Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Tuscola Area Airport Authority	Tuscola

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
June 30, 2006	October 20, 2006	November 13, 2006

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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☒	None prepared

Certified Public Accountant (Firm Name)	Telephone Number		
Anderson, Tuckey, Bernhardt & Doran, P.C.	(989) 673-3137		
Street Address	**City**	**State**	**Zip**
715 E. Frank Street	Caro	MI	48723
Authorizing CPA Signature	**Printed Name**	**License Number**	
Valerie J. Hartel CPA	Valerie J. Hartel, CPA	A256388	

TUSCOLA AREA AIRPORT AUTHORITY

Caro, Michigan

Report on Financial Statements
Period Ended June 30, 2006

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
Certified Public Accountants

Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

October 20, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tuscola Area Airport Authority
Caro, MI 48723

We have audited the basic financial statements of the Tuscola Area Airport Authority (the "Authority") as of and for the year ended June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2006 and the changes in its' financial position and its cash flows 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 20, 2006, on our consideration of Tuscola Area Airport 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages *i* through *vi*, 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 inquires 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 it.

715 East Frank Street, Caro, MI 48723-1647 • 989/673-3137 • 800-234-8829 • Fax 989/673-3375

6261 Church Street, Cass City, MI 48726-1111 • 989/872-3730 • Fax 989/872-3978

E mail cpa@atbdcpa.com Website www.atbdcpa.com

Board of Directors
Tuscola Area Airport Authority
October 20, 2006

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tuscola Area Airport Authority's basic financial statements. The supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Tuscola Area Airport Authority
157 N. State Street
Caro, MI 48723
989-673-2849
989-673-2517 Fax

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tuscola Area Airport Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2006

The following management's discussion and analysis (MD&A) of the Tuscola Area Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information presented in this management discussion and analysis should be considered in conjunction with the statement of net assets, the statement of revenue, expenses, and changes in net assets, the statement of cash flows, and other statistical information contained in this report. In future years, comparative information will be provided.

FINANCIAL OPERATIONS HIGHLIGHTS:

- Operating Revenues increased due to increased income from aviation fuel and jet fuel.
- Interest Income increased due to investing a portion of the large donation for the new hangar building in 2 certificates of deposits.
- Contract employees increased 5% overall from 12,000 for 2004-05 to $12,600 in 2005-06.
- Operating Expenses not including depreciation increased 21% due to an increase in fuel and supply purchases.

FINANCIAL OPERATIONS OVERVIEW:

The Tuscola Area Airport Authority's goal to improve airport facilities and services is being met by the Airport Authority's objective to increase traffic into the airport to generate growth and to make further infrastructure improvements, so as to improve services to the flying public and increase economic development in the local area.

Tuscola Area Airport Authority
157 N. State Street
Caro, MI 48723
989-673-2849
989-673-2517 Fax

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL POSITION SUMMARY

A condensed summary of the Authority's changes in net assets for the year ended June 30 is presented as follows:

	2006
Assets	
Current	$ 38,667
Non-current	2,962,185
TOTAL ASSETS	$ 3,000,852
Liabilities	
Current	$ 38,828
Non-current	87,485
Total Liabilities	126,313
Net Assets	
Invested in Capital	2,840,450
Unrestricted	34,089
Total Net Assets	2,874,539
TOTAL LIABILITIES & NET ASSETS	$3,000,852

Tuscola Area Airport Authority
157 N. State Street
Caro, MI 48723
989-673-2849
989-673-2517 Fax

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

SUMMARY OF CHANGES IN NET ASSETS

A condensed summary of the Airport Authority's changes in net assets for the years ended June 30 is presented below as follows:

Operating revenue	$ 116,918	
Operating expenses	243,936	
Operating loss		(127,018)
Non-Operating Revenue (Expenses)		494,389
Net Income (Loss) – Before capital contributions		367,371
Capital Contributions		116,982
Net Income (Loss)		$484,353

Tuscola Area Airport Authority
157 N. State Street
Caro, MI 48723
989-673-2849
989-673-2517 Fax

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

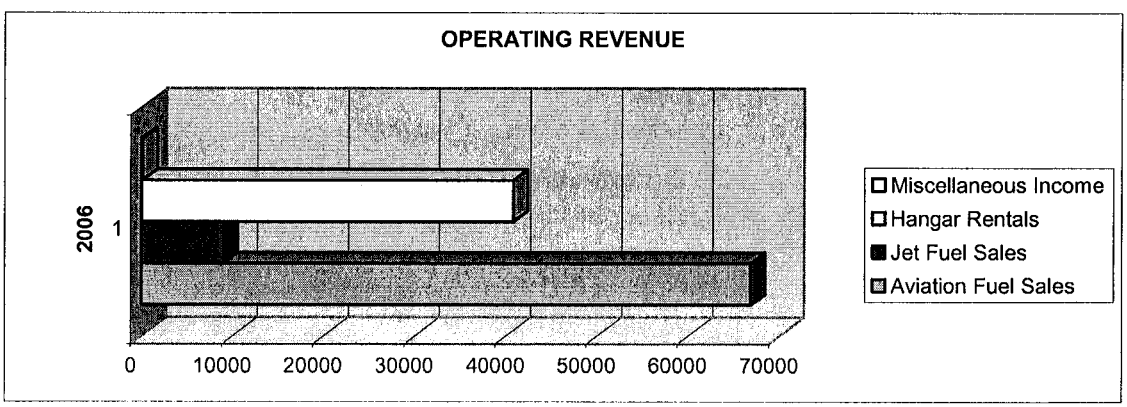
CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets consist of land, land improvements, and buildings such as a new hangar, automated weather observation system, security fencing, tree cutting and the design of a parallel taxiway. Capital assets have increased by $640,001 due to securing fencing upgrades, tree cutting and the design of the parallel taxiway.

A donation was given to the Airport Authority to reimburse the Tuscola Area Airport for expenses incurred in constructing a new hangar building.

OPERATING REVENUE

66,884	**Aviation Fuel Sales**
9,028	**Jet Fuel Sales**
40,843	**Hangar Rentals**
163	**Miscellaneous Income**
116,918	**Total**



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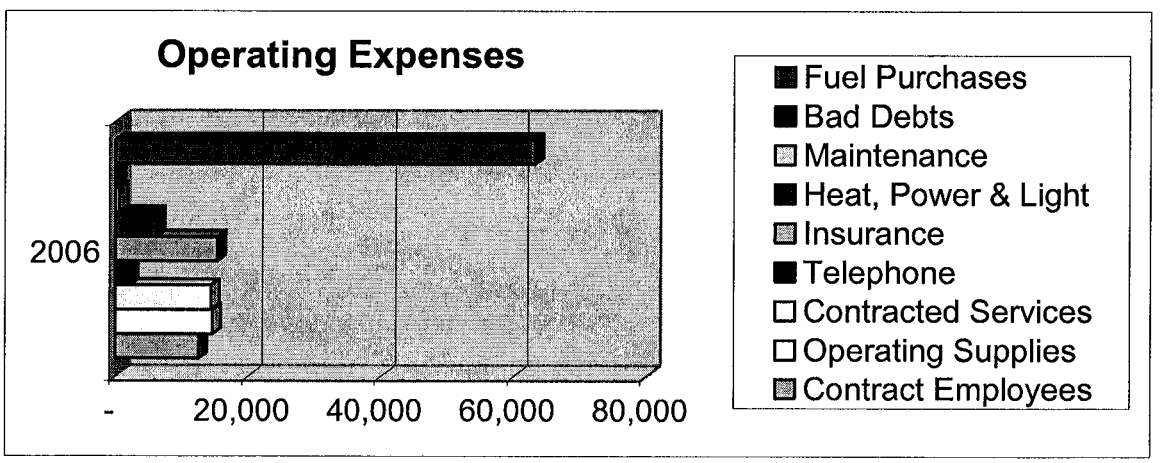
157 N. State Street
Caro, MI 48723
989-673-2849
989-673-2517 Fax

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Expenses

The following chart depicts the Tuscola Area Airport Authority's major operating expense categories, excluding depreciation and their relation to the total operating expense for the year ending June 30 as presented below:

Contract Employees	**12,600**
Operating Supplies	**14,686**
Contracted Services	**14,427**
Telephone	**2,253**
Insurance	**15,425**
Heat, Light & Power	**6,255**
Maintenance	**598**
Bad Debts	**305**
Fuel Purchases	**63,225**
Total Operating Expenses	**129,774**



Tuscola Area Airport Authority
157 N. State Street
Caro, MI 48723
989-673-2849
989-673-2517 Fax

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL STATEMENTS

Tuscola Area Airport Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital Assets are depreciated (except land) over their useful lives.

CONTACTING THE TUSCOLA AREA AIRPORT AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is intended to provided taxpayers, customers, and bondholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Airport Authority Business Office, 157 N. State Street, Caro, Michigan 48723, or by telephone at 989-673-2849.

BASIC FINANCIAL STATEMENTS

TUSCOLA AREA AIRPORT AUTHORITY

Statement of Net Assets

	June 30, 2006
ASSETS	
CURRENT ASSETS:	
Cash and equivalents	$ 17,452
Accounts receivable - net	3,496
Inventory	17,719
Total Current Assets	38,667
CAPITAL ASSETS:	
Fixed assets	3,698,489
Less: Accumulated Depreciation	(736,304)
Capital Assets, net	2,962,185
TOTAL ASSETS	***$ 3,000,852***
LIABILITIES & NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	$ 3,415
Accrued sales tax	1,163
Current maturities of long-term debt	34,250
Total Current Liabilities	38,828
NONCURRENT LIABILITIES:	
Notes payable - long-term	87,485
TOTAL LIABILITIES	126,313
NET ASSETS:	
Invested in capital assets - Net of related debt	2,840,450
Unrestricted	34,089
Total Net Assets	2,874,539
TOTAL LIABILITIES & NET ASSETS	***$ 3,000,852***

The accompanying footnotes are an integral part of the financial statements.

TUSCOLA AREA AIRPORT AUTHORITY

Statement of Revenue, Expenses, and Change in Net Assets

	June 30, 2006
OPERATING REVENUE:	
Gas sales	$ 66,884
Jet fuel	9,028
Hangar rentals	40,843
Miscellaneous income	163
Total Operating Revenue	116,918
OPERATING EXPENSES:	
Contract Employees	12,600
Operating supplies	14,686
Contracted services	14,427
Telephone	2,253
Insurance	15,425
Heat, light & power	6,255
Maintenance & miscellaneous	598
Bad Debts	305
Depreciation	114,162
Fuel purchases	63,225
Total Operating Expenses	243,936
OPERATING INCOME (LOSS)	(127,018)
NON-OPERATING REVENUE (EXPENSES):	
Contributions from members and other units	48,876
Donations	450,000
Interest Income	3,216
Interest expense	(7,703)
TOTAL NON-OPERATING REVENUE (EXPENSES)	494,389
NET INCOME (LOSS) - Before capital contributions	367,371
CAPITAL CONTRIBUTIONS	116,982
NET INCOME (LOSS)	484,353
NET ASSETS - JULY 1	2,390,186
NET ASSETS - JUNE 30	$ 2,874,539

The accompanying footnotes are an integral part of the financial statements.

TUSCOLA AREA AIRPORT AUTHORITY

Statement of Cash Flows

	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:	
Charges and rentals	$ 118,247
Cash paid to Contract employees	(12,600)
Cash paid to suppliers	(108,391)
Net cash provided by (used in) operating activities	(2,744)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on debt	(32,785)
Interest paid	(7,703)
Capital expenditures	(516,532)
Contributions from members	48,876
Donations	450,000
Net cash used in capital and related financing activities	(58,144)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned on investments	3,216
Net cash provided by investing activities	3,216
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(57,672)
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	75,124
CASH & CASH EQUIVALENTS AT END OR YEAR	17,452
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments	17,452
Total cash and cash equivalents	$ 17,452

Supplemental Cash Flow Information - Capital contriubtions amounting to $116,982 was received from both the federal government and the State of Michigan during 2006, and was recorded as additions to property, buildings, equipment, and Authority revenue.

The accompanying footnotes are an integral part of the financial statements.

Reconciliation of operating loss to net cash from operating activities:

	June 30, 2006
Operating income (loss)	$ (127,018)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	114,162
(Increase) decrease in assets:	
Accounts receivable	1329
Inventory	6815
Increase (decrease) in liabilities:	
Accounts payable	1155
Accrued expenses	813
Net cash provided by (used in) operating activities	$ (2,744)

NOTE 1 – DESCRIPTION OF TUSCOLA AREA AIRPORT AUTHORITY ORGANIZATION:

ADOPTION OF NEW ACCOUNTING STANDARDS:

During the fiscal period 2006, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis fir State and Local Governments omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued June 2001, and in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the Authority to prepare a Management's Discussion and Analysis, government-wide financial statements on an accrual basis, and make certain changes in footnotes.

The following table shows beginning net assets restated for the effects of implementation of GASB Statement No. 34:

Fund Balance at June 30, 2005	$ 444,837
Contributed Capital – other governments	1,945,349
Restated net assets – July 1, 2005	$2,390,186

REPORTING ENTITY:

The TAAA (Authority) was incorporated in 1993 under the provisions of Act 206 of the Public Acts of 1957, as amended by Act 410 of the Public Acts of 1978, and by Act 312 of the Public Acts of 1982.

The municipal corporations that created the Authority include the Villages of Caro, Cass City and Kingston as well as the Townships of Almer and Elkland, all in the County of Tuscola, State of Michigan.

The purpose of this Authority is to exercise any and all powers necessary for the purpose of planning, promoting, acquiring, constructing, improving, enlarging, extending, owning, maintaining and operating the landing, navigational and building facilities of the Tuscola Area Airport, formerly known as the Caro Municipal Airport.

The Authority is governed under the direction of a board of as many directors as are appointed to it by member municipalities, as shall be determined from time to time, but not less than four (4).

The Board maintains its own accounting system; employs a manager; adopts rules, regulations, policies governing employees, property, and facilities; prepares an annual financial report; and adopts by-laws, policies, and procedures deemed necessary for conduct of business. The Authority is financed through grants and loans from Federal and State government, fees from users, contributions from governmental entities and other.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Authority (the primary government). The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The Authority has no component units.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION:

The financial activities of the Authority are recorded in a single fund described as follows:

Proprietary Fund:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

BASIS OF ACCOUNTING:

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

INVENTORIES:

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption are recorded as expenditures when consumed rather than when purchased.

CAPITAL ASSETS AND DEPRECIATION:

All assets are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Cost of maintenance and repairs are charged to expense when incurred. Capital assets are defined by the Authority with an initial individual cost of more than $2,000 and an estimated useful life in excess of one year. Estimated useful lives, in years, for depreciable assets are as follows:

Land Improvements	20-40 years
Buildings	30-50 years
Equipment	5-20 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

BUDGETARY PROCEDURES:

Budgetary procedures are established pursuant to Act 312, P.A. 1982, which requires the Board to approve a budget for the Authority. The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the budget is legally enacted through passage of a resolution.

2. Any revisions of the budget must be approved by the Board.

3. Formal budgetary integration is employed as a management control device during the year for the Authority.

4. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board during the year. Individual amendments were not material in relation to the original appropriations that were amended.

REVENUE/EXPENSES:

Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as non-operating.

USE OF ESTIMATES:

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS:

Interest rate risk. In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes 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 in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

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.

NOTE 3 – CASH AND CASH EQUIVALENTS, (Continued):

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2006 all of the Authority's bank balance of $22,010 was insured and none was exposed to custodial credit risk. Authority places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the Authority, subject to minimal risk.

Investment policy. The Authority has not adopted an investment policy as required by PA 196 of 1997.

NOTE 4 – ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following:

	JUNE 30 2006
Customer Receivables	$6,433
Aeronatics Receivable	819
Credit Card Receivable	49
	7,301
Less allowance for doubtful accounts	(3,805)
Total	$3,496

NOTE 5 - CAPITAL ASSETS:

A summary of changes in the Authority's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance July 1, 2006
Assets not being depreciated – land	$ 248,445			$ 248,445
Other capital assets:				
Land improvements	1,950,149	$188,158		2,138,307
Buildings	597,556	445,183		1,042,739
Fuel Tank	2,880			2,880
Equipment	259,459	6,660		266,119
Subtotal	2,810,044	640,001		3,450,045
Accumulated depreciation:				
Land improvements	(415,866)	(70,461)		(486,327)
Buildings	(124,241)	(20,392)		(144,633)
Fuel Tank	(420)	(144)		(564)
Equipment	(81,615)	(23,165)		(104,780)
Subtotal	(622,142)	(114,162)		(736,304)
Net other capital assets	2,187,902	525,839		2,713,741
Net capital assets	$2,436,347	$525,839		$2,962,186

Depreciation for the fiscal year ended June 30, 2006 amounted to $114,162.

NOTE 6 – CHANGES IN LONG-TERM DEBT:

The long-term debt of the Authority may be summarized as follows:

	BALANCE 6/30/05	ADDITIONS (REDUCTIONS)	BALANCE 6/30/06
Installment purchase contract payable to a bank, due in monthly installments of $2,468 over 180 months at 6.25%. Proceeds were used to erect an airplane hangar.	$119,604	$(22,785)	$96,819
Note payable dated December 23, 1997 to Village of Caro due in full in 7 years at 2.5% per annum. Interest is accrued and paid annually. Proceeds used for working capital.	34,916	(10,000)	24,916
TOTAL LONG-TERM DEBT	$154,520	$ 32,785	121,735
LESS: CURRENT PORTION			(34,250)
LONG-TERM PORTION			$87,485

The annual requirements to amortize long-term debt outstanding at June 30, 2006 is as follows:

YEAR ENDING JUNE 30,	TOTAL
2007	$ 34,250
2008	35,810
2009	32,387
2010	19,288
TOTAL	$121,735

NOTE 7 – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, contract employee injuries, unemployment benefits, as well as medical and workman's compensation benefits provided to contract employees. The Authority has purchased commercial insurance for fleet equipment and tort claims, certain property and equipment damage and theft.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 8 – HANGAR DONATION:

The Tuscola Area Airport Authority received a donation of $450,000. These monies were used to purchase building materials and pay construction labor for the hangar project. The Tuscola Area Airport utilized a portion of the donation for administration of the project.

NOTE 9 – CONTRIBUTED CAPITAL:

For fiscal years ended June 30, 2005 and prior Contributed Capital equity account existed to account for funds provided by the federal Government and State of Michigan, to the Authority, to purchase buildings and equipment. Depreciation on buildings and equipment purchased with State and Federal Funds was charged against this account.

Effective for fiscal years beginning July 1, 2005, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Net Assets. For the year ended June 30, 2006 $116,982 of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of July 1, 2005 has been restated.

NOTE 10 – SUBSEQUENT EVENT:

The Authority has one capital project planned for 2007 for the construction of a parallel taxiway project estimated to cost $638,710. The project is to be funded 80% by the Federal Government, 17.5% by the State and 2.5% by the Airport Authority. The project was started in September 2006 and should be completed during the 2006-2007 year.

NOTE 11 – CONCESSION AGREEMENT:

For the mutual benefit of the flying public, the Tuscola Area Airport Authority "The Authority" and a Developer "the Developer" entered into a concession agreement for the building of a Hangar Building. The Authority is the sole owner of a parcel of property (the "Airport Property") on which the Authority operates an airport for the use of the public (the "Airport").

Whereas, it is the intent and purpose of the Authority to grant and create a "concession at a public airport," as these terms are used in Act 189 of 1953, to benefit the traveling public and to provide facilities and services that might not otherwise have been available to the traveling public at the Airport Property. The concession agreement was reviewed by the Indianfields Township assessor and the Michigan Department of Treasury. It was the opinion of both that the Airport Authority and "the Developer" will not pay any property taxes on the building, or land on Airport Authority property.

The Airport Property is open for such use, or such other hours as shall be specified by the Authority, and that such facilities and services are available at rates which are reasonable, given the Authority's purpose in creating the concession and recognizing that such rates must be sufficient to encourage The Developer as the concessionaire to invest the time and money in creating and operating such a concession operation, which concession operation will not be in any way subsidized by the Authority. The Developer shall bear full responsibility for the repair, replacement and maintenance of all buildings and any improvements, additions, and alterations to such buildings on the Concession Area. Any new construction will require the approval of the Authority.

The Authority desires to retain The Developer to develop, manage and operate the Airplane Hanger Project on the Concession Area, to operate related concessions thereon, including providing space to the public for airplane storage and/or parking, and The Developer desires to obtain such rights from the Authority; pursuant to and under the terms of this Concession Agreement, the Authority will grant The Developer the right to develop, use and operate the Airplane Hanger Project on the Concession Area. The operating revenue generated from hangar rentals and income from Airport Hangar constructed by The Developer is for the sole use of The Developer. The Authority granted The Developer the right to occupy and manage the Concession Area for a term of 10 years, commencing 5 business days after the issuance of the occupancy permit for the New Facilities. The Airport Authority and The Developer will review the agreement at the end of the 10 year period for possible renewal.

Compensation for the rights granted to The Developer is $72,000 which is payable to the Airport Authority in 9 annual installments of $8,000 each. The first payment is due on 5/1/07 and on that date each succeeding year thereafter until paid in full.

OTHER SUPPLEMENTAL INFORMATION

TUSCOLA AREA AIRPORT AUTHORITY

Statement of Revenue, Expenses, and Changes in Net Assets - Budget and Actual
Year Ended June 30, 2006

	BUDGET	ACTUAL	VARIANCE-FAVORABLE (UNFAVORABLE)
OPERATING REVENUE:			
Gas sales	$ 66,250	$ 66,884	$ 634
Jet fuel	9,029	9,028	(1)
Hangar rentals	41,370	40,843	(527)
Miscellaneous income	175	163	(12)
Total Operating Revenue	116,824	116,918	94
OPERATING EXPENSES:			
Contract Employees	12,601	12,600	1
Operating supplies	11,237	14,686	(3,449)
Contracted services	11,261	14,427	(3,166)
Telephone	2,260	2,253	7
Insurance	15,425	15,425	-
Heat, light & power	6,500	6,255	245
Maintenance & miscellaneous	600	598	2
Bad Debts	-	305	(305)
Depreciation	30,066	114,162	(84,096)
Fuel purchases	56,500	63,225	(6,725)
Total Operating Expenses	146,450	243,936	(97,486)
OPERATING INCOME (LOSS)	(29,626)	(127,018)	(97,392)
NON-OPERATING REVENUE (EXPENSES):			
Contributions from members and other local units	-	48,876	48,876
Donations	500	450,000	449,500
Interest income	3,216	3,216	-
Interest expense	(7,703)	(7,703)	-
TOTAL NON-OPERATING REVENUE (EXPENSES)	(3,987)	494,389	498,376
NET INCOME - Before capital contributions	(33,613)	367,371	(400,984)
CAPITAL CONTRIBUTIONS	59,000	116,982	(57,982)
NET INCOME (LOSS)	$ 25,387	484,353	$ (458,966)
NET ASSETS - JULY 1		2,390,186	
NET ASSETS - JUNE 30		$ 2,874,539	

The accompanying footnotes are an integral part of the financial statements.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
Certified Public Accountants

Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
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Jamie L. Peasley, CPA

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*

October 20, 2006

To the Board of Directors
Tuscola Area Airport Authority
Caro, MI 48723

We have audited the basic financial statements of Tuscola Area Airport Authority as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. 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 Tuscola Area Airport Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Tuscola Area Airport 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 that are required to be reported under *Government Auditing Standards*.

715 East Frank Street, Caro, MI 48723-1647 • 989/673-3137 • 800-234-8829 • Fax 989/673-3375

6261 Church Street, Cass City, MI 48726-1111 • 989/872-3730 • Fax 989/872-3978

E mail cpa@atbdcpa.com Website www.atbdcpa.com

Board of Directors
Tuscola Area Airport Authority
October 20, 2006

This report is intended for the information of the board of directors, management and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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October 20, 2006

To the Honorable Board Members
Tuscola Area Airport Authority
Caro, Michigan 48723

In planning and performing our audit of the financial statements of Tuscola Area Airport Authority for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated October 20, 2006, on the financial statements of Tuscola Area Airport Authority.

Segregation of Duties

Due to the limited number of people, many critical duties are combined and given to the available employees. To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible. We recommend the authority segregate duties whenever possible.

Investment Policy

We recommend that the Authority adopt an investment policy as required by P.A. 196 of 1997 (MCL 129.95). The authority follows the guidelines regarding doing business with Michigan firms, but has not adopted a formal policy.

Credit Card Policy

We recommend that the Authority adopt a credit card policy as required by P.A. 266 of 1995(MCL 129.241). The authority currently uses credit cards within the requirements of the act, but has not adopted a formal policy.

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We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Tuscola Area Airport Authority, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS