

**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, 2014**

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

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INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Traverse City Downtown Development Authority, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 22, 2014

**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, 2014.

### Financial Highlights

- The assets and deferred outflows of the Authority exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$7,057,143 (*net position*).
- The government's total net position decreased by \$272,726.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$3,244,021, an increase of \$379,908 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 position* presents information on all of the Authority's assets, deferred inflows, liabilities, and deferred outflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

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 13-19 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 position may serve over time as a useful indicator of a government’s financial position. In the case of the Authority, assets exceeded liabilities by \$7,057,143 at the close of the most recent fiscal year.

**Downtown Development Authority’s Net Position**

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Governmental activities</b>		
Current assets	\$ 7,185,856	\$ 7,932,143
Long-term liabilities outstanding	31,626	33,057
Other liabilities	97,087	569,217
Total liabilities	<u>128,713</u>	<u>602,274</u>
Net position		
Restricted	6,867,867	7,169,434
Unrestricted	<u>189,276</u>	<u>160,435</u>
<b>Total net position</b>	<b><u>\$ 7,057,143</u></b>	<b><u>\$ 7,329,869</u></b>

The Authority's net position reflects its restricted net position for future expenditures within the guidelines of the tax increment finance district plans and unrestricted net position, 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 position.

**Governmental activities.** The Authority's net position decreased by \$272,726, key highlights are as follows:

- Decrease in net position from prior year of approximately \$273,000 attributed to (1) an increase in charges for services in the approximate amount of \$60,000, (2) an increase in captured property taxes in the tax increment finance districts in the approximate amount of \$152,000, and (3) an decrease in economic development expenditures in the approximate amount of \$469,000.

#### **Downtown Development Authority's Changes in Net Position**

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Governmental activities</b>		
Program revenues		
Charges for services	\$ 448,081	\$ 387,878
General revenues		
Property taxes	2,294,112	2,142,183
Unrestricted investment earnings	225	426
Total revenue	2,742,418	2,530,487
Expenses		
Economic development	3,015,144	3,483,902
Change in net position	(272,726)	(953,415)
Net position – beginning of year	7,329,869	8,283,284
<b>Net position – end of year</b>	<b>\$ 7,057,143</b>	<b>\$ 7,329,869</b>

#### **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 \$3,244,021, an increase of \$379,908, in comparison with the prior year. \$2,989,770 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 \$248,533. 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 40 percent of total General Fund expenditures.



During the current fiscal year, the fund balance of the Authority's General Fund increased by \$37,475 although anticipated to increase \$11,400. The change in fund balance was attributed to actual expenditures being under the amended budget by \$26,075, and actual revenues received being less than the budget by \$15,117.

The TIF 2 Special Revenue Fund has a fund balance of \$1,396,894, which decreased by \$69,420 although anticipated to decrease \$604,700. The change in fund balance was attributed to actual expenditures being under budget by \$366,601 due to delayed planned projects, actual property taxes received being more than the budget by \$94,420, and actual reimbursements received being less than the budget by \$74,000.

The TIF 97 Special Revenue Fund has a fund balance of \$1,592,876, which increased \$411,853 although anticipated to decrease \$1,044,000. This change in fund balance was attributed to actual expenditures being under amended budget by \$1,477,519 due to delayed planned projects, actual property taxes received being less than the budget by \$27,968, and actual reimbursements received being more than the amended budget by \$5,000.

### **Budgetary Highlights**

Salaries in the Authority's DDA operational budget were decreased by \$17,450 and office supplies, professional services and rentals were increased by \$1,550, \$14,400 and \$1,500 respectively. There were no amendments to the TIF 2 Special Revenue and TIF 97 Special Revenue Funds.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Authority's budget for the 2014-15 fiscal year:

- Through a contract with the City of Traverse City, the Authority manages the Traverse City Parking Services. In July of 2014, the Authority and the City of Traverse City agreed to an adjustment in the administrative fee from \$330,000 to \$410,000 primarily to support staff in the parking system office.
- Various capital improvements are planned in the TIF 2 and TIF 97 Funds for the 2014-15 fiscal year including Eighth Street bridge, Garland Street, Pine Street pedestrian way, and West Front Street bridge replacement and streetscape.
- The Downtown WIFI project, which was identified in previous TIF budgets as a capital project, is now reflected as an operational expense in the TIF 2 and TIF 97 budgets.

### **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 Position**  
**June 30, 2014**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,273,515
Due from other governments	3,906,623
Prepaid expenses	<u>5,718</u>
<b>Total assets</b>	<u><b>7,185,856</b></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	63,738
Accrued compensated absences	
Due in one year	33,349
Due in more than one year	<u>31,626</u>
<b>Total liabilities</b>	<u><b>128,713</b></u>
<b>Net position</b>	
Restricted for tax increment finance districts	6,867,867
Unrestricted	<u>189,276</u>
<b>Total net position</b>	<u><u><b>\$ 7,057,143</b></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, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Charges</u> <u>for Services</u>	<u>Net (Expense)</u> <u>Revenue</u>
Governmental activities	\$ 3,015,144	\$ 448,081	\$ (2,567,063)
General revenues			
Unrestricted property taxes			70,660
Restricted property taxes for tax increment finance districts			2,223,452
Unrestricted investment earnings			225
<b>Total general revenues</b>			<b>2,294,337</b>
<b>Change in net position</b>			<b>(272,726)</b>
Net position, beginning of year			7,329,869
<b>Net position, end of year</b>			<b>\$ 7,057,143</b>

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, 2014**

	General Fund	Special Revenue Funds		Total Governmental Funds
		TIF 2 Fund	TIF 97 Fund	
<b>Assets</b>				
Cash and cash equivalents	\$ 289,003	\$ 1,392,801	\$ 1,591,711	\$ 3,273,515
Due from other governments	28,526	2,448,097	1,430,000	3,906,623
Prepaid expenditures	5,718	-	-	5,718
Due from other funds	-	4,943	4,943	9,886
<b>Total assets</b>	<b>\$ 323,247</b>	<b>\$ 3,845,841</b>	<b>\$ 3,026,654</b>	<b>\$ 7,195,742</b>
<b>Liabilities</b>				
Accounts payable	\$ 28,602	\$ 850	\$ 3,778	\$ 33,230
Accrued liabilities	30,508	-	-	30,508
Due to other funds	9,886	-	-	9,886
<b>Total liabilities</b>	<b>68,996</b>	<b>850</b>	<b>3,778</b>	<b>73,624</b>
<b>Deferred inflows of resources</b>				
Unavailable revenue	-	2,448,097	1,430,000	3,878,097
<b>Fund balances</b>				
Nonspendable - prepaid expenditures	5,718	-	-	5,718
Restricted - tax increment finance districts	-	1,396,894	1,592,876	2,989,770
Unassigned	248,533	-	-	248,533
<b>Total fund balance</b>	<b>254,251</b>	<b>1,396,894</b>	<b>1,592,876</b>	<b>3,244,021</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 323,247</b>	<b>\$ 3,845,841</b>	<b>\$ 3,026,654</b>	<b>\$ 7,195,742</b>

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 Position of Governmental Activities on the  
Statement of Net Position  
June 30, 2014**

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Fund balances	\$ 3,244,021
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Other noncurrent assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Add: unavailable revenue	3,878,097
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: accrued compensated absences	<u>(64,975)</u>
<b>Net position of governmental activities</b>	<b><u>\$ 7,057,143</u></b>
	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, 2014**

	General Fund	Special Revenue Funds		Total Governmental Funds
		TIF 2 Fund	TIF 97 Fund	
<b>Revenues</b>				
Property taxes	\$ 70,660	\$ 951,420	\$ 1,272,032	\$ 2,294,112
Reimbursements	540,652	524,000	120,000	1,184,652
Rental income	50,846	-	-	50,846
Interest income	225	3,259	3,302	6,786
<b>Total revenues</b>	<b>662,383</b>	<b>1,478,679</b>	<b>1,395,334</b>	<b>3,536,396</b>
<b>Expenditures</b>				
<b>Economic Development</b>				
Salaries	423,409	-	-	423,409
Fringe benefits	97,320	-	-	97,320
Office supplies and utilities	30,878	164	438	31,480
Professional services	49,371	164,417	207,568	421,356
Travel and conferences	6,167	-	-	6,167
Repairs and maintenance	2,925	-	-	2,925
Rentals	9,262	-	-	9,262
Contributions to other governments	-	1,382,669	735,420	2,118,089
Capital outlay	5,576	849	40,055	46,480
<b>Total expenditures</b>	<b>624,908</b>	<b>1,548,099</b>	<b>983,481</b>	<b>3,156,488</b>
<b>Net change in fund balances</b>	<b>37,475</b>	<b>(69,420)</b>	<b>411,853</b>	<b>379,908</b>
Fund balances, beginning of year	216,776	1,466,314	1,181,023	2,864,113
<b>Fund balances, end of year</b>	<b>\$ 254,251</b>	<b>\$ 1,396,894</b>	<b>\$ 1,592,876</b>	<b>\$ 3,244,021</b>

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, 2014**

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Net change in fund balances	\$ 379,908
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Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Noncurrent assets recorded on the fund statements are not available to fund current year operations and are unavailable in the funds.

Deduct: payments received on assets due from other governments	(644,000)
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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>(8,634)</u>
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<b>Change in net position</b>	<b><u><u>\$ (272,726)</u></u></b>
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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**

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**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*, as amended by GASB Statements No. 39 and No. 61. 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 position 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**

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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.

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

In addition to liabilities, the statement of net position when applicable will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position/fund balance that applies to a future period

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

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and so will not be recognized as an inflow of resources (revenue) until then. Currently, the Authority has one item of this type, undistributed tax collections, that qualifies as a deferred inflow of resources.

***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, 2014 is accrued in the government-wide financial statements.

***Fund Balance*** – 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 \$3,273,424 and petty cash of \$91 at June 30, 2014.

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**Notes to Financial Statements**

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**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 \$3,280,921. The Federal Deposit Insurance Corporation insured \$250,000 and the remainder of \$3,030,921 is uninsured and not fully collateralized.

**3. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses in the governmental activities consist of 48 percent accrued payroll liabilities and 52 percent vendor payables.

**4. RECEIVABLES / UNAVAILABLE REVENUE**

Governmental funds reported unavailable revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. This unavailable 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 unavailable revenue amounted to \$3,878,097.

**5. INTERFUND PAYABLES AND RECEIVABLES**

Administrative expenses payable to the TIF 2 and TIF 97 special revenue funds from the General Fund at June 30, 2014 amounted to \$4,943 and \$4,943, respectively.

**6. ACCRUED COMPENSATED ABSENCES**

Changes in accrued compensated absences consist of the following:

	<u>Balance</u> <u>07/01/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/14</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Accrued compensated absences	\$56,341	\$ 50,189	\$ 41,555	\$64,975	\$ 33,349

Compensated absences are liquidated by the General Fund.

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**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 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, 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 End</u>	<u>Amount</u>
2015	\$ 2,207,790
2016	2,265,914
2017	829,620
2018	875,531
2019	903,931
2020-2024	4,993,455
2025-2028	<u>3,698,168</u>
<b>Total</b>	<b><u>\$15,774,409</u></b>

**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. For the current fiscal year, the Authority did not participate in federally assisted grant programs.

**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

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**Notes to Financial Statements**

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the State at an estimated 50 percent of the assessed value. The taxable value for real and personal property for the Authority for the 2013 levy is \$127,779,357. The Authority's general operating tax rate for fiscal year 2013-14 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 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 2013-14 captured taxable values for TIF 2 is \$36,242,952 and TIF 97 is \$55,239,926.

**10. ADMINISTRATIVE SERVICES REVENUE**

The Authority entered into two contracts, one from September 1, 2012 to August 31, 2013 and another from September 1, 2013 to August 31, 2014 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 \$58,200 and \$59,364, respectively, payable in equal monthly installments of \$4,850 and \$4,947. Income under these contracts for the year ended June 30, 2014 was \$59,170.

The Authority entered into a contract on June 19, 2003 with the City of Traverse City in which the Authority will operate and manage the Traverse City Parking Services for an annual fee. In July 2014, the agreement was changed from \$330,000 payable in equal monthly installments of \$27,500 to \$410,000 payable in equal monthly installments of \$34,167.

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, 2014 was \$149,965.

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**11. 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.

**12. 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 2014 the Authority contributed \$14,674 and the employees contributed \$15,154 to this plan.

**13. RELATED PARTY TRANSACTIONS**

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

**14. SUBSEQUENT EVENTS**

On October 14, 2014, the Brownfield Redevelopment Authority's reimbursement payment of \$536,000 was received under the River's Edge Brownfield Plan and the reimbursement payment of \$115,000 was received towards the Michigan Economic Growth Authority eligible expenses associated with the Larry C. Hardy parking deck under the Radio Center Brownfield Plan.

On September 30, 2014, the Authority's Board of Directors authorized the Executive Director to enter into a contract with the Downtown Traverse City Association through August 31, 2015, with an annual compensation of \$60,551. The Authority provides office space and administrative services to the Downtown Traverse City Association.

**REQUIRED SUPPLEMENTARY  
INFORMATION**



**DOWNTOWN DEVELOPMENT AUTHORITY**  
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**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget to Actual**  
**General Fund**  
**For the Year Ended June 30, 2014**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 76,300	\$ 76,300	\$ 70,660	\$ (5,640)
Reimbursements	552,000	552,000	540,652	(11,348)
Rental income	49,000	49,000	50,846	1,846
Interest income	200	200	225	25
<b>Total revenues</b>	<b>677,500</b>	<b>677,500</b>	<b>662,383</b>	<b>(15,117)</b>
<b>Expenditures</b>				
<b>Economic development</b>				
Salaries	525,000	507,550	423,409	84,141
Fringe benefits	52,500	52,500	97,320	(44,820)
Office supplies and utilities	28,800	30,350	30,878	(528)
Professional services	34,600	49,000	49,371	(371)
Travel and conferences	9,100	9,100	6,167	2,933
Repairs and maintenance	2,100	2,100	2,925	(825)
Rentals	8,000	9,500	9,262	238
Capital outlay	6,000	6,000	5,576	424
<b>Total expenditures</b>	<b>666,100</b>	<b>666,100</b>	<b>624,908</b>	<b>41,192</b>
<b>Net change in fund balance</b>	<b>11,400</b>	<b>11,400</b>	<b>37,475</b>	<b>26,075</b>
Fund balance, beginning of year	216,776	216,776	216,776	-
<b>Fund balance, end of year</b>	<b>\$ 228,176</b>	<b>\$ 228,176</b>	<b>\$ 254,251</b>	<b>\$ 26,075</b>

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**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget to Actual**  
**Special Revenue Fund - TIF 2**  
**For the Year Ended June 30, 2014**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 857,000	\$ 857,000	\$ 951,420	\$ 94,420
Reimbursements	450,000	450,000	524,000	74,000
Interest income	3,000	3,000	3,259	259
<b>Total revenues</b>	<b>1,310,000</b>	<b>1,310,000</b>	<b>1,478,679</b>	<b>168,679</b>
<b>Expenditures</b>				
<b>Economic development</b>				
Office supplies and utilities	700	700	164	536
Professional services	231,300	231,300	164,417	66,883
Capital outlay	300,000	300,000	849	299,151
Contribution to other governments	1,382,700	1,382,700	1,382,669	31
<b>Total expenditures</b>	<b>1,914,700</b>	<b>1,914,700</b>	<b>1,548,099</b>	<b>366,601</b>
<b>Net change in fund balance</b>	<b>(604,700)</b>	<b>(604,700)</b>	<b>(69,420)</b>	<b>535,280</b>
Fund balance, beginning of year	1,466,314	1,466,314	1,466,314	-
<b>Fund balance, end of year</b>	<b>\$ 861,614</b>	<b>\$ 861,614</b>	<b>\$ 1,396,894</b>	<b>\$ 535,280</b>

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**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget to Actual**  
**Special Revenue Fund - TIF 97**  
**For the Year Ended June 30, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget Positive (Negative)</u>
<b>Revenues</b>				
Property taxes	\$ 1,300,000	\$ 1,300,000	\$ 1,272,032	\$ (27,968)
Reimbursements	115,000	115,000	120,000	5,000
Interest income	2,000	2,000	3,302	1,302
<b>Total revenues</b>	<b><u>1,417,000</u></b>	<b><u>1,417,000</u></b>	<b><u>1,395,334</u></b>	<b><u>(21,666)</u></b>
<b>Expenditures</b>				
<b>Economic development</b>				
Office supplies and utilities	1,000	1,000	438	562
Professional services	200,000	200,000	207,568	(7,568)
Capital outlay	1,500,000	1,500,000	40,055	1,459,945
Contribution to other governments	760,000	760,000	735,420	24,580
<b>Total expenditures</b>	<b><u>2,461,000</u></b>	<b><u>2,461,000</u></b>	<b><u>983,481</u></b>	<b><u>1,477,519</u></b>
<b>Net change in fund balance</b>	<b><u>(1,044,000)</u></b>	<b><u>(1,044,000)</u></b>	<b><u>411,853</u></b>	<b><u>1,455,853</u></b>
Fund balance, beginning of year	1,181,023	1,181,023	1,181,023	-
<b>Fund balance, end of year</b>	<b><u>\$ 137,023</u></b>	<b><u>\$ 137,023</u></b>	<b><u>\$ 1,592,876</u></b>	<b><u>\$ 1,455,853</u></b>

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**Notes to Required Supplementary Information**

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**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.