

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT
AUTHORITY**

**(A Component Unit of the
City of Traverse City, Michigan)**

Traverse City, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2010**

CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the
City of Traverse City, Michigan)

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INDEPENDENT AUDITORS' REPORT

December 29, 2010

To the Board of the
City of Traverse City
Downtown Development Authority
Traverse City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Traverse City Downtown Development Authority*, (the "Authority"), a component unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Authority as of June 30, 2010, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Budgetary Comparisons on pages 20-22 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Management's Discussion and Analysis

As management of the *Downtown Development Authority* (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$8,979,256 (*net assets*). This amount (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,837,944.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$3,594,676, a decrease of \$151,308 in comparison with the prior year.
- The Brownfield Redevelopment Authority (BRA) committed \$3,453,997 for the building of the Old Town Deck. The BRA also approved up to \$518,100 for contingencies related to the public parking structure.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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).

Both of the government-wide financial statements distinguish functions of the Authority 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 their costs through user fees and charges (*business-type activities*). The Authority's governmental activity is economic development. The Authority has no business-type activities.

The government-wide financial statements include only the Authority itself. The Authority has no legally separate component units for which the Authority is financially accountable.

The government-wide financial statements can be found on pages 6-7 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority only has governmental funds. The Authority does not maintain enterprise or 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 on *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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for all three funds; the General Fund, TIF 2 and TIF 97 Special Revenue Funds, each of which are considered to be major funds.

The basic governmental funds financial statements can be found on pages 8-11 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-19 of this report.

Other Information

The Authority adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison schedules have been provided as required supplementary information to demonstrate compliance with those budgets.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Authority, assets exceeded liabilities by \$8,979,256 at the close of the most recent fiscal year.

Downtown Development Authority’s Net Assets

	June 30	
	2010	2009
Governmental activities		
Current and other assets	\$ 9,066,863	\$ 6,410,243
Long-term liabilities outstanding	75,152	77,652
Other liabilities	12,455	191,279
Total liabilities	<u>87,607</u>	<u>268,931</u>
Net assets		
Restricted	8,770,130	5,924,214
Unrestricted	<u>209,126</u>	<u>217,098</u>
Total net assets	<u>\$ 8,979,256</u>	<u>\$ 6,141,312</u>

The Authority's net assets reflects its restricted net assets for future expenditures within the guidelines of the tax increment finance district plans and unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Authority is able to report positive balances in both categories of net assets.

Governmental activities. The Authority's net assets increased by \$2,837,944, key highlights are as follows:

- Increase in net assets from prior year of approximately \$2,838,000 attributed to (1) increase in charges for services in the approximate amount of \$22,000, (2) decrease in operating grant for holiday LED lights in the amount of \$45,000, (3) increase in contributions from the Brownfield Redevelopment Authority in the amount of \$3,453,997, (4) increase in captured property taxes in the tax increment finance districts in the approximate amount of \$76,000, (5) increase in economic development expenditures in the approximate amount of \$1,138,000 which includes \$850,000 for the Old Town Parking deck bonds.

Downtown Development Authority's Changes in Net Assets

	June 30	
	2010	2009
Governmental activities		
Program revenues		
Charges for services	\$ 385,592	\$ 364,009
Operating grants	-	45,000
Capital grants and contributions	3,453,997	-
General revenues		
Property taxes	1,882,190	1,806,458
Unrestricted investment earnings	1,440	2,448
Total revenue	5,723,219	2,217,915
Expenses		
Economic development	2,885,275	1,747,386
Change in net assets	2,837,944	470,529
Net assets – beginning of year	6,141,312	5,670,783
Net assets – end of year	\$ 8,979,256	\$ 6,141,312

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *unreserved 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 Authority's governmental funds reported combined ending fund balances of \$3,594,676, a decrease of \$151,308, in comparison with the prior year. \$2,055,405 constitutes unreserved, undesignated fund balance, which is available for spending for the benefit of the various districts.

The General Fund is the chief operating fund of the Authority. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$272,843. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved

fund balance represents 49 percent of total General Fund expenditures.

During the current fiscal year, the fund balance of the Authority's General Fund decreased by \$10,472 although anticipated to be decreased by \$32,700. The change in fund balance was attributed to actual expenditures being under the amended budget by \$14,890 and actual rental income received being more than the budget by \$7,070.

The TIF 2 Special Revenue Fund has a fund balance of \$2,150,594, which decreased by \$98,819 although anticipated to be decreased by \$442,300. The change in fund balance was attributed to actual expenditures being under amended budget by \$396,195 and actual reimbursements received being less than the budget by \$61,000.

The TIF 97 Special Revenue Fund has a fund balance of \$1,159,804, which decreased \$42,017 although anticipated to be decreased by \$1,084,220. This change in fund balance was attributed to actual expenditures being under amended budget by \$1,097,270 and actual reimbursements received being less than the amended budget by \$43,755.

Capital outlay expenditures in the TIF 2 and TIF 97 are under budget because projects were delayed and postponed until the subsequent fiscal year.

Budgetary Highlights

The General Fund budget was amended during the year to increase professional services by \$8,500 for assistance in preparation of a strategic plan. The contract was delayed and postponed until August 20, 2010.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the 2010-11 fiscal year:

- Through a contract with the City of Traverse City, the Authority manages the Auto Parking System. While no changes in compensation to the Authority are envisioned, there may need to be adjustments after a full evaluation has been conducted on the operational impact of the opening of the Old Town Deck.
- Various capital improvements in the TIF 97 and TIF 2 Funds including bayfront planning improvements, alley repairs, continued work on the Pine Street pedestrian way, streetscape improvements on Cass and/or Lake Streets.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority's Executive Director, 303 State Street, Traverse City, Michigan.

FINANCIAL STATEMENTS

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Net Assets
June 30, 2010

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,597,836
Due from other governments	5,464,492
Prepaid expenses	4,535
Total assets	<u>9,066,863</u>
Liabilities	
Accounts payable and accrued liabilities	12,455
Accrued compensated absences:	
Due in one year	33,000
Due in more than one year	<u>42,152</u>
Total liabilities	<u>87,607</u>
Net assets	
Restricted for tax increment finance districts	8,770,130
Unrestricted	<u>209,126</u>
Total net assets	<u><u>\$ 8,979,256</u></u>

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

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Activities
For the Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	
Economic development	\$ 2,885,275	\$ 385,592	\$ 3,453,997	\$ 954,314
General revenues				
				65,444
				1,816,746
				1,440
				<u>1,883,630</u>
				2,837,944
				6,141,312
				<u>\$ 8,979,256</u>

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

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Special Revenue Funds		Total Governmental Funds
		TIF 2 Fund	TIF 97 Fund	
Assets				
Cash and cash equivalents	\$ 259,726	\$ 2,165,323	\$ 1,172,787	\$ 3,597,836
Due from other governments	1,599	3,600,338	1,862,555	5,464,492
Prepaid expenditures	4,535	-	-	4,535
Due from other funds	30,670	-	-	30,670
Total assets	\$ 296,530	\$ 5,765,661	\$ 3,035,342	\$ 9,097,533
Liabilities and Fund Balances				
Liabilities				
Accounts payable	5,316	-	203	\$ 5,519
Accrued liabilities	6,936	-	-	6,936
Due to other funds	-	15,335	15,335	30,670
Deferred revenue	-	3,599,732	1,860,000	5,459,732
Total liabilities	12,252	3,615,067	1,875,538	5,502,857
Fund balances				
Reserved for prepaid expenditures	4,535	-	-	4,535
Unreserved				
Designated for subsequent year expenditures	6,900	456,606	1,071,230	1,534,736
Undesignated	272,843	1,693,988	88,574	2,055,405
Total fund balance	284,278	2,150,594	1,159,804	3,594,676
Total liabilities and fund balances	\$ 296,530	\$ 5,765,661	\$ 3,035,342	\$ 9,097,533

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

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of the Traverse City, Michigan)

**Reconciliation of Fund Balances on the Balance Sheet for Governmental
Funds to Net Assets of Governmental Activities on the
Statement of Net Assets
June 30, 2010**

Fund balances - total governmental funds	\$ 3,594,676
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Add: deferred revenue	5,459,732
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: accrued compensated absences	<u>(75,152)</u>
Net assets of governmental activities	<u><u>\$ 8,979,256</u></u>

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

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General Fund	Special Revenue Funds		Total Governmental Funds
		TIF 2 Fund	TIF 97 Fund	
Revenues				
Property taxes	\$ 65,444	\$ 709,797	\$ 1,106,949	\$ 1,882,190
Reimbursements	440,384	322,000	145,245	907,629
Rental income	43,070	-	-	43,070
Interest income	1,440	21,789	13,619	36,848
Total revenues	550,338	1,053,586	1,265,813	2,869,737
Expenditures				
Current:				
Salaries	467,236	-	-	467,236
Fringe benefits	40,287	-	-	40,287
Office supplies and utilities	27,027	1,435	2,189	30,651
Professional services	6,541	100,735	294,009	401,285
Travel, promotion and conferences	6,815	-	-	6,815
Repairs and maintenance	2,025	-	-	2,025
Rentals	6,591	-	-	6,591
Contributions to other governments	-	940,938	652,198	1,593,136
Capital outlay	4,288	109,297	359,434	473,019
Total expenditures	560,810	1,152,405	1,307,830	3,021,045
Net change in fund balances	(10,472)	(98,819)	(42,017)	(151,308)
Fund balances, beginning of year	294,750	2,249,413	1,201,821	3,745,984
Fund balances, end of year	\$ 284,278	\$ 2,150,594	\$ 1,159,804	\$ 3,594,676

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

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2010**

Net change in fund balances - total governmental funds	\$ (151,308)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Noncurrent assets recorded on the fund statements are not available to fund current year operations and are deferred in the funds.	
Add: increase in deferred revenue	3,453,997
Deduct: payments received on non-current assets	(467,245)
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 the funds.	
Add: decrease in accrued compensated absences	<u>2,500</u>
Change in net assets	<u><u>\$ 2,837,944</u></u>

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

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Downtown Development Authority (the "Authority"), a component unit of the City of Traverse City (the "City"), was created in September 1978 by the City Commission pursuant to Act No. 197 of the Public Acts of 1975 of the State of Michigan. It operates through a Board of Trustees (the "Board") consisting of the Mayor of the City of Traverse City and eleven members approved by the City Commission. The purpose of the Authority is to correct and prevent deterioration of the Downtown Development District, encourage historic preservation, create and implement development plans, and promote economic growth.

The Authority is a component unit of the City because the City appoints the Authority's Board of Directors, it has the ability to significantly influence the Authority's operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discretely presented component unit in the City's financial statements.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the component unit. 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. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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 fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 years for which they are levied.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

Governmental fund financial information is 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 collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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.

The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *TIF 2 and TIF 97 Special Revenue Funds* account for financial resources that are legally restricted for activities within specific districts of the Downtown Development Authority.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Capital Assets – The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported as the City's capital assets.

Accrued compensated absences - Employees are granted vacation and sick leave in varying amounts based on length of service. Annually unused vacation is reduced to a maximum of five weeks. Sick leave accumulates and is paid to employees at the time of retirement at one-half of total days accumulated up to a maximum of 120 days (60 paid days). The estimated amount due to employees as of June 30, 2010 is accrued in the government-wide financial statements.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
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Notes to Financial Statements

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans for the use of resources made by the Board.

2. CASH AND CASH EQUIVALENTS

Michigan Compiled Laws, Section 129.91 authorizes the local governmental unit 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 local unit 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; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's deposit and investment policy is in accordance with statutory authority.

The Authority's cash and cash equivalents are cash on hand and demand deposits with a bank.

The Authority's cash and cash equivalents are comprised of bank deposits with a balance of \$3,601,808 and petty cash of \$50 at June 30, 2010. For full disclosures for cash and cash equivalents, see the City of Traverse City, Michigan notes to the financial statement, in the 2010 audit report.

Deposits

The State does not require and the Authority has not adopted a policy regarding custodial credit risk.

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$3,601,808. None of the balance was subject to custodial credit risk because it is uninsured and uncollateralized.

3. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses in the governmental activities consist of 44 percent vendor payables and 56 percent accrued payroll liabilities.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

4. RECEIVABLES

Governmental funds reported deferred revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. This deferred revenue consists of taxes that will be captured in the future by the Brownfield tax districts to reimburse for costs incurred in this and past fiscal years for economic development. At the end of the current fiscal year, the various components of deferred revenue amounted to \$5,459,732. The remaining receivable amount of \$4,760 will be collected within one year.

5. INTERFUND PAYABLES AND RECEIVABLES

The composition of interfund balances is as follows as of June 30, 2010:

<u>Due From</u>	<u>Due To</u>
	General Fund
Special Revenue Funds	
TIF 2	\$15,335
TIF 97	<u>15,335</u>
	<u>\$30,670</u>

Amounts represent administrative expenses payable to the General Fund from the TIF 2 and TIF 97 special revenue funds.

6. NON-CURRENT LIABILITIES

Changes in non-current liabilities consist of the following:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Due</u>
	<u>07/01/09</u>			<u>06/30/10</u>	<u>Within</u>
					<u>One Year</u>
Accrued compensated absences	<u>\$77,652</u>	<u>\$ 56,563</u>	<u>\$ 59,063</u>	<u>\$75,152</u>	<u>\$ 33,000</u>

Compensated absences are liquidated by the General Fund.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

7. COMMITMENTS

The 2007 City of Traverse City Downtown Development Tax Exempt Refunding Bonds, the 2002B City of Traverse City Downtown Development Taxable Bonds, and the 2009 City of Traverse City Downtown Development Tax Exempt Old Town Parking Deck Bonds are reported on the City of Traverse City financial statements. The Authority has pledged tax increment revenues for the payment of these bonds. The Authority provides these tax increment revenues to the City less the developer required contribution for bond payment on the 2007 debt. 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 obligations expected to be paid from the collection of tax increment revenues in the Tax Increment Financing and Development Plan No. 97 and No. 2:

<u>Fiscal Year End</u>	<u>Amount</u>
2011	\$ 1,856,909
2012	1,993,251
2013	1,860,514
2014	2,116,365
2015	2,207,790
2016-2020	5,810,328
2021-2025	5,045,456
2026-2028	<u>2,710,838</u>
Total	<u>\$23,601,451</u>

8. PROPERTY TAXES

The government's property taxes are levied each July 1 on the taxable valuation of applicable property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through July 31 and unpaid taxes become delinquent if not paid by March 1 of the succeeding year. Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. The taxable value for real and personal property in the Downtown Development Authority for the 2009 levy is \$36,078,609. The Authority's general operating tax rate for fiscal year 2009-10 was 1.8038 mills.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

Property tax revenue for the TIF's, which are included in the Downtown Development Authority, is derived pursuant to two tax increment financing development plans, TIF 2 and TIF 97. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing districts. The City bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property at March 1 are purchased and collected by Grand Traverse County. Collection of delinquent personal property tax remains the responsibility of the City of Traverse City. Property tax revenue is recognized when levied in the government-wide financial statements and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the tax increment financing authority districts to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1985 for TIF 2 (\$3,089,321) and 1997 for TIF 97 (\$32,860,088). The base year on other properties is determined by the date of entry into the district. The fiscal year 2009-10 captured taxable value for TIF 2 is \$27,571,412 and TIF 97 is \$42,960,447.

9. RENTAL AND REIMBURSEMENT INCOME

The Authority entered into two contracts, one from September 1, 2008 to August 31, 2009 and another from September 1, 2009 to August 31, 2010 with the Downtown Traverse City Association (a non-for-profit organization). The Authority provides office space and administrative services to the association for an annual fee of \$52,044 and \$53,604, respectively, payable in equal monthly installments of \$4,337 and \$4,467. Income under these contracts for the year ended June 30, 2010 was \$53,344.

The Authority entered into a contract on June 19, 2003 (amended March 2, 2009) with the City of Traverse City in which the Authority will operate and manage the Auto Parking System for an annual fee of \$252,000 payable in equal monthly installments of \$21,000. Income under this contract for the year ended June 30, 2010 was \$252,000.

The Authority's General Fund is reimbursed an administrative fee or indirect cost from the TIF Funds as approved in the budget. The fee assessed is approximately twelve percent of General Fund expenditures. The revenue recorded in the General Fund and expenditures in the TIF Funds are eliminated in the government wide financial statements. Income from the administrative fee for the year ended June 30, 2010 was \$133,270.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

10. RISK OF LOSS

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is covered for these risks through the City of Traverse City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Insurance Fund and commercial health insurance. There has been no significant reduction in insurance coverage from the prior year and settlements have not exceeded insurance coverage for the past three fiscal years.

11. DEFERRED COMPENSATION PLAN

The 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 and the employer will match up to 7% percent 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 2010, the Authority contributed \$18,410 and the employees contributed \$21,217 to this plan.

12. RELATED PARTY TRANSACTIONS

The Authority along with a developer have committed to pay the principal and interest on the Hardy Parking Deck bonds. The developer who made the commitment along with the Authority is a board member of the Authority.

The Authority's Board of Directors authorized an expenditure of not-to-exceed \$370,000 for the Wadsworth street culvert replacement project to the City of Traverse City. The City of Traverse City billed the Authority \$178,216 for work completed as of June 30, 2009 and the balance was paid by June 30, 2010.

The Authority's Board of Directors authorized the Executive Director to enter into a contract with the Downtown Traverse City Association. During fiscal year ending June 30, 2010, the Authority received \$53,344 for office space and administrative services provided to the Downtown Traverse City Association.

13. SUBSEQUENT EVENTS

On September 22, 2010, the Brownfield Redevelopment Authority's ("BRA") final payment of \$145,734 was received under the original River's Edge Brownfield Plan for public infrastructure costs. The BRA committed \$3,453,997 to reimburse TIF 2 Funds for the Old Town Parking Deck principal and interest payments.

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Financial Statements

On October 1, 2008, an amendment to the Brownfield Plan for Eligible Properties – River’s Edge dated March 23, 2001 was executed to allow for the building of the Old Town Parking Deck. The BRA committed \$3,453,997 for the public parking structure. The BRA also approved up to \$518,100 for contingencies which represents 15% new Michigan Economic Growth Authority activity on the committed \$3,453,997. Closing out the final Old Town Parking Deck costs are expected to occur by December 1, 2010, and the appropriate portion of the \$518,100 will be recorded on the Downtown Development Authority’s financial statements.

On August 20, 2010, the Authority’s Board of Directors authorized the Executive Director to enter into a contract with Greenan and Associates, LLC for not-to-exceed \$38,000 to provide engineering and design services for the Garland Street plan.

On August 20, 2010, the Authority’s Board of Directors authorized the Executive Director to enter into a contract with the Downtown Traverse City Association through August 31, 2011, with an annual compensation of \$54,144. The Authority provides office space and administrative services to the Downtown Traverse City Association.

14. GASB PRONOUNCEMENT

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved will be replaced with five new classifications: non-spendable, restricted, committed, assigned and unassigned.

The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The Authority will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
General Fund
For the Year Ended June 30, 2010

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 64,000	\$ 64,000	\$ 65,444	\$ 1,444
Reimbursements	441,000	441,000	440,384	(616)
Rental income	36,000	36,000	43,070	7,070
Interest income	2,000	2,000	1,440	(560)
Total revenues	543,000	543,000	550,338	7,338
Expenditures				
Economic development				
Current:				
Salaries	460,100	460,100	467,236	(7,136)
Fringe benefits	39,000	39,000	40,287	(1,287)
Office supplies and utilities	30,300	30,300	27,027	3,273
Professional services	4,500	13,000	6,541	6,459
Travel, promotion and conferences	11,300	11,300	6,815	4,485
Repairs and maintenance	2,500	2,500	2,025	475
Rentals	6,000	6,000	6,591	(591)
Capital outlay	13,500	13,500	4,288	9,212
Total expenditures	567,200	575,700	560,810	14,890
Net change in fund balance	(24,200)	(32,700)	(10,472)	22,228
Fund balance, beginning of year	294,750	294,750	294,750	-
Fund balance, end of year	\$ 270,550	\$ 262,050	\$ 284,278	\$ 22,228

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
Special Revenue Fund - TIF 2
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 710,300	\$ 710,300	\$ 709,797	\$ (503)
Reimbursements	383,000	383,000	322,000	(61,000)
Interest income	13,000	13,000	21,789	8,789
Total revenues	<u>1,106,300</u>	<u>1,106,300</u>	<u>1,053,586</u>	<u>(52,714)</u>
Expenditures				
Economic development				
Office supplies and utilities	500	500	1,435	(935)
Professional services	136,000	136,000	100,735	35,265
Capital outlay	317,600	317,600	109,297	208,303
Contribution to other governments	1,094,500	1,094,500	940,938	153,562
Total expenditures	<u>1,548,600</u>	<u>1,548,600</u>	<u>1,152,405</u>	<u>396,195</u>
Net change in fund balance	(442,300)	(442,300)	(98,819)	343,481
Fund balance, beginning of year	2,249,413	2,249,413	2,249,413	-
Fund balance, end of year	<u>\$ 1,807,113</u>	<u>\$ 1,807,113</u>	<u>\$ 2,150,594</u>	<u>\$ 343,481</u>

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
Special Revenue Fund - TIF 97
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,106,880	\$ 1,106,880	\$ 1,106,949	\$ 69
Reimbursements	189,000	189,000	145,245	(43,755)
Interest income	25,000	25,000	13,619	(11,381)
Total revenues	<u>1,320,880</u>	<u>1,320,880</u>	<u>1,265,813</u>	<u>(55,067)</u>
Expenditures				
Economic development				
Office supplies and utilities	250	250	2,189	(1,939)
Professional services	262,000	262,000	294,009	(32,009)
Capital outlay	1,490,000	1,490,000	359,434	1,130,566
Contribution to other governments	652,850	652,850	652,198	652
Total expenditures	<u>2,405,100</u>	<u>2,405,100</u>	<u>1,307,830</u>	<u>1,097,270</u>
Net change in fund balance	(1,084,220)	(1,084,220)	(42,017)	1,042,203
Fund balance, beginning of year	<u>1,201,821</u>	<u>1,201,821</u>	<u>1,201,821</u>	<u>-</u>
Fund balance, end of year	<u>\$ 117,601</u>	<u>\$ 117,601</u>	<u>\$ 1,159,804</u>	<u>\$ 1,042,203</u>

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Traverse City, Michigan)**

Notes to Required Supplementary Information

1. BUDGETARY INFORMATION

The General and special revenue funds are under formal budgetary control and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds. The budget is then adopted by the Authority's Board.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year.
- The budget document presents information by fund, function, department and activity. The legal level of budgetary control adopted by the governing board is function level, which is the level at which expenditures may not legally exceed appropriations.

**INDEPENDENT AUDITORS' 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***

December 29, 2010

To the Board of the
City of Traverse City
Downtown Development Authority
Traverse City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Traverse City Downtown Development Authority*, (the "Authority") as of and for the year ended June 30, 2010, which collectively comprise the Authority's financial statements, and have issued our report thereon dated December 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described below, which we consider to be a significant deficiency in internal control over financial reporting. 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.

**Finding 2010-1 – Segregation of Incompatible Duties
Significant Deficiency in Internal Control over Financial Reporting**

Criteria. Management is responsible for establishing and maintaining effective internal controls in order to safeguard the assets of the Authority. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition. The Authority has several transaction cycles that are performed by the same individual or are not subject to independent review and approval, including: (1) responsibilities for payroll accounting are not separated from the general ledger function, (2) persons preparing payroll are not independent of other payroll and personnel duties, and (3) cash receipts for the farmer's market cash receipts, are not reviewed prior to deposit.

Cause. This condition is the result of staffing constraints typical of smaller governmental units.

Effect. As a result of this condition, the Authority is exposed to an increased risk that misstatements (whether caused by error or fraud) may not be prevented or detected by management on a timely basis.

Recommendation. There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the Authority to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the Authority's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

Compliance and Other Matters

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

In addition, we noted a certain matter that we reported to management of the Authority in a separate letter dated Month //, 2010.

The Authority's response to the finding identified in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board, and, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

