

**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, 2012**

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 28, 2012

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

We have audited the accompanying financial statements of the governmental activities and each major fund 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, 2012, 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, 2012, and the respective changes in financial position 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 28, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-6 and Budgetary Comparisons on pages 21-24 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.

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is centered on the page.

**MANAGEMENTS' 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, 2012.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$8,283,284 (*net assets*).
- The government's total net assets decreased by \$716,641.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$3,405,879, an increase of \$23,609 in comparison with the prior year.

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 7-8 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 governmental funds financial statements can be found on pages 9-12 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 13-20 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 \$8,283,284 at the close of the most recent fiscal year.

Downtown Development Authority’s Net Assets

	June 30	
	2012	2011
Governmental activities		
Current and other assets	\$ 8,783,408	\$ 9,093,900
Long-term liabilities outstanding	84,692	69,442
Other liabilities	415,432	24,533
Total liabilities	<u>500,124</u>	<u>93,975</u>
Net assets		
Restricted	8,112,740	8,762,362
Unrestricted	<u>170,544</u>	<u>237,563</u>
Total net assets	<u>\$ 8,283,284</u>	<u>\$ 8,999,925</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 decreased by \$716,641, key highlights are as follows:

- Decrease in net assets from prior year of approximately \$717,000 attributed to (1) a decrease in charges for services in the approximate amount of \$53,000, (2) a decrease in capital grants and contributions due to timing of payments from the Brownfield Redevelopment Authority in the amount of \$518,100, (3) an increase in captured property taxes in the tax increment finance districts in the approximate amount of \$97,000, (4) an increase in economic development expenditures in the approximate amount of \$258,000, and (5) a decrease in grant revenue in the approximate amount of \$6,000.

Downtown Development Authority's Changes in Net Assets

	June 30	
	2012	2011
Governmental activities		
Program revenues		
Charges for services	\$ 371,655	\$ 424,336
Capital grants and contributions	7,247	531,083
General revenues		
Property taxes	2,083,830	1,986,886
Unrestricted investment earnings	703	568
Total revenue	2,463,435	2,942,873
Expenses		
Economic development	3,180,076	2,922,204
Change in net assets	(716,641)	20,669
Net assets – beginning of year	8,999,925	8,979,256
Net assets – end of year	\$ 8,283,284	\$ 8,999,925

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, *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 Authority's governmental funds reported combined ending fund balances of \$3,405,879, an increase of \$23,609, in comparison with the prior year. \$3,150,643 is restricted and available only for spending for the benefit of the applicable district.

The General Fund is the chief operating fund of the Authority. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$208,845. 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 33 percent of total General Fund expenditures.

During the current fiscal year, the fund balance of the Authority's General Fund decreased by \$51,769 although anticipated to decrease \$48,350. The change in fund balance was attributed to actual expenditures being under the amended budget by \$1,336, actual reimbursements received being less than the budget by \$10,352, and actual rental income received being more than the budget by \$5,662.

The TIF 2 Special Revenue Fund has a fund balance of \$1,604,363, which decreased by \$63,607 although anticipated to decrease \$417,450. The change in fund balance was attributed to actual expenditures being under amended budget by \$86,058 due to delayed planned projects, actual property taxes received being more than the budget by \$38,605 and actual reimbursements received being more than the budget by \$229,000.

The TIF 97 Special Revenue Fund has a fund balance of \$1,546,280, which increased \$138,985 although anticipated to decrease \$696,345. This change in fund balance was attributed to actual expenditures being under amended budget by \$1,008,305 due to delayed planned projects, actual Federal revenue received being under amended budget by \$37,753, actual property taxes received being less than the budget by \$132,207, and actual reimbursements received being less than the amended budget by \$4,000.

Budgetary Highlights

There were no amendments to the Authority's DDA operational budget. The TIF 2 Special Revenue Fund and The TIF 97 Special Revenue Fund were amended by the Board of Directors on March 16, 2012 increasing TIF 2 expenditures under Capital Outlay line item by \$16,600 and TIF 97 expenditures under the Capital Outlay line item by \$50,000 to accommodate the purchase and installation of streetscape trees throughout downtown.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the 2012-13 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 an adjustment during the year. The Authority is preparing a report on staffing needs for consideration by the City Commission as part of planning for the 2013-14 budget.
- Various capital improvements are planned in the TIF 97 and TIF 2 Funds including bayfront improvements, alley repairs, continued work on the Pine Street pedestrian way, and streetscape improvements on Cass and/or Lake Streets. The TIF 2 fund projects as much as \$100,000 in professional services in anticipation of a possible amendment to the plan to allow for funding the operations and maintenance of the History Center.

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, 2012

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,809,669
Due from other governments	4,963,448
Prepaid expenses	10,291
Total assets	8,783,408
Liabilities	
Accounts payable and accrued liabilities	415,097
Unearned revenue	335
Accrued compensated absences	
Due in one year	29,289
Due in more than one year	55,403
Total liabilities	500,124
Net assets	
Restricted for tax increment finance districts	8,112,740
Unrestricted	170,544
Total net assets	\$ 8,283,284

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, 2012

<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	\$ 3,180,076	\$ 371,655	\$ 7,247	\$ (2,801,174)
General revenues				
Unrestricted property taxes				64,632
Restricted property taxes for tax increment finance districts				2,019,198
Unrestricted investment earnings				703
				<u>2,084,533</u>
Change in net assets				(716,641)
Net assets, beginning of year				<u>8,999,925</u>
Net assets, end of year				<u>\$ 8,283,284</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, 2012

	<u>General Fund</u>	<u>Special Revenue Funds</u>		<u>Total Governmental Funds</u>
		<u>TIF 2 Fund</u>	<u>TIF 97 Fund</u>	
Assets				
Cash and cash equivalents	\$ 241,468	\$ 1,623,181	\$ 1,945,020	\$ 3,809,669
Due from other governments	1,351	3,392,097	1,570,000	4,963,448
Prepaid expenditures	10,291	-	-	10,291
Due from other funds	37,466	-	-	37,466
Total assets	\$ 290,576	\$ 5,015,278	\$ 3,515,020	\$ 8,820,874
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 19,946	\$ 85	\$ 380,007	\$ 400,038
Accrued liabilities	15,059	-	-	15,059
Due to other funds	-	18,733	18,733	37,466
Deferred revenue	335	3,392,097	1,570,000	4,962,432
Total liabilities	35,340	3,410,915	1,968,740	5,414,995
Fund balances				
Nonspendable - prepaid expenditures	10,291	-	-	10,291
Restricted - tax increment finance districts	-	1,604,363	1,546,280	3,150,643
Assigned - subsequent year expenditures	36,100	-	-	36,100
Unassigned	208,845	-	-	208,845
Total fund balance	255,236	1,604,363	1,546,280	3,405,879
Total liabilities and fund balances	\$ 290,576	\$ 5,015,278	\$ 3,515,020	\$ 8,820,874

Continued.....

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, 2012**

Fund balances	\$ 3,405,879
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Other noncurrent assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Add: deferred revenue	4,962,097
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: accrued compensated absences	<u>(84,692)</u>
Net assets of governmental activities	<u><u>\$ 8,283,284</u></u>
	Concluded

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, 2012

	<u>General Fund</u>	<u>Special Revenue Funds</u>		<u>Total Governmental Funds</u>
		<u>TIF 2 Fund</u>	<u>TIF 97 Fund</u>	
Revenues				
Federal revenue	\$ -	\$ -	\$ 7,247	\$ 7,247
Property taxes	64,632	798,805	1,220,393	2,083,830
Reimbursements	462,648	580,000	145,000	1,187,648
Rental income	48,662	-	-	48,662
Interest income	703	5,180	5,985	11,868
Total revenues	<u>576,645</u>	<u>1,383,985</u>	<u>1,378,625</u>	<u>3,339,255</u>
Expenditures				
Salaries	504,504	-	-	504,504
Fringe benefits	50,104	-	-	50,104
Office supplies and utilities	23,181	190	194	23,565
Professional services	34,508	108,213	200,320	343,041
Travel and conferences	4,937	-	-	4,937
Repairs and maintenance	1,961	-	-	1,961
Rentals	7,151	-	-	7,151
Contributions to other governments	-	1,318,206	900,695	2,218,901
Capital outlay	2,068	20,983	138,431	161,482
Total expenditures	<u>628,414</u>	<u>1,447,592</u>	<u>1,239,640</u>	<u>3,315,646</u>
Net change in fund balances	(51,769)	(63,607)	138,985	23,609
Fund balances, beginning of year	<u>307,005</u>	<u>1,667,970</u>	<u>1,407,295</u>	<u>3,382,270</u>
Fund balances, end of year	<u>\$ 255,236</u>	<u>\$ 1,604,363</u>	<u>\$ 1,546,280</u>	<u>\$ 3,405,879</u>

Continued....

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, 2012**

Net change in fund balances	\$ 23,609
Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:	
Noncurrent assets recorded on the fund statements are not available to fund current year operations and are deferred in the funds.	
Deduct: payments received on noncurrent assets	(725,000)
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.	
Deduct: increase in accrued compensated absences	<u>(15,250)</u>
Change in net assets	<u><u>\$ (716,641)</u></u>
	Concluded

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 discrete 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 Authority. 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 services. 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 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.

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 then 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, 2012 is accrued in the government-wide financial statements.

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

Notes to Financial Statements

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 Authority’s highest level of decision making authority, the Authority’s Board of Directors. A formal resolution by the Authority’s Board of Directors is required to establish, modify or rescind a fund balance commitment. Assigned fund balance is reported for amounts intended for specific purposes expressed and assigned by the governing body. Unassigned fund balance is the residual classification for the General Fund.

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 Authority 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 \$3,809,619 and petty cash of \$50 at June 30, 2012.

Custodial credit risk - deposits

Custodial risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned. 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 \$3,877,957. The Federal Deposit Insurance Corporation insured \$250,000 and the remainder of \$3,627,957 is uninsured and uncollateralized.

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

Notes to Financial Statements

3. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses in the governmental activities consist of 54 percent due to primary government, 42 percent vendor payables and 4 percent accrued payroll liabilities.

4. RECEIVABLES / DEFERRED REVENUE

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 \$4,962,432. The remaining receivable amount of \$1,351 will be collected within one year.

5. INTERFUND PAYABLES AND RECEIVABLES

Administrative expenses payable to the General Fund from the TIF 2 and TIF 97 special revenue funds at June 30, 2012 amounted to \$18,733 and \$18,733, respectively.

6. ACCRUED COMPENSATED ABSENCES

Changes in accrued compensated absences consist of the following:

	<u>Balance</u> <u>07/01/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/12</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Accrued compensated absences	\$ 69,442	\$ 55,052	\$ 39,802	\$84,692	\$ 29,289

Compensated absences are liquidated by the General Fund.

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 the bond payment on the 2007 debt. The Authority made payments to the City for this debt of \$2,218,901 for the year ended June 30, 2012. The City has pledged its limited tax full faith and credit for the payment of the principal and interest on the bonds.

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Notes to Financial Statements

The following are the obligations, including interest, 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</u> <u>End</u>	<u>Amount</u>
2013	\$ 1,860,514
2014	2,116,365
2015	2,207,790
2016	2,265,914
2017	829,620
2018-2022	4,690,655
2023-2027	4,921,399
2028	<u>859,031</u>
Total	<u>\$19,751,288</u>

The Authority has outstanding commitments remaining under contracts for the Garland Street Streetscape Design of \$17,968.

8. CONTINGENCIES

The Authority participates 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 are 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 Authority expects such amounts, if any, to be immaterial.

9. PROPERTY TAXES

The Authority's property taxes are levied each July 1 on the taxable valuation of applicable property located in the Districts of the Authority 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 the assessed value. The taxable value for real and personal property for the Authority for the 2011 levy is \$116,400,186. The Authority's general operating tax rate for fiscal year 2011-12 was 1.8038 mills.

Property tax revenue for the TIF's, which is included in the Downtown Development Authority, is derived pursuant to two tax increment financing development plans, TIF 2 and

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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 2011-12 captured taxable values for TIF 2 is \$28,932,076 and TIF 97 is \$51,472,301.

10. ADMINISTRATIVE SERVICES REVENUE

The Authority entered into two contracts, one from September 1, 2010 to August 31, 2011 and another from September 1, 2011 to August 31, 2012 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 \$54,144 and \$55,200, respectively, payable in equal monthly installments of \$4,512 and \$4,600. Income under these contracts for the year ended June 30, 2012 was \$55,024.

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, 2012 was \$252,000.

The Authority's General Fund is reimbursed an administrative fee for 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, 2012 was \$150,820.

11. FEDERAL FUNDING

The Authority is a recipient of federal funding passed through the State of Michigan. Expenditures eligible for reimbursement by the federal government amounted to \$7,247 for fiscal year ended June 30, 2012. These expenditures are included in the single audit for the City of Traverse City.

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12. 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 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.

13. 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 2012, the Authority contributed \$18,526 and the employees contributed \$19,036 to this plan.

14. 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.

15. SUBSEQUENT EVENTS

On August 30, 2012, the Brownfield Redevelopment Authority's ("BRA") second reimbursement payment of \$420,000 was received under the River's Edge Brownfield Plan.

On August 30, 2012, the BRA reimbursement payment of \$20,000 was received towards the Michigan Economic Growth Authority eligible expenses associated with the Larry C. Hardy parking deck.

On August 31, 2012, the Authority's Board of Directors authorized the Executive Director to enter into a contract with the Downtown Traverse City Association through August 31, 2013, with an annual compensation of \$58,200. The Authority provides office space and administrative services to the Downtown Traverse City Association.

16. GASB PRONOUNCEMENTS

In June 2011, the Governmental Accounting Standards Board ("GASB") issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption

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of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The Authority will implement Statement No. 63 beginning with the fiscal year ended June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statement periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of financial statements elements deferred outflows of resources and deferred inflows of resources. The Authority plans to implement Statement No. 65 beginning with the fiscal year ended June 30, 2013.

**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, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 64,900	\$ 64,900	\$ 64,632	\$ (268)
Reimbursements	473,000	473,000	462,648	(10,352)
Rental income	43,000	43,000	48,662	5,662
Interest income	500	500	703	203
Total revenues	<u>581,400</u>	<u>581,400</u>	<u>576,645</u>	<u>(4,755)</u>
Expenditures				
Economic development				
Salaries	502,000	502,000	504,504	(2,504)
Fringe benefits	43,100	43,100	50,104	(7,004)
Office supplies and utilities	26,850	26,850	23,181	3,669
Professional services	34,100	34,100	34,508	(408)
Travel and conferences	9,500	9,500	4,937	4,563
Repairs and maintenance	2,500	2,500	1,961	539
Rentals	6,700	6,700	7,151	(451)
Capital outlay	5,000	5,000	2,068	2,932
Total expenditures	<u>629,750</u>	<u>629,750</u>	<u>628,414</u>	<u>1,336</u>
Net change in fund balance	<u>(48,350)</u>	<u>(48,350)</u>	<u>(51,769)</u>	<u>(3,419)</u>
Fund balance, beginning of year	<u>307,005</u>	<u>307,005</u>	<u>307,005</u>	<u>-</u>
Fund balance, end of year	<u>\$ 258,655</u>	<u>\$ 258,655</u>	<u>\$ 255,236</u>	<u>\$ (3,419)</u>

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Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual
Special Revenue Fund - TIF 2
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 760,200	\$ 760,200	\$ 798,805	\$ 38,605
Reimbursements	351,000	351,000	580,000	229,000
Interest income	5,000	5,000	5,180	180
Total revenues	<u>1,116,200</u>	<u>1,116,200</u>	<u>1,383,985</u>	<u>267,785</u>
Expenditures				
Economic development				
Office supplies and utilities	500	500	190	310
Professional services	121,000	121,000	108,213	12,787
Capital outlay	101,750	118,350	20,983	97,367
Contribution to other governments	1,293,800	1,293,800	1,318,206	(24,406)
Total expenditures	<u>1,517,050</u>	<u>1,533,650</u>	<u>1,447,592</u>	<u>86,058</u>
Net change in fund balance	<u>(400,850)</u>	<u>(417,450)</u>	<u>(63,607)</u>	<u>353,843</u>
Fund balance, beginning of year	<u>1,667,970</u>	<u>1,667,970</u>	<u>1,667,970</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,267,120</u></u>	<u><u>\$ 1,250,520</u></u>	<u><u>\$ 1,604,363</u></u>	<u><u>\$ 353,843</u></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, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget Positive (Negative)</u>
Revenues				
Federal revenue	\$ 45,000	\$ 45,000	\$ 7,247	\$ (37,753)
Property taxes	1,352,600	1,352,600	1,220,393	(132,207)
Reimbursements	149,000	149,000	145,000	(4,000)
Interest income	5,000	5,000	5,985	985
Total revenues	<u>1,551,600</u>	<u>1,551,600</u>	<u>1,378,625</u>	<u>(172,975)</u>
Expenditures				
Economic development				
Office supplies and utilities	1,000	1,000	194	806
Professional services	150,000	150,000	200,320	(50,320)
Capital outlay	1,371,900	1,421,900	138,431	1,283,469
Contribution to other governments	675,045	675,045	900,695	(225,650)
Total expenditures	<u>2,197,945</u>	<u>2,247,945</u>	<u>1,239,640</u>	<u>1,008,305</u>
Net change in fund balance	<u>(646,345)</u>	<u>(696,345)</u>	<u>138,985</u>	<u>835,330</u>
Fund balance, beginning of year	<u>1,407,295</u>	<u>1,407,295</u>	<u>1,407,295</u>	<u>-</u>
Fund balance, end of year	<u>\$ 760,950</u>	<u>\$ 710,950</u>	<u>\$ 1,546,280</u>	<u>\$ 835,330</u>

**CITY OF TRAVERSE CITY
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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 28, 2012

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

We have audited the financial statements of the governmental activities and each major fund of the City of Traverse City Downtown Development Authority (the "Authority"), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 28, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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.

Finding 2012-FS-1 - Material Audit Adjustments

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed a material audit adjustment (which was approved and posted by management) to adjust the Authority's accounts payable balance to the appropriate year-end balance.

Cause. This condition was the result of dependence on external auditors, who by definition cannot be part of the Authority's internal control, to make adjustment to the general ledger and reconcile certain balance sheet accounts to their underlying detail.

Effect. As a result of this condition, the Authority's accounting records were originally misstated by an amount material to the financial statements. All necessary adjustments were reviewed and agreed to by management, and the financial statements were appropriately corrected prior to issuance.

Recommendation. We recommend that the Authority carefully review its year-end account balances and make all necessary adjustments before the annual audit begins.

View of Responsible Officials. Management has reviewed the cost vs. benefit of establishing internal controls over the preparation of year-end closing adjustments, and determined it is in the best interest of the Authority to rely in part on its external auditors, and to carefully review the adjusting entries prior to approving them and accepting responsibility for their content and presentation.

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 certain matters that we reported to management of the Authority in a separate letter dated December 28, 2012.

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 the response.

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

