,313)</u>
Total other financing sources (uses)	<u>(4,913)</u>
Excess of revenue and other sources over (under) expenditures and other uses	(470)
Fund balance - beginning of year	<u>140,539</u>
Fund balance - end of year	<u>\$ 140,069</u>

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

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Losco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of Authority's Operations

The Tawas City Downtown Development Authority operates under the supervision and control of a Board consisting of the Chief Executive Officer of Tawas City and eight (8) members as provided by Act 197. The Authority was established to eliminate the causes of property value deterioration and promote economic growth in the business district of the City of Tawas City.

These financial statements have been combined with the City of Tawas City's financial statements, and are presented as a discretely presented component unit of the City.

B. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Authority as a whole. These statements include the financial activities of the primary government.

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

C. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Fund

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the governmental fund according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Authority's loan fund is considered a governmental fund.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Losco County, Michigan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus.

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

E. Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the 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 Authority's revenue sources are considered both measurable and available at year end.

Expenses/Expenditures

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

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

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Losco 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 City Downtown Development Authority normally follows these procedures in establishing the budgetary data reflected in the financial statements.

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

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

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 City 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. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year.

I. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

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 expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Losco County, Michigan

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

NOTE 2 - 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 \$ 140,069

The breakdown between deposits and investments is as follows:

Investments in financial institution pooled funds \$ 140,069

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>\$ 140,069</u>	Daily

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – 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.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Losco County, Michigan

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

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 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 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>07/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/07</u>
Capital assets not being depreciated:				
Land	<u>\$ 70,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 70,000</u>

NOTE 4 - RISK MANAGEMENT

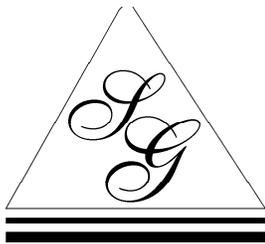
The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
losco County, Michigan

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

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Interest income	\$ 500	\$ 500	\$ 5,703	\$ 5,203
<u>Expenditures</u>				
Community and economic development	<u>6,500</u>	<u>6,500</u>	<u>1,260</u>	<u>5,240</u>
Excess of revenue over (under) expenditures	<u>(6,000)</u>	<u>(6,000)</u>	<u>4,443</u>	<u>10,443</u>
<u>Other Financing Sources (Uses)</u>				
Transfers from primary government	60,000	60,000	53,400	(6,600)
Transfers to primary government	<u>(58,313)</u>	<u>(58,313)</u>	<u>(58,313)</u>	<u>0</u>
Total other financing sources (uses)	<u>1,687</u>	<u>1,687</u>	<u>(4,913)</u>	<u>(6,600)</u>
Excess of revenue and other sources over (under) expenditures and other uses	(4,313)	(4,313)	(470)	3,843
Fund balances - beginning of year	<u>140,539</u>	<u>140,539</u>	<u>140,539</u>	<u>0</u>
Fund balances - end of year	<u>\$ 136,226</u>	<u>\$ 136,226</u>	<u>\$ 140,069</u>	<u>\$ 3,843</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Gerald D Gracik Jr., CPA
James J Gracik, CPA
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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 City Downtown Development Authority
Iosco County, Michigan

We have audited the financial statements of the governmental activities and major fund of the Tawas City Downtown Development Authority, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tawas Downtown Development 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 Downtown Development Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tawas Downtown Development 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 Downtown Development 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 Downtown Development Authority's financial statements that is more than inconsequential will not be prevented or detected by the Tawas Downtown Development 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 and without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

Financial Statement Preparation

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

The Tawas Downtown Development 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 Downtown Development 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.

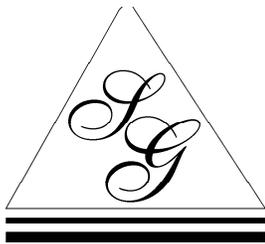
Compliance and Other Matters

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

We noted certain matters that we have reported to management of the Tawas City Downtown Development Authority in a separate letter dated 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, Grubb & Co., P.C.



Stephenson Gracik & Co., P.C.

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October 29, 2007

Members of the Authority Board
Tawas City Downtown Development Authority
Iosco, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities and major fund of the Tawas City Downtown Development 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 March 16, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Tawas City Downtown Development Authority. 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 City Downtown Development 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 City Downtown Development 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 City Downtown Development 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 City Downtown Development Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Tawas City Downtown Development Authority's financial reporting process.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Tawas City Downtown Development 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 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 control does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate for the financial activity of the Authority but could be strengthened by a few minor changes in the personnel assigned to perform cash functions.

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

Financial Statement Preparation

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The Tawas Downtown Development 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.

Members of the Authority Board
Tawas City Downtown Development Authority
October 29, 2007
Page Three

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

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

Stephenson, Graich & Co., P.C.