

CITY OF TRAVERSE CITY, MICHIGAN



FINANCIAL STATEMENTS

**For the Fiscal Year Ended
June 30, 2013**

**Prepared by:
City Treasurer Department**

CITY OF TRAVERSE CITY, MICHIGAN

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CITY OF TRAVERSE CITY, MICHIGAN

List of Elected and Appointed Officials For the Fiscal Year Ended June 30, 2013

Elected Officials

Mayor
Mayor Pro Tem
Commission Member
Commission Member
Commission Member
Commission Member
Commission Member

Michael Estes
Mary Ann Moore
Jody Bergman
Barbara Budros
Jim Carruthers
Jeanine Easterday
Mike Gillman

Appointed Officials

Manager
Clerk
Attorney
Treasurer

Jered Ottenwess
Benjamin C. Marentette
Lauren Tribble-Laucht
William E. Twietmeyer

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Commission
City of Traverse City
Traverse City, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Traverse City (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Traverse City, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note III (M), the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year. As a result of this implementation, the format and reporting of the financial statements has changed to reflect the required components of GASB Statements No. 63 and 65, as applicable. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and pension and employee benefit information as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparisons, and statistical information are presented for purposes of additional analysis and are not required parts of the financial statements.

The combining and individual nonmajor fund financial statements and budgetary comparisons are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical information and continuing SEC disclosures have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the City'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* in considering the City's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 20, 2013

Management's Discussion and Analysis

As management of the *City of Traverse City, Michigan* (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013.

Financial Highlights

- The assets and deferred outflows of resources of the City (primary government) exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$109,215,600 (*net position*). Of this amount, \$19,121,767 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net position increased by \$8,469,558.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$26,468,339, an increase of approximately \$653,000 in comparison with the prior year.
- At the end of the current fiscal year unassigned fund balance for the General Fund was \$5,767,662 or 42 percent of total General Fund expenditures and transfers out.
- The City's total long-term debt decreased \$2,713,675 due to payments made during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and deferred outflows of resources, liabilities, and deferred outflows of resources with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of the costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and community development. The business-type activities of the City include wastewater, water, marina and auto parking system operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate component units of the City – the Downtown Development Authority and Light and Power. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. Copies of the full audit reports of these component units are available upon request.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twenty-three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Local Streets, Capital Projects, and Brown Bridge Trust Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general, special revenue, debt service and capital project funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, marina and auto parking system operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses an internal service fund to account for its municipal garage. Because these services predominantly benefit governmental rather than business-type functions, it has been included within governmental activities in the financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater, water, marina, and auto parking system, each of which are considered to be major funds of the City.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to gain a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve as a useful indicator of a government's financial position. In the case of the City of Traverse City, assets exceeded liabilities by \$109,215,600 at the close of the most recent fiscal year.

By far the largest portion of the City's net position, \$74,360,587 or 68 percent, reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The balance of unrestricted net position, \$19,121,767 or 18 percent, may be used to meet the government's ongoing obligations to citizens and creditors. The remaining balance of net position is restricted net position, \$15,733,246 or 14 percent, which represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the governmental and business-type activities.

During the current fiscal year the government's net position increased by \$8,469,558.

The City's net position and changes in net position are summarized in the following tables.

**City of Traverse City's Net Position
Table I**

	2013			2012		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 31,239,176	\$ 5,985,971	\$ 37,225,147	\$30,638,008	\$ 4,217,720	\$ 34,855,728
Capital assets	<u>41,231,904</u>	<u>58,119,562</u>	<u>99,351,466</u>	<u>37,910,021</u>	<u>58,558,286</u>	<u>96,468,307</u>
Total assets	<u>72,471,080</u>	<u>64,105,533</u>	<u>136,576,613</u>	<u>68,548,029</u>	<u>62,776,006</u>	<u>131,324,035</u>
Deferred outflows	<u>353,493</u>	-	<u>353,493</u>	-	-	-
Long-term liabilities outstanding	14,462,210	10,382,252	24,844,462	15,528,431	12,332,071	27,860,502
Other liabilities	<u>1,547,701</u>	<u>750,610</u>	<u>2,298,311</u>	<u>1,614,290</u>	<u>882,257</u>	<u>2,496,547</u>
Total liabilities	<u>16,009,911</u>	<u>11,132,862</u>	<u>27,142,773</u>	<u>17,142,721</u>	<u>13,214,328</u>	<u>30,357,049</u>
Deferred inflows	<u>82,485</u>	<u>489,248</u>	<u>571,733</u>	-	-	-
Net position						
Invested in capital assets, net of related debt	28,257,021	46,103,566	74,360,587	23,693,538	45,018,588	68,712,126
Restricted assets	15,733,246	-	15,733,246	16,687,760	38,762	16,726,522
Unrestricted	<u>12,741,910</u>	<u>6,379,857</u>	<u>19,121,767</u>	<u>10,803,066</u>	<u>4,504,328</u>	<u>15,307,394</u>
Total net position	<u>\$ 56,732,177</u>	<u>\$52,483,423</u>	<u>\$109,215,600</u>	<u>\$51,184,364</u>	<u>\$49,561,678</u>	<u>\$100,746,042</u>

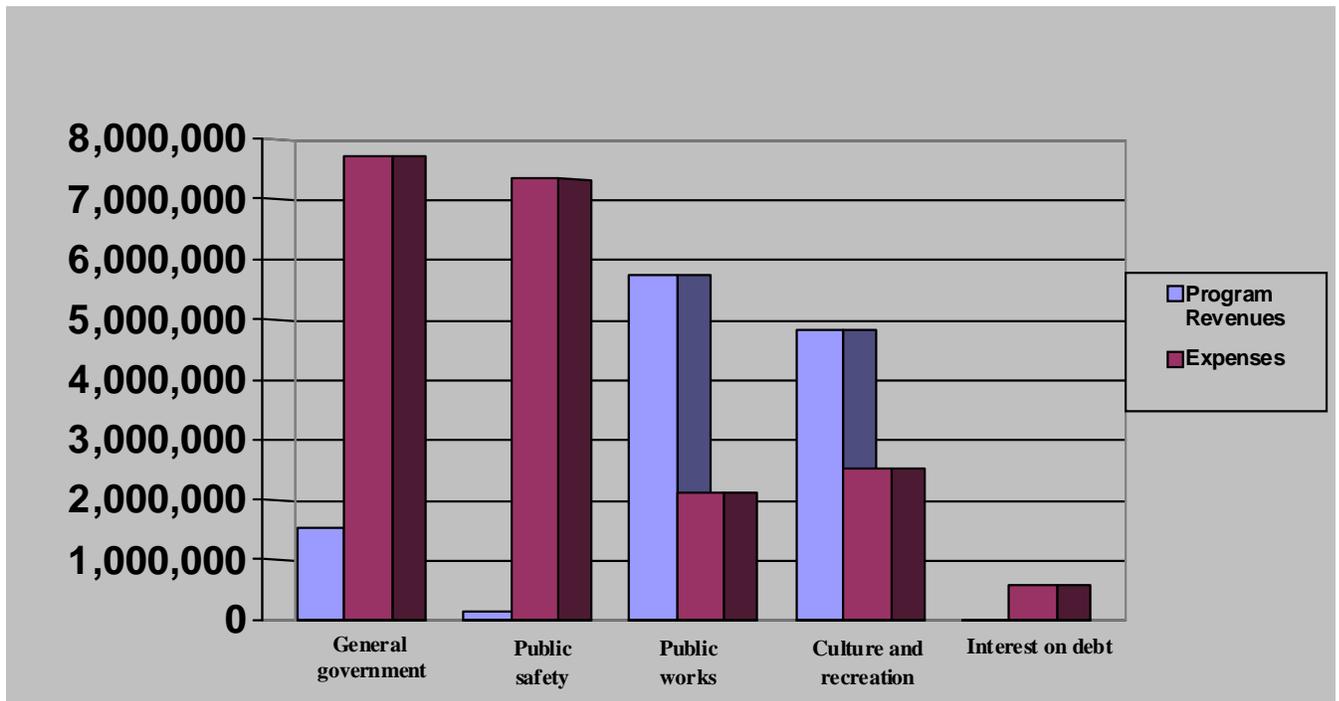
City of Traverse City's Changes in Net Position
Table II

	<u>2013</u>			<u>2012</u>		
	<u>Governmental Activities</u>	<u>Business type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Program revenue						
Charges for services	\$ 3,393,569	\$ 12,103,750	\$ 15,497,319	\$ 3,610,419	\$ 11,647,094	\$ 15,257,513
Operating grants and contributions	1,953,416	-	1,953,416	2,194,124	-	2,194,124
Capital grants and contributions	6,907,736	145,881	7,053,617	3,396,032	-	3,396,032
General revenue						
Property taxes	11,150,027	-	11,150,027	10,785,956	-	10,785,956
Grants and contributions not restricted to specific programs	1,287,510	-	1,287,510	1,235,246	-	1,235,246
Franchise revenue	228,255	-	228,255	214,685	-	214,685
Other	<u>238,134</u>	<u>3,185</u>	<u>241,319</u>	<u>305,048</u>	<u>12,472</u>	<u>317,520</u>
Total revenue	<u>25,158,647</u>	<u>12,252,816</u>	<u>37,411,463</u>	<u>21,741,510</u>	<u>11,659,566</u>	<u>33,401,076</u>
Expenses						
General government	7,723,210	-	7,723,210	3,643,504	-	3,643,504
Public safety	7,332,516	-	7,332,516	7,236,930	-	7,236,930
Public works	2,115,926	-	2,115,926	3,660,267	-	3,660,267
Recreation and culture	2,516,662	-	2,516,662	2,999,949	-	2,999,949
Community development	-	-	-	4,996	-	4,996
Interest and fiscal charges	594,752	-	594,752	670,791	-	670,791
Wastewater	-	4,316,445	4,316,445	-	4,751,753	4,751,753
Water	-	2,193,916	2,193,916	-	2,448,384	2,448,384
Marina	-	650,462	650,462	-	687,913	687,913
Auto Parking	-	<u>1,504,977</u>	<u>1,504,977</u>	-	<u>1,339,745</u>	<u>1,339,745</u>
Total expenses	<u>20,283,066</u>	<u>8,665,800</u>	<u>28,948,866</u>	<u>18,216,437</u>	<u>9,227,795</u>	<u>27,444,232</u>
Increase (decrease) in net position before transfers and contribution to endowment	4,875,581	3,587,016	8,462,597	3,083,185	2,431,771	5,514,956
Transfers	665,271	(665,271)	-	652,012	(652,012)	-
Contribution to endowment	<u>6,961</u>	<u>-</u>	<u>6,961</u>	<u>10,658</u>	<u>-</u>	<u>10,658</u>
Increase in net position	5,547,813	2,921,745	8,469,558	3,745,855	1,779,759	5,525,614
Net position – beginning of year	<u>51,184,364</u>	<u>49,561,678</u>	<u>100,746,042</u>	<u>47,438,509</u>	<u>47,781,919</u>	<u>95,220,428</u>
Net position – end of year	<u>\$ 56,732,177</u>	<u>\$ 52,483,423</u>	<u>\$109,215,600</u>	<u>\$ 51,184,364</u>	<u>\$ 49,561,678</u>	<u>\$100,746,042</u>

Governmental activities increased the City’s net position by \$5,547,813 accounting for 66 percent of the growth in the government’s net position for the current year. Key highlights are as follows:

- Operating grants, capital grants and contributions increased approximately \$3,271,000 compared to the previous year with most of the increase attributed to federal grants.
- Property tax revenue increased approximately \$364,000 compared to the previous year.

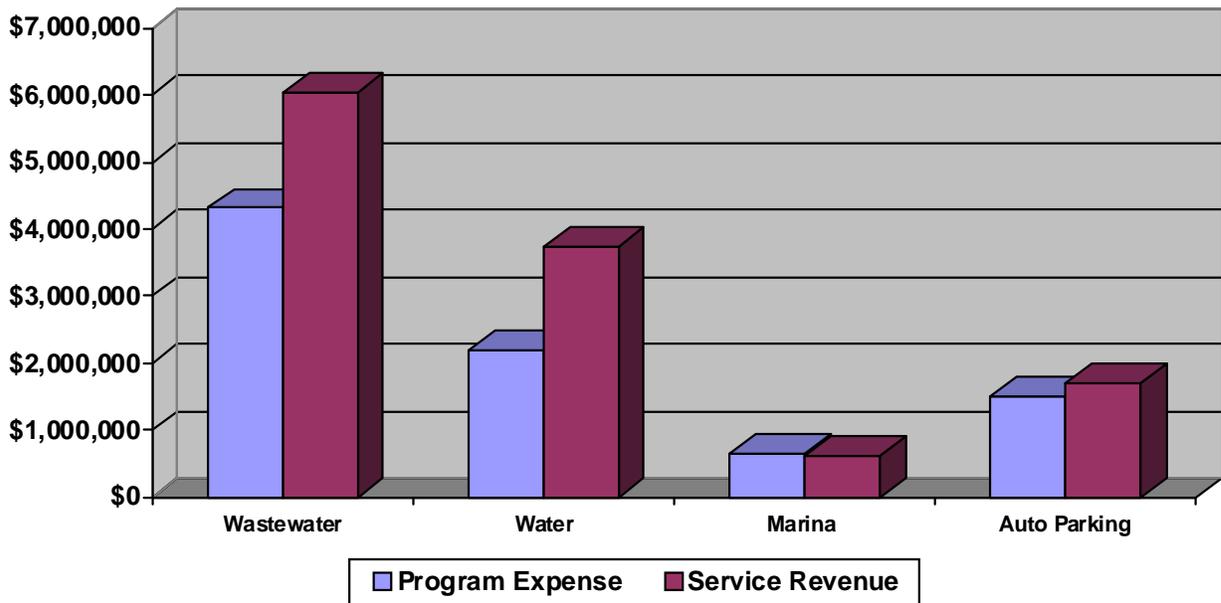
Expenses and Program Revenues – Governmental Activities



Business-type activities increased the City’s net position by \$2,921,745 accounting for 34 percent of the growth in the government’s net position for the current year. Key highlights of activities in the funds are as follows:

- Charges for services in the Wastewater and Water Fund increased approximately \$224,000 because of increased consumption by customers and an increase in rates.
- Charges for services in the Marina and Auto Parking System Fund increased approximately \$259,000 because of increased customer activity.

Expenses and Program Revenues - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$26,468,339, an increase of approximately \$653,000 in comparison with the prior year. \$5,767,662 constitutes unassigned fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,767,662. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 42 percent of total General Fund expenditures including transfers out.

The Major Streets Fund has a total fund balance of \$225,119 which increased by \$14,424 during the year. Original and amended budget estimates anticipated a \$20,000 increase to fund balance.

The Local Streets Fund has a \$0 fund balance for the current year. All expenses not offset by state revenue sources are covered by the General Fund via a transfer of funds.

The Boardman River Dam Removal and Restoration Fund has a \$0 fund balance for the current year. All expenses were offset by federal and state revenue sources.

The Capital Projects fund balance increased by \$936,809 during the current fiscal year. Final budget estimates anticipated a decrease of \$66,100 to fund balance. Anticipated expenditures exceeded capital outlays by \$78,217.

The Brown Bridge Permanent Trust Fund increased by \$53,510 during the current fiscal year. This is attributed to royalty revenues received during the fiscal year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Wastewater, Water, Marina and Auto Parking System funds at the end of the year amounted to \$5,860,197, with investment in capital assets net of related debt of \$46,583,449. For the current year, the Wastewater Fund had an increase in net position of \$1,444,755, the Water Fund had an increase in net position for the year of \$1,422,520, the Marina Fund had a decrease in net position of \$457, and the Auto Parking System had a decrease in net position of \$16,457.

General Fund Budgetary Highlights

During the year, General Fund revenues were under budgetary estimates by \$83,712. In addition, actual expenditures were under budgeted amounts by \$702,132. As a result, the fund balance decreased by \$128,414, against the budgeted decrease estimate of \$680,525.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounted to \$99,351,466 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Completion of the Bryant Park storm water improvement project totaled approximately \$269,000.
- Completion of alley pavement and drainage improvements in the 200 and 400 blocks of Front Street, West of Rose Street between Baldwin Street and Boon Street, CVS project between Division Street and Maple, and the alley North of East Front Street between College Drive and East Bay Boulevard totaled approximately \$157,000.
- Completion of pavement and watermain improvements to East Bay Boulevard from Front Street to Eastern Avenue totaled approximately \$153,000.
- Completion of annual sidewalk replacement project totaled approximately \$109,000.
- Completion of improvements to the Opera House roof totaled approximately \$105,000.
- Completion of improvements to Division Street totaled approximately \$70,000.
- Replacement of boiler in Fire Station 1 totaled approximately \$50,000.

**City of Traverse City's Capital Assets
(net of depreciation)
Table III**

	2013			2012		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Land	\$11,291,376	\$ 1,204,786	\$12,496,162	\$11,466,376	\$ 1,193,786	\$12,660,162
Land improvement	3,441,358	8,416,432	11,857,790	3,500,619	8,427,432	11,928,051
Buildings and systems	6,965,142	22,865,181	29,830,323	7,282,866	23,557,540	30,840,406
Construction in progress	6,105,799	1,020,411	7,126,210	2,559,612	490,556	3,050,168
Equipment	4,885,841	7,957,580	12,843,421	4,599,823	7,908,051	12,507,874
Infrastructure and other improvements	8,542,388	16,655,172	25,197,560	8,500,725	16,980,921	25,481,646
TOTAL	\$41,231,904	\$58,119,562	\$99,351,466	\$37,910,021	\$58,558,286	\$ 96,468,307

Additional information on capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt and capital lease payables of \$24,246,748. Of this amount, \$13,945,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents capital leases and bonds secured solely by specified revenue sources (i.e., revenue bonds).

**City of Traverse City's Outstanding Debt
General Obligation, Revenue Bonds and Capital Leases
Table IV**

	2013			2012		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
General obligation bonds – Parking decks	\$13,945,000	\$ -	\$13,945,000	\$15,230,000	\$ -	\$ 15,230,000
Capital lease payable – Wastewater Treatment Plant	-	10,301,748	10,301,748	-	11,480,423	11,480,423
Revenue bonds – Water Plant	-	-	-	-	250,000	250,000
TOTAL	\$13,945,000	\$10,301,748	\$24,246,748	\$15,230,000	\$11,730,423	\$ 26,960,423

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$96,907,314, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2013/14 fiscal year:

- The City Commission has determined to keep the General Fund tax levy at 11.1167 mills, the same levy as the two previous years. The Act 345 levy for Police/Fire pensions is 2.32 mills, the same levy as the previous year.
- The General Fund budget includes \$1,250,000 to continue the City Commission's priority on infrastructure spending for streets and sidewalks. This amount is leveraged with other funds for an anticipated construction spending between \$7,000,000 and \$7,500,000 depending on actual bids.
- Health insurance premiums will increase about 10% on July 1, 2013. Some of this increase may be attributed to the unknowns associated with the implementation of the Federal Affordable Care Act and some of this increase is associated with severe health issues for some of our employees. Most employees cost share on an 80/20 basis.
- Legacy costs are being addressed in a meaningful way. Since July 2009 all new hire general City employees are at the 1.5% multiplier; all new hire police/fire employees are at the 2.0% multiplier. These are down from 2.25% and 2.8% respectively. Effective July 1, 2014 all current general employees will earn future pension credit at a 1.5% multiplier. Effective June 30, 2014 current Police Patrol employees will earn future pension credit at a 2.5% multiplier rather than the current 2.8% multiplier. These changes should significantly impact accrued unfunded liability although the amount of the impact will not be known until the next actuarial reports.

Requests for Information

This financial report is designed to provide a general overview of the City'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 City Manager, Jered Ottenwess, 400 Boardman Avenue, Traverse City, Michigan 49684.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 18,526,269	\$ 5,050,525	\$ 23,576,794
Investments	7,782,357	484,216	8,266,573
Receivables, net	3,014,478	1,462,708	4,477,186
Due from component unit	170,268	-	170,268
Internal balances	1,220,012	(1,220,012)	-
Inventories	257,768	136,760	394,528
Prepaid items and other assets	41,928	5,018	46,946
Other postemployment benefit	226,096	66,756	292,852
Advances to primary government	-	-	-
Capital assets not being depreciated	17,397,175	10,641,629	28,038,804
Capital assets being depreciated	23,834,729	47,477,933	71,312,662
Total assets	72,471,080	64,105,533	136,576,613
Deferred outflows of resources			
Deferred charges on refunding	353,493	-	353,493
Liabilities			
Accounts payable and accrued expenses	1,511,885	375,118	1,887,003
Unearned revenue	24,818	492	25,310
Due to primary government	-	-	-
Advances from component units	10,998	375,000	385,998
Long-term liabilities			
Due within one year	1,602,617	1,143,962	2,746,579
Due in more than one year	12,859,593	9,238,290	22,097,883
Total liabilities	16,009,911	11,132,862	27,142,773
Deferred inflows of resources			
Deferred charges on refunding	82,485	489,248	571,733
Net position			
Invested in capital assets, net of related debt	28,257,021	46,103,566	74,360,587
Restricted for			
Debt service	100	-	100
Joint planning	13,487	-	13,487
Capital improvements	1,678,705	-	1,678,705
Streets and highways	225,119	-	225,119
Public safety training	2,474	-	2,474
Public welfare or civic improvement organizations	107,800	-	107,800
Tax increment finance districts	-	-	-
Nonexpendable brown bridge trust	12,996,252	-	12,996,252
Nonexpendable cemetery perpetual trust	709,309	-	709,309
Unrestricted	12,741,910	6,379,857	19,121,767
Total net position	\$ 56,732,177	\$ 52,483,423	\$ 109,215,600

The accompanying notes are an integral part of these financial statements.

Component Units	
Downtown Development Authority	Light and Power
\$ 3,374,749	\$ 899,392
-	21,174,273
4,552,681	3,590,300
-	-
-	-
-	1,748,872
4,713	8,467
-	719,676
-	385,998
-	5,831,307
-	39,567,142
7,932,143	73,925,427
-	-
545,933	2,666,120
-	13,200
-	170,268
-	-
-	-
23,284	13,426
33,057	216,923
602,274	3,079,937
-	-
-	45,398,449
-	-
-	-
-	-
-	-
-	-
7,169,434	-
-	-
-	-
160,435	25,447,041
\$ 7,329,869	\$ 70,845,490

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 7,723,210	\$ 911,772	\$ 455,248	\$ 170,001	\$ (6,186,189)
Public safety	7,332,516	25,702	61,038	61,710	(7,184,066)
Public works	2,115,926	1,881,785	1,316,844	2,541,765	3,624,468
Culture and recreation	2,516,662	574,310	120,286	4,134,260	2,312,194
Interest and fiscal charges	594,752	-	-	-	(594,752)
Total governmental activities	<u>20,283,066</u>	<u>3,393,569</u>	<u>1,953,416</u>	<u>6,907,736</u>	<u>(8,028,345)</u>
Business-type activities					
Wastewater	4,316,445	6,043,177	-	24,391	1,751,123
Water	2,193,916	3,750,070	-	61,800	1,617,954
Marina	650,462	616,417	-	59,690	25,645
Automobile parking	1,504,977	1,694,086	-	-	189,109
Total business-type activities	<u>8,665,800</u>	<u>12,103,750</u>	<u>-</u>	<u>145,881</u>	<u>3,583,831</u>
Total primary government	<u>\$ 28,948,866</u>	<u>\$ 15,497,319</u>	<u>\$ 1,953,416</u>	<u>\$ 7,053,617</u>	<u>\$ (4,444,514)</u>
Component units					
Downtown Development Authority	\$ 3,483,902	\$ 387,878	\$ -	\$ -	\$ (3,096,024)
Light and Power	34,478,948	32,253,333	-	-	(2,225,615)
Total component units	<u>\$ 37,962,850</u>	<u>\$ 32,641,211</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,321,639)</u>

Continued...

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net (expense) revenue	\$ (8,028,345)	\$ 3,583,831	\$ (4,444,514)
General revenues			
Unrestricted property taxes	11,150,027	-	11,150,027
Restricted property taxes for tax increment finance districts	-	-	-
Grants and contributions not restricted			
to specific programs	1,287,510	-	1,287,510
Franchise revenue	228,255	-	228,255
Restricted investment earnings	1,417	-	1,417
Unrestricted investment earnings	60,431	3,185	63,616
Gain on sale of capital assets	176,286	-	176,286
Transfers	665,271	(665,271)	-
Contribution to endowment	6,961	-	6,961
Total general revenues, transfers and contributions	<u>13,576,158</u>	<u>(662,086)</u>	<u>12,914,072</u>
Change in net position	5,547,813	2,921,745	8,469,558
Restated net position, beginning of year	<u>51,184,364</u>	<u>49,561,678</u>	<u>100,746,042</u>
Net position, end of year	<u>\$ 56,732,177</u>	<u>\$ 52,483,423</u>	<u>\$ 109,215,600</u>

The accompanying notes are an integral part of these financial statements.

Component Units	
Downtown Development Authority	Light and Power
\$ (3,096,024)	\$ (2,225,615)
63,590	-
2,078,593	-
-	-
-	-
-	-
426	(285,545)
-	-
-	-
-	-
<u>2,142,609</u>	<u>(285,545)</u>
(953,415)	(2,511,160)
<u>8,283,284</u>	<u>73,356,650</u>
<u>\$ 7,329,869</u>	<u>\$ 70,845,490</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2013

	Special Revenue				Capital Projects
	General Fund	Major Streets Fund	Local Streets Fund	Boardman River Dam Removal & Restoration Fund	Capital Project
ASSETS					
Assets					
Cash and cash equivalents	\$ 4,398,456	\$ 81,820	\$ -	\$ -	\$ 1,211,671
Investments	1,628,540	-	-	-	79,427
Receivables					
Accounts	206,106	124	-	-	1,207,809
Taxes	-	-	-	-	-
Special assessments	-	-	-	-	-
Accrued interest	-	-	-	-	-
Due from other governments	206,744	161,003	42,816	172,917	668,713
Due from other funds	557,066	-	-	-	-
Due from component unit	170,268	-	-	-	-
Inventory	55,496	-	-	-	-
Prepaid items and other assets	41,928	-	-	-	-
Advances to other funds	850,000	-	-	-	-
Total assets	\$ 8,114,604	\$ 242,947	\$ 42,816	\$ 172,917	\$ 3,167,620
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 244,337	\$ 10,353	\$ 11,238	\$ 172,917	\$ 456,444
Accrued and other liabilities	288,999	7,475	9,366	-	-
Due to other funds	-	-	22,212	-	-
Deposits payable	105,061	-	-	-	-
Advance from component unit	-	-	-	-	-
Total liabilities	638,397	17,828	42,816	172,917	456,444
Deferred inflows of resources					
Unavailable revenue	11,121	-	-	-	142,112
Fund balance					
Nonspendable					
Inventory	55,496	-	-	-	-
Prepaid items	41,928	-	-	-	-
Advance to other funds	850,000	-	-	-	-
Brown Bridge trust	-	-	-	-	-
Cemetery perpetual care	-	-	-	-	-
Restricted					
Debt service	-	-	-	-	-
Streets and highways	-	225,119	-	-	-
Joint planning	-	-	-	-	-
Capital improvements	-	-	-	-	617,968
Public safety training	-	-	-	-	-
Public welfare or civic improvement organizations	-	-	-	-	-
Act 345 retirement	-	-	-	-	-
Committed					
Budget stabilization	750,000	-	-	-	-
Capital improvements	-	-	-	-	1,951,096
Unassigned	5,767,662	-	-	-	-
Total fund balance	7,465,086	225,119	-	-	2,569,064
Total liabilities, deferred inflows of resources and fund balance	\$ 8,114,604	\$ 242,947	\$ 42,816	\$ 172,917	\$ 3,167,620

The accompanying notes are an integral part of these financial statements.

Permanent		
Brown Bridge Trust Fund	Nonmajor Governmental Funds	Total
\$ 7,561,457	\$ 2,601,970	\$ 15,855,374
5,445,592	628,798	7,782,357
21,736	8,124	1,443,899
-	2,667	2,667
-	228,524	228,524
47,027	-	47,027
-	36,825	1,289,018
-	-	557,066
-	-	170,268
-	-	55,496
-	-	41,928
-	-	850,000
\$ 13,075,812	\$ 3,506,908	\$ 28,323,624

\$ -	\$ 5,560	\$ 900,849
-	1,522	307,362
79,560	45,507	147,279
-	-	105,061
-	10,998	10,998
79,560	63,587	1,471,549

-	230,503	383,736
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-	-	55,496
-	-	41,928
-	-	850,000
12,996,252	-	12,996,252
-	709,309	709,309
-	100	100
-	-	225,119
-	13,487	13,487
-	1,060,737	1,678,705
-	2,474	2,474
-	107,800	107,800
-	16,531	16,531
-	-	750,000
-	1,302,380	3,253,476
-	-	5,767,662
12,996,252	3,212,818	26,468,339

\$ 13,075,812	\$ 3,506,908	\$ 28,323,624
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The accompanying notes are an integral part of these financial statements.
Continued.....

CITY OF TRAVERSE CITY, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2013

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Position of Governmental Activities on the Statement of Net Position

Fund balances - total governmental funds	\$ 26,468,339
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	
Add: capital assets	81,193,741
Subtract: accumulated depreciation	(45,210,031)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures.	
Add: other postemployment benefits asset	198,404
Add: deferred inflows	383,736
Subtract: unavailable revenue	(24,818)
Internal service funds are used by management to charge the costs of certain equipment usage and employee benefits to individual funds. The assets and liabilities of the internal service fund are included in governmental and business-type activities in the statement of net position.	
Add: net position of governmental activities accounted for in internal service fund	8,013,441
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Add: deferred charges on refunding	353,493
Subtract: deferred bond premium - Hardy Deck	(29,188)
Subtract: deferred bond premium - Old Town Deck	(53,296)
Subtract: bonds payable	(13,945,000)
Subtract: compensated absences	(477,808)
Subtract: accrued interest on long-term liabilities	(138,836)
Net position of governmental activities	\$ 56,732,177

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	Special Revenue			Boardman River Dam Removal & Restoration Fund	Capital Projects
	General	Major Streets	Local Streets		Capital Project
Revenues					
Property taxes and special assessments	\$ 7,936,306	\$ -	\$ -	\$ -	\$ -
Licenses and permits	274,612	-	-	-	-
Federal sources	19,794	-	-	2,262,265	754,334
State sources	1,287,510	1,002,877	313,967	617,750	511,750
Local sources	1,629,623	-	-	-	-
Charges for services	469,617	-	-	-	-
Fines and forfeits	8,366	-	-	-	-
Contributions	115,956	-	-	-	2,514,282
Reimbursement	498,018	-	-	-	60,856
Interest income	49,348	96	-	-	1,343
Other revenue	365,743	-	-	-	2,670
Total revenues	12,654,893	1,002,973	313,967	2,880,015	3,845,235
Expenditures					
Current expenditures					
General government	2,754,975	-	-	-	-
Public safety	5,849,197	-	-	-	-
Public works	1,182,248	977,310	1,233,596	-	-
Culture and recreation	1,829,978	-	-	2,900,015	-
Capital outlay	-	11,239	-	-	4,589,186
Debt service					
Principal	-	-	-	-	-
Interest expense and fiscal charges	-	-	-	-	-
Total expenditures	11,616,398	988,549	1,233,596	2,900,015	4,589,186
Excess (deficiency) of revenues over expenditures	1,038,495	14,424	(919,629)	(20,000)	(743,951)
Other financing sources (uses)					
Sale of capital asset	-	-	-	-	289,080
Transfers in	1,010,334	-	919,629	20,000	1,391,680
Transfers out	(2,177,243)	-	-	-	-
Total other financing sources (uses)	(1,166,909)	-	919,629	20,000	1,680,760
Net change in fund balances	(128,414)	14,424	-	-	936,809
Fund balance, beginning of year	7,593,500	210,695	-	-	1,632,255
Fund balance, end of year	\$ 7,465,086	\$ 225,119	\$ -	\$ -	\$ 2,569,064

The accompanying notes are an integral part of these financial statements.

Permanent		
Brown Bridge Trust	Nonmajor Governmental Funds	Total
\$ -	\$ 1,708,255	\$ 9,644,561
-	-	274,612
-	236,261	3,272,654
-	5,187	3,739,041
-	1,879,650	3,509,273
298,294	41,897	809,808
-	-	8,366
-	41,117	2,671,355
-	-	558,874
2,214	6,588	59,589
-	-	368,413
300,508	3,918,955	24,916,546
-	191,798	2,946,773
-	1,563,775	7,412,972
-	-	3,393,154
-	-	4,729,993
-	252,355	4,852,780
-	1,285,000	1,285,000
-	597,401	597,401
-	3,890,329	25,218,073
300,508	28,626	(301,527)
-	-	289,080
-	-	3,341,643
(246,998)	(252,133)	(2,676,374)
(246,998)	(252,133)	954,349
53,510	(223,507)	652,822
12,942,742	3,436,325	25,815,517
\$ 12,996,252	\$ 3,212,818	\$ 26,468,339

Continued.....

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances - total governmental funds \$ 652,822

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	4,573,585
Subtract: construction in progress reclassified as expense	(12,500)
Subtract: depreciation expense	(1,431,641)
Subtract: proceeds from sale of assets	(289,080)
Add: gain on sale of assets	114,080

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Add: current principal debt payment	1,285,000
Subtract: amortization of deferred savings	(24,378)
Add: amortization of reoffering premium	15,227
Add: amortization of premium	2,013

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds, but rather are deferred to the following year.

Subtract: prior year deferred property taxes and special assessment receivables	(379,266)
Add: current year deferred property taxes and special assessment receivables	358,918

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in accrued interest payable	9,788
Add: decrease in the accrual of compensated absences	87,956
Add: increase in other postemployment benefits	50,331

Internal service funds are used by management to charge the costs of certain activities, such as equipment usage and employee benefits, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Add: interest income from governmental internal service fund	2,258
Add: other revenue from governmental internal service fund	90,864
Add: gain on disposal of capital assets in governmental internal service fund	62,206
Add: net operating income from governmental activities accounted for in internal service fund	379,630

Change in net position of governmental activities \$ 5,547,813

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities - Enterprise Funds		
	Wastewater	Water	Marina
Assets			
Current assets			
Cash and cash equivalents	\$ 90	\$ 1,656,170	\$ 182,049
Investments	-	456,429	-
Receivables			
Accounts	803,490	591,390	5,373
Other governments	-	-	59,690
Inventory	-	110,097	26,663
Prepaid cost and other assets	3,584	1,434	-
Total current assets	807,164	2,815,520	273,775
Noncurrent assets			
Other postemployment benefit	9,757	56,063	-
Capital assets not being depreciated	455,984	658,017	8,412,302
Capital assets being depreciated	23,907,745	6,457,929	1,278,837
Total noncurrent assets	24,373,486	7,172,009	9,691,139
Total assets	25,180,650	9,987,529	9,964,914
Liabilities			
Current liabilities			
Accounts payable	25,067	53,465	51,647
Accrued and other liabilities	92,781	45,908	7,322
Due to other funds	139,823	75,465	25,888
Current portion of long-term debt	1,129,777	4,545	275
Total current liabilities	1,387,448	179,383	85,132
Long-term liabilities			
Advance from component unit	-	-	375,000
Advance from other funds	-	-	850,000
Long-term debt, net of current portion	9,176,516	-	-
Compensated absences	23,443	40,394	5,972
Unearned revenue	-	-	-
Total long-term liabilities	9,199,959	40,394	1,230,972
Total liabilities	10,587,407	219,777	1,316,104
Deferred inflows			
Deferred refunding - capital lease	489,248	-	-
Net Position			
Investment in capital assets, net of related debt	14,057,436	7,111,401	8,465,864
Unrestricted	46,559	2,656,351	182,946
Total net position	\$ 14,103,995	\$ 9,767,752	\$ 8,648,810

The accompanying notes are an integral part of these financial statements.

Automobile Parking System	Total	Governmental Activities - Internal Service Fund
\$ 3,212,216	\$ 5,050,525	\$ 2,670,895
27,787	484,216	-
2,765	1,403,018	3,343
-	59,690	-
-	136,760	202,272
-	5,018	-
3,242,768	7,139,227	2,876,510
936	66,756	27,692
1,115,326	10,641,629	-
15,833,422	47,477,933	5,248,194
16,949,684	58,186,318	5,275,886
20,192,452	65,325,545	8,152,396
51,797	181,976	24,505
47,133	193,144	35,271
168,611	409,787	-
-	1,134,597	-
267,541	1,919,504	59,776
-	375,000	-
-	850,000	-
-	9,176,516	-
1,330	71,139	39,402
492	492	-
1,822	10,473,147	39,402
269,363	12,392,651	99,178
-	489,248	-
16,948,748	46,583,449	5,248,194
2,974,341	5,860,197	2,805,024
\$ 19,923,089	\$ 52,443,646	\$ 8,053,218

Continued.....

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Net Position
Proprietary Funds
June 30, 2013

**Reconciliation of Net Position on the Statement of Net Position for Enterprise
Funds to Net Position of Business-Type Activities on the Statement of Net
Position**

Net position - total enterprise funds \$ 52,443,646

Amounts reported for business-type activities in the statement of net position
are different because:

Internal service funds are used by management to charge the costs of certain equipment usage
to individual funds. The assets and liabilities of the internal service fund are included in
governmental and business-type activities in the statement of net position.

Add: cumulative portion of internal service fund net operating gain attributed to
business-type activities

39,777

Net position of business-type activities

\$ 52,483,423

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Revenues, Expenses
and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Wastewater</u>	<u>Water</u>	<u>Marina</u>
Operating revenues			
State sources	\$ 24,391	\$ 50,583	\$ -
Charges for services	5,838,061	3,656,114	500,318
Interdepartmental	-	-	-
Contributions	-	11,217	-
Other revenue	205,116	92,788	116,099
Total operating revenues	<u>6,067,568</u>	<u>3,810,702</u>	<u>616,417</u>
Operating expenses			
Personnel services	641,296	1,066,349	114,473
Commodities	27,313	290,692	12,876
Contractual services	2,449,844	214,883	216,981
Other charges	166,770	363,261	159,986
Depreciation and amortization	620,032	259,188	120,101
Total operating expenses	<u>3,905,255</u>	<u>2,194,373</u>	<u>624,417</u>
Operating income (loss)	<u>2,162,313</u>	<u>1,616,329</u>	<u>(8,000)</u>
Nonoperating revenues (expenses)			
State sources	-	-	59,690
Reimbursements	-	1,168	-
Interest income	264	988	131
Other revenue	-	-	-
Interest expense and fiscal charges	(386,222)	(12,500)	(26,390)
(Loss) on sale of capital assets	(44,293)	-	-
Total nonoperating revenues (expenses)	<u>(430,251)</u>	<u>(10,344)</u>	<u>33,431</u>
Income before transfers	<u>1,732,062</u>	<u>1,605,985</u>	<u>25,431</u>
Transfers out	<u>(287,307)</u>	<u>(183,465)</u>	<u>(25,888)</u>
Change in net position	<u>1,444,755</u>	<u>1,422,520</u>	<u>(457)</u>
Net position, beginning of year	<u>12,659,240</u>	<u>8,345,232</u>	<u>8,649,267</u>
Net position, end of year	<u><u>\$ 14,103,995</u></u>	<u><u>\$ 9,767,752</u></u>	<u><u>\$ 8,648,810</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Automobile Parking System</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ -	\$ 74,974	\$ -
1,603,486	11,597,979	-
-	-	2,764,350
-	11,217	-
65,600	479,603	-
<u>1,669,086</u>	<u>12,163,773</u>	<u>2,764,350</u>
76,530	1,898,648	692,144
7,633	338,514	689,920
543,378	3,425,086	107,592
492,493	1,182,510	141,728
423,700	1,423,021	681,952
<u>1,543,734</u>	<u>8,267,779</u>	<u>2,313,336</u>
125,352	3,895,994	451,014
-	59,690	-
25,000	26,168	-
1,802	3,185	2,258
-	-	90,864
-	(425,112)	-
-	(44,293)	62,206
<u>26,802</u>	<u>(380,362)</u>	<u>155,328</u>
<u>152,154</u>	<u>3,515,632</u>	<u>606,342</u>
(168,611)	(665,271)	-
<u>(16,457)</u>	<u>2,850,361</u>	<u>606,342</u>
19,939,546	49,593,285	7,446,876
<u>\$ 19,923,089</u>	<u>\$ 52,443,646</u>	<u>\$ 8,053,218</u>

Continued.....

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2013

**Reconciliation of the Statement of Revenues, Expenses and Changes
in Net Position of Enterprise Funds to the Statement of Activities**

Change in net position - total enterprise funds \$ 2,850,361

Internal service funds are used by management to charge the costs of certain equipment usage to individual funds. The net revenue (expense) attributable to enterprise funds is reported with business-type activities.

Add: net operating income of the internal service fund attributable to business-type activities

71,384

Change in net position of business-type activities

\$ 2,921,745

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type - Enterprise Funds		
	Wastewater	Water	Marina
Cash flows from operating activities			
Cash received from customers	\$ 6,010,011	\$ 3,803,628	\$ 612,714
Cash received from interfund services	-	-	-
Cash payments to suppliers for goods and services	(2,617,625)	(888,933)	(404,392)
Cash payments to employees for services	(654,330)	(1,087,862)	(114,760)
Net cash provided by operating activities	2,738,056	1,826,833	93,562
Cash flows from non-capital financing activities			
Cash payments from (to) other funds	(303,447)	9,904	(75,774)
Cash payments for city fee	(287,307)	(183,465)	(25,888)
Cash received from reimbursements	-	1,168	-
Cash received from other revenue	-	-	-
Net cash provided by (used in) non-capital financing activities	(590,754)	(172,393)	(101,662)
Cash flows from capital and related financing activities			
Cash payments from state government	24,391	50,583	-
Principal payments	(1,194,158)	(245,455)	275
Interest payments	(400,771)	(15,000)	(26,390)
Purchases of capital assets	(576,965)	(256,146)	2,784
Net cash (used in) capital and related financing activities	(2,147,503)	(466,018)	(23,331)
Cash flows from investing activities			
Interest received	264	1,790	131
Sale of investments	-	1,481	-
Net cash provided by investing activities	264	3,271	131
Net increase (decrease) in cash and cash equivalents	63	1,191,693	(31,300)
Cash and cash equivalents, beginning of year	27	464,477	213,349
Cash and cash equivalents, end of year	\$ 90	\$ 1,656,170	\$ 182,049
Statement of net position classification of cash and cash equivalents			
Cash and cash equivalents	\$ 90	\$ 1,656,170	\$ 182,049

The accompanying notes are an integral part of these financial statements.

<u>Automobile Parking System</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 1,669,127	\$ 12,095,480	\$ -
-	-	2,764,406
(1,074,046)	(4,984,996)	(973,790)
(75,624)	(1,932,576)	(697,174)
519,457	5,177,908	1,093,442
9,990	(359,327)	-
(168,611)	(665,271)	-
25,000	26,168	-
-	-	90,864
(133,621)	(998,430)	90,864
-	74,974	-
-	(1,439,338)	-
-	(442,161)	-
(191,486)	(1,021,813)	(987,186)
(191,486)	(2,828,338)	(987,186)
1,802	3,987	2,258
1,728	3,209	-
3,530	7,196	2,258
197,880	1,358,336	199,378
3,014,336	3,692,189	2,471,517
\$ 3,212,216	\$ 5,050,525	\$ 2,670,895
<u>\$ 3,212,216</u>	<u>\$ 5,050,525</u>	<u>\$ 2,670,895</u>

Continued.....

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Business-type - Enterprise Funds</u>		
	<u>Wastewater</u>	<u>Water</u>	<u>Marina</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 2,162,313	\$ 1,616,329	\$ (8,000)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	620,032	259,188	120,101
Grant revenue reported as capital financing	(24,391)	(50,583)	-
Changes in assets and liabilities			
Accounts receivables	(33,166)	43,509	(3,703)
Prepaid cost and other assets	2,296	(5,857)	197
Inventory	-	(2,920)	1,915
Accounts payable	15,270	(20,056)	(16,661)
Accrued and other liabilities	(4,298)	(12,777)	(287)
Net cash provided by operating activities	<u>\$ 2,738,056</u>	<u>\$ 1,826,833</u>	<u>\$ 93,562</u>

The accompanying notes are an integral part of these financial statements.

<u>Automobile Parking System</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 125,352	\$ 3,895,994	\$ 451,014
423,700	1,423,021	681,952
-	(74,974)	-
41	6,681	56
97	(3,267)	(3,123)
-	(1,005)	(15,345)
(30,639)	(52,086)	(20,293)
906	(16,456)	(819)
<u>\$ 519,457</u>	<u>\$ 5,177,908</u>	<u>\$ 1,093,442</u>

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Pension and Other Postemployment Benefit Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 6,232,448	\$ 79,036
Investments, at fair value		
U.S. Government Agencies bonds and notes	3,219,012	-
Mortgage bonds	100,949	-
Common stock	4,786,092	-
Mutual funds	9,235,127	-
Corporate bonds	1,814,584	-
Direct real estate investments	850,000	-
MERS total market fund	1,518,996	-
Receivables		
Accounts	-	59,132
Taxes	-	115,826
Other	1,423,691	-
Accrued interest	38,892	-
Due from other funds	908,965	-
	30,128,756	\$ 253,994
Liabilities		
Accrued and other liabilities	3,589	\$ 67,015
Due to other governmental units	908,965	186,979
	912,554	\$ 253,994
Net Position		
Held in trust for pension benefits and other postemployment benefits	\$ 29,216,202	

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2013

		Pension and Other Postemployment Benefit Funds
Additions		
Contributions		
City contributions	\$	2,189,460
Employee contributions		74,264
		<hr/>
Total contributions		2,263,724
		<hr/>
Investment earnings		
Investment income		414,937
Net appreciation in fair value of investments		2,526,192
		<hr/>
Net investment earnings		2,941,129
		<hr/>
Total additions		5,204,853
		<hr/>
Deductions		
Pension benefits paid		1,872,620
Health insurance premiums paid		333,534
Administrative expense		21,400
Investment advisor fees		111,802
		<hr/>
Total deductions		2,339,356
		<hr/>
Transfers		
Agency fund assets transferred to Act 345 Health Insurance Trust		4,107,617
		<hr/>
Net decrease in plan assets attributable to pension plan	2,399,690	
Net increase in plan assets attributable to health insurance	4,573,424	6,973,114
	<hr/>	<hr/>
Net position held in trust, beginning of year		22,243,088
		<hr/>
Net position held in trust, end of year, attributable to pension plan	22,910,305	
Net position held in trust, end of year, attributable to health insurance	6,305,897	\$ 29,216,202
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY, MICHIGAN

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June 30, 2013

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CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The *City of Traverse City* (the "City") was incorporated in 1895. The City operates under a commission-manager form of government and provides the following services as authorized by its charter: general government/administrative services, public safety, public works, parks and recreation, planning and zoning and public improvements.

Discretely presented component units

The City has adopted the position of the Governmental Accounting Standards Board (GASB) regarding the definition of the "reporting entity".

The following component units are included in the City's reporting entity.

Downtown Development Authority (the "DDA")

- Includes the DDA General Fund and the Tax Incremental Financial Districts #2 and #97 Special Revenue Funds

Traverse City Light and Power (the "Department")

- Includes the Light and Power Enterprise Fund and the Fiber Enterprise Fund

These discretely presented component units are presented in the statement of net position and statement of activities. They are legally separate, and while the City is not responsible for the operations of the entities, the City is financially accountable for them. In addition, the City appoints the DDA's Board of Trustees and the Department's Board of Directors. The nature and significance of the relationship between these entities and the City is such that exclusion of these entities would render the basic financial statements misleading or incomplete.

Complete financial statements of the individual component units can be obtained from the City Treasurer's Office at 400 Boardman Avenue, Traverse City, Michigan 49684, or from the entities themselves.

Other entities with which the City does not have such relationships are:

Traverse Area District Library

City of Traverse City and Garfield Township Recreational Authority

Traverse City Housing Commission

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The boards of these entities are independent of the City or the City has no significant operational or financial relationship with these entities. Accordingly, the financial statements for these entities have been excluded from the accompanying financial statements.

Joint operation

The City entered into a master sewer agreement effective July 1, 1987 and amended July 1, 2001 to continue until June 30, 2041 with the Townships of East Bay, Acme, Peninsula, and Garfield in Grand Traverse County and the Township of Elmwood in Leelanau County. The master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City is the owner of all multi-user facilities. Ownership of the treatment plant will revert to the City when certain bonds issued by Grand Traverse County are retired.

The City is the exclusive manager of the plant for the benefit of itself and the Townships. As the exclusive manager, the City has the obligation to fully inform and advise the Townships as to the treatment plant's operation and the Townships shall have the right to comment on all matters connected with the administration of the plant.

Each participant in the joint venture pays an amount sufficient to cover their pro rata share of treatment plant operational costs. Each participant's pro rata share is determined by their volume of sewage treated in relation to total sewage treated at the plant.

The City is responsible for debt service on the 2003 and 1998 capital leases listed in Note IIF as determined biannually based upon the percentage of the City's flow to the total flow through the treatment plant. For the biannual period ending December 31, 2012, the City's percentage was forty-nine percent. The City is responsible for debt service on the 2011 capital lease listed in Note IIF based on capacity rights. The City's capacity right is sixty percent of the related facilities for which they have elected to lease out ten percent of these rights to Townships.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

separate *component units* for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within sixty days of the end of the current fiscal period. Grant revenue, state-shared revenue, and interest associated with the current fiscal period are considered to be available if they are collected within the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *Major Streets Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street improvement purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street improvement purposes.

The *Boardman River Dam Removal and Restoration Fund* was created to remove the Boardman Dam and to reinstate the Boardman river to its natural state.

The *Capital Projects Fund* accounts for transfers from the General Fund and various grants for miscellaneous equipment transactions, property development and construction projects.

The *Brown Bridge Trust Fund* accounts for funds derived from oil, gas and mineral exploration at the Brown Bridge property which shall be endowed in a permanent trust. The income from the endowment is used to supplement City taxes as a reduction in the General Fund property tax levy.

The government reports the following major proprietary funds:

The *Wastewater Fund* accounts for the activities of the wastewater disposal and treatment system.

The *Water Fund* accounts for the activities of the water distribution and treatment system.

The *Marina Fund* accounts for the activities of the marina operations.

The *Automobile Parking System Fund* accounts for the activities of the parking system.

Additionally, the government reports the following fund types:

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The *debt service funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The *capital project funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *permanent fund* accounts for and reports resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. The income is transferred to the General Fund to subsidize cemetery operations.

The *internal service fund* accounts for fleet and equipment management provided to other departments or agencies of the government, on a cost reimbursement basis.

The *pension and other postemployment benefit trust fund* accounts for the activities of the public safety employees pension and postemployment benefits and the City's general employees postemployment benefits.

The *agency funds* account for assets held for other governments and individuals in an agency capacity, specifically tax collections, accounts for the activities of the retiree health insurance plans that are not accounted for in the trust funds and payroll fringes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for the government's water and wastewater function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater, Water, Marina, and Automobile Parking System enterprise funds, the discretely presented component unit (Light and Power) and the City's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

expenses for enterprise funds and the internal service fund include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net position or equity

1. *Deposits and investments*

The City's cash and cash equivalents include cash on hand, demand and time deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" except if they are noncurrent then they are reported as "advance from/advance to." The advances reported in governmental funds are offset by a fund balance nonspendable account indicating these financial resources are not expendable and are not available for appropriation. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. *Inventory*

Inventory held by the General Fund is valued on the first-in, first-out basis. Enterprise and internal service funds value inventory at average cost, except for fuel, which is valued on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost of expendable supply inventories has been treated as an expenditure at the time of purchase.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities, business-type activities, or component unit columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. The amount reported for infrastructure includes assets acquired or constructed since 1985.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	10-50
Public domain infrastructure	10-50
System infrastructure	10-50
Land improvements	10-50
Vehicles	7-25
Equipment	5-10

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

6. Deferred outflows/inflows of resources

In addition to assets, the statement of net position and the governmental funds balance sheet, when applicable, will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position/fund balance that applies to future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the City has items of this type that qualify as deferred outflows of resources.

In addition to liabilities, the statement of net position and the balance sheet, when applicable, will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position/fund balance that applies to future period and so will not be recognized as an inflow of resources (revenue) until then. Currently, the City has items of this type that qualify as deferred inflows of resources.

7. Compensated absences

City employees are granted vacation hours on their anniversary date of hire. The number of hours is dependent upon years of service. Unused vacation pay is accrued year-end.

Until 1990, sick leave hours were credited to each employee as earned during a calendar year. Bargaining and non-bargaining employees are compensated for one-half of their unused accumulated sick leave hours up to a maximum of 480 hours (or 1,080 hours for Fire Department employees) upon retirement.

Since 1990, short-term leave pay has replaced sick leave pay for all employees. Each employee is entitled to 56 hours of short-term leave pay per year on December 1. Unused short-term leave accumulated at November 30 is paid out on the first non-payroll Friday in December. The City accrues unused short-term leave at its fiscal year-end.

All vacation and short-term leave is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

8. *Long-term obligations*

In the government-wide financial statements, and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as an other financing source while discounts on debt issuances are reported as an other financing use. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. *Fund Equity*

In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resource by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, the City Commission. A formal resolution by the City Commission is required to establish, modify or rescind a fund balance commitment. Assigned fund balance is reported for amounts intended for specific purposes expressed by the governing body. Unassigned fund balance is the residual classification for the General Fund.

The City Commission has formally established a budget stabilization arrangement through City ordinance pursuant to Public Act 30 of 1978. The interest on investments earned in this fund is used to subsidize the General Fund operations. The money restricted in the Budget Stabilization Fund cannot exceed the smaller of 15% of the City's General Fund budget for the most recent year or an average of the five most recent years. Monies in this fund may be used to cover a General Fund deficit, prevent a reduction in the level of public services or to cover the expenses of a natural disaster. However, these monies are not to be used as a part of a general capital improvement program. For financial statement purposes the Budget Stabilization Fund has been combined with the General Fund.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; external investment pools as authorized by Public Act 20 as amended; and long-term or perpetual trust funds consisting of money and royalties or money derived from oil and gas exploration as property or mineral rights owned by the City, or a special revenue fund consisting of payments for park operations and maintenance has the same authority to invest the assets as is authorized by Public Act 314 as amended.

The City Commission has designated any bank in Michigan for the deposit of City funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, interest bearing savings and checking accounts, repurchase agreements, bankers' acceptance of United States banks, federal agency instruments, money market funds with a net asset value of \$1.00 per share, commercial paper within the two highest classifications and negotiable and non-negotiable certificates of deposits, but not the remainder of State statutory authority as listed above.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The City's deposits and investment policy is in accordance with statutory authority.

Cash and cash equivalents, investments and restricted assets are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 18,526,269	\$ 5,050,525	\$ 6,311,484	\$ 29,888,278	\$ 4,274,141
Investments	<u>7,782,357</u>	<u>484,216</u>	<u>21,524,760</u>	<u>29,791,333</u>	<u>21,174,273</u>
Total	<u>\$ 26,308,626</u>	<u>\$ 5,534,741</u>	<u>\$ 27,836,244</u>	<u>\$ 59,679,611</u>	<u>\$ 25,448,414</u>

Cash and cash equivalents reported above include \$7,973 of cash on hand that is not considered deposits or investments for footnote purposes.

The breakdown between cash and investments is as follows:

Petty cash	\$ 7,973
City and component unit bank deposits (checking, savings accounts and certificates of deposit)	41,778,817
City and component unit investments	19,896,614
Pension and other postemployment benefit fund - deposits	1,919,861
Pension and other postemployment benefit fund - investments	<u>21,524,760</u>
Total	<u>\$ 85,128,025</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Investments

The City chooses to disclose its investments by specifically identifying each. Investment ratings were provided by Standard & Poor's. The City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury note	08/15/2013	\$ 1,005,160	AA+
US Treasury note	08/31/2013	165,832	AA+
US Treasury note	08/31/2013	95,479	AA+
US Treasury note	09/30/2013	100,750	AA+
US Treasury note	11/15/2013	1,015,350	AA+
US Treasury note	02/15/2014	255,995	AA+
US Treasury note	05/15/2014	311,895	AA+
US Treasury note	09/30/2014	1,026,800	AA+
US Treasury note	12/31/2014	1,035,470	AA+
US Treasury note	07/31/2016	807,893	AA+
US Treasury note	07/31/2016	134,649	AA+
US Treasury note	07/31/2016	80,789	AA+
US Treasury note	12/05/2016	494,590	AA+
US Treasury note	12/31/2016	973,899	AA+
US Treasury note	12/31/2016	54,105	AA+
US Treasury note	03/31/2017	1,000,940	AA+
US Treasury note	10/30/2017	495,305	AA+
US Treasury note	10/31/2017	490,585	AA+
US Treasury note	10/31/2017	147,175	AA+
US Treasury note	06/30/2018	524,065	AA+
US Treasury note	02/15/2020	446,220	AA+
US Treasury note	02/15/2020	557,775	AA+
US Treasury note	02/15/2021	27,787	AA+
US Treasury note	02/06/2023	1,454,265	AA+
US Treasury note	03/13/2023	686,126	AA+
US Treasury note	03/20/2023	477,395	AA+
US Treasury note	03/21/2023	947,610	AA+
US Treasury note	08/27/2027	920,220	AA+
US Treasury note	10/29/2027	665,623	AA+
US Treasury note	01/15/2028	933,170	AA+
US Treasury note	02/14/2028	464,790	AA+
MPPA Investments	Various	1,921,638	Unrated
Michigan CLASS pool	N/A	<u>177,269</u>	AAAm
Total		<u>\$ 19,896,614</u>	

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year end, \$12,507,337 of the City's bank balance of \$44,816,931 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with the City's investment policy the City 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 allowed by the policy. In addition, the City Treasurer will prequalify all financial institutions, broker/dealers, intermediaries and advisors with which the City will do business by subjecting them to certain criteria. Of the above \$19,896,614 of investments, the City has a custodial credit risk exposure of \$17,797,707 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. The custodial credit risk for balances in investment pools cannot be determined because the investments are not evidenced by specific identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All of the City's investments are identified above.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Deposits and Investments – Pension and Other Postemployment Benefit Funds

The City maintains a pension trust fund and a postemployment benefit trust fund where deposits and investments are maintained separately from the City's pooled cash and investments, and are subject to separate investment policies and State statutes. Accordingly, the required disclosures for the trust funds' deposits and investments are presented separately.

Deposits – The fund maintains a checking account with a bank balance of \$1,580,543 with deposits collateralized and a money market account in the pension fund trust account with a balance of \$337,058 with deposits not insured or collateralized.

Investments – The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314, of 1965, as amended, authorizes pension and postemployment benefit trusts to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Pension Trust Fund accounts for the pension activities of the City's public safety employees and the investments are managed by the ACT 345 Retirement Board ("Retirement Board"). The Postemployment Benefit Trust accounts for the activities of the general municipal employees and investments are managed by the Municipal Employees Retirement System ("MERS"). These two combined are referred to as the "Systems". The Retirement Board, which is made up of the City Treasurer, an active fire and police member, and two additional members appointed by the City Manager has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the Pension Trust Fund's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

The trust funds' investments are held in a bank-administered trust fund and a MERS money market account. Following is a summary of the System's investments as of June 30, 2013:

Investments at fair value, as determined	
by quoted market price	
U.S. government agency bonds and notes	\$ 3,219,012
Mortgage bonds	100,949
Domestic equities	
Mutual funds	9,235,127
Common stock	4,786,092
Domestic corporate securities -	
Corporate bonds	1,814,584
MERS total market fund	1,518,996
Direct real estate investments	<u>850,000</u>
Total investments	<u>\$ 21,524,760</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Credit Risk. The Pension Trust Fund's investment policy provides that its investments in fixed income securities should have an investment grade rating by two nationally recognized statistical rating organizations. As of June 30, 2013, the funds investments in bonds, notes and asset backed securities were rated by Moody's as follows:

<u>Rating</u>	<u>Fair Value</u>
AA+	\$ 3,369,229
A1	72,479
A2	75,874
A3	177,431
AA1	58,321
AA2	69,907
AA3	67,427
B1	21,550
BA1	112,583
BA3	99,653
BAA1	237,211
BAA2	525,335
BAA3	<u>247,545</u>
	<u>\$ 5,134,545</u>

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, Systems will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The trust funds' investment policies require that investment securities be held in the name of the Systems, in the name of the nominee of the custodian, or in bearer form. Of the above \$18,916,230 of investments, the City has a custodial credit risk exposure of \$5,134,545 because the related securities are uninsured, unregistered and held by PNC, the Systems' custodians. Custodial credit risk for investments in mutual funds cannot be determined because the investments are not evidenced by specifically identifiable securities.

Concentration of Credit Risk. The trust funds' investment policies require that the securities of any one issuer excluding investments explicitly guaranteed by the U.S. Government and investment in mutual funds, external investment pools, and other pooled investments should not exceed 5% of the total investment market value of each individual pension trust fund. At June 30, 2013, there were no concentrations in securities of any one issuer greater than 5% of investment fair market value.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk. As of June 30, 2013, maturities of the trust funds' debt securities were as follows:

	Investment Maturities (fair value by years)				
	Total	Less Than 1	1-5	6-10	More Than 10
U.S. government agency bonds and notes	\$1,080,526	\$ -	\$ -	\$ -	\$1,080,526
U.S. Treasury bonds	2,138,486	-	1,419,376	438,169	280,941
Mortgage bonds	100,949	-	-	-	100,949
Corporate bonds	<u>1,814,584</u>	<u>-</u>	<u>433,114</u>	<u>1,022,962</u>	<u>358,508</u>
Total debt securities	<u>\$5,134,545</u>	<u>\$ -</u>	<u>\$ 1,852,490</u>	<u>\$ 1,461,131</u>	<u>\$ 1,820,924</u>

The trust funds' investment policies do not address interest rate risk.

B. Receivables

Receivables in the governmental activities consist of 43 percent due from other governments, 8 percent special assessments receivable, 1 percent interest receivable and 48 percent other receivables. Receivables in the business-type activities consist of 19 percent due from other governments, 70 percent due from customers, and 11 percent of other receivables. Receivables in the component units consist of 55 percent due from other governments, 41 percent due from customers, 1 percent note receivable, 1 percent interest receivable, and 2 percent other receivables.

Accounts receivable in the Wastewater and Water Enterprise Funds are net of allowances in the amounts of \$14,806 and \$6,339, respectively. Accounts receivable in the Light and Power discrete component unit is net of allowances in the amount of \$263,054.

Special assessments receivables in the governmental activities of \$171,164 are not expected to be collected within one year.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity for the year ended June 30, 2013 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 11,466,376	\$ -	\$ 175,000	\$ 11,291,376
Construction in progress	<u>2,559,611</u>	<u>4,582,868</u>	<u>1,036,680</u>	<u>6,105,799</u>
Total capital assets not being depreciated	<u>14,025,987</u>	<u>4,582,868</u>	<u>1,211,680</u>	<u>17,397,175</u>
Capital assets being depreciated				
Land improvements	4,143,276	26,482	-	4,169,758
Infrastructure	43,335,290	778,438	111,230	44,002,498
Buildings	16,018,808	192,966	-	16,211,774
Equipment	<u>13,222,305</u>	<u>1,148,005</u>	<u>322,803</u>	<u>14,047,507</u>
Total capital assets being depreciated	<u>76,719,679</u>	<u>2,145,891</u>	<u>434,033</u>	<u>78,431,537</u>
Less accumulated depreciation for				
Land improvements	642,658	91,869	6,127	728,400
Infrastructure	34,834,563	736,777	111,230	35,460,110
Buildings	8,735,942	510,690	-	9,246,632
Equipment	<u>8,622,482</u>	<u>780,382</u>	<u>241,198</u>	<u>9,161,666</u>
Total accumulated depreciation	<u>52,835,645</u>	<u>2,119,718</u>	<u>358,555</u>	<u>54,596,808</u>
Total capital assets being depreciated, net	<u>23,884,034</u>	<u>26,173</u>	<u>75,478</u>	<u>23,834,729</u>
Governmental activities capital assets, net	<u>\$ 37,910,021</u>	<u>\$ 4,609,041</u>	<u>\$ 1,287,158</u>	<u>\$ 41,231,904</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 1,204,786	\$ -	\$ -	\$ 1,204,786
Land improvements	8,416,432	-	-	8,416,432
Construction in progress	<u>490,556</u>	<u>945,329</u>	<u>415,474</u>	<u>1,020,411</u>
Total capital assets not being depreciated	<u>10,111,774</u>	<u>945,329</u>	<u>415,474</u>	<u>10,641,629</u>
Capital assets being depreciated				
Buildings and improvements	35,086,247	-	-	35,086,247
Other improvements	20,882,738	193,267	-	21,076,005
Machinery and equipment	<u>12,748,449</u>	<u>298,692</u>	<u>33,365</u>	<u>13,013,776</u>
Total capital assets being depreciated	<u>68,717,434</u>	<u>491,959</u>	<u>33,365</u>	<u>69,176,028</u>
Less accumulated depreciation for				
Buildings and improvements	11,528,714	692,352	-	12,221,066
Other improvements	3,901,807	519,026	-	4,420,833
Machinery and equipment	<u>4,840,401</u>	<u>225,289</u>	<u>9,494</u>	<u>5,056,196</u>
Total accumulated depreciation	<u>20,270,922</u>	<u>1,436,667</u>	<u>9,494</u>	<u>21,698,095</u>
Total capital assets being depreciated, net	<u>48,446,512</u>	<u>(944,708)</u>	<u>23,871</u>	<u>47,477,933</u>
Business-type activities capital assets, net	<u>\$ 58,558,286</u>	<u>\$ 621</u>	<u>\$ 439,345</u>	<u>\$ 58,119,562</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Light and Power				
Component Unit –				
Capital assets not being depreciated				
Land	\$ 1,309,430	\$ -	\$ -	\$ 1,309,430
Construction in progress	685,751	6,161,673	2,325,547	4,521,877
Total capital assets not being depreciated	1,995,181	6,161,673	2,325,547	5,831,307
Capital assets being depreciated				
Buildings and improvements	4,411,485	25,815	6,325	4,430,975
Equipment and distribution system	54,056,326	2,383,298	213,586	56,226,038
Fiber system	1,694,811	10,908	-	1,705,719
Total capital assets being depreciated	60,162,622	2,420,021	219,911	62,362,732
Less accumulated depreciation for				
Buildings and improvements	1,104,368	132,732	1,991	1,235,109
Equipment and distribution system	19,610,624	1,746,158	213,587	21,143,195
Fiber system	330,064	87,222	-	417,286
Total accumulated depreciation	21,045,056	1,966,112	215,578	22,795,590
Total capital assets being depreciated, net	39,117,566	453,909	4,333	39,567,142
Light and Power				
Component Unit				
capital assets, net	\$ 41,112,747	\$ 6,615,582	\$ 2,329,880	\$ 45,398,449

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 57,376
Public safety	144,794
Public works, including depreciation of general infrastructure assets	745,497
Recreation and culture	490,099
Capital assets held by the government's internal service fund are charged to the various functions based on their usage of the assets	<u>681,952</u>

Total depreciation expense – governmental activities **\$2,119,718**

Business-type activities

Wastewater	\$ 620,032
Water	259,188
Marina	120,101
Auto parking	<u>423,700</u>

Total depreciation expense – business-type activities **\$1,423,021**

Component unit activities

Light and power	<u>\$1,966,112</u>
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Business-type activity depreciation expense varies from increases in accumulated depreciation by \$13,646 because of adjustments to accumulated depreciation for assets disposed of in prior years.

D. Accounts payable and accrued expenses

Accounts payable and accrued expenses in the governmental activities consist of 61 percent vendor payables, 22 percent accrued salaries, 9 percent accrued interest, 7 percent customer deposits and 1 percent other liabilities. Business-type activities accounts payable and accrued expenses consist of 48 percent vendor payables, 19 percent accrued salaries, 18 percent accrued interest, 14 percent customer deposits and 1 percent other liabilities. Component units accounts payable and accrued expenses consist of 82 percent vendor payables, 4 percent accrued salaries, 4 percent customer deposits and 10 percent other liabilities.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

E. Interfund receivables, payables and transfers

	<u>Due from other funds</u>
	General Fund
<u>Due to other funds</u>	
Local Streets Fund	\$ 22,212
Brown Bridge Trust Fund	79,560
Nonmajor Governmental Funds	45,507
Wastewater Fund	139,823
Water Fund	75,465
Marina Fund	25,888
Automobile Parking System Fund	<u>168,611</u>
Total	<u>\$ 557,066</u>
	<u>Advance to other funds</u>
	General Fund
<u>Advance from other funds</u>	
Marina Fund	<u>\$ 850,000</u>
	<u>Due from component unit</u>
	General Fund
<u>Due to primary government</u>	
Light and Power	<u>\$ 170,268</u>
	<u>Advance to primary government</u>
	Light & Power
<u>Advance from component unit</u>	
Nonmajor Governmental Funds	\$ 10,998
Marina Fund	<u>375,000</u>
Total	<u>\$ 385,998</u>

Interfund receivables and payables are established to: (1) cover cash deficits, (2) to record a receivable for the year end transfer of interest revenue to the General Fund, (3) to finance projects, and (4) to record city fee owed to the General Fund.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	Transfer Out				Total
	General Fund	Local Streets Fund	Capital Projects Fund	Non-major Governmental Fund	
Transfer in					
General Fund	\$ (154,068)	\$ 919,629	\$ 1,391,680	\$ 20,000	\$ 2,177,241
Brown Bridge Trust Fund	246,998	-	-	-	246,998
Non-major Governmental Fund	252,133	-	-	-	252,133
Wastewater Fund	287,307	-	-	-	287,307
Water Fund	183,465	-	-	-	183,465
Marina Fund	25,888	-	-	-	25,888
Automobile Parking System Fund	168,611	-	-	-	168,611
Total	<u>\$ 1,010,334</u>	<u>\$ 919,629</u>	<u>\$ 1,391,680</u>	<u>\$ 20,000</u>	<u>\$ 3,341,643</u>

Interfund transfers are: (1) to transfer interest revenue to the General Fund, (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) to transfer the City fee mandated by the City Charter from the enterprise funds to the General Fund.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

F. Long-term debt and accrued compensated absences

The following is a summary of bond and lease transactions of the City for the year ended June 30, 2013:

	Primary Government			Total Primary Government
	Governmental Activities General Obligation Bonds	Business- Type Activities Lease Payable	Business- Type Activities Revenue Bonds	
Long-term debt at July 1, 2012	\$ 15,230,000	\$ 11,480,423	\$ 250,000	\$26,960,423
Reductions Principal	<u>(1,285,000)</u>	<u>(1,178,675)</u>	<u>(250,000)</u>	<u>(2,713,675)</u>
Long-term debt at June 30, 2013	<u>\$ 13,945,000</u>	<u>\$ 10,301,748</u>	<u>-</u>	<u>\$24,246,748</u>
Due within one year	<u>\$ 1,580,000</u>	<u>\$ 1,125,232</u>	<u>\$ -</u>	<u>\$ 2,698,093</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The following is a summary of accrued compensated absences of the City for the year ended June 30, 2013: For the governmental activities, compensated absences are generally liquidated by the General Fund.

	Primary Government			
	Governmental Activities	Business- Type Activities	Component Units	Total Reporting Entity
Accrued compensated absences at July 1, 2012	\$ 607,780	\$ 92,372	\$ 364,122	\$ 1,064,274
Additions	630,300	51,666	316,761	998,727
Reductions	<u>(720,870)</u>	<u>(63,534)</u>	<u>(394,193)</u>	<u>(1,178,597)</u>
Accrued compensated absences at June 30, 2013	<u>\$ 517,210</u>	<u>\$ 80,504</u>	<u>\$ 286,690</u>	<u>\$ 884,404</u>
Due within one year	<u>\$ 22,617</u>	<u>\$ 9,365</u>	<u>\$ 36,710</u>	<u>\$ 68,692</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Bond and lease obligations at June 30, 2013 are comprised of the following individual issues:

	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Outstanding Balance</u>
Primary Government			
Governmental Activities:			
General obligation Downtown Development Series 2009 – Parking Deck	2016	3.00-3.625%	\$4,015,000
General obligation Downtown Development Series 2007A – Parking Deck - Refund	2028	4.00-4.125	9,405,000
General obligation Downtown Development Series 2002B – Parking Deck	2017	6.30-6.50	525,000
Business-type Activities:			
2003 Wastewater Treatment Capital Lease Payable	2015	3.65-3.75	404,973
2011 Wastewater Treatment Capital Lease Payable	2022	4.00	<u>9,896,775</u>
Total Reporting Entity			<u>\$24,246,748</u>

The Wastewater Fund capital leases, which include the 2003 Wastewater Treatment and 2011 Wastewater Treatment, are directly related to bonds issued through Grand Traverse County (the "County"). The City records its share of County bonds as capital leases payable in accordance with the Michigan Committee on Governmental Accounting and Auditing Statement 10, as amended.

Capital assets held under capital leases are approximately \$23,015,000 net of accumulated depreciation of \$18,641,000 at June 30, 2013.

On April 1, 2011, the County issued \$20,385,000, in General Obligation Bonds (City's portion is the 2011 Wastewater Treatment Capital Lease Payable) with an average interest rate of 3.15% to advance refund their 2002 General Obligation Bond (City's portion is the 2002 Wastewater Treatment Capital Lease Payable) with a net interest rate of 3.15%. The City's portion was reduced over the next 11 years by approximately \$100,000 with an economic gain (difference between the present value of the debt service payment on the old and new debt) of approximately \$1,200,000.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The annual requirements to pay principal and interest on bond and lease obligations, excluding deferred refunding costs and bond premiums/discounts, are as follows:

Fiscal Year	Governmental Activities <u>General Obligation Bonds</u>		Business-Type Activities <u>Capital Leases Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,580,000	\$ 555,351	\$ 1,125,232	\$ 410,868
2015	1,725,000	501,776	1,188,139	366,522
2016	1,845,000	439,900	1,012,853	319,535
2017	485,000	363,606	1,047,187	279,021
2018	540,000	335,531	1,092,966	237,134
2019-23	3,555,000	1,310,655	4,835,371	492,121
2024-28	<u>4,215,000</u>	<u>514,899</u>	-	-
	<u>\$ 13,945,000</u>	<u>\$ 4,021,718</u>	<u>\$ 10,301,748</u>	<u>\$ 2,105,201</u>

G. Commitments

Primary government - Property

During fiscal 2006, the City entered into an agreement with SNAFU LLC, which gave them the exclusive right and option to purchase Lot W for \$412,821 during the first year of the agreement. The parties understood that the purchase price would be paid partially in money and partially by transferring all or part of Lot 2. The value of lot 2 was \$319,936. After the first year of the option the price would increase by the consumer price index for all urban consumers. After the second year if the buyer exercised the right to purchase, new appraisals would have to be performed for both Lot W and Lot 2. On November 3, 2011 the City Commission authorized an amendment to the agreement to extend the option for two years to February 22, 2014.

Component Units

Downtown Development Authority

The 2007 City of Traverse City Downtown Development Authority Tax Exempt Refunding Bonds, the 2002B City of Traverse City Downtown Development Authority Taxable Bonds, and the 2009 City of Traverse City Downtown Development Authority Tax Exempt Old Town Parking Deck Bonds are reported on the City of Traverse City financial statements. The Downtown Development Authority has pledged tax increment revenues for the payment of these bonds. The Downtown Development Authority provides these tax increment revenues to the City less the developer required contribution

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

for bond payment on the 2007 debt. The developer's required contribution is \$18,986 annually through 2017. The City has pledged its limited tax full faith and credit for the payment of the principal and interest on the bonds. The following are the future minimum payments expected to be received from the Downtown Development Authority based on the collection of tax increment revenues in the Tax Increment Financing and Development Plan No. 97 and No. 2:

Fiscal Year End	Amount
2014	\$ 2,116,365
2015	2,207,790
2016	2,265,914
2017	829,620
2018	875,531
2019-2023	4,865,655
2024-2028	<u>4,729,899</u>
Total	<u>\$ 17,890,774</u>

Light and Power

In September 1994, the Traverse City Light and Power ("Department") purchased \$840,000 of distribution facilities located within the City of Traverse City from Consumers Power Company ("Consumers"). The purchase was made in connection with the settlement of litigation initiated by the Department against Consumers. The purchase was completed under the auspices of the Michigan Public Service Commission and approved by the Department's board. The Department will take possession of these facilities in three stages, one stage remains to occur in September 2014.

H. Contingencies

The City and its component units participate in federally assisted grant programs, which are subject to financial and compliance audits. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

III. OTHER INFORMATION

A. Risk management

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended June 30, 2013, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in the past three fiscal years.

B. Joint agreements

Beginning June 1, 1978, the City entered into an agreement with the County of Grand Traverse for the joint ownership and operation of the Governmental Center. Under the terms of the agreement, the City owns 26.39% of the property and the County owns the remaining 73.61%. The City's share of the original building cost was \$935,000.

Under the terms of a separate agreement, the City reimburses the County of Grand Traverse for its pro rata share of operation and maintenance costs of the Governmental Center. The City's share of these costs for the year ended June 30, 2013 amounted to \$133,429, which is included in General Fund expenditures.

C. Property taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County.

The 2012 taxable valuation of the City totaled \$797,664,379, on which ad valorem taxes levied consisted of 11.1167 mills for the City operating purposes and 2.32 mills for Act 345.

Included in the taxable valuation is the Downtown Development Authority ("DDA"). The taxable value for the DDA is \$116,400,186. The DDA general operating tax rate for fiscal year 2012-13 was 1.8038 mills. Property taxes are also derived from tax increment financing agreements between the DDA and other taxing districts. Under these arrangements, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Traverse City, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

D. Defined benefit pension plans

The City has two retirement plans, one covering police and fire department personnel and the other covering all other employees of the City, and the Light and Power Component Unit employees.

Police and Fire Department Employees' Retirement Fund (Act 345)

Basis of Accounting

The Police and Fire Retirement System (the "System") Financial Statements are included as a pension trust fund of the City and are prepared using the accrual basis of accounting. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the Plan. Administrative costs are financed through investment earnings.

Method Used To Value Investments

Investments are reported at fair value. Short-term investments are valued at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Description of the Plan

The City contributes to a single employer defined benefit retirement plan, the Police and Fire Retirement System, administered by the City and covering certain Police and Fire Department personnel established under Michigan Act No. 345 of the Public Acts of 1937, as amended. The Plan provides retirement, disability and death benefits to plan members and their beneficiaries. At June 30, 2012, the most recent actuarial valuation date, membership consisted of:

Retirees and beneficiaries currently receiving benefits	59
Terminated plan members entitled to but not yet receiving benefits	4
Active plan members	<u>50</u>
Total	<u>113</u>

Contributions

Effective July 1, 2012, each Police Captain employee shall make a retirement contribution of 6.00% of gross salary and Firefighter employees shall make a retirement contribution of 1.51% of gross salary by payroll deduction.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Funding Policy

The City's obligation to contribute, benefit provisions and all other requirements of the System are established and amended by Michigan statute (P.A. 345). Prior to July 1, 2010, employees of the Police and Fire Retirement System were not required to contribute to the System. All full service Police and Fire Department employees are eligible to participate in the Police and Fire Retirement System. For the years ended June 30, 2011, 2012 and 2013, the City contributed 100% of the annual pension costs, which were also the actuarial determined contribution requirements, in the amounts of \$1,206,390, \$1,345,660 and \$1,532,181 respectively. There were no net pension obligations at the end of these years. At June 30, 2012, the funded ratio (actuarial value of assets as a percent of actuarial accrued liability) was 57% in comparison to 60% as of June 30, 2011.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Unfunded Liability (AAL) Entry Age (b)</u>	<u>AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/2012	\$ 21,256,272	\$ 37,186,684	\$15,930,412	57%	\$ 3,114,425	512%

Additional required supplementary information regarding the police and fire pension plan is reported in the supplemental information portion of the financial statements. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits. The Plan does not issue a stand-alone financial report.

Actuarial Methods and Assumptions

In the June 30, 2012 actuarial valuation, the entry-age actuarial cost method was used. The actuarial assumptions included (a) 7.50 investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.0 to 7.0 percent per year. Projected salary increases includes an inflation component of 4.0%. The cost of living adjustments includes 2.5% of original pension for twenty years payable to pre July 1, 1990 retirees, 2.5% of original pension or inflation whichever is less, for twenty years, payable to the Police Captains effective 1/1/94, Police Sergeants effective 8/1/98, Police and Patrol effective 1/1/99 and Firefighters effective 7/1/2000. The Firefighters are not subject to the inflation component. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

value of investments over a four-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was 20 years.

Statement of Net Position

	<u>Act 345 Retirement System</u>	<u>Act 345 Retiree Health Insurance Trust</u>
Assets		
Cash and cash equivalents	\$1,960,273	\$4,272,175
Investments, at fair value		
U.S. Government Agencies bond and notes	3,219,012	-
Mortgage bonds	100,949	-
Common stock	4,786,092	-
Mutual funds	9,235,127	-
Corporate bonds	1,814,584	-
Direct real estate investments	850,000	-
Accrued interest	38,892	-
Due from other funds	<u>908,965</u>	<u>-</u>
Total assets	<u>22,913,894</u>	<u>4,272,175</u>
Liabilities		
Accrued and other liabilities	3,589	-
Due to other funds	<u>-</u>	<u>908,965</u>
Total liabilities	<u>3,589</u>	<u>908,965</u>
Net Position		
Held in trust for pension		
Benefits and other postemployment benefits	<u>\$22,910,305</u>	<u>\$3,363,210</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Statement of Changes in Net Position

	<u>Act 345 Retirement System</u>	<u>Act 345 Retiree Health Insurance Trust</u>
Additions		
Contributions		
City contributions	\$ 1,532,181	\$417,585
Employee contributions	<u>74,264</u>	<u>-</u>
Total contributions	<u>1,606,445</u>	<u>417,585</u>
Investment earnings		
Investment income	272,875	4,672
Net depreciation in fair value of investments	<u>2,526,192</u>	<u>-</u>
Net investment earnings	<u>2,799,067</u>	<u>4,672</u>
Total additions	<u>4,405,512</u>	<u>422,257</u>
Deductions		
Pension benefits paid	1,872,620	-
Health insurance premiums paid	-	333,534
Administrative expense	21,400	-
Investment advisor fees	<u>111,802</u>	<u>-</u>
Total deductions	<u>2,005,822</u>	<u>333,534</u>
Transfers		
Agency fund assets transferred to Act 345 Health Insurance Trust	-	4,107,617
Health insurance reserves transferred to Act 345 Health Insurance Trust	<u>833,130</u>	<u>(833,130)</u>
Total transfers	<u>833,130</u>	<u>3,274,487</u>
Increase in net position	3,232,820	3,363,210
Net position held in trust, beginning of year	<u>19,677,485</u>	<u>-</u>
Net position held in trust, end of year	<u>\$22,910,305</u>	<u>\$3,363,210</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Municipal Employees Retirement System (MERS)

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 7.34% to 21.26% of annual covered payroll depending on the class of employee. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS.

Annual Pension Cost

For the year ended June 30, 2013 the City's annual pension cost of \$1,687,728 for MERS was equal to the City's required and actual contributions.

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	\$1,689,281	100%	\$ -
6/30/12	1,674,337	100%	-
6/30/13	1,687,728	100%	-

The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation and (c) additional projected salary increases of 0.0% to 13.00% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The difference in investment income between expected return and market return is based on a ten year smoothed value of assets. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, the date of the last actuarial valuation, was 26 years.

Funded Status and Funding Progress

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Unfunded Liability (AAL) Entry Age (b)</u>	<u>AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/12	\$ 42,016,775	\$ 60,259,583	\$ 18,242,808	70%	\$ 7,804,965	234%

Additional required supplementary information regarding MERS pension plan is reported in the supplemental information portion of the financial statements. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

E. Deferred compensation plan

Primary government

The City sponsors the City of Traverse City Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The City has ICMA Retirement Corporation and the Hartford Corporation as administrators for the plan. The plan is available to employees of the Administrative, Confidential and Technical group, General Municipal Employees union, Teamsters union, Police Officers Labor Council and Traverse City Firefighters Association. In addition, the plan is available to Light and Power component unit administrative and union employees. Participants may contribute from zero to six percent of covered payroll and the employer may contribute from two to six percent of covered payroll based on the employee's employment or labor union contract. Plan provision and contribution requirements can only be amended by authorization of the City Commission. In fiscal year 2013, the City contributed \$338,423 and employees contributed \$659,099.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Component unit

Downtown Development Authority

The Downtown Development Authority sponsors the Traverse City Downtown Development Authority Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The administrator of the plan is ICMA Retirement Corporation. The plan is available to all employees. Participants may contribute any amount allowed by the plan and the employer will match employee contributions up to 7% percent of covered payroll based on the employee's employment contract. Plan provision and contribution requirements can only be amended by authorization of the Board of Directors. In fiscal year 2013, the Downtown Development Authority contributed \$18,621 and the employees contributed \$18,621 to this plan.

F. Postemployment health benefits

The City has two postemployment health benefit plans, one covering Police and Fire Department personnel and the other covering all other employees of the City and the Light and Power Component Unit employees.

Act 345 Retiree Health Insurance Plan

Description of benefits

The Act 345 Retiree Health Insurance Plan (the "Act 345 RHIP") is a single-employer defined benefit health care plan administered by the City. The Act 345 RHIP provides medical insurance benefits to eligible retirees and their spouses. Public Act 345 of the State of Michigan is the plan document that governs the plan but may be amended by the City. The plan is accounted for in the Act 345 Retirement System. The Act 345 RHIP does not issue a stand alone financial report. Administrative costs are paid by the plan through employer contributions.

Funding Policy

The Police Sergeants' and Officers' collective bargaining units limit the employer contribution to the cost of the January 1, 1991 premium increased five percent per year, compounded thereafter. The Police Captains' collective bargaining unit limits the employer contribution to the cost of the January 1, 1990 premium increased five percent per year, compounded thereafter. The Firefighters' collective bargaining unit provides benefits for retirees previous to July 1, 1994 as described in their collective bargaining agreement in effect on the date of their retirement. Firefighters who retire after July 1, 1995 receive a capped benefit as described in the July 1, 1999 collective bargaining agreement.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year end June 30, 2013, the City contributed \$417,585 to fund the benefits. The balance of the Act 345 Retiree Health Insurance Fund to be used for future benefits is \$3,363,210 as of June 30, 2013.

Funding Progress

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB asset for the current year were as follows:

Annual required contribution	\$ 417,585
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	417,585
Contributions made	<u>417,585</u>
Increase in net OPEB obligation	-
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u><u>\$ -</u></u>

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/11	\$ 340,273	100%	\$ -
6/30/12	385,164	100%	-
6/30/13	417,585	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Unfunded Liability (AAL) Entry Age (b)</u>		<u>AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/12	\$ 3,724,352	\$ 6,835,930	\$ 3,111,578	54.5%	\$ 3,114,425	99.9%	

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

In the June 30, 2012, actuarial valuation, the individual entry-age actuarial cost method and an amortization period of 27 years were utilized. The actuarial assumptions included a 7.5% rate of investment return and a payroll growth rate for open divisions assumed to be between 4.0 to 7.0%.

Additional required supplementary information regarding other postemployment health benefits plan is reported in the supplemental information portion of the financial statements. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Retiree Health Insurance Plan

Description of Benefits

The Retiree Health Insurance Plan (the "RHIP") is a single-employer defined benefit health care plan administered by the City. The RHIP provides medical insurance benefits to general municipal eligible retirees and their spouses.

The plan is accounted for in the Retiree Health Insurance Trust Fund and the Retiree Health Insurance Agency Fund.

The RHIP does not issue a stand alone financial report. Administrative costs are paid by the plan through employer contributions.

The City approved a resolution April 16, 2007, which allows the City to establish a retiree health funding vehicle, a trust fund, under the MERS system.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Funding Policy

The City non-union employees are eligible at the time of retirement for health insurance premiums paid for three years (only the retiree). The Teamsters municipal, clerical and technical employees are eligible at the time of retirement if they have ten years of service for premium payments of \$225 per month. The Traverse City Light and Power component unit employees are eligible at time of retirement for payment of the retiree's health insurance premium until they reach the age of Medicare eligibility and at that time premiums for complementary coverage.

The City contribution was the annual required contribution in addition to the pay-as-you-go financing requirements. For the current year, the annual required contribution for the City and Traverse City Light and Power was \$284,110. Of this amount, the City's portion of the annual required contribution was \$-0- and Traverse City Light and Power's portion of the annual required contribution was \$284,110. The actual employer contribution for the City was \$72,950 and the employee contribution to the plan was \$154,038. The pay-as-you-go employer contribution for Traverse City Light and Power was \$211,514 and the employee contribution to the plan was \$82,408.

Funding Progress

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB asset for the current year were as follows:

Primary government

Annual required contribution	\$ -
Interest on net OPEB asset	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	-
Contributions made	<u>72,950</u>
Increase in net OPEB asset	72,950
Net OPEB asset, beginning of year	<u>219,902</u>
Net OPEB asset, end of year	<u>\$ 292,852</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Component unit

Annual required contribution	\$ 284,110
Interest on net OPEB asset	-
Adjustment to annual required contribution	-
 Annual OPEB cost (expense)	 284,110
 Contributions made	 495,624
 Increase in net OPEB asset	 211,514
Net OPEB asset, beginning of year	508,162
Net OPEB asset, end of year	\$ 719,676

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/11	\$ 317,334	100%	\$ -
6/30/12	303,667	100%	\$ -
6/30/13	284,110	100%	\$ -

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age (b)</u>	<u>Actuarial Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/10	\$ 2,531,410	\$ 5,381,283	\$ 2,849,873	47%	\$ 8,152,207	35%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The City is currently funding the plan by paying the current insurance premiums due and the annual required contribution.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

In the December 31, 2010, actuarial valuation, the individual entry-age normal actuarial cost method, level dollar of payroll if the divisions are open to new hires and as a level dollar if the divisions are closed to new hires, and an amortization period of 30 years were utilized. The actuarial assumptions included an 8% rate of investment return.

Additional required supplementary information regarding other postemployment health benefits plan is reported in the supplemental information portion of the financial statements. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Statement of Net Position

	Retiree Health Insurance Trust
Assets	
Investments, at fair value	
MERS total market fund	\$1,518,996
Receivables	
Other	<u>1,423,691</u>
Total assets	<u>2,942,687</u>
Net position	
Held in trust for pension	
Benefits and other postemployment benefits	<u>\$ 2,942,687</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Statement of Changes in Net Position

	Retiree Health Insurance Trust
Additions	
Contributions	
City contributions	\$ 239,694
Investment earnings	
Net depreciation in fair value of investments	<u>137,390</u>
Increase in plan assets	377,084
Net position held in trust, beginning of year	<u>2,565,603</u>
Net position held in trust, end of year	<u>\$ 2,942,687</u>

G. Entitlement commitment

In September 2010, Traverse City Light and Power Department (“Department”) entered into two 5-year agreements with the Lansing Board of Water & Light (“LBWL”) to commence January 1, 2011. The purchase power agreement allows for the purchase of a minimum of 10 megawatt of electric energy up to a maximum of 45 megawatt to replace its deficient energy needs from the expired agreement with MPPA. The estimated cost for the 5-year term is \$40,000,000. The energy service agency agreement provides for LBWL to act as the Department’s agent with Midwest ISO (“MISO”). LBWL will enter into third party contracts to purchase energy and sell surplus energy into the MISO daily and hourly markets. The estimated cost for the 5-year term is \$375,000. For the year ended June 30, 2013, the Department recognized expenses totaling \$7,424,527.

The Department, along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency (“MPPA”). The agency was formed to acquire interests in certain electric generating plants and related transmission lines to service its members. MPPA has acquired a 4.8% undivided interest in the Consumers Energy Campbell 3 plant, an 37.22% undivided interest in the Detroit Edison Belle River project, and a 100% undivided interest in the Kalkaska Combustion Turbine project.

In 1983, the Department entered into a 35-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 26.35% of the energy generated by MPPA’s 4.8% interest in the Campbell 3 plant and 4.53% of the energy generated by MPPA’s 37.22% interest in the Belle River plant. In 2002, the

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Department entered into a 25-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 75.9% of the energy generated by MPPA's 100% interest in the Kalkaska Combustion Turbine. In 2009, the Department entered into a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA's renewable energy contract with Grainger Electric of Michigan, LLC.

For the year ended June 30, 2013, the Department recognized expenses totaling \$13,582,233 to purchase power under the terms of all contracts with MPPA. The price of the power was calculated on a basis, as specified in the contract, to enable MPPA to recover its production, transmission and debt service costs

Under the terms of the contracts, the Department must make minimum annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased). Future operating costs are estimated based on 2012 costs adjusted for inflation. The total estimated future operating costs, which do not include the annual debt payments, are as follows:

<u>Year Ended December 31</u>	<u>Operating Costs</u>
2014	\$ 8,686,664
2015	8,947,264
2016	9,215,682
2017	6,188,790
2018	6,374,453
2019-2023	19,347,029
2024-2027	<u>17,673,783</u>
	<u>\$ 76,433,665</u>

The estimated total annual payments (assuming no early calls or refinancing) are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,673,327	\$ 1,302,183	\$ 3,975,510
2015	2,773,172	1,166,105	3,939,277
2016	2,871,939	1,024,909	3,896,848
2017	2,190,741	878,642	3,069,383
2018	2,302,988	766,294	3,069,282
2019-2023	6,497,039	2,622,725	9,119,764
2024-2027	<u>6,466,680</u>	<u>828,259</u>	<u>7,294,939</u>
	<u>\$ 25,775,886</u>	<u>\$ 8,589,117</u>	<u>\$ 34,365,003</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The MPPA and its member utilities were over-charged on their power sales contract agreements by Detroit Edison. Because of this, MPPA and the member utilities have established a trust fund (“The Municipal Competitive Trust”). Specific policies have been established by each member regarding the use of these funds. The Department’s share of this trust fund was \$1,921,638 as of June 30, 2013.

In December 2010, the Department entered into a 20-year power purchase agreement with Heritage Stoney Corners Wind Farm I, LLC to purchase up to 10 megawatt of electric energy and all associated renewable energy credits. For the year ended June 30, 2013, the Department recognized expenses totaling \$2,782,535.

H. Related party transactions

Component unit

The Downtown Development Authority (“DDA”) along with a developer has committed to pay the principal and interest on Hardy Parking Deck bonds. A partner of the developer who made the commitment along with the DDA is a board member.

I. Subsequent events

Primary government

The Boardman River Dams Implementation Team is coordinating The Boardman River Dams Project which consists of removal of the Brown Bridge, Boardman, and Sabin Dams and modification of the Union Street Dam along the Boardman River as part of an effort to restore the Boardman River to a more natural flowing coldwater river. The City of Traverse City and Traverse City Light & Power have representation on the Boardman River Dams Implementation Team along with several other parties including State and Federal agencies. The first stage of this restoration project involved the removal of the Brown Bridge Dam which was owned by the City. A drawdown of the Brown Bridge Pond to a level that allows for the deconstruction of the dam was undertaken. On October 6, 2012 a breach of the temporary dewatering structure occurred, allowing uncontrolled flow of water into the Boardman River resulting in flood damage to various properties downstream. An investigation of the incident along with an assessment of damage to property, the inspection of the temporary dewatering structure, and the evaluation of the condition of the Boardman River is ongoing. On May 17, 2013 the City was served with a complaint filed in Circuit Court on behalf of six property owners downstream of the Brown Bridge Dam and their neighborhood association. The complaint alleges violations of the Natural Resources and Environmental Protection Act, the Michigan Environmental Protection Act, a taking, trespass, gross negligence and impairment of riparian rights. On September 16, 2013 the Grand Traverse County Circuit Court ruled on a Motion for Summary Disposition

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

brought by the City that the Implementation Team (“IT”) is an entity capable of being sued in its individual capacity. The Court also held at the same hearing that the plaintiffs are barred by governmental immunity from pursuing their claims against the City for monetary damages under gross negligence, trespass and nuisance theories. The dismissal of these claims against the City eliminates damages of \$4,620,554 claimed in the complaint. Claims for condemnation losses, injunctive relief and environmental claims remain against the City and the IT (and others i.e. the contractors involved). The DEQ has confirmed that the impoundment site is not a “facility” under the environmental statutes and discredited the claims of downstream environmental contamination. Prior to the removal of the dam the City purchased a \$3 Million environmental insurance policy under which this action is being defended. The contractors hired to remove the dam are contractually required to indemnify the City for property damage associated with the breach.

On August 15, 2011, an accident resulting in death occurred at the City’s Duncan L. Clinch Marina. On September 14, 2011, a complaint and jury demand was filed in the Circuit Court for the County of Grand Traverse against the City and Dock Master under the Michigan Wrongful Death Act in an amount exceeding \$25,000 exclusive of interest and costs. On January 5, 2012 a second complaint and jury demand was filed by a new plaintiff in the Circuit Court for the County of Grand Traverse against the City and Dock Master under a personal injury theory in an amount exceeding \$25,000 exclusive of interest and costs. The cases were consolidated by the Court. The Director of Public Services was subsequently added as a party defendant to the cases. The Court heard the City’s motion for summary disposition in January 2013 and granted it on the basis of governmental immunity as to the City and the Director of Public Services, both of whom were dismissed from the suit. The motion was denied as to the Dock Master, leaving him as the sole City-defendant in the case. The Court’s decision as to the Dock Master has been appealed to the Michigan Court of Appeals. The case has been stayed in the Circuit Court pending a decision from the Court of Appeals. A hearing has not yet been set by the Court of Appeals. The City has liability insurance in the amount of \$5,000,000 available in the event of a judgment.

Component unit

On September 6, 2013, the DDA received from Brownfield Redevelopment Authority’s the third reimbursement payment of \$524,000 under the River’s Edge Brownfield Plan and the reimbursement payment of \$120,000 towards the Michigan Economic Growth Authority eligible expenses associated with the Larry C. Hardy parking deck.

On September 16, 2013, the DDA’s Board of Directors authorized the Executive Director to enter into a contract with the Downtown Traverse City Association through August 31, 2014, with an annual compensation of \$59,364. The Authority provides office space and administrative services to the Downtown Traverse City Association.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

J. Designations of net assets

Primary government

The following are designations of unrestricted net position established by management.

	Automobile Parking System Fund	Wastewater Fund	Water Fund	Internal Service Fund
Emergencies	\$ 25,492	\$ -	\$ 49,724	\$ -
Capital expenditures	150,000	1,165,800	2,108,000	1,861,000
Future maintenance	<u>1,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,275,492</u>	<u>\$1,165,800</u>	<u>\$2,157,724</u>	<u>\$1,861,000</u>

Component unit

The following are designations of unrestricted net position established by Light and Power board and City Charter.

Emergencies	\$ 100,056
Uninsured claims	4,504,133
Capital expansion	<u>12,100,000</u>
Total	<u>\$16,704,189</u>

K. Contingent liability

Primary government – Boot Lake Landfill

In 2005 the City received a demand letter from the Michigan Department of Environmental Quality (“MDEQ”) demanding that the City undertake response activities under Part 201, Section 118 at a site that was a City landfill from 1963 to 1967. The City and the MDEQ have reached an agreement with respect to the necessary investigatory actions that need to be taken at the site in order to determine what clean up, if any, is necessary at the site. If the investigation finds that clean up at the site is necessary, the City may be responsible for the clean up. City investigations have revealed that the site is not impacting Boardman Lake. The MDEQ has indicated some further investigation would be necessary should the site be redeveloped, but at this time, the MDEQ has not requested the City perform any active clean up.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

L. Restatement of Net Position

Beginning net position of the governmental activities for the Primary Government has been restated due to implementation of GASB Statement No. 65. This resulted in governmental activities net position being restated from \$51,405,308 to \$51,184,364 at the beginning of the year.

M. Change in Accounting Principles

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, were implemented during the current year. These statements incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets and fund balance, when applicable.

N. GASB Pronouncements

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which is required to be adopted for years beginning after June 15, 2013. Statement No. 67 replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer and certain nonemployer contributing entities, about which information is required to be disclosed. The City will implement Statement No. 67 beginning with the fiscal year ended June 30, 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension Plans*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary and discretely presented component unit statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

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CITY OF TRAVERSE CITY
Required Supplementary Information
Act 345 Pension Trust Fund
Schedule of Funding Progress

The below contributions are for pension benefits only and do not include amounts contributed for health care coverage.

Actuarial valuation date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded (Overfunded) AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
6/30/2003	\$ 22,842,110	\$ 21,175,431	\$ (1,666,679)	107.9%	\$ 2,402,524	0.0%
6/30/2004	22,038,257	22,711,298	673,041	97.0	2,671,393	25.2
6/30/2005	21,881,463	24,977,924	3,096,461	87.6	3,139,509	98.6
6/30/2006	22,591,340	26,163,253	3,571,913	86.3	3,509,371	101.8
6/30/2007	24,182,785	26,789,239	2,606,454	90.3	3,234,852	80.6
6/30/2008	24,838,458	28,047,507	3,209,049	88.6	3,173,479	101.1
6/30/2009	23,755,156	31,384,903	7,629,747	75.7	3,348,677	227.8
6/30/2010	22,950,947	34,264,396	11,313,449	67.0	3,308,083	342.0
6/30/2011	21,917,150	36,334,692	14,417,542	60.3	3,131,962	460.3
6/30/2012	21,256,272	37,186,684	15,930,412	57.2	3,114,425	511.5

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year ended/valuation June 30	Annual Required Contribution	Percentage Contributed
2004 / 2003	\$ 396,681	100%
2005 / 2004	615,269	100
2006 / 2005	877,938	100
2007 / 2006	987,602	100
2008 / 2007	897,502	100
2009 / 2008	924,911	100
2010 / 2009	1,154,441	100
2011 / 2010	1,206,390	100
2012 / 2011	1,345,660	100
2013 / 2012	1,532,181	100

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry-age actuarial cost method
Amortization method	Level percent
Remaining amortization period	20 years open
Asset valuation method	4 years smoothed market
Actuarial assumptions	
Investment rate of return	7.50%
Projected salary increases	4.0-7.0% includes wage inflation at 4.0%
Cost-of-living adjustments	2.5% of original pension for twenty years, payable to Pre-July 1, 1990 retirees, 2.5% of original pension or inflation whichever is less, for twenty years, payable to the Police Captains unit (effective 1/1/1994) and Police Sergeants (effective 8/1/1998) and Police Patrol (effective 1/1/1999) and Firefighters unit (effective 7/1/2000), except that the Firefighters unit is not subject to inflation.

CITY OF TRAVERSE CITY
Required Supplementary Information
Act 345 Pension Trust Fund
Schedule of Funding Progress

The below contributions are for health care benefits only and do not include amounts contributed for pension.

Actuarial valuation date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
6/30/2003	\$ 2,590,432	\$ 8,072,071	\$ 5,481,639	32.1%	\$ 2,402,524	228.2%
6/30/2004	2,645,396	8,091,713	5,446,317	32.7	2,671,393	203.9
6/30/2005	2,723,028	8,218,900	5,495,872	33.1	3,139,509	175.1
6/30/2006	2,977,346	8,643,119	5,665,773	34.4	3,509,371	161.5
6/30/2007	3,444,580	8,402,945	4,958,365	41.0	3,234,852	153.3
6/30/2008	3,655,194	6,710,657	3,055,463	54.5	3,173,479	96.3
6/30/2009	3,700,439	6,835,257	3,134,818	54.1	3,348,677	93.6
6/30/2010	3,774,317	7,115,866	3,341,549	53.0	3,308,083	101.0
6/30/2011	3,707,242	7,503,406	3,796,164	49.4	3,131,962	121.2
6/30/2012	3,724,352	6,835,930	3,111,578	54.5	3,114,425	99.9

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year ended/valuation June 30	Annual Required Contribution	Percentage Contributed
2004 / 2003	\$ 306,560	100%
2005 / 2004	303,755	100
2006 / 2005	313,977	100
2007 / 2006	408,471	100
2008 / 2007	373,161	100
2009 / 2008	279,931	100
2010 / 2009	331,647	100
2011 / 2010	340,273	100
2012 / 2011	385,164	100
2013 / 2012	417,585	100

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012
Actuarial cost method	Individual entry-age actuarial cost method
Amortization method	Level percent
Remaining amortization period	27 years
Asset valuation method	4 years smoothed market
Actuarial assumptions	
Investment rate of return	7.50%
Projected salary increases	4.0-7.0%
Health care inflation	4.0-9.0%

CITY OF TRAVERSE CITY
Required Supplementary Information
MERS Pension Plan
Schedule of Funding Progress

Actuarial valuation date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -Entry Age (b)	Unfunded AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
12/31/2003	\$ 32,827,731	\$ 40,174,115	\$ 7,346,384	81.7%	\$ 6,905,057	106.4%
12/31/2004	34,215,650	44,008,390	9,792,740	77.7	7,656,396	127.9
12/31/2005	35,574,162	45,667,466	10,093,304	77.9	7,442,267	135.6
12/31/2006	37,648,129	47,608,085	9,959,956	79.1	7,921,231	125.7
12/31/2007	40,033,232	50,210,221	10,176,989	79.7	8,079,158	126.0
12/31/2008	40,805,149	52,758,416	11,953,267	77.3	8,023,611	149.0
12/31/2009	40,980,261	54,216,489	13,236,228	75.6	7,971,182	166.1
12/31/2010	41,600,136	56,545,514	14,945,378	73.6	8,152,207	183.3
12/31/2011	42,069,093	59,144,098	17,075,005	71.1	7,998,283	213.5
12/31/2012	42,016,775	60,259,583	18,242,808	69.7	7,804,965	233.7

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year ended/valuation June 30	Annual Required Contribution	Percentage Contributed
2004 / 2003	\$ 946,826	100%
2005 / 2004	1,013,415	100
2006 / 2005	1,226,873	100
2007 / 2006	1,352,653	100
2008 / 2007	1,399,592	100
2009 / 2008	1,340,339	100
2010 / 2009	1,394,741	100
2011 / 2010	1,689,281	100
2012 / 2011	1,674,337	100
2013 / 2012	1,687,728	100

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent
Remaining amortization period	26 years
Asset valuation method	10 year smoothed market
Actuarial assumptions	
Investment rate of return	8.00%
Projected salary increases	4.5-17.50%

CITY OF TRAVERSE CITY
Required Supplementary Information
MERS Retiree Health Funding Vehicle
Schedule of Funding Progress

Actuarial valuation date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
12/31/2006	\$ 1,079,242	\$ 4,622,001	\$ 3,542,759	23.4%	\$ 7,921,231	44.7%
12/31/2008	1,488,166	5,055,539	3,567,373	29.4	8,023,611	44.5
12/31/2010	2,531,410	5,381,283	2,849,873	47.0	8,152,207	35.0

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year ended/valuation June 30	Annual Required Contribution	Percentage Contributed
2008 / 2007	\$ 274,606	100%
2009 / 2008	286,964	100%
2010 / 2009	303,667	100%
2011 / 2010	317,334	100%
2012 / 2011	303,667	100%
2013 / 2012	284,110	100%

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2010
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market Value
Actuarial assumptions	
Investment rate of return	8.00%
Projected salary increases	Not applicable

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
General Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 7,972,500	\$ 7,972,500	\$ 7,936,306	\$ (36,194)
Licenses and permits	224,000	224,000	274,612	50,612
Federal sources	40,000	40,000	19,794	(20,206)
State sources	1,140,000	1,240,000	1,287,510	47,510
Local sources	1,619,355	1,619,355	1,629,623	10,268
Charges for services	497,150	497,150	469,617	(27,533)
Fines and forfeits	14,100	14,100	8,366	(5,734)
Contributions	118,500	118,500	115,956	(2,544)
Reimbursements	521,000	546,000	498,018	(47,982)
Interest income	82,500	82,500	49,348	(33,152)
Other revenue	384,500	384,500	365,743	(18,757)
Total revenues	<u>12,613,605</u>	<u>12,738,605</u>	<u>12,654,893</u>	<u>(83,712)</u>
Expenditures				
General government	2,949,070	3,049,070	2,754,975	294,095
Public safety	6,012,960	6,060,460	5,849,197	211,263
Public works	649,200	1,202,200	1,182,248	19,952
Recreation and culture	1,979,050	2,006,800	1,829,978	176,822
Total expenditures	<u>11,590,280</u>	<u>12,318,530</u>	<u>11,616,398</u>	<u>702,132</u>
Excess of revenue over expenditures	<u>1,023,325</u>	<u>420,075</u>	<u>1,038,495</u>	<u>618,420</u>
Other financing sources (uses)				
Transfers in	1,034,700	1,064,700	1,010,334	(54,366)
Transfers out	(2,615,300)	(2,165,300)	(2,177,243)	(11,943)
Total other financing sources (uses)	<u>(1,580,600)</u>	<u>(1,100,600)</u>	<u>(1,166,909)</u>	<u>(66,309)</u>
Net change in fund balance	(557,275)	(680,525)	(128,414)	552,111
Fund balance, beginning of year	<u>7,593,500</u>	<u>7,593,500</u>	<u>7,593,500</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 7,036,225</u></u>	<u><u>\$ 6,912,975</u></u>	<u><u>\$ 7,465,086</u></u>	<u><u>\$ 552,111</u></u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Major Streets Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
State sources	\$ 1,023,300	\$ 1,023,300	\$ 1,002,877	\$ (20,423)
Interest income	1,500	1,500	96	(1,404)
Total revenues	<u>1,024,800</u>	<u>1,024,800</u>	<u>1,002,973</u>	<u>(21,827)</u>
Expenditures				
Public works				
Personnel	533,300	453,300	345,831	107,469
Commodities	165,000	165,000	143,316	21,684
Contractual services	50,000	50,000	58,203	(8,203)
Other charges	704,200	434,200	429,960	4,240
Capital outlay	-	-	11,239	(11,239)
Total expenditures	<u>1,452,500</u>	<u>1,102,500</u>	<u>988,549</u>	<u>113,951</u>
(Deficiency) excess of revenue over expenditures	(427,700)	(77,700)	14,424	92,124
Other financing sources (uses)				
Transfers in	387,700	37,700	-	(37,700)
Transfers out	(60,000)	(60,000)	-	60,000
Total other financing sources (uses)	<u>327,700</u>	<u>(22,300)</u>	<u>-</u>	<u>22,300</u>
Net change in fund balance	<u>(100,000)</u>	<u>(100,000)</u>	<u>14,424</u>	<u>114,424</u>
Fund balance, beginning of year	210,695	210,695	210,695	-
Fund balance, end of year	<u>\$ 110,695</u>	<u>\$ 110,695</u>	<u>\$ 225,119</u>	<u>\$ 114,424</u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Local Streets Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
State sources	\$ 325,000	\$ 325,000	\$ 313,967	\$ (11,033)
Expenditures				
Public works				
Personnel	598,600	568,600	526,035	42,565
Contractual services	50,000	50,000	31,333	18,667
Commodities	70,000	70,000	112,336	(42,336)
Other charges	737,000	567,000	563,892	3,108
Total expenditures	1,455,600	1,255,600	1,233,596	22,004
(Deficiency) of revenue over expenditures	(1,130,600)	(930,600)	(919,629)	10,971
Other financing sources				
Transfer in	1,130,600	930,600	919,629	(10,971)
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
Boardman River Dam Removal & Restoration Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Federal sources	\$ 1,650,000	\$ 2,150,000	\$ 2,262,265	\$ 112,265
State sources	565,000	665,000	617,750	(47,250)
Total revenues	2,215,000	2,815,000	2,880,015	65,015
Expenditures				
Recreation				
Contractual services	2,215,000	2,835,000	2,900,015	(65,015)
(Deficiency) of revenues over expenditures	-	(20,000)	(20,000)	-
Other financing sources				
Transfer in	-	20,000	20,000	-
Change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

CITY OF TRAVERSE CITY, MICHIGAN

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

I. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general, special revenue, debt service, capital project, permanent, enterprise, and internal service funds. All annual appropriations lapse at fiscal year end.

Not earlier than the third Monday in May and not later than the first Monday in June of each year the City Commission shall, by resolution, adopt the budget for the next fiscal year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing board is the function level, which is the level at which expenditures may not legally exceed appropriations. The City Commission may transfer any unencumbered appropriation balance or any portion thereof from one department, fund, or agency to another.

B. Excess of expenditures over appropriations

For the year ended June 30, 2013, actual expenditures in the Boardman River Dam Removal and Restoration Special Revenue Fund exceeded appropriations by \$65,015. These over expenditures were funded either by greater than anticipated revenues in the applicable fund and/or the use of prior year fund balance.

C. Budgeted deficit

For the year ended June 30, 2013, the Cherry Capital Cable Fund, Brown Bridge Maintenance Fund, Opera House Fund, Act 345 Millage Special Revenue Fund, and Parking Deck Bond Construction Non-Taxable Capital Projects Fund had budgeted fund balance deficits in the amounts of \$259, \$9,350, \$18,245, \$89,301, and \$2,093 respectively. The actual fund balance for the Cherry Capital Cable Fund, Brown Bridge Maintenance Fund, Opera House Fund, Act 345 Millage Special Revenue Fund, and Parking Deck Bond Construction Non-Taxable Capital Projects Fund was \$4,741, \$2,826, \$37,610, \$16,531, and \$738,145 respectively.

CITY OF TRAVERSE CITY
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2013

	General Fund				Budget Stabilization			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ 7,972,500	\$ 7,972,500	\$ 7,936,306	\$ (36,194)	\$ -	\$ -	\$ -	\$ -
Licenses and permits	224,000	224,000	274,612	50,612	-	-	-	-
Federal sources	40,000	40,000	19,794	(20,206)	-	-	-	-
State sources	1,140,000	1,240,000	1,287,510	47,510	-	-	-	-
Local sources	1,600,000	1,600,000	1,610,268	10,268	-	-	-	-
Charges for services	333,300	333,300	312,323	(20,977)	-	-	-	-
Fines and forfeits	14,100	14,100	8,366	(5,734)	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
Reimbursements	515,000	540,000	489,006	(50,994)	-	-	-	-
Interest income	50,000	50,000	27,963	(22,037)	2,000	2,000	649	(1,351)
Other revenue	384,500	384,500	365,118	(19,382)	-	-	-	-
Total revenues	12,273,400	12,398,400	12,331,266	(67,134)	2,000	2,000	649	(1,351)
Expenditures								
General government	2,919,070	2,984,070	2,752,056	232,014	-	-	-	-
Public safety	5,992,605	6,039,605	5,832,434	207,171	-	-	-	-
Public works	649,200	1,202,200	1,182,248	19,952	-	-	-	-
Recreation and culture	1,594,450	1,614,450	1,562,011	52,439	-	-	-	-
Total expenditures	11,155,325	11,840,325	11,328,749	511,576	-	-	-	-
Excess (deficiency) of revenue over expenditures	1,118,075	558,075	1,002,517	444,442	2,000	2,000	649	(1,351)
Other financing sources (uses)								
Transfers in	939,700	939,700	925,392	(14,308)	-	-	-	-
Transfers out	(2,613,300)	(2,083,300)	(2,096,594)	(13,294)	(2,000)	(2,000)	(649)	1,351
Total other financing sources (uses)	(1,673,600)	(1,143,600)	(1,171,202)	(27,602)	(2,000)	(2,000)	(649)	1,351
Net change in fund balance	(555,525)	(585,525)	(168,685)	416,840	-	-	-	-
Fund balance, beginning of year	4,702,265	4,702,265	4,702,265	-	750,000	750,000	750,000	-
Fund balance (deficit), end of year	\$ 4,146,740	\$ 4,116,740	\$ 4,533,580	\$ 416,840	\$ 750,000	\$ 750,000	\$ 750,000	\$ -

CITY OF TRAVERSE CITY
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2013

	Hazmat				Heritage Center Museum			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Local sources	19,355	19,355	19,355	-	-	-	-	-
Charges for services	1,000	1,000	1,100	100	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	5,000	5,000	-	(5,000)
Reimbursements	-	-	-	-	-	-	802	802
Interest income	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-
Total revenues	20,355	20,355	20,455	100	5,000	5,000	802	(4,198)
Expenditures								
General government	-	-	-	-	-	-	-	-
Public safety	20,355	20,355	16,758	3,597	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Recreation and culture	-	-	-	-	100,000	100,000	55,744	(44,256)
Total expenditures	20,355	20,355	16,758	3,597	100,000	100,000	55,744	(44,256)
Excess (deficiency) of revenue over expenditures	-	-	3,697	3,697	(95,000)	(95,000)	(54,942)	40,058
Other financing sources (uses)								
Transfers in	-	-	-	-	95,000	95,000	54,942	(40,058)
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	95,000	95,000	54,942	(40,058)
Net change in fund balance	-	-	3,697	3,697	-	-	-	-
Fund balance, beginning of year	28,627	28,627	28,627	-	-	-	-	-
Fund balance (deficit), end of year	\$ 28,627	\$ 28,627	\$ 32,324	\$ 3,697	\$ -	\$ -	\$ -	\$ -

CITY OF TRAVERSE CITY
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2013

	Cherry Capital Cable				Coast Guard Committee			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	202	202
Reimbursements	-	-	-	-	-	-	-	-
Interest income	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-
Total revenues	-	-	-	-	-	-	202	202
Expenditures								
General government	-	5,000	-	5,000	-	-	-	-
Public safety	-	-	-	-	-	500	5	495
Public works	-	-	-	-	-	-	-	-
Recreation and culture	-	-	-	-	-	-	-	-
Total expenditures	-	5,000	-	5,000	-	500	5	495
Excess (deficiency) of revenue over expenditures	-	(5,000)	-	5,000	-	(500)	197	697
Other financing sources (uses)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Net change in fund balance	-	(5,000)	-	5,000	-	(500)	197	697
Fund balance, beginning of year	4,741	4,741	4,741	-	861	861	861	-
Fund balance (deficit), end of year	\$ 4,741	\$ (259)	\$ 4,741	\$ 5,000	\$ 861	\$ 361	\$ 1,058	\$ 697

CITY OF TRAVERSE CITY
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2013

	County Senior Center				Brown Bridge Maintenance			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	56,250	56,250	62,931	6,681
Fines and forfeits	-	-	-	-	-	-	-	-
Contributions	113,500	113,500	115,754	2,254	-	-	-	-
Reimbursements	-	-	-	-	-	-	-	-
Interest income	-	-	34	34	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-
Total revenues	113,500	113,500	115,788	2,288	56,250	56,250	62,931	6,681
Expenditures								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Recreation and culture	115,250	123,000	117,923	(5,077)	56,250	56,250	50,755	(5,495)
Total expenditures	115,250	123,000	117,923	(5,077)	56,250	56,250	50,755	(5,495)
Excess (deficiency) of revenue over expenditures	(1,750)	(9,500)	(2,135)	7,365	-	-	12,176	12,176
Other financing sources (uses)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Net change in fund balance	(1,750)	(9,500)	(2,135)	7,365	-	-	12,176	12,176
Fund balance, beginning of year	66,032	66,032	66,032	-	(9,350)	(9,350)	(9,350)	-
Fund balance (deficit), end of year	\$ 64,282	\$ 56,532	\$ 63,897	\$ 7,365	\$ (9,350)	\$ (9,350)	\$ 2,826	\$ 12,176

CITY OF TRAVERSE CITY
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2013

	Opera House				Banner Program			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	-	-	-	-	-	-
Charges for services	106,600	106,600	93,263	(13,337)	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
Reimbursements	2,000	2,000	3,840	1,840	4,000	4,000	4,370	370
Interest income	500	500	22	(478)	-	-	-	-
Other revenue	-	-	625	625	-	-	-	-
Total revenues	109,100	109,100	97,750	(11,350)	4,000	4,000	4,370	370
Expenditures								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Recreation and culture	109,100	109,100	41,895	(67,205)	4,000	4,000	1,650	(2,350)
Total expenditures	109,100	109,100	41,895	(67,205)	4,000	4,000	1,650	(2,350)
Excess (deficiency) of revenue over expenditures	-	-	55,855	55,855	-	-	2,720	2,720
Other financing sources (uses)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	(30,000)	(30,000)	-	-	-	-	-
Total other financing sources (uses)	-	(30,000)	(30,000)	-	-	-	-	-
Net change in fund balance	-	(30,000)	25,855	55,855	-	-	2,720	2,720
Fund balance, beginning of year	11,755	11,755	11,755	-	18,120	18,120	18,120	-
Fund balance (deficit), end of year	\$ 11,755	\$ (18,245)	\$ 37,610	\$ 55,855	\$ 18,120	\$ 18,120	\$ 20,840	\$ 2,720

CITY OF TRAVERSE CITY
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2013

	Economic Development				Total General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 7,972,500	\$ 7,972,500	\$ 7,936,306	\$ (36,194)
Licenses and permits	-	-	-	-	224,000	224,000	274,612	50,612
Federal sources	-	-	-	-	40,000	40,000	19,794	(20,206)
State sources	-	-	-	-	1,140,000	1,240,000	1,287,510	47,510
Local sources	-	-	-	-	1,619,355	1,619,355	1,629,623	10,268
Charges for services	-	-	-	-	497,150	497,150	469,617	(27,533)
Fines and forfeits	-	-	-	-	14,100	14,100	8,366	(5,734)
Contributions	-	-	-	-	118,500	118,500	115,956	(2,544)
Reimbursements	-	-	-	-	521,000	546,000	498,018	(47,982)
Interest income	30,000	30,000	20,680	(9,320)	82,500	82,500	49,348	(33,152)
Other revenue	-	-	-	-	384,500	384,500	365,743	(18,757)
Total revenues	30,000	30,000	20,680	(9,320)	12,613,605	12,738,605	12,654,893	(83,712)
Expenditures								
General government	30,000	60,000	2,919	57,081	2,949,070	3,049,070	2,754,975	294,095
Public safety	-	-	-	-	6,012,960	6,060,460	5,849,197	211,263
Public works	-	-	-	-	649,200	1,202,200	1,182,248	19,952
Recreation and culture	-	-	-	-	1,979,050	2,006,800	1,829,978	(176,822)
Total expenditures	30,000	60,000	2,919	57,081	11,590,280	12,318,530	11,616,398	348,488
Excess (deficiency) of revenue over expenditures	-	(30,000)	17,761	47,761	1,023,325	420,075	1,038,495	618,420
Other financing sources (uses)								
Transfers in	-	30,000	30,000	-	1,034,700	1,064,700	1,010,334	(54,366)
Transfers out	-	(50,000)	(50,000)	-	(2,615,300)	(2,165,300)	(2,177,243)	(11,943)
Total other financing sources (uses)	-	(20,000)	(20,000)	-	(1,580,600)	(1,100,600)	(1,166,909)	(66,309)
Net change in fund balance	-	(50,000)	(2,239)	47,761	(557,275)	(680,525)	(128,414)	552,111
Fund balance, beginning of year	2,020,449	2,020,449	2,020,449	-	7,593,500	7,593,500	7,593,500	-
Fund balance (deficit), end of year	\$ 2,020,449	\$ 1,970,449	\$ 2,018,210	\$ 47,761	\$ 7,036,225	\$ 6,912,975	\$ 7,465,086	\$ 552,111

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues
Budget and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Property taxes			
Real estate and personal property	\$ 7,838,000	\$ 7,818,848	\$ (19,152)
Collection fees	14,500	14,107	(393)
Penalties and interest on taxes	120,000	103,351	(16,649)
Total property taxes	7,972,500	7,936,306	(36,194)
Licenses and permits			
Business	210,100	258,155	48,055
Nonbusiness	13,900	16,457	2,557
Total licenses and permits	224,000	274,612	50,612
Federal sources	40,000	19,794	(20,206)
State sources			
State - shared revenues			
Sales and use tax	1,200,000	1,224,691	24,691
Liquor licenses	40,000	54,924	14,924
Other state	-	7,895	7,895
Total state sources	1,240,000	1,287,510	47,510
Local sources			
City fee	1,600,000	1,610,268	10,268
Charges for services			
General fees and services	26,100	30,765	4,665
Use and admission fees	262,200	241,882	(20,318)
Fine and forfeitures - ordinance and cost	45,000	39,676	(5,324)
Total charges for services	333,300	312,323	(20,977)
Fines and forfeits			
Parking violations	14,100	8,366	(5,734)
Reimbursements	540,000	489,006	(50,994)
Interest income	50,000	27,963	(22,037)
Other revenue			
Rents and royalties	2,500	2,401	(99)
Contributions	341,000	328,419	(12,581)
Sale of assets	2,500	1,269	(1,231)
Other	38,500	33,029	(5,471)
Total other revenue	384,500	365,118	(19,382)
Total revenues	\$ 12,398,400	\$ 12,331,266	\$ (67,134)

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Expenditures
Budget and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government			
City Commission			
Personnel	\$ 36,570	\$ 35,036	\$ 1,534
Commodities	1,000	713	287
Contractual services	48,500	53,764	(5,264)
Other charges	7,300	3,592	3,708
Total City Commission	<u>93,370</u>	<u>93,105</u>	<u>265</u>
City Manager's Office			
Personnel	318,700	321,407	(2,707)
Commodities	4,500	3,599	901
Contractual services	28,000	23,707	4,293
Other charges	9,300	6,394	2,906
Total City Manager's Office	<u>360,500</u>	<u>355,107</u>	<u>5,393</u>
Human Resources			
Personnel	106,550	107,861	(1,311)
Commodities	1,000	747	253
Contractual services	22,900	14,409	8,491
Other charges	5,000	3,736	1,264
Total Human Resources	<u>135,450</u>	<u>126,753</u>	<u>8,697</u>
Geographic Information Systems			
Personnel	-	121	(121)
Commodities	-	42	(42)
Contractual services	20,000	14,552	5,448
Total Geographic Information Systems	<u>20,000</u>	<u>14,715</u>	<u>5,285</u>
City Attorney's Office			
Personnel	114,700	113,431	1,269
Commodities	1,500	2,305	(805)
Contractual services	16,200	12,805	3,395
Other charges	2,150	1,632	518
Total City Attorney's Office	<u>134,550</u>	<u>130,173</u>	<u>4,377</u>
City Clerk's Office			
Personnel	286,700	291,370	(4,670)
Commodities	27,300	25,923	1,377
Contractual services	64,800	55,573	9,227
Other charges	17,460	15,969	1,491
Total City Clerk's Office	<u>396,260</u>	<u>388,835</u>	<u>7,425</u>

Continued.....

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Expenditures
Budget and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Assessor's Office			
Personnel	\$ 312,100	\$ 222,518	\$ 89,582
Commodities	12,500	11,554	946
Contractual services	41,800	79,834	(38,034)
Other charges	3,100	2,597	503
Total Assessor's Office	<u>369,500</u>	<u>316,503</u>	<u>52,997</u>
Treasurer's Office			
Personnel	309,200	300,075	9,125
Commodities	20,800	13,115	7,685
Contractual services	40,500	41,013	(513)
Other charges	7,500	6,989	511
Total Treasurer's Office	<u>378,000</u>	<u>361,192</u>	<u>16,808</u>
Building and grounds			
Other charges	<u>155,000</u>	<u>133,869</u>	<u>21,131</u>
Planning/Zoning			
Personnel	365,340	359,663	5,677
Commodities	4,000	5,858	(1,858)
Contractual services	20,700	17,392	3,308
Other charges	12,200	13,483	(1,283)
Total Planning/Zoning	<u>402,240</u>	<u>396,396</u>	<u>5,844</u>
Cemetery			
Personnel	144,700	158,955	(14,255)
Commodities	9,000	8,727	273
Contractual services	129,500	55,048	74,452
Other charges	59,000	63,985	(4,985)
Total Cemetery	<u>342,200</u>	<u>286,715</u>	<u>55,485</u>
Appropriations	<u>142,000</u>	<u>95,094</u>	<u>46,906</u>
Capital outlay	<u>55,000</u>	<u>53,599</u>	<u>1,401</u>
Total general government	<u>2,984,070</u>	<u>2,752,056</u>	<u>232,014</u>
Public Safety			
Police			
Personnel	2,572,900	2,591,459	(18,559)
Commodities	79,900	76,567	3,333
Contractual services	411,400	383,422	27,978
Other charges	367,450	321,091	46,359
Total Police	<u>3,431,650</u>	<u>3,372,539</u>	<u>59,111</u>

Continued.....

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Expenditures
Budget and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fire			
Personnel	\$ 2,114,755	\$ 2,008,569	\$ 106,186
Commodities	78,575	71,566	7,009
Contractual services	99,775	92,452	7,323
Other charges	314,850	287,308	27,542
Total Fire	2,607,955	2,459,895	148,060
Total public safety	6,039,605	5,832,434	207,171
Public Works			
Streets, alleys and sidewalks			
Personnel	299,000	336,257	(37,257)
Commodities	30,000	42,652	(12,652)
Contractual services	164,900	159,005	5,895
Other charges	61,900	24,697	37,203
Total Streets, Alleys and Sidewalks	555,800	562,611	(6,811)
Engineering			
Personnel	563,800	560,305	3,495
Commodities	18,000	20,901	(2,901)
Contractual services	49,200	26,362	22,838
Other charges	15,400	12,069	3,331
Total Engineering	646,400	619,637	26,763
Total public works	1,202,200	1,182,248	19,952
Recreation and Culture			
Parks			
Personnel	825,350	835,166	(9,816)
Commodities	54,800	52,384	2,416
Contractual services	219,500	192,931	26,569
Other charges	514,800	481,530	33,270
Total Parks	1,614,450	1,562,011	52,439
Total expenditures	\$ 11,840,325	\$ 11,328,749	\$ 511,576

Concluded

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Transfers
Budget and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Transfers in			
Brown Bridge Trust	\$ 320,000	\$ 246,998	\$ (73,002)
Other funds	16,000	13,125	(2,875)
City fee	603,700	665,269	61,569
Total Transfers In	<u>\$ 939,700</u>	<u>\$ 925,392</u>	<u>\$ (14,308)</u>
Transfers out			
Motor Vehicle Highway	\$ 908,300	\$ 919,629	\$ (11,329)
Public Improvement	1,105,000	1,105,000	-
Con Foster Museum	50,000	51,965	(1,965)
Boardman River Dam Removal & Restoration	20,000	20,000	-
Total Transfers Out	<u>\$ 2,083,300</u>	<u>\$ 2,096,594</u>	<u>\$ (13,294)</u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Capital Projects Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Federal sources	\$ 745,000	\$ 754,334	\$ 9,334
State sources	720,603	511,750	(208,853)
Contributions	1,677,600	2,514,282	836,682
Reimbursement	-	60,856	60,856
Interest income	100	1,343	1,243
Other revenue	303,000	2,670	(300,330)
Total revenues	3,446,303	3,845,235	398,932
Expenditures			
Capital outlay	4,667,403	4,589,186	78,217
Expenditures over (under) revenues	(1,221,100)	(743,951)	477,149
Other financing sources			
Proceeds from sale of assets	-	289,080	289,080
Transfers in	1,155,000	1,391,680	236,680
Total other financing sources	1,155,000	1,680,760	525,760
Net change in fund balance	(66,100)	936,809	1,002,909
Fund balance, beginning of year	1,632,255	1,632,255	-
Fund balance, end of year	\$ 1,566,155	\$ 2,569,064	\$ 1,002,909

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Assets					
Cash and cash equivalents	\$ 266,631	\$ 100	\$ 2,141,899	\$ 193,340	\$ 2,601,970
Investments	95,479	-	4,874	528,445	628,798
Receivables					
Accounts	8,124	-	-	-	8,124
Taxes	-	-	2,667	-	2,667
Special assessments	-	-	228,524	-	228,524
Due from other governments	36,825	-	-	-	36,825
Total assets	\$ 407,059	\$ 100	\$ 2,377,964	\$ 721,785	\$ 3,506,908
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 5,560	\$ -	\$ -	\$ -	\$ 5,560
Accrued and other liabilities	207	-	1,315	-	1,522
Due to other funds	33,031	-	-	12,476	45,507
Advance from component unit	-	-	10,998	-	10,998
Total liabilities	38,798	-	12,313	12,476	63,587
Deferred inflows of resources					
Unavailable revenue	12,613	-	217,890	-	230,503
Fund balances					
Nonspendable					
Cemetery perpetual care	-	-	-	709,309	709,309
Restricted					
Debt service	-	100	-	-	100
Joint planning	13,487	-	-	-	13,487
Capital improvements	215,356	-	845,381	-	1,060,737
Public safety training	2,474	-	-	-	2,474
Public welfare or civic improvement organizations	107,800	-	-	-	107,800
Act 345 retirement	16,531	-	-	-	16,531
Committed					
Capital improvements	-	-	1,302,380	-	1,302,380
Total fund balances	355,648	100	2,147,761	709,309	3,212,818
Total liabilities, deferred inflows of resources, and fund balances	\$ 407,059	\$ 100	\$ 2,377,964	\$ 721,785	\$ 3,506,908

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues					
Property taxes and special assessments	\$ 1,639,444	\$ -	\$ 68,811	\$ -	\$ 1,708,255
Federal sources	236,261	-	-	-	236,261
State sources	5,187	-	-	-	5,187
Local sources	-	1,879,650	-	-	1,879,650
Charges for services	25,869	-	-	16,028	41,897
Contributions	41,117	-	-	-	41,117
Interest income	1,720	-	5,665	(797)	6,588
Total revenues	<u>1,949,598</u>	<u>1,879,650</u>	<u>74,476</u>	<u>15,231</u>	<u>3,918,955</u>
Expenditures					
Current expenditures					
General government	191,798	-	-	-	191,798
Public safety	1,563,775	-	-	-	1,563,775
Capital outlay	69,663	-	182,692	-	252,355
Debt service					
Principal	-	1,285,000	-	-	1,285,000
Interest and fiscal charges	2,651	594,750	-	-	597,401
Total expenditures	<u>1,827,887</u>	<u>1,879,750</u>	<u>182,692</u>	<u>-</u>	<u>3,890,329</u>
Excess (deficiency) of revenues over expenditures	121,711	(100)	(108,216)	15,231	28,626
Other financing (uses)					
Transfers out	(2,977)	-	(236,680)	(12,476)	(252,133)
Net change in fund balance	<u>118,734</u>	<u>(100)</u>	<u>(344,896)</u>	<u>2,755</u>	<u>(223,507)</u>
Fund balances, beginning of year	236,914	200	2,492,657	706,554	3,436,325
Fund balances, end of year	<u>\$ 355,648</u>	<u>\$ 100</u>	<u>\$ 2,147,761</u>	<u>\$ 709,309</u>	<u>\$ 3,212,818</u>

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2013

	<u>Act 302 Police Training Fund</u>	<u>State Preparedness Equipment Grant Fund</u>	<u>College Parking Fund</u>	<u>Act 345 Millage Fund</u>	<u>Traverse City and Garfield Township Joint Planning Fund</u>	<u>PEG Capital Fund</u>
ASSETS						
Assets						
Cash and cash equivalents	\$ 2,474	\$ -	\$ 3,917	\$ 19,604	\$ 10,487	\$ 4,945
Investments	-	-	-	-	-	-
Receivables						
Accounts	-	-	-	627	3,000	4,497
Due from other governments	-	-	-	-	-	-
Total assets	<u>\$ 2,474</u>	<u>\$ -</u>	<u>\$ 3,917</u>	<u>\$ 20,231</u>	<u>\$ 13,487</u>	<u>\$ 9,442</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 1,860	\$ 3,700	\$ -	\$ -
Accrued and other liabilities	-	-	207	-	-	-
Due to other funds	-	-	1,850	-	-	-
Advances from other funds	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>3,917</u>	<u>3,700</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources						
Unavailable revenue	-	-	-	-	-	-
Fund balances						
Restricted						
Joint planning	-	-	-	-	13,487	-
Capital improvements	-	-	-	-	-	9,442
Public safety training	2,474	-	-	-	-	-
Public welfare or civic improvement organizations	-	-	-	-	-	-
Act 345 retirement	-	-	-	16,531	-	-
Total fund balances	<u>2,474</u>	<u>-</u>	<u>-</u>	<u>16,531</u>	<u>13,487</u>	<u>9,442</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,474</u>	<u>\$ -</u>	<u>\$ 3,917</u>	<u>\$ 20,231</u>	<u>\$ 13,487</u>	<u>\$ 9,442</u>

Continued...

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2013

	Senior Center Building Fund	Homeland Security Training Grant Fund	McCauley Estate Trust Fund	Better Buildings Grant Fund	Total
ASSETS					
Assets					
Cash and cash equivalents	\$ 218,527	\$ -	\$ 6,677	\$ -	\$ 266,631
Investments	-	-	95,479	-	95,479
Receivables					
Accounts	-	-	-	-	8,124
Due from other governments	-	-	-	36,825	36,825
Total assets	\$ 218,527	\$ -	\$ 102,156	\$ 36,825	\$ 407,059
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 5,560
Accrued and other liabilities	-	-	-	-	207
Due to other funds	-	-	2,977	28,204	33,031
Total liabilities	-	-	2,977	28,204	38,798
Deferred inflows of resources					
Unavailable revenue	12,613	-	-	-	12,613
Fund balances					
Restricted					
Joint planning	-	-	-	-	13,487
Capital improvements	205,914	-	-	-	215,356
Public safety training	-	-	-	-	2,474
Public welfare or civic improvement organizations	-	-	99,179	8,621	107,800
Act 345 retirement	-	-	-	-	16,531
Total fund balances	205,914	-	99,179	8,621	355,648
Total liabilities, deferred inflows of resources, and fund balances	\$ 218,527	\$ -	\$ 102,156	\$ 36,825	\$ 407,059

Concluded

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2013

	Act 302 Police Training Fund	State Preparedness Equipment Grant Fund	College Parking Fund	Act 345 Millage Fund	Traverse City and Garfield Township Joint Planning Fund	PEG Capital Fund
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ 1,639,444	\$ -	\$ -
Federal sources	-	61,710	-	-	-	-
State sources	5,187	-	-	-	-	-
Charges for services	-	-	25,869	-	-	-
Contributions	-	16,500	-	-	6,000	18,455
Interest income	-	-	-	1,220	-	-
Total revenues	5,187	78,210	25,869	1,640,664	6,000	18,455
Expenditures						
Current expenditures						
General government	-	-	26,439	-	3,979	-
Public safety	3,834	23,210	-	1,532,181	-	-
Capital outlay	-	55,000	-	-	-	14,663
Debt service						
Interest and fiscal charges	-	-	-	2,651	-	-
Total expenditures	3,834	78,210	26,439	1,534,832	3,979	14,663
Excess (deficiency) of revenues over expenditures	1,353	-	(570)	105,832	2,021	3,792
Other financing (uses)						
Transfers out	-	-	-	-	-	-
Net change in fund balance	1,353	-	(570)	105,832	2,021	3,792
Fund balances (deficit), beginning of year	1,121	-	570	(89,301)	11,466	5,650
Fund balances, end of year	\$ 2,474	\$ -	\$ -	\$ 16,531	\$ 13,487	\$ 9,442

Continued....

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2013

	Senior Center Building Fund	Homeland Security Training Grant Fund	McCauley Estate Trust Fund	Better Buildings Grant Fund	Total
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,639,444
Federal sources	-	4,550	-	170,001	236,261
State sources	-	-	-	-	5,187
Charges for services	-	-	-	-	25,869
Contributions	162	-	-	-	41,117
Interest income	189	-	311	-	1,720
Total revenues	351	4,550	311	170,001	1,949,598
Expenditures					
Current expenditures					
General government	-	-	-	161,380	191,798
Public safety	-	4,550	-	-	1,563,775
Capital outlay	-	-	-	-	69,663
Debt service					
Interest and fiscal charges	-	-	-	-	2,651
Total expenditures	-	4,550	-	161,380	1,827,887
Excess (deficiency) of revenues over expenditures	351	-	311	8,621	121,711
Other financing (uses)					
Transfers out	-	-	(2,977)	-	(2,977)
Net change in fund balance	351	-	(2,666)	8,621	118,734
Fund balances (deficit), beginning of year	205,563	-	101,845	-	236,914
Fund balances, end of year	\$ 205,914	\$ -	\$ 99,179	\$ 8,621	\$ 355,648

Concluded

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
ACT 302 Police Training Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
State sources	\$ 6,500	\$ 5,187	\$ (1,313)
Expenditures			
Public safety			
Contractual services	6,500	3,834	2,666
Net change in fund balance	-	1,353	1,353
Fund balance, beginning of year	1,121	1,121	-
Fund balance, end of year	\$ 1,121	\$ 2,474	\$ 1,353

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
State Preparedness Equipment Grant Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Federal sources	\$ 125,000	\$ 61,710	\$ (63,290)
Contributions	-	16,500	16,500
	<u>125,000</u>	<u>78,210</u>	<u>(46,790)</u>
Expenditures			
Public safety			
Contractual services	-	23,210	(23,210)
Capital outlay	<u>125,000</u>	<u>55,000</u>	<u>70,000</u>
Total expenditures	<u>125,000</u>	<u>78,210</u>	<u>46,790</u>
Net change in fund balance	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
College Parking Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Charges for services	\$ 30,000	\$ 25,869	\$ (4,131)
Expenditures			
General government			
Personnel	5,630	5,246	384
Contractual services	21,270	19,989	1,281
Commodities	400	-	400
Other expense	2,700	1,204	1,496
Total expenditures	30,000	26,439	3,561
Net change in fund balance	-	(570)	(570)
Fund balance, beginning of year	570	570	-
Fund balance, end of year	\$ 570	\$ -	\$ (570)

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
Act 345 Millage Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Property taxes	\$ 1,632,700	\$ 1,639,444	\$ 6,744
Interest income	-	1,220	1,220
Total revenues	<u>1,632,700</u>	<u>1,640,664</u>	<u>7,964</u>
Expenditures			
Public safety			
Other expense	1,630,000	1,532,181	97,819
Debt service			
Interest and fiscal charges	2,700	2,651	49
Total expenditures	<u>1,632,700</u>	<u>1,534,832</u>	<u>97,868</u>
Net change in fund balance	-	105,832	105,832
Fund balance (deficit), beginning of year	(89,301)	(89,301)	-
Fund balance (deficit), end of year	<u>\$ (89,301)</u>	<u>\$ 16,531</u>	<u>\$ 105,832</u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
Traverse City and Garfield Township Joint Planning Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues			
Contributions	\$ 6,000	\$ 6,000	\$ -
Expenditures			
General government			
Personnel	1,500	-	1,500
Contractual services	3,000	3,979	(979)
Supplies	1,500	-	1,500
Total expenditures	6,000	3,979	2,021
Net change in fund balance	-	2,021	2,021
Fund balance, beginning of year	11,466	11,466	-
Fund balance, end of year	\$ 11,466	\$ 13,487	\$ 2,021

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
PEG Capital Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Contributions	\$ 23,000	\$ 18,455	\$ (4,545)
Expenditures			
Capital Outlay	23,000	14,663	8,337
Net change in fund balance	-	3,792	3,792
Fund balance, beginning of year	5,650	5,650	-
Fund balance, end of year	<u><u>\$ 5,650</u></u>	<u><u>\$ 9,442</u></u>	<u><u>\$ 3,792</u></u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
Senior Center Building Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Contributions	\$ -	\$ 162	\$ 162
Interest income	-	189	189
Net change in fund balance	<u>-</u>	<u>351</u>	<u>351</u>
Fund balance, beginning of year	<u>205,563</u>	<u>205,563</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 205,563</u></u>	<u><u>\$ 205,914</u></u>	<u><u>\$ 351</u></u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
Homeland Security Training Grant Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Federal sources	\$ 30,000	\$ 4,550	\$ (25,450)
Expenditures			
Public safety			
Personnel	21,650	-	21,650
Contractual services	8,350	4,550	3,800
Total expenditures	<u>30,000</u>	<u>4,550</u>	<u>25,450</u>
Net change in fund balance	-	-	-
Fund balance, beginning of year	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
McCauley Estate Trust Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Interest income	\$ 3,100	\$ 311	\$ (2,789)
Other financing uses			
Transfer out	<u>(3,100)</u>	<u>(2,977)</u>	<u>123</u>
Net change in fund balance	-	(2,666)	(2,666)
Fund balance, beginning of year	<u>101,845</u>	<u>101,845</u>	<u>-</u>
Fund balance, end of year	<u>\$ 101,845</u>	<u>\$ 99,179</u>	<u>\$ (2,666)</u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
Better Buildings Grant Special Revenue Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Federal sources	\$ 230,000	\$ 170,001	\$ (59,999)
Expenditures			
General government			
Contractual services	230,000	161,380	68,620
Net change in fund balance	-	8,621	8,621
Fund balance, beginning of year	-	-	-
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ 8,621</u></u>	<u><u>\$ 8,621</u></u>

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2013

	Parking Deck Bond Redemption Taxable	Parking Deck Bond Redemption Non-Taxable	Old Town Parking Deck Bond Redemption	Total
ASSETS				
Assets				
Cash	\$ 100	\$ -	\$ -	\$ 100
Fund balances				
Restricted for debt service	\$ 100	\$ -	\$ -	\$ 100

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2013

	Parking Deck Bond Redemption Taxable	Parking Deck Bond Redemption Non-Taxable	Old Town Parking Deck Bond Redemption	Total
Revenues				
Local sources	\$ 166,750	\$ 555,331	\$ 1,157,569	\$ 1,879,650
Expenditures				
Debt service				
Principal	125,000	160,000	1,000,000	1,285,000
Interest and fiscal charges	41,750	395,331	157,669	594,750
Total expenditures	166,750	555,331	1,157,669	1,879,750
Net change in fund balances	-	-	(100)	(100)
Fund balances, beginning of year	100	-	100	200
Fund balances, end of year	\$ 100	\$ -	\$ -	\$ 100

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Parking Deck Bond Redemption Taxable Debt Service Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Local sources	\$ 167,000	\$ 166,750	\$ (250)
Expenditures			
Debt service			
Principal	125,000	125,000	-
Interest and fiscal charges	42,000	41,750	250
Total expenditures	167,000	166,750	250
Net change in fund balance	-	-	-
Fund balance, beginning of year	100	100	-
Fund balance, end of year	\$ 100	\$ 100	\$ -

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Parking Deck Bond Redemption Non-Taxable Debt Service Fund
For the Year Ended June 30, 2013

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Local sources	\$ 556,000	\$ 555,331	\$ (669)
Expenditures			
Debt service			
Principal	160,000	160,000	-
Interest and fiscal charges	396,000	395,331	669
Total expenditures	556,000	555,331	669
Net change in fund balance	-	-	-
Fund balance, beginning of year	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Old Town Parking Deck Bond Redemption Debt Service Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Local sources	\$ 1,158,500	\$ 1,157,569	\$ (931)
Expenditures			
Debt service			
Principal	1,000,000	1,000,000	-
Interest and fiscal charges	158,500	157,669	831
Total expenditures	1,158,500	1,157,669	831
Net change in fund balance	-	(100)	(100)
Fund balance, beginning of year	100	100	-
Fund balance, end of year	\$ 100	\$ -	\$ (100)

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2013

	Parking Deck Bond Construction Taxable	Parking Bond Construction Non-taxable	Special Assessments	Total
ASSETS				
Assets				
Cash and cash equivalents	\$ 107,236	\$ 738,145	\$ 1,296,518	\$ 2,141,899
Investments	-	-	4,874	4,874
Receivables				
Taxes	-	-	2,667	2,667
Special assessments	-	-	228,524	228,524
Total assets	<u>\$ 107,236</u>	<u>\$ 738,145</u>	<u>\$ 1,532,583</u>	<u>\$ 2,377,964</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE				
Liabilities				
Accrued and other liabilities	\$ -	\$ -	\$ 1,315	\$ 1,315
Advance from component unit	-	-	10,998	10,998
Total liabilities	<u>-</u>	<u>-</u>	<u>12,313</u>	<u>12,313</u>
Deferred inflows of resources				
Unavailable revenue	-	-	217,890	217,890
Fund balances				
Restricted				
Capital improvements	107,236	738,145	-	845,381
Committed				
Capital improvements	-	-	1,302,380	1,302,380
Total fund balances	<u>107,236</u>	<u>738,145</u>	<u>1,302,380</u>	<u>2,147,761</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 107,236</u>	<u>\$ 738,145</u>	<u>\$ 1,532,583</u>	<u>\$ 2,377,964</u>

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2013

	Parking Deck Bond Construction Taxable	Parking Deck Bond Construction Non-Taxable	Special Assessments	Total
Revenues				
Special assessments	\$ -	\$ -	\$ 68,811	\$ 68,811
Interest income	157	1,918	3,590	5,665
Total revenues	157	1,918	72,401	74,476
Expenditures				
Capital outlay	-	-	182,692	182,692
Excess (deficiency) of revenues over expenditures	157	1,918	(110,291)	(108,216)
Other financing uses				
Transfer out	-	(236,680)	-	(236,680)
Net change in fund balances	157	(234,762)	(110,291)	(344,896)
Fund balances, beginning of year	107,079	972,907	1,412,671	2,492,657
Fund balances, end of year	\$ 107,236	\$ 738,145	\$ 1,302,380	\$ 2,147,761

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Parking Deck Bond Construction Taxable Capital Projects Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenue			
Interest income	\$ 1,000	\$ 157	\$ (843)
Expenditures			
Capital outlay	<u>108,000</u>	<u>-</u>	<u>108,000</u>
Net change in fund balance	(107,000)	157	107,157
Fund balance, beginning of year	<u>107,079</u>	<u>107,079</u>	<u>-</u>
Fund balance, end of year	<u>\$ 79</u>	<u>\$ 107,236</u>	<u>\$ 107,157</u>

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (GAAP Basis) and Actual
Parking Deck Bond Construction Non-Taxable Capital Projects Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Interest income	\$ 5,000	\$ 1,918	\$ (3,082)
Expenditures			
Capital outlay	980,000	-	980,000
Excess (deficiency) of revenues over expenditures	(975,000)	1,918	(983,082)
Other financial uses			
Transfers out	-	(236,680)	236,680
Net change in fund balance	(975,000)	(234,762)	740,238
Fund balance, beginning of year	972,907	972,907	-
Fund balance, end of year	\$ (2,093)	\$ 738,145	\$ 740,238

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Special Assessments Capital Projects Fund
For the Year Ended June 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Special assessments	\$ 101,335	\$ 68,811	\$ (32,524)
Contributions	92,000	-	(92,000)
Interest income	6,500	3,590	(2,910)
Total revenues	199,835	72,401	(127,434)
Expenditures			
Capital outlay	533,635	182,692	350,943
Excess (deficiency) of revenues over expenditures	(333,800)	(110,291)	223,509
Other financing sources			
Transfers in	10,000	-	(10,000)
Net change in fund balance	(323,800)	(110,291)	213,509
Fund balance, beginning of year	1,412,671	1,412,671	-
Fund balance, end of year	\$ 1,088,871	\$ 1,302,380	\$ 213,509

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2013

	Tax Collection	Imprest Payroll	Retiree Health Insurance	Total
Assets				
Cash and cash equivalents	\$ 71,153	\$ 7,883	\$ -	\$ 79,036
Receivables				
Accounts	-	1,342	57,790	59,132
Taxes	115,826	-	-	115,826
Total assets	\$ 186,979	\$ 9,225	\$ 57,790	\$ 253,994
Liabilities				
Accrued and other liabilities	\$ -	\$ 9,225	\$ 57,790	\$ 67,015
Due to other governmental units	186,979	-	-	186,979
Total liabilities	\$ 186,979	\$ 9,225	\$ 57,790	\$ 253,994

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2013

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
TAX COLLECTION				
Assets				
Cash and cash equivalents	\$ 63,691	\$ 38,684,920	\$ 38,677,458	\$ 71,153
Taxes receivable	121,062	40,940,178	40,945,414	115,826
Total assets	<u>\$ 184,753</u>	<u>\$ 79,625,098</u>	<u>\$ 79,622,872</u>	<u>\$ 186,979</u>
Liabilities				
Due to other governmental units	\$ 184,753	\$ 79,625,098	\$ 79,622,872	\$ 186,979
IMPREST PAYROLL				
Assets				
Cash and cash equivalents	\$ 36,948	\$ 12,800,687	\$ 12,829,752	\$ 7,883
Accounts receivable	-	168,129	166,787	1,342
Total assets	<u>\$ 36,948</u>	<u>\$ 12,968,816</u>	<u>\$ 12,996,539</u>	<u>\$ 9,225</u>
Liabilities				
Accrued and other liabilities	\$ 36,948	\$ 13,034,916	\$ 13,062,639	\$ 9,225
Act 345 RETIREE HEALTH INSURANCE				
Assets				
Cash and cash equivalents	\$ 4,107,617	-	\$ 4,107,617	-
Liabilities				
Accrued and other liabilities	\$ 4,107,617	-	\$ 4,107,617	-
RETIREE HEALTH INSURANCE				
Assets				
Cash and cash equivalents	\$ 1,421,890	\$ 34,638	\$ 1,456,528	-
Accounts receivable	-	57,790	-	57,790
Total assets	<u>\$ 1,421,890</u>	<u>\$ 92,428</u>	<u>\$ 1,456,528</u>	<u>\$ 57,790</u>
Liabilities				
Accrued and other liabilities	\$ 1,421,890	\$ 92,428	\$ 1,456,528	\$ 57,790

Continued....

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2013

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
TOTAL - ALL AGENCY FUNDS				
Assets				
Cash and cash equivalents	\$ 5,630,146	\$ 51,520,245	\$ 57,071,355	\$ 79,036
Receivables				
Accounts	-	225,919	166,787	59,132
Taxes	<u>121,062</u>	<u>40,940,178</u>	<u>40,945,414</u>	<u>115,826</u>
Total assets	<u>\$ 5,751,208</u>	<u>\$ 92,686,342</u>	<u>\$ 98,183,556</u>	<u>\$ 253,994</u>
Liabilities				
Accrued and other liabilities	\$ 5,566,455	\$ 13,127,344	\$ 18,626,784	\$ 67,015
Due to other governmental units	<u>184,753</u>	<u>79,625,098</u>	<u>79,622,872</u>	<u>186,979</u>
Total liabilities	<u>\$ 5,751,208</u>	<u>\$ 92,752,442</u>	<u>\$ 98,249,656</u>	<u>\$ 253,994</u>

Concluded

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Fiduciary Net Position
Pension and Other Postemployment Benefit Trust Funds
June 30, 2013

	Act 345 Retirement System	Act 345 Retiree Health Insurance Trust	Retiree Health Insurance Trust
Assets			
Cash and cash equivalents	\$ 1,960,273	\$ 4,272,175	\$ -
Investments, at fair value			
U.S. Government Agencies bonds and notes	3,219,012	-	-
Mortgage bonds	100,949	-	-
Common stock	4,786,092	-	-
Mutual funds	9,235,127	-	-
Corporate bonds	1,814,584	-	-
Direct real estate investments	850,000	-	-
MERS total market fund	-	-	1,518,996
Receivables			
Other	-	-	1,423,691
Accrued interest	38,892	-	-
Due from other funds	908,965	-	-
Total assets	<u>22,913,894</u>	<u>4,272,175</u>	<u>2,942,687</u>
Liabilities			
Accrued and other liabilities	3,589	-	-
Due to other funds	-	908,965	-
Total liabilities	<u>3,589</u>	<u>908,965</u>	<u>-</u>
Net Position			
Held in trust for pension benefits and other postemployment benefits	<u>\$ 22,910,305</u>	<u>\$ 3,363,210</u>	<u>\$ 2,942,687</u>

Total

\$ 6,232,448

3,219,012

100,949

4,786,092

9,235,127

1,814,584

850,000

1,518,996

1,423,691

38,892

908,965

30,128,756

3,589

908,965

912,554

\$ 29,216,202

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Postemployment Benefit Trust Funds
For the Year Ended June 30, 2013

	Act 345 Retirement System	Act 345 Retiree Health Insurance Trust	Retiree Health Insurance Trust	Total
Additions				
Contributions				
City contributions	\$ 1,532,181	\$ 417,585	\$ 239,694	\$ 2,189,460
Employee contributions	74,264	-	-	74,264
Total contributions	1,606,445	417,585	239,694	2,263,724
Investment earnings				
Investment income	272,875	4,672	137,390	414,937
Net appreciation in fair value of investments	2,526,192	-	-	2,526,192
Net investment earnings	2,799,067	4,672	137,390	2,941,129
Total additions	4,405,512	422,257	377,084	5,204,853
Deductions				
Pension benefits paid	1,872,620	-	-	1,872,620
Health insurance premiums paid	-	333,534	-	333,534
Administrative expense	21,400	-	-	21,400
Investment advisor fees	111,802	-	-	111,802
Total deductions	2,005,822	333,534	-	2,339,356
Transfers				
Agency fund assets transferred to Act 345 Health Insurance Trust	-	4,107,617	-	4,107,617
Health insurance reserves transferred to Act 345 Health Insurance Trust	833,130	(833,130)	-	-
Total transfers	833,130	3,274,487	-	4,107,617
Net increase in plan assets attributable to pension plan	2,399,690			
Net increase in plan assets attributable to health insurance	4,573,424	3,232,820	377,084	6,973,114
Net position held in trust, beginning of year	19,677,485	-	2,565,603	22,243,088
Net position held in trust, end of year, attributable to pension plan	22,910,305			
Net position held in trust, end of year, attributable to health insurance	6,305,897	\$ 3,363,210	\$ 2,942,687	\$ 29,216,202

CITY OF TRAVERSE CITY, MICHIGAN
General Governmental Revenues by Source (Unaudited)
General Fund before GASB 54 Consolidation
Last ten fiscal years

Fiscal years ending June 30,	Taxes	Licenses and permits	Federal sources	State Share Revenue	Other State sources	Charges for services	Fines and forfeitures	Reimbursements	Other revenues	Transfer in	Total revenues
2004	\$ 6,964,990	\$ 197,834	\$ 37,243	\$ 1,400,207	\$ 22,224	\$ 451,519	\$ 78,822	\$ 294,302	\$ 1,894,848	\$ 267,596	\$ 11,609,585
2005	7,552,857	207,619	67,730	1,384,945	25,239	434,465	86,207	519,368	2,059,315	328,431	12,666,176
2006	7,970,675	208,837	38,584	1,369,536	24,869	471,701	75,311	575,182	2,452,553	392,092	13,579,340
2007	8,401,296	209,985	37,441	1,328,752	26,472	318,908	61,726	666,199	2,344,919	898,610	14,294,308
2008	8,869,302	216,745	39,621	1,328,895	26,677	323,938	64,028	498,853	2,397,721	937,958	14,703,738
2009	8,946,172	220,564	50,440	1,271,737	27,874	349,598	83,201	390,960	2,087,122	916,438	14,344,106
2010	8,362,861	230,131	37,925	1,131,864	28,995	350,136	76,137	470,363	1,948,861	875,457	13,512,730
2011	8,292,778	239,790	37,450	1,135,353	52,511	377,041	19,003	435,633	1,929,835	1,002,587	13,521,981
2012	7,814,118	254,302	20,502	1,192,663	42,583	352,526	16,645	434,773	1,992,345	1,278,660	13,399,117
2013	7,936,306	274,612	19,794	1,224,691	62,819	312,323	8,366	489,006	2,003,349	925,392	13,256,658

CITY OF TRAVERSE CITY, MICHIGAN
General Governmental Expenditures by Function (Unaudited)
General Fund before GASB 54 Consolidation
Last ten fiscal years

Fiscal years ending June 30,	General government	Public safety	Streets, alleys and sidewalks	Culture and recreation	Other	Transfer out	Total expenditures
2004	\$ 1,615,893	\$ 5,630,071	\$ 373,689	\$ 1,404,893	\$ 1,783,939	\$ 1,160,682	\$ 11,969,167
2005	1,772,334	6,253,646	363,012	1,424,539	1,918,853	972,237	12,704,621
2006	1,813,736	6,641,897	213,461	1,507,000	1,908,819	1,367,699	13,452,612
2007	1,986,207	7,047,105	(21,438)	1,567,482	1,788,606	1,645,080	14,013,042
2008	1,934,839	7,115,999	139,295	1,662,899	1,504,808	2,134,936	14,492,776
2009	1,826,761	7,004,927	255	1,627,293	1,524,156	2,263,298	14,246,690
2010	1,918,983	5,870,187	221,443	1,587,921	1,587,058	2,080,483	13,266,075
2011	1,994,091	5,731,154	316,141	1,688,649	1,535,599	2,121,925	13,387,559
2012	1,913,661	5,735,950	573,186	1,680,362	1,467,930	1,985,326	13,356,415
2013	1,920,252	5,832,434	562,611	1,562,011	1,451,441	2,096,594	13,425,343

CITY OF TRAVERSE CITY, MICHIGAN
Debt Service Requirements to Maturity (Unaudited)

Fiscal years ending June 30,	Parking deck, series 2009		Parking deck non-taxable refunding bond		Parking deck taxable		Sewage disposal		Primary government
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total principal and interest
2014	\$ 1,250,000	\$ 132,669	\$ 205,000	\$ 388,932	\$ 125,000	\$ 33,750	\$ 1,125,232	\$ 410,868	\$ 3,671,451
2015	1,350,000	95,169	250,000	380,732	125,000	25,875	1,188,139	366,522	3,781,437
2016	1,415,000	51,294	295,000	370,731	135,000	17,875	1,012,853	319,535	3,617,288
2017	-	-	345,000	354,506	140,000	9,100	1,047,187	279,021	2,174,814
2018	-	-	540,000	335,531	-	-	1,092,966	237,134	2,205,631
2019	-	-	590,000	313,931	-	-	1,144,467	193,415	2,241,813
2020	-	-	645,000	290,331	-	-	1,187,384	147,636	2,270,351
2021	-	-	705,000	264,531	-	-	1,230,301	100,141	2,299,973
2022	-	-	770,000	236,331	-	-	1,273,219	50,929	2,330,479
2023	-	-	845,000	205,531	-	-	-	-	1,050,531
2024	-	-	860,000	171,731	-	-	-	-	1,031,731
2025	-	-	850,000	137,331	-	-	-	-	987,331
2026	-	-	845,000	103,331	-	-	-	-	948,331
2027	-	-	835,000	68,475	-	-	-	-	903,475
2028	-	-	825,000	34,031	-	-	-	-	859,031
Total	\$ 4,015,000	\$ 279,132	\$ 9,405,000	\$ 3,655,986	\$ 525,000	\$ 86,600	\$ 10,301,748	\$ 2,105,201	\$ 30,373,667

CITY OF TRAVERSE CITY, MICHIGAN
Property Tax Millage Rates - All Overlapping Governments (Unaudited)
Last ten fiscal years

Fiscal years ending June 30,	City	County	School	ISD	College	State Education Tax	Library	BATA	Recreational Authority	TOTAL
2004 - Homestead	13.3943	6.1772	3.1000	2.9929	3.0693	6.0000	1.2290	0.3500	-	36.3127
2004 - Non-Homestead	13.3943	6.1772	21.1000	2.9929	3.0693	6.0000	1.2290	0.3500	-	54.3127
2005 - Homestead	13.2295	6.0770	3.1000	2.9732	2.8324	6.0000	1.1957	0.3428	0.3700	36.1206
2005 - Non-Homestead	13.2295	6.0770	21.1000	2.9732	2.8324	6.0000	1.1957	0.3428	0.3700	54.1206
2006 - Homestead	13.2295	6.2495	3.1000	2.9589	2.9427	6.0000	1.1590	0.3380	0.3700	36.3476
2006 - Non-Homestead	13.2295	6.2495	21.1000	2.9589	2.9427	6.0000	1.1590	0.3380	0.3700	54.3476
2007 - Homestead	13.1765	6.1681	3.1000	2.9421	2.9138	6.0000	1.1029	0.3317	0.3594	36.0945
2007 - Non-Homestead	13.1765	6.1681	21.1000	2.9421	2.9138	6.0000	1.1029	0.3317	0.3594	54.0945
2008 - Homestead	13.1765	6.1291	3.1000	2.9334	2.8700	6.0000	1.1378	0.3283	0.3594	36.0345
2008 - Non-Homestead	13.1765	6.1291	21.1000	2.9334	2.8700	6.0000	1.1378	0.3283	0.3594	54.0345
2009 - Homestead	13.1765	6.1291	3.1000	2.9312	2.8700	6.0000	1.0998	0.3272	0.3594	35.9932
2009 - Non-Homestead	13.1765	6.1291	21.1000	2.9312	2.8700	6.0000	1.0998	0.3272	0.3594	53.9932
2010 - Homestead	13.1765	6.1291	3.1000	2.9312	2.8700	6.0000	1.0892	0.3454	0.3594	36.0008
2010 - Non-Homestead	13.1765	6.1291	21.1000	2.9312	2.8700	6.0000	1.0892	0.3454	0.3594	54.0008
2011 - Homestead	13.5567	6.2291	3.1000	2.9312	2.8700	6.0000	1.1145	0.3454	0.3594	36.5063
2011 - Non-Homestead	13.5567	6.2291	21.1000	2.9312	2.8700	6.0000	1.1145	0.3454	0.3594	54.5063
2012 - Homestead	13.0567	6.2433	3.1000	2.9312	2.9400	6.0000	1.1068	0.3454	0.3594	36.0828
2012 - Non-Homestead	13.0567	6.2433	21.1000	2.9312	2.9400	6.0000	1.1068	0.3454	0.3594	54.0828
2013 - Homestead	13.4367	6.2433	3.1000	2.9312	2.9200	6.0000	1.1092	0.3454	0.3594	36.4452
2013 - Non-Homestead	13.4367	6.2433	21.1000	2.9312	2.9200	6.0000	1.1092	0.3454	0.3594	54.4452

Notes:

The City's rate does not reflect a 1.8038 mill levy the Downtown Development District established in 1979. Millage rates above reflect operating and debt rates.

The County's rates include only Grand Traverse County and not Leelanau County.

CITY OF TRAVERSE CITY, MICHIGAN
Property Tax Collection History (Unaudited)
Last ten fiscal years

Levied July 1st	Tax Levy (1)	Collection to March 1, Year Following Levy	Percent Collected
2003	\$ 7,434,195	\$ 7,077,146	95.2 %
2004	7,244,443	6,953,163	96.0
2005	7,605,969	7,331,339	96.4
2006	8,035,507	7,710,107	96.0
2007	8,472,870	8,118,043	95.8
2008	8,827,035	8,267,087	93.7
2009	9,187,584	8,576,486	93.3
2010	9,406,649	8,853,276	94.1
2011	9,099,551	8,671,026	95.3
2012	9,484,358	9,174,395	96.7

(1) Real and personal taxes, City operating and ACT 345 pension levy combined

CITY OF TRAVERSE CITY, MICHIGAN
Taxable Value by Use and Class (Unaudited)
Last five years

City					
Use	June 30, 2009	June 30, 2010	June 30, 2011	June 30, 2012	June 30, 2013
Commercial	\$ 282,294,617	\$ 289,382,988	\$ 291,932,041	\$ 295,608,759	\$ 299,414,706
Industrial	54,172,374	57,538,324	53,985,894	51,233,253	48,490,192
Residential	405,772,669	429,643,538	433,421,745	445,207,867	454,940,161
Utility	4,871,300	5,087,600	5,535,446	5,614,500	5,894,200
Total	\$ 747,110,960	\$ 781,652,450	\$ 784,875,126	\$ 797,664,379	\$ 808,739,259
Class					
Real Property	\$ 678,904,820	\$ 713,225,050	\$ 717,972,224	\$ 730,779,379	\$ 743,493,894
Personal Property	68,206,140	68,427,400	66,902,902	66,885,000	65,245,365
Total	\$ 747,110,960	\$ 781,652,450	\$ 784,875,126	\$ 797,664,379	\$ 808,739,259
DDA					
Use	June 30, 2009	June 30, 2010	June 30, 2011	June 30, 2012	June 30, 2013
Commercial	\$ 90,749,129	\$ 93,149,182	\$ 94,999,083	\$ 96,803,190	\$ 98,081,194
Industrial	39,100	34,300	34,197	34,778	35,717
Residential	12,778,774	13,224,286	13,406,071	19,285,218	19,676,140
Utility	168,800	202,700	289,246	277,000	286,000
Total	\$ 103,735,803	\$ 106,610,468	\$ 108,728,597	\$ 116,400,186	\$ 118,079,051
Class					
Real Property	\$ 91,351,623	\$ 94,837,168	\$ 96,864,687	\$ 104,951,486	\$ 106,833,914
Personal Property	12,384,180	11,773,300	11,863,910	11,448,700	11,245,137
Total	\$ 103,735,803	\$ 106,610,468	\$ 108,728,597	\$ 116,400,186	\$ 118,079,051

CITY OF TRAVERSE CITY, MICHIGAN
Ten Largest Taxpayers (Unaudited)
June 30, 2013

Taxpayer	Principal Product or Service	Taxable Value	Percent of Ten Largest Taxpayers
VS Traverse City Real Estate HL	Real estate	\$ 5,270,900	12.74%
Big Olives 2 LLC	Commercial & residential property	4,597,719	11.11
Northwestern Bank	Commercial banking	4,593,324	11.10
Tom's Food Market	Grocery store	4,335,620	10.48
East Bay Plaza LLC	Commercial property	4,200,345	10.15
Harbour View Centre Condo	Commercial property	3,818,174	9.23
USA Bayshore Properties	Bayshore resort	3,708,547	8.96
Charter Communications	Cable Operator	3,635,900	8.79
Lake Street Properties VII LLC	Office	3,613,700	8.73
TC 92 Suites LLC	Cambria Suites hotel	3,600,000	8.71

(1) Based on \$808,739,259 which is the City's Taxable Value for its fiscal year ended June 30, 2013.

CITY OF TRAVERSE CITY, MICHIGAN
Legal Debt Margin (Unaudited)
June 30, 2013

Debt limit (1)		\$	96,907,314
Debt outstanding	54,991,854		
Less: Exempt debt (2)	<u>40,071,203</u>		<u>14,920,651</u>
Legal debt margin		\$	<u><u>81,986,663</u></u>

(1) 10% of \$969,073,137 which is the City's SEV for the fiscal year ending June 30, 2013.

(2) Consists of revenue bonds.

CITY OF TRAVERSE CITY
Debt Statement (Unaudited)
June 30, 2013

City Direct Debt	<u>Gross</u>	<u>Self Supporting</u>	<u>Net</u>
Share of Grand Traverse County Issued Bonds			
Dated December 1, 2003	\$ 597,817	\$ 597,817	\$ -
Dated April 1, 2011	10,792,321	10,792,321	-
Dated October 1, 1998	90,285	90,285	-
Subtotal	<u>11,480,423</u>	<u>11,480,423</u>	<u>-</u>
Share of Michigan Public Power Agency			
Dated January 15, 2006	1,728,955	1,728,955	-
Dated May 1, 2002	1,414,600	1,414,600	-
Dated December 2, 2002	6,271,559	6,271,559	-
Dated January 10, 2002	18,925,666	18,925,666	-
Subtotal	<u>28,340,780</u>	<u>28,340,780</u>	<u>-</u>
Water Revenue Bonds			
Dated November 1, 1992	250,000	250,000	-
Downtown Development Bonds			
Dated November 4, 2009	5,083,523	5,083,523	-
Dated February 7, 2007	9,187,128	9,187,128	-
Dated April 1, 2002B (Taxable)	650,000	650,000	-
Subtotal	<u>14,920,651</u>	<u>14,920,651</u>	<u>-</u>
Total	<u>\$ 54,991,854</u>	<u>\$ 54,991,854</u>	<u>\$ -</u>

Overlapping Debt	<u>Gross</u>	<u>City Share as Percent of Gross</u>	<u>Net</u>
Traverse City Public Schools	\$ 80,310,000	17.79%	\$ 14,287,149
Grand Traverse County	28,540,000	16.69%	4,763,326
Leelanau County	18,850,000	0.88%	165,880
Northwestern Michigan College	28,620,000	16.69%	4,776,678
Traverse City-Garfield Recreational Authority	6,095,000	45.74%	2,787,853
Traverse Area District Library	4,470,000	17.07%	763,029
Total	<u>\$ 166,885,000</u>		<u>\$ 27,543,915</u>

**City of Traverse City
Traverse City, Michigan**

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2013

City of Traverse City

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the City Commission
City of Traverse City
Traverse City, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Traverse City's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Traverse City's major federal programs for the year ended June 30, 2013. The City of Traverse City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Traverse City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the City of Traverse City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Traverse City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Traverse City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The result of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2013-2. Our opinion on each federal program is not modified with respect to this matter.

Report on Internal Control Over Compliance

Management of the City of Traverse City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the City of Traverse City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Traverse City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2013-2 to be a significant deficiency.

The City of Traverse City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings. The City of Traverse City's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Traverse City as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 20, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 20, 2013

City of Traverse City

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through Grand Traverse County Community Challenge Planning Grants	14.704	CCPM0012-10	\$ 36,919
U.S. DEPARTMENT OF THE INTERIOR			
Passed Through the Michigan Department of Natural Resources Land and Water Conservation Fund Grant	15.UNKNOWN	26-01712	100,000
U.S. DEPARTMENT OF JUSTICE			
Passed through Michigan Department of Community Health and Missaukee County Edward Byrne Memorial Justice Grant	16.738	72315-5-12-B	6,035
Edward Byrne Memorial Justice Grant	16.738	72315-6-13-B	<u>13,075</u>
			19,110
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through Grand Traverse County OSHP Safe Communities Grant	20.600	PT-12-30	684
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed Through the Watershed Center Grand Traverse Bay Great Lakes Program-East Bay Park ^(c)	66.469	GL-00E00865-0	599,282
Great Lakes Program-Bryant Park ^(c)	66.469	GL00512-0	<u>18,133</u>
			617,415
U.S. DEPARTMENT OF ENERGY			
Passed through the Michigan Department of Energy, Labor, and Economic Growth ARRA - Energy Efficiency and Conservation Block Grant ^(b)	81.128	BES-11-42	80,000
ARRA - Energy Efficiency and Conservation Block Grant	81.128	BES-11-26	<u>90,001</u>
			170,001
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Benzie County 2010 Homeland Security Grant Program	97.067		<u>66,260</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,010,389</u>

(a)

City of Traverse City

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the Federal grant activity of City of Traverse City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (c) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely, and contain information that is supported by the books and records from which the financial statements have been prepared.
- (b) Federal award is being passed through to subrecipient Michigan Saves.
- (c) Denotes program tested as "major program".

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the federal revenues reported in the June 30, 2013, basic financial statements to the expenditures of the City administered federal programs reported on the Schedule of Expenditures of Federal Awards:

Federal revenue per financial statements:	\$ 3,272,654
Less: CRA-Brownbridge dam removal	<u>(2,262,265)</u>
Total expenditures on Schedule of Expenditures of Federal Awards	<u>\$ 1,010,389</u>

Federal revenues related to the Brownbridge dam removal are not included in the SEFA because the grants were administered by the Conservation Resource Alliance (CRA).

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INDEPENDENT AUDITOR'S 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*

To the Honorable Mayor and
Members of the City Commission
City of Traverse City
Traverse City, Michigan

We have audited, in accordance with the auditing standards general in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Traverse City (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Traverse City's basic financial statements and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Traverse City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 City of Traverse City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and is described in the accompanying schedule of findings as item 2013-1.

Response to Findings

Management's responses to the findings identified in our audit are noted in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 20, 2013

City of Traverse City
 SCHEDULE OF FINDINGS
 Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? X Yes _____ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? X Yes _____ None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported by Section 510(a) of Circular A-133? X Yes _____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.469	Great Lakes Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

2013-1 BUDGETED FUND DEFICITS

Condition: It was noted that the City budgeted for deficit fund balances in several nonmajor special revenue funds.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable General and Special Revenue Funds and prohibits the appropriation of funds that are not available.

Cause: The City appropriated in these funds more than the total of beginning fund balance plus estimated revenues.

Effect: The City is not fully in compliance with Michigan Public Act 621 of 1978.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2013

Section II - Financial Statement Findings - Continued

2013-1 BUDGETED FUND DEFICITS - CONTINUED

Recommendation: We recommend the City review estimated revenues and beginning fund balance before making appropriations in the future.

Corrective Action Response: Initial budgets are adopted prior to the end of the previous fiscal year. At that point the actual ending fund balance for each fund is not known. The City staff will modify its written budget development process to include a step that compares the estimated budgeted beginning fund balance to the actual year end fund balance for all Public ACT 621 related funds and recommend any necessary amendments to the City Commission.

Section III - Federal Award Findings and Questioned Costs

2013-2 PAYROLL ESTIMATES

Program: CFDA 81.182 - ARRA - Energy Efficiency and Conservation Block Grant. Award number BES-11-26. Passed through the Michigan Department of Energy, Labor, and Economic Growth.

Condition: The City charged personnel costs to the federal award that were determined based on estimates with no adjustment to actual. Timesheets or personnel activity reports were not prepared in accordance with requirements detailed in OMB Circular A-87 to support the allocation of personnel charges to the grant. A similar issue was noted and reported in the prior year audit comments.

Criteria: OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports. The Circular requires these reports to reflect an after-the-fact distribution of actual activity for each employee. Additionally, the reports must account for the total activity for which the employee is compensated, they must be prepared at least monthly, and must coincide with one or more pay periods. The reports must be signed by the employee. For employees charged entirely to one program, the use of semi-annual certifications is also permissible.

Cause: Unknown.

Effect: The City is not fully in compliance with OMB Circular A-87.

Questioned Costs: No costs were required to be questioned as a result of this condition.

Recommendation: We recommend the City review the time and effort documentation requirements under OMB Circular A-87 and make necessary modifications to the existing processes.

Corrective Action Response: As part of preparing to account for each grant program, City staff will review the grant award document and determine whether City personnel costs are part of the project. For grants that have an employee assigned 100% to the grant, a semi-annual certification form will be used. For grants that have personnel costs assigned on an hourly basis, time reports will be used to develop spreadsheets that will be the basis for posting personnel costs to the grant program on a monthly basis.

City of Traverse City

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2013

FINDINGS/NONCOMPLIANCE

Control Deficiencies Related to Internal Controls Over the Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

Condition: The City charged personnel costs to a federal award which were determined based on estimates with no adjustment to actual.

Resolution: A similar issue was noted in the current audit and is reported as 2013-1.