



CITY *of*
TRAVERSE CITY MICHIGAN

FINANCIAL STATEMENTS

**For the Fiscal Year Ended
June 30, 2016**

**Prepared by:
City Treasurer Department**

CITY OF TRAVERSE CITY, MICHIGAN

TABLE OF CONTENTS

	<u>PAGE</u>
<i>FINANCIAL SECTION</i>	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-12
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14-15
Fund Financial Statements	
Balance Sheet - Governmental Funds	16-17
Statement of Revenues, Expenditures, and Changes in Fund	
Balances - Governmental Funds	18-19
Statement of Net Position - Proprietary Funds	20-21
Statement of Revenues, Expenses, and Changes in Net	
Position - Proprietary Funds	22-23
Statement of Cash Flows - Proprietary Funds	24-25
Statement of Fiduciary Net Position	26
Statement of Changes in Fiduciary Net Position	27
Notes to the Financial Statements	28-80
<i>SUPPLEMENTARY INFORMATION</i>	
Required Supplementary Information	
Act 345 Pension Retirement System Schedule of Changes in the	
Employer's Net Pension Liability and Related Ratios	81
Act 345 Pension Trust Retirement System Schedule of Contributions	82
Act 345 Pension Retirement System Schedule of Investment Returns	83
Act 345 Retiree Health Insurance Trust Fund Schedule of Funding Progress	84
MERS Pension Plan Schedule of Changes in the Employer's Net Pension	
Liability and Related Ratios - General Plan	85
MERS Pension Plan Schedule of Contributions - General Plan	86
MERS Pension Plan Schedule of Changes in the Employer's Net Pension	
Liability and Related Ratios - Traverse City Light and Power	87
MERS Pension Plan Schedule of Contributions - Traverse City Light and Power	88
MERS Retiree Health Insurance Funding Vehicle Schedule of Funding Progress	89
Schedule of Revenues, Expenditures and Changes in Fund Balance -	
Budget and Actual	
General Fund	90
Major Streets Special Revenue Fund	91
Local Streets Special Revenue Fund	92
Notes to Required Supplementary Information	93

CITY OF TRAVERSE CITY, MICHIGAN

TABLE OF CONTENTS

	<u>PAGE</u>
<i>SUPPLEMENTARY INFORMATION (CONTINUED)</i>	
Other Supplementary Information	
Schedule of GASB 54 Consolidation	94-100
Combining and Individual Fund Statements and Schedules	
Schedule of Revenues - Budget and Actual - General Fund	101
Schedule of Expenditures - Budget and Actual - General Fund	102-104
Schedule of Transfers - Budget and Actual - General Fund	105
Combining Balance Sheet - Nonmajor Governmental Funds	106
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	107
Combining Balance Sheet - Nonmajor Special Revenue Funds	108-109
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds	110-111
Combining Balance Sheet - Nonmajor Debt Service Funds	112
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Debt Service Funds	113
Combining Balance Sheet - Nonmajor Capital Projects Funds	114
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Capital Projects Funds	115
Combining Statement of Assets and Liabilities - Agency Funds	116
Combining Statement of Changes in Assets and Liabilities - Agency Funds	117-118
Combining Statement of Fiduciary Net Position - Pension and Other Postemployment Benefit Trust Funds	119
Combining Statement of Changes in Fiduciary Net Position - Pension and Other Postemployment Benefit Trust Funds	120
INTERNAL CONTROL AND COMPLIANCE	
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 <i>Government Auditing Standards</i>	121-122

CITY OF TRAVERSE CITY, MICHIGAN

List of Elected and Appointed Officials For the Fiscal Year Ended June 30, 2016

Elected Officials

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

Jim Carruthers
Ross Richardson
Brian Haas
Gary L. Howe
Richard I. Lewis
Amy Shamroe
Tim Werner

Appointed Officials

Manager
Clerk
Attorney
Treasurer/Finance Director

Martin Colburn
Benjamin C. Marentette
Lauren Tribble-Laucht
William E. Twietmeyer



Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

INDEPENDENT AUDITORS' REPORT

December 19, 2016

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Traverse City, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Traverse City, Michigan, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 and the information on pages 81 through 93 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Traverse City, Michigan's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Ordevel Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Traverse City Management's Discussion and Analysis

As management of the *City of Traverse City, Michigan* (the “City”), we offer readers of the City’s financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

Financial Highlights

- The assets and deferred outflows of resources of the City (primary government) exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$101,329,571 (*net position*). The City’s total net position increased by \$5,405,526 during the year ended June 30, 2016.
- As of the close of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$25,391,185, an increase of approximately \$226,000 in comparison with the prior year.
- At the end of the current fiscal year unassigned fund balance for the General Fund was \$4,373,233 or 28 percent of total General Fund expenditures and transfers out.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

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

Government-wide Financial Analysis

As noted earlier, net position may serve as a useful indicator of a government's financial position. In the case of the City of Traverse City, assets and deferred outflows exceeded liabilities and deferred inflows by \$101,329,571 at the close of the most recent fiscal year.

By far the largest portion of the City's net position, \$89,076,215 or 88 percent, reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net position consists of restricted net position of \$17,031,427, which represents resources that are subject to external restrictions on how they may be used and a deficit unrestricted net position of \$4,778,071.

The City's net position increased by \$5,405,526 during the year ended June 30, 2016.

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

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

	FYE 6/30/16			FYE 6/30/15		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 30,833,811	\$ 10,721,388	\$ 41,555,199	\$ 30,872,709	\$ 10,217,754	\$ 41,090,463
Capital assets	49,036,979	56,333,214	105,370,193	45,614,365	55,859,085	101,473,450
Total assets	79,870,790	67,054,602	146,925,392	76,487,074	66,076,839	142,563,913
Deferred outflows	5,280,079	976,982	6,257,061	2,121,375	208,682	2,330,057
Long-term liabilities	9,464,973	7,077,107	16,542,080	11,256,395	8,081,906	19,338,301
Net Pension Liability	27,644,612	3,858,128	31,502,740	23,482,418	2,807,222	26,289,640
Other liabilities	2,037,701	464,706	2,502,407	1,808,131	464,796	2,272,927
Total Liabilities	39,147,286	11,399,941	50,547,227	36,546,944	11,353,924	47,900,868
Deferred inflows	864,694	440,961	1,305,655	631,310	437,747	1,069,057
Net Position:						
Net Investment in capital assets	40,718,525	48,357,690	89,076,215	35,426,141	46,961,042	82,387,183
Restricted assets	17,031,427	-	17,031,427	16,653,623	-	16,653,623
Unrestricted (deficit)	(12,611,063)	7,832,992	(4,778,071)	(10,649,569)	7,532,808	(3,116,761)
Total net position	\$ 45,138,889	\$ 56,190,682	\$ 101,329,571	\$ 41,430,195	\$ 54,493,850	\$ 95,924,045

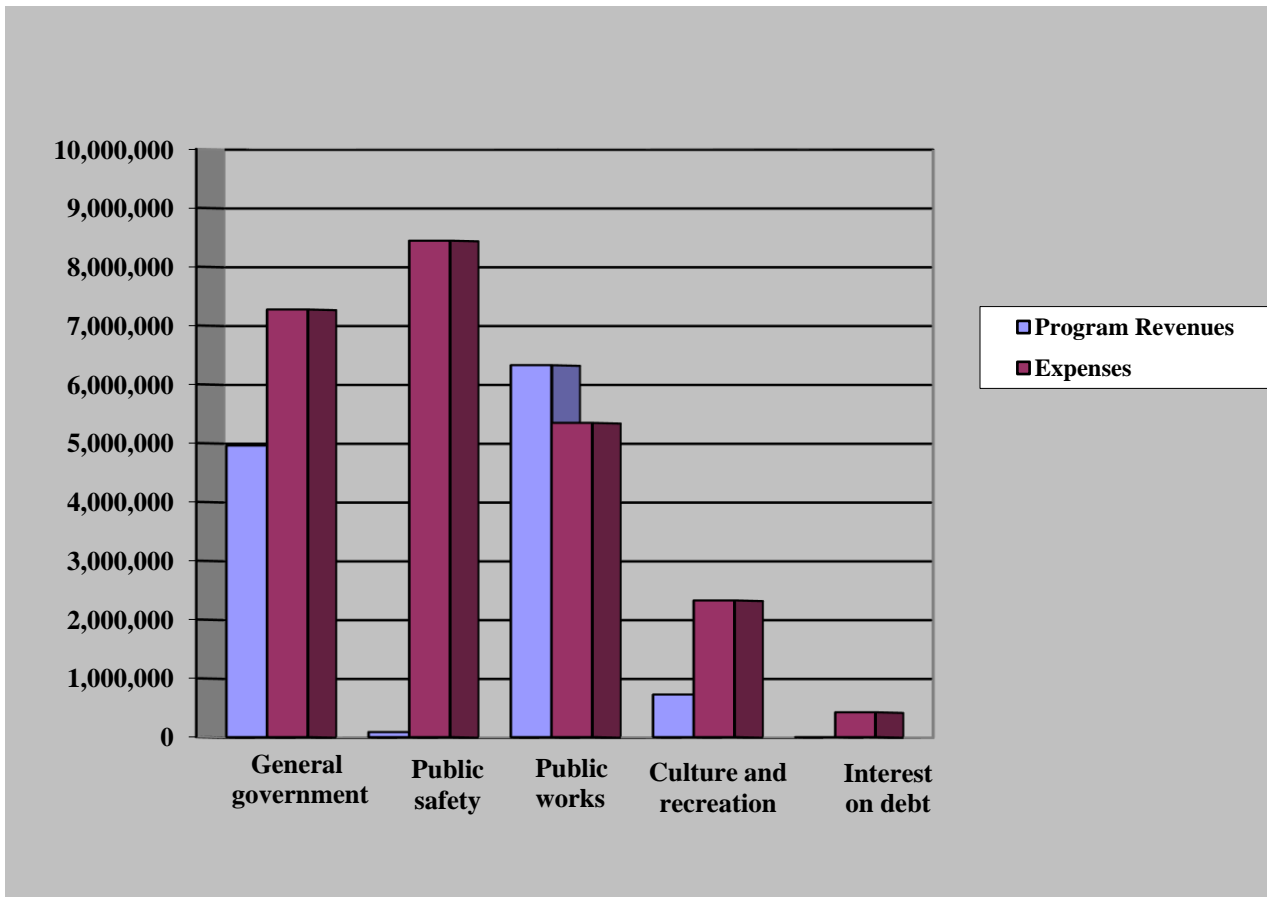
City of Traverse City's Changes in Net Position
Table II

	FYE 6/30/16			FYE 6/30/15		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Program revenue:						
Charges for services	\$ 4,488,512	\$ 15,630,781	\$ 20,119,293	\$ 3,773,021	\$ 12,928,275	\$ 16,701,296
Operating grants/contributions	4,559,888	-	4,559,888	3,808,088	-	3,808,088
Capital grant/contributions	2,556,229	7,000	2,563,229	2,222,766	102,203	2,324,969
General Revenue:						
Property taxes	12,126,837	-	12,126,837	11,799,296	-	11,799,296
Unrestricted grants/contributions	1,326,587	-	1,326,587	1,348,309	-	1,348,309
Franchise revenue	247,291	-	247,291	248,213	-	248,213
Other	1,274,425	13,302	1,287,727	404,032	5,168	409,200
Total revenue	26,579,769	15,651,083	42,230,852	23,603,725	13,035,646	36,639,371
Expenses:						
General government	7,270,773	-	7,270,773	6,550,505	-	6,550,505
Public safety	8,441,271	-	8,441,271	7,866,767	-	7,866,767
Public works	5,342,515	-	5,342,515	4,045,844	-	4,045,844
Culture and recreation	2,323,769	-	2,323,769	1,617,372	-	1,617,372
Interest and fiscal charges	421,852	-	421,852	495,694	-	495,694
Wastewater	-	7,171,226	7,171,226	-	5,674,212	5,674,212
Water	-	3,383,048	3,383,048	-	3,423,127	3,423,127
Marina	-	548,165	548,165	-	572,108	572,108
Autoparking	-	1,930,211	1,930,211	-	1,746,965	1,746,965
Total expenses	23,800,180	13,032,650	36,832,830	20,576,182	11,416,412	31,992,594
Increase (decrease) before transfers/contributions	2,779,589	2,618,433	5,398,022	3,027,543	1,619,234	4,646,777
Operating transfers	921,601	(921,601)	-	761,122	(761,122)	-
Contribution to endowment	7,504	-	7,504	2,505	-	2,505
Increase in net position	3,708,694	1,696,832	5,405,526	3,791,170	858,112	4,649,282
Net position beginning of year - restated	41,430,195	54,493,850	95,924,045	37,639,025	53,635,738	91,274,763
Net position end of year	\$ 45,138,889	\$ 56,190,682	\$ 101,329,571	\$ 41,430,195	\$ 54,493,850	\$ 95,924,045

Governmental activities increased the City's net position by \$3,708,694 accounting for 69 percent of the growth in the government's net position for the current year. Key highlights are as follows:

- Operating grants/contributions increased approximately \$ 752,000 compared to the previous year with a significant portions related to the SAW grant program activity.
- Other revenue increased approximately \$870,400 with a significant portion related to proceeds from the sale of the City coal dock.
- Property tax revenue increased approximately \$328,000 compared to the previous year.
- Personnel costs for governmental activities increased approximately \$343,000 compared to the previous year.

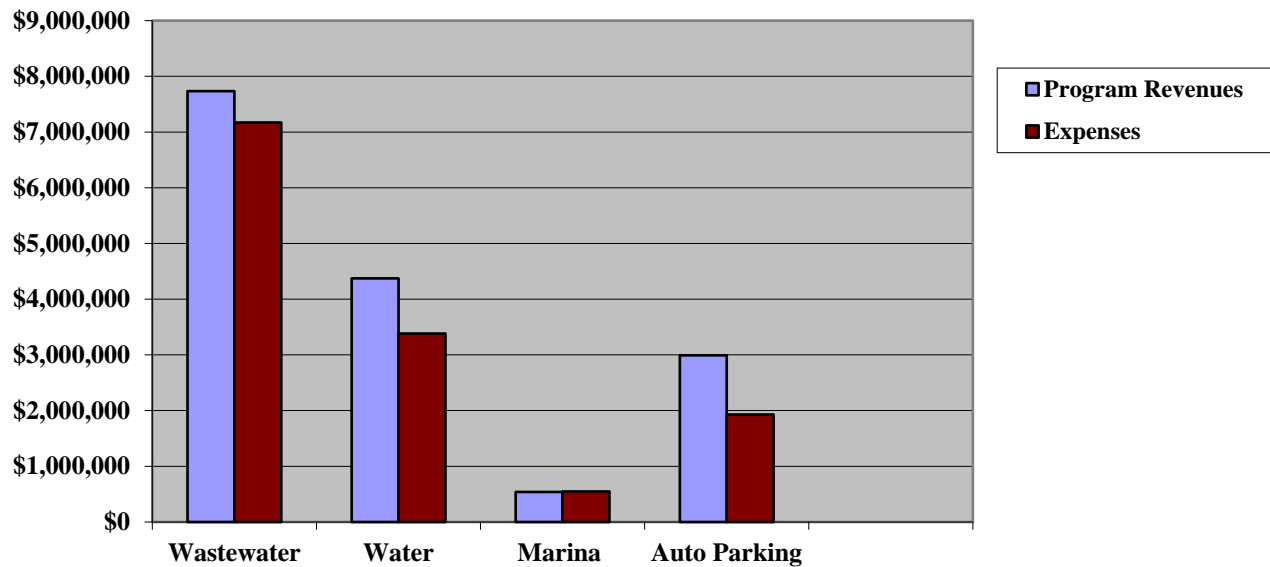
Program Revenues and Expenses - Governmental Activities



Business-type activities increased the City's net position by \$1,696,832 accounting for 31 percent of the growth in the government's net position for the current year. Key highlights of activities in the funds are as follows:

- Charges for services in the Wastewater fund increased approximately \$1,637,000 due in most part to increases in plant usage fees to the growing adjacent townships.
- Charges for services in the Water fund increased approximately \$622,000 for the same reasons as the wastewater increase.
- Charges for services in the Auto Parking System Fund increased approximately \$520,000 because of continued increased customer activity.

Program Revenues and Expenses - Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$25,391,185, an increase of approximately \$226,000 in comparison with the prior year. \$4,373,233 constitutes unassigned fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,373,233. 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 28 percent of total General Fund expenditures including transfers out.

The Major Streets Fund has a total fund balance of \$244,482 which increased by \$51,558 during the year. Original and amended budget estimates anticipated a \$54,000 decrease.

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

The Capital Projects fund balance decreased by \$655,151 during the current fiscal year. Final budget estimates anticipated a decrease of \$640,670 to fund balance.

The Brown Bridge Permanent Trust fund balance increased by \$279,177 during the current fiscal year. Interest and dividend earnings exceeded initial estimates by approximately \$256,000.

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

Unrestricted net position of the Wastewater, Water, Marina, and Auto Parking System funds at the end of the year amounted to \$7,587,577 with net investment in capital assets of \$48,357,690. For the current year, the Wastewater Fund had an increase in net position of \$179,147, the Water Fund had an increase in net position for the year of \$770,962, the Marina Fund had a decrease in net position of \$35,797, and the Auto Parking System had an increase in net position of \$775,182.

General Fund Budgetary Highlights

During the year, General Fund revenues exceeded budgetary estimates by \$694,517. In addition, actual expenditures were under budgeted amounts by \$358,036. Overall, the actual fund balance increased by \$624,594, compared to a budgeted decrease estimate of \$837,300.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$105,370,193 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

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

- Completion of the West End Beach trail project totaled approximately \$377,000.
- Completion of the West Boardman Lake Trail 2014 project totaled approximately \$920,000.
- Continuing work on the West Front Street reconstruction projects with costs to date of approximately 2,378,000.
- Continuing work on the Garland Street reconstruction project with costs to date of approximately \$1,107,000.
- Starting work on the Pine Street Pedestrian Bridge project with costs to date of approximately \$944,000.
- Nearing Completion of Bayfront Plan projects with costs to date of approximately \$3,178,000.

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

	2016			2015		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Land	\$11,342,816	\$ 1,187,057	\$12,529,873	\$11,339,616	\$ 1,187,057	\$ 12,526,673
Land improvement	3,236,249	8,416,432	11,652,681	3,259,247	8,416,432	11,675,679
Buildings and systems	6,242,205	21,057,588	27,299,793	6,266,585	21,748,437	28,015,022
Construction in progress	7,737,567	1,851,426	9,588,993	5,645,045	210,236	5,855,281
Equipment	7,483,973	8,312,886	15,796,859	6,631,047	8,499,304	15,130,351
Infrastructure and other improvements	<u>12,994,169</u>	<u>15,507,825</u>	<u>28,501,994</u>	<u>12,472,825</u>	<u>15,797,619</u>	<u>28,270,444</u>
TOTAL	<u>\$49,036,979</u>	<u>\$56,333,214</u>	<u>\$105,370,193</u>	<u>\$45,614,365</u>	<u>\$55,859,085</u>	<u>\$101,473,450</u>

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt and capital lease payables of \$15,793,674. Of this amount, \$8,818,150 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents capital leases.

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

	2016			2015		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
General obligation bonds - Parking decks	\$ 8,818,150	\$ -	\$8,818,150	\$10,688,004	\$ -	\$ 10,688,004
Capital lease payable - Wastewater Treatment Plant	<u>-</u>	<u>6,975,524</u>	<u>6,975,524</u>	<u>-</u>	<u>7,988,377</u>	<u>7,988,377</u>
TOTAL	<u>\$ 8,818,150</u>	<u>\$ 6,675,524</u>	<u>\$15,793,674</u>	<u>\$10,688,004</u>	<u>\$ 7,988,377</u>	<u>\$18,676,381</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$89,366,543 which is significantly in excess of the City's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2016/17 fiscal year:

- The City Commission has determined to keep the General Fund tax levy at 11.1167 mills, the same levy as the four previous years. The Act 345 levy for Police/Fire pensions is 2.32 mills, the same levy as the previous three years.
- The City's capital improvement plan projects approximately \$10,000,000 of capital related expenses in fiscal year 16/17. The General Fund budget includes \$670,000 to continue the City Commission's priority on infrastructure spending for streets and sidewalks.
- Health insurance premiums will increase about 4.5% on July 1, 2016. Some of this increase may be attributed to the unknowns associated with the implementation of the Federal Affordable Care Act and some of this increase is associated with severe health issues for some of our employees. Most employees cost share on an 80/20 basis.
- Legacy costs are being addressed in a meaningful way. Since July 2009 all new hire general City employees are at the 1.5% multiplier; all new hire police/fire employees are at the 2.0% multiplier. These are down from 2.25% and 2.8% respectively. Effective July 1, all current general employees will earn future pension credit at a 1.5% multiplier. Effective June 30, 2014 current Police Patrol employees will earn future pension credit at a 2.5% multiplier rather than the current 2.8% multiplier. These changes should significantly impact accrued unfunded liability although the amount of the impact will not be known until the next actuarial reports.
- The renewal of a special road commission millage by voters in the County has resulted in the City setting up a Road Commission Millage Street Project Fund to account for the City's share of the road millage that will be used for street pavement preservation projects. That millage is expected to provide about \$750,000 annually over a three year period.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, Martin Colburn, 400 Boardman Avenue, Traverse City, Michigan 49684.

BASIC FINANCIAL STATEMENTS

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 10,138,910	\$ 8,531,657	\$ 18,670,567
Investments	14,405,635	1,080,152	15,485,787
Receivables, net	2,160,092	1,971,101	4,131,193
Due from component unit	2,128,937	-	2,128,937
Internal balances	1,256,184	(1,256,184)	-
Inventories	335,278	76,029	411,307
Prepaid items and other assets	86,235	220,012	306,247
Other postemployment benefit	322,540	98,621	421,161
Advances to primary government	-	-	-
Capital assets not being depreciated	19,080,384	11,454,915	30,535,299
Capital assets being depreciated	29,956,595	44,878,299	74,834,894
Total assets	79,870,790	67,054,602	146,925,392
Deferred outflows of resources			
Deferred outflows - pensions	4,999,722	976,982	5,976,704
Deferred outflows - loss on refunding	280,357	-	280,357
Total deferred outflows of resources	5,280,079	976,982	6,257,061
Liabilities			
Accounts payable and accrued expenses	2,028,994	464,706	2,493,700
Unearned revenue	8,018	-	8,018
Due to primary government	-	-	-
Advances from component units	689	-	689
Long-term liabilities			
Net pension liability	27,644,612	3,858,128	31,502,740
Due within one year	493,464	1,047,187	1,540,651
Due in more than one year	8,971,509	6,029,920	15,001,429
Total liabilities	39,147,286	11,399,941	50,547,227
Deferred inflows of resources			
Deferred inflows - pensions	864,694	34,687	899,381
Deferred inflows - gain on refunding	-	406,274	406,274
Total deferred inflows of resources	864,694	440,961	1,305,655
Net position			
Net investment in capital assets	40,718,525	48,357,690	89,076,215
Restricted for			
Joint planning	17,075	-	17,075
Capital improvements	1,084,138	-	1,084,138
Streets and highways	244,482	-	244,482
Public welfare or civic improvement organizations	2,415,510	-	2,415,510
Act 345 retirement	30,018	-	30,018
Tax increment finance districts	-	-	-
Nonexpendable brown bridge trust	12,552,891	-	12,552,891
Nonexpendable cemetery perpetual trust	687,313	-	687,313
Unrestricted (deficit)	(12,611,063)	7,832,992	(4,778,071)
Total net position	\$ 45,138,889	\$ 56,190,682	\$ 101,329,571

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

Component Units			
Downtown Development Authority		Light and Power	
\$	4,013,338	\$	8,730,597
	-		10,849,656
	1,260,143		5,433,715
	-		-
	-		-
	-		1,582,616
	10,112		14,456
	-		1,382,770
	-		689
	-		2,463,673
	-		55,256,779
	5,283,593		85,714,951
	-		3,200,929
	-		-
	-		3,200,929
	131,793		2,345,375
	-		14,270
	1,830,105		298,832
	-		-
	-		14,114,875
	27,619		-
	38,189		201,758
	2,027,706		16,975,110
	-		-
	-		-
	-		-
	-		57,720,452
	-		-
	-		-
	-		-
	-		-
	2,930,879		-
	-		-
	-		-
	325,008		14,220,318
\$	3,255,887	\$	71,940,770

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 7,270,773	\$ 1,013,408	\$ 785,660	\$ -	\$ (5,471,705)
Public safety	8,441,271	36,000	49,605	-	(8,355,666)
Public works	5,342,515	2,405,015	3,551,452	2,531,229	3,145,181
Culture and recreation	2,323,769	1,034,089	173,171	25,000	(1,091,509)
Interest and fiscal charges	421,852	-	-	-	(421,852)
Total governmental activities	23,800,180	4,488,512	4,559,888	2,556,229	(12,195,551)
Business-type activities					
Wastewater	7,171,226	7,734,406	-	-	563,180
Water	3,383,048	4,365,663	-	7,000	989,615
Marina	548,165	539,500	-	-	(8,665)
Automobile parking	1,930,211	2,991,212	-	-	1,061,001
Total business-type activities	13,032,650	15,630,781	-	7,000	2,605,131
Total primary government	\$ 36,832,830	\$ 20,119,293	\$ 4,559,888	\$ 2,563,229	\$ (9,590,420)
Component units					
Downtown Development Authority	\$ 6,789,314	\$ 645,487	\$ 33,800	\$ -	\$ (6,110,027)
Light and Power	34,543,891	35,896,202	-	-	1,352,311
Total component units	\$ 41,333,205	\$ 36,541,689	\$ 33,800	\$ -	\$ (4,757,716)

Continued...

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net (expense) revenue	\$ (12,195,551)	\$ 2,605,131	\$ (9,590,420)
General revenues			
Unrestricted property taxes	12,126,837	-	12,126,837
Restricted property taxes for tax increment finance districts	-	-	-
Grants and contributions not restricted			
to specific programs	1,326,587	-	1,326,587
Franchise revenue	247,291	-	247,291
Unrestricted investment earnings	79,374	13,302	92,676
Gain on sale of capital assets	1,195,051	-	1,195,051
Transfers	921,601	(921,601)	-
Contribution to endowment	7,504	-	7,504
Total general revenues, transfers and contributions	15,904,245	(908,299)	14,995,946
Change in net position	3,708,694	1,696,832	5,405,526
Net position, beginning of year	41,430,195	54,493,850	95,924,045
Net position, end of year	\$ 45,138,889	\$ 56,190,682	\$ 101,329,571

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

Component Units	
Downtown Development Authority	Light and Power
\$ (6,110,027)	\$ 1,352,311
69,613	-
2,575,989	-
-	-
-	-
540	348,318
-	-
-	-
-	-
<u>2,646,142</u>	<u>348,318</u>
(3,463,885)	1,700,629
<u>6,719,772</u>	<u>70,240,141</u>
<u>\$ 3,255,887</u>	<u>\$ 71,940,770</u>

Concluded

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

CITY OF TRAVERSE CITY, MICHIGAN
Balance Sheet
Governmental Fund
June 30, 2016

	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Permanent</u>		
	<u>General</u>	<u>Major</u>	<u>Local</u>	<u>Capital</u>	<u>Brown</u>	<u>Nonmajor</u>	
	<u>Fund</u>	<u>Streets</u>	<u>Streets</u>	<u>Project</u>	<u>Bridge</u>	<u>Governmental</u>	<u>Total</u>
		<u>Fund</u>	<u>Fund</u>		<u>Trust</u>	<u>Funds</u>	
					<u>Fund</u>		
ASSETS							
Assets							
Cash and cash equivalents	\$ 2,872,771	\$ 113,187	\$ -	\$ -	\$ 377,548	\$ 4,543,865	\$ 7,907,371
Investments	1,346,627	-	-	79,799	12,187,620	791,589	14,405,635
Receivables							
Accounts	254,437	560	-	709,650	8,125	18,652	991,424
Taxes	3,800	-	-	-	-	8,720	12,520
Special assessments	-	-	-	-	-	324,397	324,397
Accrued interest	-	-	-	-	47,516	-	47,516
Due from other governments	239,524	182,445	144,509	-	-	217,657	784,135
Due from other funds	1,284,265	-	-	-	-	-	1,284,265
Due from component unit	298,832	-	-	1,830,105	-	-	2,128,937
Inventory	127,510	-	-	-	-	-	127,510
Prepaid items and other assets	86,235	-	-	-	-	-	86,235
Advances to other funds	1,000,000	-	-	-	-	-	1,000,000
Total assets	\$ 7,514,001	\$ 296,192	\$ 144,509	\$ 2,619,554	\$ 12,620,809	\$ 5,904,880	\$ 29,099,945
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE							
Liabilities							
Accounts payable	\$ 300,936	\$ 39,206	\$ 14,157	\$ 848,902	\$ -	\$ 192,649	\$ 1,395,850
Accrued and other liabilities	413,831	12,504	13,598	-	-	26	439,959
Due to other funds	-	-	116,754	442,528	67,918	155,464	782,664
Deposits payable	49,474	-	-	-	-	-	49,474
Unearned revenue	1,121	-	-	1,085	-	5,813	8,019
Advance from component unit	-	-	-	-	-	689	689
Total liabilities	765,362	51,710	144,509	1,292,515	67,918	354,641	2,676,655
Deferred inflows of resources							
Unavailable revenue	-	-	-	708,577	-	323,528	1,032,105
Fund balance							
Nonspendable							
Inventory	127,510	-	-	-	-	-	127,510
Prepaid items	86,235	-	-	-	-	-	86,235
Advance to other funds	1,000,000	-	-	-	-	-	1,000,000
Brown bridge trust	-	-	-	-	12,552,891	-	12,552,891
Cemetery perpetual care	-	-	-	-	-	687,313	687,313
Restricted							
Debt service	-	-	-	-	-	425	425
Streets and highways	-	244,482	-	-	-	-	244,482
Joint planning	-	-	-	-	-	17,075	17,075
Capital improvements	-	-	-	-	-	1,084,138	1,084,138
Public welfare or civic improvement organizat	-	-	-	-	-	2,415,510	2,415,510
Act 345 retirement	-	-	-	-	-	30,018	30,018
Committed							
Budget stabilization	767,061	-	-	-	-	-	767,061
Capital improvements	-	-	-	618,462	-	992,232	1,610,694
Assigned							
Subsequent year budget	394,600	-	-	-	-	-	394,600
Unassigned	4,373,233	-	-	-	-	-	4,373,233
Total fund balance	6,748,639	244,482	-	618,462	12,552,891	5,226,711	25,391,185
Total liabilities, deferred inflows of resources and fund balance	\$ 7,514,001	\$ 296,192	\$ 144,509	\$ 2,619,554	\$ 12,620,809	\$ 5,904,880	\$ 29,099,945

Continued.....

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

CITY OF TRAVERSE CITY, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2016

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

Fund balances - total governmental funds \$ 25,391,185

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

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.

Add: capital assets	90,175,058
Subtract: accumulated depreciation	(49,148,371)

Because the focus of governmental funds is on short-term financing, some items will not be available to pay for current-period expenditures.

Add: other postemployment benefits asset	282,305
Add: deferred outflow of resources - pension	4,599,782
Add: unavailable revenue	1,032,105

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

Add: net position of governmental activities accounted for in internal service fund	8,940,508
---	-----------

Certain items, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Add: deferred loss on refunding	280,357
Subtract: deferred bond premium - Hardy Deck	(23,150)
Subtract: deferred inflow of resources - pension	(850,535)
Subtract: net pension liability	(26,033,631)
Subtract: bonds payable	(8,795,000)
Subtract: compensated absences	(620,821)
Subtract: accrued interest on long-term liabilities	(90,903)

Net position of governmental activities	\$ 45,138,889
--	----------------------

Concluded

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2011

	<u>Special Revenue Funds</u>			<u>Capital Projects</u>	<u>Permanent</u>		
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Capital Projects</u>	<u>Brown Bridge Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues							
Property taxes and special assessments	\$ 8,559,711	\$ -	\$ -	\$ -	\$ -	\$ 1,885,396	\$ 10,445,107
Licenses and permits	297,926	-	-	-	-	-	297,926
Federal sources	13,039	-	-	375,000	-	260	388,299
State sources	1,326,587	1,221,961	534,023	23,200	-	886,076	3,991,847
Local sources	1,818,187	-	-	-	-	2,286,400	4,104,587
Charges for services	597,268	-	-	-	-	180,349	777,617
Fines and forfeits	8,027	-	-	-	-	-	8,027
Contributions	167,794	-	-	56,718	-	950,008	1,174,520
Reimbursement	669,705	-	-	2,163,910	-	-	2,833,615
Interest income	32,630	40	-	355	506,783	47,572	587,380
Other revenue	1,471,943	-	-	300,000	-	-	1,771,943
Total revenues	14,962,817	1,222,001	534,023	2,919,183	506,783	6,236,061	26,380,868
Expenditures							
Current expenditures							
General government	3,267,386	-	-	-	-	42,215	3,309,601
Public safety	6,239,109	-	-	-	-	1,816,425	8,055,534
Public works	1,527,271	1,235,386	1,137,426	1,337,410	-	1,792,501	7,029,994
Culture and recreation	2,281,298	-	-	-	-	-	2,281,298
Capital outlay	-	-	-	3,821,924	-	292,200	4,114,124
Debt service							
Principal	-	-	-	-	-	1,845,000	1,845,000
Interest expense and fiscal charges	-	-	-	-	-	441,400	441,400
Total expenditures	13,315,064	1,235,386	1,137,426	5,159,334	-	6,229,741	27,076,951
Excess (deficiency) of revenues over expenditures	1,647,753	(13,385)	(603,403)	(2,240,151)	506,783	6,320	(696,083)
Other financing sources (uses)							
Transfers in	1,491,443	64,943	603,403	1,585,000	-	-	3,744,789
Transfers out	(2,514,602)	-	-	-	(227,606)	(80,980)	(2,823,188)
Total other financing sources (uses)	(1,023,159)	64,943	603,403	1,585,000	(227,606)	(80,980)	921,601
Net change in fund balances	624,594	51,558	-	(655,151)	279,177	(74,660)	225,518
Fund balance, beginning of year	6,124,045	192,924	-	1,273,613	12,273,714	5,301,371	25,165,667
Fund balance, end of year	\$ 6,748,639	\$ 244,482	\$ -	\$ 618,462	\$ 12,552,891	\$ 5,226,711	\$ 25,391,185

Continued.....

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$	225,518
--	----	---------

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

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

Add: capital outlay	3,923,685
Subtract: depreciation expense	(1,455,443)

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

Add: current principal debt payment	1,845,000
Subtract: amortization of deferred loss on refunding	(24,379)
Add: amortization of reoffering premium	22,841
Add: amortization of premium	2,013

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

Subtract: increase in deferred contributions and special assessment receivables	(62,599)
---	----------

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

Add: decrease in accrued interest payable	19,073
Subtract: increase in compensated absences payable	(76,209)
Add: increase in other postemployment benefit asset	27,396
Subtract: change in net pension liability, deferred outflows and deferred inflows	(1,082,983)

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

Add: interest income from governmental internal service fund	950
Add: other revenue from governmental internal service fund	67,056
Add: gain on disposal of capital assets in governmental internal service fund	200,998
Add: net operating income from governmental activities accounted for in internal service fund	75,777

Change in net position of governmental activities	\$	<u>3,708,694</u>
--	-----------	-------------------------

Concluded

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities - Enterprise Funds			
	Wastewater	Water	Marina	Automobile Parking System
Assets				
Current assets				
Cash and cash equivalents	\$ 170,525	\$ 3,410,796	\$ 334,756	\$ 4,615,580
Investments	-	50,705	-	1,029,447
Receivables				
Accounts	1,136,231	809,911	1,977	18,350
Taxes	2,418	2,214	-	-
Inventory	-	67,019	9,010	-
Prepaid cost and other assets	215,584	4,428	-	-
Total current assets	1,524,758	4,345,073	345,743	5,663,377
Noncurrent assets				
Other postemployment benefit	21,072	76,613	-	936
Capital assets not being depreciated	480,834	1,325,217	8,412,302	1,236,562
Capital assets being depreciated	22,647,326	6,343,197	962,603	14,925,173
Total noncurrent assets	23,149,232	7,745,027	9,374,905	16,162,671
Total assets	24,673,990	12,090,100	9,720,648	21,826,048
Deferred outflows				
Deferred outflow of resources - pensions	325,460	581,804	32,145	37,573
Liabilities				
Current liabilities				
Accounts payable	103,792	97,715	74,215	58,147
Accrued and other liabilities	73,380	46,504	4,336	6,617
Due to other funds	121,369	62,732	26,979	290,521
Current portion of long-term debt	1,047,187	-	-	-
Total current liabilities	1,345,728	206,951	105,530	355,285
Long-term liabilities				
Advance from other funds	-	-	1,000,000	-
Long-term debt, net of current portion	5,928,337	-	-	-
Net pension liability	1,220,891	2,356,408	129,484	151,345
Compensated absences	36,150	56,689	7,037	1,705
Total long-term liabilities	7,185,378	2,413,097	1,136,521	153,050
Total liabilities	8,531,106	2,620,048	1,242,051	508,335
Deferred inflows				
Deferred inflow of resources - pensions	11,639	20,580	1,138	1,330
Deferred gain on refunding	406,274	-	-	-
Total deferred inflows	417,913	20,580	1,138	1,330
Net Position				
Net investment in capital assets	16,152,636	7,668,414	8,374,905	16,161,735
Unrestricted (deficit)	(102,205)	2,362,862	134,699	5,192,221
Total net position	\$ 16,050,431	\$ 10,031,276	\$ 8,509,604	\$ 21,353,956

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

		Governmental Activities - Internal	
Total		Service Fund	
\$	8,531,657	\$	2,231,539
	1,080,152		-
	1,966,469		100
	4,632		-
	76,029		207,768
	220,012		-
	<u>11,878,951</u>		<u>2,439,407</u>
	98,621		40,235
	11,454,915		-
	<u>44,878,299</u>		<u>8,010,292</u>
	<u>56,431,835</u>		<u>8,050,527</u>
	<u>68,310,786</u>		<u>10,489,934</u>
	<u>976,982</u>		<u>399,940</u>
	333,869		26,360
	130,837		26,449
	501,601		-
	<u>1,047,187</u>		<u>-</u>
	<u>2,013,494</u>		<u>52,809</u>
	1,000,000		-
	5,928,337		-
	3,858,128		1,610,981
	<u>101,581</u>		<u>26,002</u>
	<u>10,888,046</u>		<u>1,636,983</u>
	<u>12,901,540</u>		<u>1,689,792</u>
	34,687		14,159
	<u>406,274</u>		<u>-</u>
	<u>440,961</u>		<u>14,159</u>
	48,357,690		8,010,292
	<u>7,587,577</u>		<u>1,175,631</u>
\$	<u>55,945,267</u>	\$	<u>9,185,923</u>

Continued.....

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Net Position
Proprietary Funds
June 30, 2016

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

Net position - total enterprise funds	\$ 55,945,267
---------------------------------------	---------------

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

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

Add: cumulative portion of internal service fund net operating gain attributed to business-type activities	<u>245,415</u>
---	----------------

Net position of business-type activities	<u>\$ 56,190,682</u>
---	-----------------------------

Concluded

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Revenues, Expenses
and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 201

	Business-type Activities - Enterprise Funds			
	Wastewater	Water	Marina	Automobile Parking System
Operating revenues				
Charges for services	\$ 7,661,754	\$ 4,203,086	\$ 524,225	\$ 2,870,519
Interdepartmental	-	-	-	-
Contributions	-	7,000	-	-
Other revenue	41,991	145,356	15,275	29,395
Total operating revenues	<u>7,703,745</u>	<u>4,355,442</u>	<u>539,500</u>	<u>2,899,914</u>
Operating expenses				
Personnel services	858,197	1,400,928	142,401	80,898
Commodities	17,067	185,046	15,965	46,524
Contractual services	5,139,420	491,658	198,461	793,240
Other charges	235,155	1,037,322	83,338	522,305
Depreciation and amortization	611,832	270,002	108,228	489,247
Total operating expenses	<u>6,861,671</u>	<u>3,384,956</u>	<u>548,393</u>	<u>1,932,214</u>
Operating income	<u>842,074</u>	<u>970,486</u>	<u>(8,893)</u>	<u>967,700</u>
Nonoperating revenues (expenses)				
Reimbursements	30,661	17,221	-	-
Interest income	4,535	1,987	75	6,705
Other revenue	-	-	-	-
Interest expense and fiscal charges	(312,754)	-	-	-
Gain on sale of capital assets	-	-	-	91,298
Total nonoperating revenues (expenses)	<u>(277,558)</u>	<u>19,208</u>	<u>75</u>	<u>98,003</u>
Income before capital contributions and transfers	<u>564,516</u>	<u>989,694</u>	<u>(8,818)</u>	<u>1,065,703</u>
Transfers out	<u>(385,369)</u>	<u>(218,732)</u>	<u>(26,979)</u>	<u>(290,521)</u>
Change in net position	<u>179,147</u>	<u>770,962</u>	<u>(35,797)</u>	<u>775,182</u>
Net position, beginning of year	<u>15,871,284</u>	<u>9,260,314</u>	<u>8,545,401</u>	<u>20,578,774</u>
Net position, end of year	<u>\$ 16,050,431</u>	<u>\$ 10,031,276</u>	<u>\$ 8,509,604</u>	<u>\$ 21,353,956</u>

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

		Governmental	
		Activities - Internal	
Total		Service Fund	
\$ 15,259,584		\$ -	
-		2,888,105	
7,000		-	
232,017		-	
<u>15,498,601</u>		<u>2,888,105</u>	
2,482,424		826,843	
264,602		479,966	
6,622,779		203,298	
1,878,120		158,597	
<u>1,479,309</u>		<u>1,136,286</u>	
<u>12,727,234</u>		<u>2,804,990</u>	
<u>2,771,367</u>		<u>83,115</u>	
47,882		-	
13,302		950	
-		67,056	
(312,754)		-	
<u>91,298</u>		<u>200,998</u>	
<u>(160,272)</u>		<u>269,004</u>	
<u>2,611,095</u>		<u>352,119</u>	
<u>(921,601)</u>		<u>-</u>	
1,689,494		352,119	
<u>54,255,773</u>		<u>8,833,804</u>	
<u>\$ 55,945,267</u>		<u>\$ 9,185,923</u>	

Continued.....

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016

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

Change in net position - total enterprise funds	\$ 1,689,494
---	--------------

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

Add: net operating income of the internal service fund attributable to business-type activities	<u>7,338</u>
---	--------------

Change in net position of business-type activities	<u>\$ 1,696,832</u>
---	----------------------------

Concluded

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Business-type - Enterprise Funds			
	Wastewater	Water	Marina	Automobile Parking System
Cash flows from operating activities				
Cash received from customers	\$ 7,496,942	\$ 4,098,842	\$ 545,199	\$ 2,893,281
Cash received from interfund services	-	-	-	-
Cash payments to suppliers for goods and services	(5,287,906)	(1,811,775)	(266,700)	(1,334,086)
Cash payments to employees for services	(748,423)	(1,211,979)	(137,113)	(69,149)
Net cash provided by operating activities	1,460,613	1,075,088	141,386	1,490,046
Cash flows from non-capital financing activities				
Cash payments from (to) other funds	80,244	26,508	217,079	55,498
Cash payments for city fee	(385,369)	(218,732)	(26,979)	(290,521)
Cash received from reimbursements	30,661	17,221	-	-
Cash received from other revenue	-	-	-	-
Net cash provided by (used in) non-capital financing activities	(274,464)	(175,003)	190,100	(235,023)
Cash flows from capital and related financing activities				
Cash payments from state government	-	-	3,195	-
Capital contributions	-	-	-	-
Principal payments	(1,044,326)	-	-	-
Interest payments	(319,506)	-	-	-
Purchases of capital assets	(400,235)	(1,147,061)	-	(580,893)
Proceeds from sale of capital assets	-	-	-	256,077
Net cash (used in) capital and related financing activities	(1,764,067)	(1,147,061)	3,195	(324,816)
Cash flows from investing activities				
Interest received	4,535	1,987	75	6,705
Sale (purchase) of investments	-	1,362	-	(1,002,020)
Net cash provided by investing activities	4,535	3,349	75	(995,315)
Net increase (decrease) in cash and cash equivalents	(573,383)	(243,627)	334,756	(65,108)
Cash and cash equivalents, beginning of year	743,908	3,654,423	-	4,680,688
Cash and cash equivalents, end of year	\$ 170,525	\$ 3,410,796	\$ 334,756	\$ 4,615,580

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

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 15,034,264	\$ -
-	2,890,184
(8,700,467)	(861,568)
<u>(2,166,664)</u>	<u>(700,293)</u>
4,167,133	1,328,323
379,329	-
(921,601)	-
47,882	-
<u>-</u>	<u>67,056</u>
<u>(494,390)</u>	<u>67,056</u>
3,195	-
-	-
(1,044,326)	-
(319,506)	-
(2,128,189)	(2,466,561)
<u>256,077</u>	<u>576,901</u>
<u>(3,232,749)</u>	<u>(1,889,660)</u>
13,302	950
<u>(1,000,658)</u>	<u>-</u>
<u>(987,356)</u>	<u>950</u>
(547,362)	(493,331)
<u>9,079,019</u>	<u>2,724,870</u>
<u>\$ 8,531,657</u>	<u>\$ 2,231,539</u>

Continued.....

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Business-type - Enterprise Funds			
	Wastewater	Water	Marina	Automobile Parking System
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 842,074	\$ 970,486	\$ (8,893)	\$ 967,700
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	611,832	270,002	108,228	489,247
Changes in assets and liabilities				
Accounts receivables	(206,803)	(256,600)	5,699	(6,633)
Prepaid cost and other assets	(124)	(4,970)	-	-
Inventory	-	20,761	23,146	-
Deferred outflows - pension	(261,165)	(452,755)	(25,073)	(29,307)
Construction in progress reclassified to expense	9,972	-	-	-
Accounts payable	93,888	(119,986)	7,918	27,983
Accrued and other liabilities	3,310	7,142	(5,122)	(417)
Net pension liability	355,990	620,428	34,345	40,143
Deferred inflows - pension	11,639	20,580	1,138	1,330
Net cash provided by operating activities	\$ 1,460,613	\$ 1,075,088	\$ 141,386	\$ 1,490,046

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

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 2,771,367	\$ 83,115
1,479,309	1,136,286
(464,337)	2,079
(5,094)	(7,571)
43,907	20,610
(768,300)	(311,948)
9,972	-
9,803	(40,317)
4,913	4,608
1,050,906	427,302
34,687	14,159
<u>\$ 4,167,133</u>	<u>\$ 1,328,323</u>

Concluded

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Act 345 Pension Trust Fund	Other Postemployment Benefit Funds	Agency Funds
Assets			
Cash and cash equivalents	\$ 2,750,858	\$ 3,280,535	\$ 279,328
Investments, at fair value			
Fixed income mutual funds	4,839,726	-	-
Domestic equities	6,117,090	-	-
International equities	3,486,136	-	-
Real estate	1,532,228	-	-
Other	7,626,872	-	-
MERS total market fund	-	3,815,706	-
Receivables			
Accounts	8,800	72,389	16,543
Taxes	-	-	215,111
Accrued interest	11,821	-	-
Total assets	<u>26,373,531</u>	<u>7,168,630</u>	<u>\$ 510,982</u>
Liabilities			
Accrued and other liabilities	90,094	-	\$ 220,662
Due to other governmental units	-	-	290,320
Total liabilities	<u>90,094</u>	<u>-</u>	<u>\$ 510,982</u>
Net Position			
Held in trust for pension benefits and other postemployment benefits	<u>\$ 26,283,437</u>	<u>\$ 7,168,630</u>	

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

CITY OF TRAVERSE CITY, MICHIGAN
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2016

	Act 345 Pension Trust Fund	Other Postemployment Benefit Funds
Additions		
Contributions		
City contributions	\$ 1,810,565	\$ 384,646
Employee contributions	58,510	-
Other	159	-
	<u>1,869,234</u>	<u>384,646</u>
Total contributions		
	<u>1,869,234</u>	<u>384,646</u>
Investment earnings		
Interest and dividends	314,474	5,985
Net increase in fair value of investments	280,575	25,543
Investment advisor fees	(96,131)	-
	<u>498,918</u>	<u>31,528</u>
Net investment earnings		
	<u>498,918</u>	<u>31,528</u>
Total additions	<u>2,368,152</u>	<u>416,174</u>
Deductions		
Pension benefits paid	2,312,077	-
Health insurance premiums paid	-	902,688
Administrative expense	15,450	-
	<u>2,327,527</u>	<u>902,688</u>
Total deductions	<u>2,327,527</u>	<u>902,688</u>
Net increase (decrease) in plan assets	40,625	(486,514)
Net position held in trust, beginning of year	<u>26,242,812</u>	<u>7,655,144</u>
Net position held in trust, end of year, attributable to pension plan	<u>\$ 26,283,437</u>	
Net position held in trust, end of year, attributable to health insurance plan		<u>\$ 7,168,630</u>

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

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

Discretely presented component units

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

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

Downtown Development Authority (the “DDA”)

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

Traverse City Light and Power (the “Department”)

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

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

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

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

Traverse Area District Library

City of Traverse City and Garfield Township Recreational Authority

Traverse City Housing Commission

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Joint operation

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

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

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

The City is responsible for debt service on the 2003 capital lease listed in Note IIF as determined biannually based upon the percentage of the City's flow to the total flow through the treatment plant. For the biannual period ending December 31, 2015, the City's percentage was forty-seven percent. The City is responsible for debt service on the 2011 capital lease listed in Note IID based on capacity rights. The City's capacity right is sixty percent of the related facilities for which they have elected to lease out ten percent of these rights to Townships.

B. Government-wide and fund financial statements

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The government reports the following major governmental funds:

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

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

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

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

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

The government reports the following major proprietary funds:

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

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

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

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

Additionally, the government reports the following fund types:

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

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

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater, Water, Marina, and Automobile Parking System enterprise funds, the discretely presented component unit (Light and Power) and the City's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and the internal service fund include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted - net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Further, the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

D. Assets, liabilities, deferred outflows/inflows and net position or fund balance

1. Deposits and investments

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

2. Receivables and payables

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

3. Inventory

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

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities, business-type activities, or component unit columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

5. *Deferred outflows/inflows of resources*

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

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

6. *Compensated absences*

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

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

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

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

7. *Long-term obligations*

In the government-wide financial statements, and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *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 City's highest level of decision making authority, the City Commission. A formal resolution by the City Commission is required to establish, modify, or rescind a fund balance commitment. Assigned fund balance is reported for amounts intended for specific purposes expressed by the governing body. Unassigned fund balance is the residual classification for the General Fund.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

9. *Budget Stabilization Arrangement*

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

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

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

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 10,138,910	\$8,531,657	\$ 6,310,721	\$ 24,981,288	\$ 12,743,935
Investments	<u>14,405,635</u>	<u>1,080,152</u>	<u>27,417,758</u>	<u>42,903,545</u>	<u>10,849,656</u>
Total	<u>\$ 24,544,545</u>	<u>\$ 9,611,809</u>	<u>\$ 33,728,479</u>	<u>\$ 67,884,833</u>	<u>\$ 23,593,591</u>

Cash and cash equivalents reported above include \$10,113 of cash on hand that is not considered deposits or investments for footnote purposes.

The breakdown between cash and investments is as follows:

Petty cash	\$ 10,113
City and component unit bank deposits (checking, savings accounts and certificates of deposit)	34,355,555
City and component unit investments	23,384,277
Pension and other postemployment benefit fund - deposits	6,310,721
Pension and other postemployment benefit fund - investments	<u>27,417,758</u>
Total	<u>\$ 91,478,424</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Investments

The City chooses to disclose its investments by specifically identifying each. Investment ratings were provided by Standard & Poor's. The City had the following investments in the governmental activities, business type activities and component units.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury Note	02/15/2024	\$ 551,935	Aaa
US Treasury Note	01/31/2019	1,020,900	Aaa
US Treasury Note	06/30/2019	1,026,680	Aaa
US Treasury Note	01/31/2021	1,051,480	Aaa
US Treasury Note	02/15/2020	440,156	Aaa
US Treasury Note	07/31/2016	125,315	Aaa
US Treasury Note	10/31/2017	150,363	Aaa
US Treasury Note	07/31/2016	751,890	Aaa
US Treasury Note	03/31/2017	1,003,710	Aaa
US Treasury Note	10/31/2017	501,210	Aaa
US Treasury Note	06/30/2018	1,015,200	Aaa
US Treasury Note	09/30/2019	1,031,290	Aaa
US Treasury Note	02/15/2020	550,195	Aaa
US Treasury Note	06/30/2020	519,140	Aaa
US Treasury Note	05/15/2025	1,056,290	Aaa
US Treasury Note	06/30/2022	1,054,380	Aaa
US Treasury Note	06/30/2021	1,053,320	Aaa
US Treasury Note	06/30/2018	517,560	Aaa
US Treasury Note-FHLB	03/23/2020	1,000,980	Aaa/AA+
US Treasury Note-FHLB	10/29/2020	1,000,290	Aaa/AA+
US Treasury Note-FHLB	01/29/2021	1,000,190	Aaa/AA+
US Treasury Note-FHLB	05/17/2021	1,002,990	Aaa/AA+
US Treasury Note-FHLB	10/29/2027	1,000,120	Aaa/AA+
US Treasury Note-FHLB	02/26/2021	500,105	Aaa/AA+
US Treasury Note-FHLB	04/27/2023	1,004,240	Aaa/AA+
US Treasury Note	12/31/2016	912,681	Aaa
US Treasury Note-FHLB	05/25/2021	1,001,470	Aaa
US Treasury Note	02/15/2021	27,978	Aaa
US Treasury Note	07/31/2016	75,189	Aaa
US Treasury Note	02/15/2024	331,161	Aaa
US Treasury Note	02/28/2019	766,058	Aaa
US Treasury Note	12/31/2016	50,705	Aaa
US Treasury Note	02/15/2024	104,868	Aaa
MPPA	Various	6,139	Unrated
Michigan CLASS Pool	N/A	178,099	AAAm
		<u>\$ 23,384,277</u>	

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Fair Value Measurements. The City categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of year end.

- US Treasury Notes and our investments held by the MPPA are valued using quoted market prices (Level 1 inputs).
- The Michigan Class Pool is valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the of investments fund/pool (Level 2 inputs).
- The City does not has any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

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

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year end, \$7,222,207 of the City's bank balance of \$34,211,185 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with the City's investment policy the City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities allowed by the policy. In addition, the City Treasurer will prequalify all financial institutions, broker/dealers, intermediaries and advisors with which the City will do business by subjecting them to certain criteria. Of the above

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

\$23,384,277 of investments, the City has a custodial credit risk exposure of \$23,200,039 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. The custodial credit risk for balances in investment pools cannot be determined because the investments are not evidenced by specific identifiable securities.

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

Deposits and Investments - Pension and Other Postemployment Benefit Funds

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

Deposits - The Act 345 pension trust fund maintains a checking account with a bank balance of \$2,404,745 with deposits collateralized and a money market account in the pension fund trust account with a balance of \$346,113, of which \$250,000 is insured and \$96,113 is not insured or collateralized. The Act 345 retiree health insurance trust fund has deposits in pooled cash account totaling \$3,280,535.

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The trust funds' investments are held in a bank-administered trust fund and a MERS trust account. Following is a summary of the System's investments as of June 30, 2016:

Investments at fair value, as determined	
by quoted market price	
Fixed income mutual funds	\$ 4,839,726
Common stock	3,682,534
Equity mutual funds	5,920,692
Equity common trust funds	6,836,433
Alternative - SBIC funds	790,439
MERS total market fund	3,815,706
Direct real estate investments	<u>1,532,228</u>
Total investments	<u>\$ 27,417,758</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

B. Capital assets

Capital assets activity for the year ended June 30, 2016 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 11,339,616	\$ 3,200	\$ -	\$ 11,342,816
Construction in progress	5,645,046	4,114,125	2,021,603	7,737,568
Total	<u>16,984,662</u>	<u>4,117,325</u>	<u>2,021,603</u>	<u>19,080,384</u>
Capital assets, being depreciated				
Land improvements	4,169,758	70,609	-	4,240,367
Infrastructure	49,150,811	1,306,481	-	50,457,292
Buildings	16,401,429	486,489	-	16,887,918
Equipment	15,254,955	2,102,973	916,481	16,441,447
Total	<u>84,976,953</u>	<u>3,966,552</u>	<u>916,481</u>	<u>88,027,024</u>
Less accumulated depreciation:				
Land improvements	910,511	93,607	-	1,004,118
Infrastructure	36,677,986	785,139	-	37,463,125
Buildings	10,134,844	510,868	-	10,645,712
Equipment	8,623,909	1,202,114	868,549	8,957,474
Total accumulated depreciation	<u>56,347,250</u>	<u>2,591,728</u>	<u>868,549</u>	<u>58,070,429</u>
Total capital assets being depreciated, net	<u>28,629,703</u>	<u>1,374,824</u>	<u>47,932</u>	<u>29,956,595</u>
Governmental activities capital assets, net	<u><u>\$ 45,614,365</u></u>	<u><u>\$ 5,492,149</u></u>	<u><u>\$ 2,069,535</u></u>	<u><u>\$ 49,036,979</u></u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 1,187,057	\$ -	\$ -	\$ 1,187,057
Land improvements	8,416,432	-	-	8,416,432
Construction in progress	210,236	3,893,652	2,252,462	1,851,426
Total capital assets not being depreciated	<u>9,813,725</u>	<u>3,893,652</u>	<u>2,252,462</u>	<u>11,454,915</u>
Capital assets, being depreciated				
Buildings and improvements	35,354,635	-	-	35,354,635
Other improvements	21,246,033	286,901	-	21,532,934
Machinery and equipment	13,907,347	25,347	-	13,932,693
Total capital assets being depreciated	<u>70,508,015</u>	<u>312,248</u>	<u>-</u>	<u>70,820,262</u>
Less accumulated depreciation:				
Buildings and improvements	13,606,198	690,849	-	14,297,047
Other improvements	5,448,414	576,695	-	6,025,109
Machinery and equipment	5,408,043	211,765	-	5,619,807
Total accumulated depreciation	<u>24,462,655</u>	<u>1,479,309</u>	<u>-</u>	<u>25,941,963</u>
Total capital assets being depreciated, net	<u>46,045,360</u>	<u>(1,167,061)</u>	<u>-</u>	<u>44,878,299</u>
Business-type activities capital assets, net	<u><u>\$ 55,859,085</u></u>	<u><u>\$ 2,726,591</u></u>	<u><u>\$ 2,252,462</u></u>	<u><u>\$ 56,333,214</u></u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Light and Power Component Unit				
Capital assets not being depreciated:				
Land	\$ 1,395,691	\$ 7,970	\$ 324,242	\$ 1,079,419
Construction in progress	<u>5,043,136</u>	<u>6,901,079</u>	<u>10,559,961</u>	<u>1,384,254</u>
Total capital assets not being depreciated	<u>6,438,827</u>	<u>6,909,049</u>	<u>10,884,203</u>	<u>2,463,673</u>
Capital assets, being depreciated				
Buildings and improvements	4,487,246	896,310	-	5,383,556
Equipment and distribution system	65,067,884	11,127,440	685,738	75,509,586
Fiber system	1,803,207	28,705	-	1,831,912
Wifi system	<u>501,720</u>	<u>-</u>	<u>-</u>	<u>501,720</u>
Total capital assets being depreciated	<u>71,860,057</u>	<u>12,052,455</u>	<u>685,738</u>	<u>83,226,774</u>
Less accumulated depreciation:				
Buildings and improvements	1,503,543	148,203	-	1,651,746
Equipment and distribution system	23,919,803	2,156,767	525,705	25,550,865
Fiber system	598,915	93,211	-	692,126
Wifi system	<u>25,086</u>	<u>50,172</u>	<u>-</u>	<u>75,258</u>
Total accumulated depreciation	<u>26,047,347</u>	<u>2,448,353</u>	<u>525,705</u>	<u>27,969,995</u>
Total capital assets being depreciated, net	<u>45,812,710</u>	<u>9,604,102</u>	<u>160,033</u>	<u>55,256,779</u>
Light and Power Component Unit capital assets, net	<u><u>\$ 52,251,537</u></u>	<u><u>\$ 16,513,151</u></u>	<u><u>\$ 11,044,236</u></u>	<u><u>\$ 57,710,452</u></u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

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

Governmental activities

General government	\$ 47,987
Public safety	129,204
Public works, including depreciation of general infrastructure assets	789,716
Recreation and culture	488,535
Capital assets held by the government's internal service fund are charged to the various functions based on their usage of the assets	<u>1,136,286</u>

Total depreciation expense – governmental activities **\$ 2,591,728**

Business-type activities

Wastewater	\$ 611,832
Water	270,002
Marina	108,228
Auto parking	<u>489,247</u>

Total depreciation expense – business-type activities **\$ 1,479,309**

Component unit activities

Light and power	<u>\$ 2,448,353</u>
-----------------	----------------------------

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

C. Interfund receivables, payables, and transfers

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General Fund	\$ 1,284,265	Local Streets Fund	\$ 116,754
		College Parking Fund	7,684
		Stormwater Asset	
		Management Grant Fund	129,036
		Capital Projects Fund	442,528
		Automobile Parking System Fund	290,521
		Wastewater Disposal Fund	121,369
		Water Fund	62,732
		Marina Fund	26,979
		Brown Bridge Trust Fund	67,918
		Cemetery Perpetual Care Fund	15,980
		McCauley Trust Fund	2,764
	<u>\$ 1,284,265</u>		<u>\$ 1,284,265</u>

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

Interfund Transfers

	Operating Transfer In	Operating Transfer Out	Total
General Fund	\$ 1,491,443	\$ 2,514,602	\$ (1,023,159)
Major Streets Fund	64,943	-	64,943
Local Streets Fund	603,403	-	603,403
Brown Bridge Trust Fund	-	227,606	(227,606)
Capital Projects Fund	1,585,000	-	1,585,000
Non-major Governmental Funds	-	80,980	(80,980)
Wastewater Fund	-	385,369	(385,369)
Water Fund	-	218,732	(218,732)
Marina Fund	-	26,979	(26,979)
Automobile Parking System Fund	-	290,521	(290,521)
	<u>\$ 3,744,789</u>	<u>\$ 3,744,789</u>	<u>\$ -</u>

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

D. Long-term debt and accrued compensated absences

The following is a summary of bond and lease transactions of the City for the year ended June 30, 2016:

	Primary Government		
	Governmental Activities General Obligation Bonds	Business- Type Activities Lease Payable	Total Primary Government
Long-term debt at July 1, 2015	\$ 10,688,004	\$ 7,988,377	\$ 18,676,381
Reductions			
Principal	(1,845,000)	(1,012,853)	(2,857,853)
Amortization of Premium	(24,854)	-	(24,854)
Total reductions	(1,869,854)	(1,012,853)	(2,882,707)
Long-term debt at June 30, 2016	<u>\$ 8,818,150</u>	<u>\$ 6,975,524</u>	<u>\$ 15,793,674</u>
Due within one year	<u>\$ 485,000</u>	<u>\$ 1,047,187</u>	<u>\$ 1,532,187</u>

The following is a summary of accrued compensated absences of the City for the year ended June 30, 2016: For the governmental activities, compensated absences are generally liquidated by the General Fund.

	Primary Government			
	Governmental Activities	Business- Type Activities	Component Units	Total Reporting Entity
Accrued compensated absences at July 1, 2015	\$ 568,391	\$ 93,527	\$ 220,545	\$ 882,463
Additions	676,798	114,451	267,617	1,058,866
Reductions	(598,366)	(106,395)	(220,596)	(925,357)
Accrued compensated absences at June 30, 2016	<u>\$ 646,823</u>	<u>\$ 101,583</u>	<u>\$ 267,566</u>	<u>\$ 1,015,972</u>
Due within one year	<u>\$ 8,464</u>	<u>\$ -</u>	<u>\$ 27,619</u>	<u>\$ 36,083</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Bond and lease obligations at June 30, 2016 are comprised of the following individual issues:

	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Outstanding Balance</u>
Primary Government			
Governmental Activities:			
General Obligation Downtown Development			
Series 2007A - Parking Deck - Refund	2028	4.00-4.125	\$ 8,655,000
Series 2007A Premium			23,150
General Obligation Downtown Development			
Series 2002B - Parking Deck	2017	6.40-6.50	140,000
Business-type Activities:			
2011 Wastewater Treatment			
Capital Lease Payable	2022	4.00	<u>6,975,524</u>
Total Reporting Entity			<u>\$ 15,793,674</u>

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

Capital assets held under capital leases cost approximately \$26,929,000 with accumulated depreciation of \$8,351,000 and a book value of \$18,578,000 at June 30, 2016.

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

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

Fiscal Year	Governmental Activities General Obligation Bonds		Business-Type Activities Capital Leases Payable	
	Principal	Interest	Principal	Interest
2017	\$ 485,000	\$ 363,606	\$ 1,047,187	\$ 279,021
2018	540,000	335,531	1,092,966	237,133
2019	590,000	313,931	1,144,467	193,415
2020	645,000	290,331	1,187,384	147,636
2021	705,000	264,531	1,230,301	100,141
2022-26	4,170,000	854,255	1,273,219	50,929
2027-28	<u>1,660,000</u>	<u>102,506</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,795,000</u>	<u>\$ 2,524,691</u>	<u>\$ 6,975,524</u>	<u>\$ 1,008,275</u>

E. Commitments

Primary Government

As part of it's ongoing capital improvement plan, The City has entered into various agreements with construction contractors, engineers and consultants. The estimated open balance on the agreements at June 30, 2016 is \$2,847,000.

Component Units

Downtown Development Authority

The 2007 City of Traverse City Downtown Development Authority Tax Exempt Refunding Bonds, the 2002B City of Traverse City Downtown Development Authority Taxable Bonds, and the 2009 City of Traverse City Downtown Development Authority Tax Exempt Old Town Parking Deck Bonds are reported on the City of Traverse City financial statements. The Downtown Development Authority has pledged tax increment revenues for the payment of these bonds. The Downtown Development Authority provides these tax increment revenues to the City less the developer required contribution for bond payment on the 2007 debt. The developer's required contribution is \$18,986 annually through 2017. The City has pledged its limited tax full faith and credit for the payment of the principal and interest on the bonds.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The following are the future minimum payments expected to be received from the Downtown Development Authority based on the collection of tax increment revenues in the Tax Increment Financing and Development Plan No. 97 and No. 2:

<u>Fiscal Year End</u>	<u>Amount</u>
2017	\$ 829,620
2018	875,531
2019	903,931
2020	935,331
2021	969,531
2022-2026	5,024,255
2027-2028	<u>1,762,506</u>
Total	<u>\$ 11,300,705</u>

The Authority has agreed to assist in the funding of various City construction projects in the DDA district that were still in progress as of June 30, 2016. The Authority has agreed to pay a portion of the West Front Street reconstruction project using TIF 97 captured funds, the estimated balance remaining on this commitment at June 30, 2016 is \$49,895.

The Authority has committed to the Pine Street Pedestrian Bridge project using TIF 97 captured funds. The estimated remaining balance on this commitment is \$37,010. The Authority has agreed to pay construction costs related to the Garland Street reconstruction project with TIF 97 captured funds. The estimated remaining balance on this commitment is \$930,501.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Traverse City Light and Power

The utility has agreements with the MPPA committing it to purchase of up to 2MW of renewable energy from Granger Electric of Michigan, LLC, .65MW of renewable energy from North American Natural Resources, Inc., and 3.6MW of all energy, capacity, and environmental attributes under the agreement for a development in the thumb area of Michigan. Additionally through the MPPA Energy Service Committee, the utility has base energy bilateral contracts for the calendar year 2017 through 2020 in the amount of \$2,514,237 and capacity transaction bilateral contracts for the calendar year 2017 through 2024 in the amount of \$3,982,080.

F. Contingencies

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

III. OTHER INFORMATION

A. Risk management

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended June 30, 2016, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in the past three fiscal years.

B. Joint agreements

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

Under the terms of a separate agreement, the City reimburses the County of Grand Traverse for its pro rata share of operation and maintenance costs of the Governmental Center. The City's share of these costs for the year ended June 30, 2016 amounted to \$95,901, which is included in General Fund expenditures.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

C. Property taxes

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

The 2015 adjusted ad valorem taxable value in the City totaled \$893,665,433, on which taxes levied consisted of 11.1167 mills for operating purposes and 2.32 mills for Act 345.

Included in the taxable valuation is the Downtown Development Authority ("DDA"). The taxable value for the DDA is \$136,649,055. The DDA general operating tax rate for was 1.8038 mills. Property taxes are also derived from tax increment financing agreements between the DDA and other taxing districts. Under these arrangements, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Traverse City, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

D. Defined benefit pension plans

The City has three defined benefit retirement plans, The Act 345 Retirement System covering police and fire department personnel, The MERS Traverse City Light and Power Plan covering the Light and Power Component Unit employees and the MERS City of Traverse City-General Plan covering all other City employees.

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

Method used to value Investments

Investments are reported at fair value. Short-term investments are valued at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real Estate consists of shares in a Real Estate Investment Trust which are valued at the quoted market price

Plan administration. The City administers the Police and Fire Department Employees' Retirement Fund (Act 345) - a single employer defined benefit pension plan that provides pensions to eligible Police and Fire Department Employees. Public Act 345 grants the authority to establish and amend the benefit terms to the Act 345 Board of Trustees.

Management of the plan is vested in the Act 345 Board, which consists of 5 members - The City Treasurer, an elected member from the Fire Department and Police Department and two at large members.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Plan membership. At June 30, 2016 the most recent actuarial valuation date, membership consisted of:

Retirees and beneficiaries currently receiving benefits	68
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	<u>50</u>

Total	<u>121</u>
--------------	-------------------

Benefits provided. The plan provides retirement, disability, and death benefits. Police employees are eligible at age 50 with 25 or more years of service, additionally, Police Patrol employees at age 60 with 10 years of service and Police Captains at age 60 regardless of service. Fire employees are eligible at any age with 25 years of service, at age 55 with 10 years of service and at age 60 regardless of service.

Police employees hired prior to 7/1/2009 receive retirement equal to 2.8% (2.5% for service on or after 6/30/2015) of the 3 year average final compensation (AFC) times first 25 years of service plus 1% of AFC times years of service in excess of 25 years. Fire employees hired prior to 7/1/2009 receive 2.8% of 3 year AFC times first 25 years of service plus 1% of AFC times years of service after 25 years. All Police or Fire employees hired on or after 7/1/2009 receive 2% of the 3 year AFC times first 25 years of service plus 1% of AFC times years of service after 25 years.

All members are eligible for deferred retirement after 10 or more years of service computed as a service retirement but based on years of service, AFC, and benefits in effect at termination. Benefits begin at date retirement would have occurred had member remained in employment.

A death after retirement survivor's pension is payable to a surviving spouse upon the death of a retired member who was receiving a pension which was effective 7/1/1975 or later equal to 60% of the deceased member's benefit.

A non-duty-death-in-service survivor's pension is payable upon the death of a member with 20 (police) or 10 (fire) or more years of service.

A Police duty-death-in-service survivor's pension is payable upon expiration of Worker's Compensation, to survivors of a member that died in the line of duty equal to the amount that was paid by Worker's Compensation. A Fire duty-death-in-service is payable to the surviving spouse equal to 100% of a benefit calculated as if the deceased member had retired with 25 years of service.

A non-duty disability benefit is payable upon the total and permanent disability of a Police or Fire member with 5 or more years of service. The amount will be 1.5% of AFC times the years of service up to age 55 and an amount equal to the service retirement amount at age 55 or older.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

A duty disability benefit is payable for a member permanently disabled in the line of duty to age 55 of 50% (70% for Fire) of AFC. At or after age 55, the amount is the same as a service retirement pension with service credit from the date of the disability to age 55.

Post retirement increases are available at various rates as follows: Pre 7/1/1990 retirees- 2.5% of original pension amount given annually for twenty years. Police Sergeants Unit effective 8/1/1998 - 2.5% of the original pension or the current consumers price index inflation rate whichever is lower, given annually for twenty years. Police Captains Unit effective 1/1/1994 - 2.5% of the original pension or the current consumers price index inflation rate whichever is lower, given annually for twenty years. Police Patrol Unit effective 1/1/1999 - 2.5% of the original pension or the current consumers price index inflation rate whichever is lower, given annually for twenty years. Firefighters effective 7/1/2000 - 2.5% of the original pension or the current consumers price index inflation rate whichever is lower, given annually for twenty years.

Contributions. Effective July 1, 2013, each Police Captain employee shall make a retirement contribution of 6.00% of gross salary and all Firefighter employees shall make a retirement contribution of 4.53% of gross salary.

Investment policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the Act 345 Pension Board of Trustees. Investment objectives consider both the plan's financial and liquidity needs and the Board's tolerance for investment risk and inflation expectations. A strategic asset allocation plan is developed to attempt to achieve the Board's investment objectives while maximizing expected investment returns with a prudent amount of investment risk and recognizing that the capital markets may behave differently over any period of time, through the life of the plan. The following was the Board's adopted asset allocation policy as of June 30, 2016:

Asset class	Target Allocation
Domestic fixed income	23%
International fixed income	5%
Domestic equity	50%
International equity	15%
Real Estate	5%
Cash	2%

Concentrations. At June 30, 2016 the Plan did not hold investments greater than 5% of the plans fiduciary net position in any one organization.

Rate of Return. For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan expense, was 1.92%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Net Pension Liability. The employer's Net Pension Liability was measured as of June 30, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2015 with a June 30, 2016 measurement date and reporting date, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.0%
Salary increases	4.00%-7.00%
Investment rate of return	7.5%, net of pension plan investment expense

Mortality rates were determined based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, projected 20 years with Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2016, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Fixed Income	23.00%	0.00%
International Fixed Income	5.00%	1.00%
Domestic Equity	50.00%	5.00%
International Equity	15.00%	6.00%
Real Estate	5.00%	2.00%
Cash	2.00%	0.00%

* Real rate of return is based on inflation assumption of 2.5%

Single discount rate. A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Changes in Net Pension Liability.

Fiscal year ending June 30,	2015	2016
Total Pension Liability		
Service Cost	\$ 644,925	\$ 678,748
Interest on the Total Pension Liability	2,993,916	3,036,795
Benefit changes	-	-
Difference between expected and actual experience of the Total Pension Liability	(802,207)	(372,033)
Assumption changes	-	-
Benefits paid and refunds	(2,251,552)	(2,312,077)
Net change in Total Pension Liability	<u>585,082</u>	<u>1,031,433</u>
Total Pension Liability - Beginning	40,722,189	41,307,271
Total Pension Liability- Ending (a)	<u>\$ 41,307,271</u>	<u>\$ 42,338,704</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 1,683,306	\$ 1,810,565
Employee contributions	76,863	58,510
Pension plan net investment income	463,881	498,918
Benefit payments and refunds	(2,251,552)	(2,312,077)
Pension plan administrative expense	(16,523)	(15,450)
Other	-	159
Net Change in Plan Fiduciary Net Position	<u>(44,025)</u>	<u>40,625</u>
Plan Fiduciary Net Position - Beginning	26,286,837	26,242,812
Plan Fiduciary Net Position - Ending (b)	<u>\$ 26,242,812</u>	<u>\$ 26,283,437</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity of the net pension liability to changes in the discount rate. The following presents the plan's net pension liability, calculated using a single discount rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	1% Decrease <u>6.50%</u>	Current SDR <u>7.50%</u>	1% Increase <u>8.50%</u>
Total Pension Liability	\$ 47,610,740	\$ 42,338,704	\$ 37,940,401
Plan Fiduciary Net Position	<u>26,283,437</u>	<u>26,283,437</u>	<u>26,283,437</u>
Net Pension Liability/(Asset)	<u>\$ 21,327,303</u>	<u>\$ 16,055,267</u>	<u>\$ 11,656,964</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016 the employer recognized pension expense of \$2,066,180. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflow	Deferred Inflow
Deficit Investment Return	\$ 2,054,837	\$ -
Difference in Experience	<u>-</u>	<u>760,086</u>
Total	<u>\$ 2,054,837</u>	<u>\$ 760,086</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflow	Deferred Inflow
2017	\$ 588,138	\$ 243,257
2018	588,138	243,257
2019	588,139	190,980
2020	290,422	72,360
2021	<u>-</u>	<u>10,232</u>
Total	<u>\$ 2,054,837</u>	<u>\$ 760,086</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

MERS City of Traverse City - General Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in MERS of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

01 - Admin Stf & ACT prior 7/1/09: closed to new hires, linked to Division 13	
	2015 Valuation
Benefit Multiplier:	Bridged Benefit: 2.25% Multiplier (80% max) Termination FAC; to 1.50% Multiplier (80% max)
Bridged Benefit Date:	06/30/2014
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Current	
Retirees:	2.50% (Non-Compound)
Employee Contributions:	0%
Act 88:	No

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

11 - Gnl GME: Closed to new hires, linked to Division 14

	2015 Valuation
Benefit Multiplier:	Bridged Benefit: 2.25% Multiplier (80% max) Termination FAC; to 1.50% Multiplier (80% max)
Bridged Benefit Date:	06/30/2014
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Current/Future Retirees:	2.50% (Non-Compound)
Employee Contributions:	0%
Act 88:	No

13 - ACT hired after 7/1/09: Open Division, linked to Division 01

	2015 Valuation
Benefit Multiplier:	1.50% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions:	0%
Act 88:	No

14 - General GME hired after 7/1/09: Open Division, linked to Division 11,16

	2015 Valuation
Benefit Multiplier:	1.50% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions:	0%
Act 88:	No

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

**16 - GME Tech/Clerical hired
prior to 7/1/09: Closed to new
hires, linked to Division 14**

	2015 Valuation
Benefit Multiplier:	Bridged Benefit: 2.25% Multiplier (80% max) Termination FAC; to 1.50% Multiplier (80% max)
Bridged Benefit Date	06/30/2013
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Future Retirees	2.50% (Non-Compound)
Employee Contributions:	0%
Act 88:	No

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

- Benefits provided include plans with multipliers ranging from 1.5 to 2.25.
- Vesting period is six years.
- Normal retirement age is 60 with early retirement at 55 with 25 years of service.
- Final average compensation is calculated based on 5 years.
- There are no member contributions.

Employees covered by benefits terms. At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	125
Inactive employees entitled to but not yet receiving benefits	26
Active employees	<u>92</u>
	<u>243</u>

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions for the fiscal year ended June 30, 2016 were \$517,608 for the Admin & ACT hired prior to 7/1/2009 division, \$38,988 for the GME tech/clerical hired prior to 7/1/2009 division, \$421,844 for the General GME division, 7.22% of covered payroll for the General GME hired after 7/1/2009 division, and 8.72% of covered payroll for the ACT hired after 7/1/2009 division.

Net Pension Liability. The employer's Net Pension Liability was measured as of December 31, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.75% in the long-term.

Investment rate of return: 7.75%, net investment expense, including inflation.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to provide the long-term expected rate of return by weighting the expected future real rates of return of the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate. The discount rate used to measure the total pension liability is 8.25% for 2015. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/14			
Changes for the Year	\$35,158,120	\$23,932,940	\$11,225,180
Service Cost	424,511	-	424,511
Interest on Total Pension Liability	2,817,148	-	2,817,148
Differences between expected and actuarial experience	(185,726)	-	(185,726)
Change in assumptions	1,782,587	-	1,782,587
Employer Contributions	-	1,011,317	(1,011,317)
Net investment Income (loss)	-	(343,944)	343,944
Benefit payments, including employee refunds	(2,446,248)	(2,446,248)	-
Administrative expense	-	(51,146)	51,146
Net Changes	2,392,272	(1,830,021)	4,222,293
Balances as of 12/31/15	\$37,550,392	\$22,102,919	\$15,447,473

Sensitivity of the Net Position Liability to changes in the discount rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease 7.25%	Current Discount Rate (8.25%)	1% Increase 9.25%
Net Pension Liability at 12/31/15	\$15,447,473	\$15,447,473	\$15,447,473
Change in Net Pension Liability	4,039,223	-	(3,418,734)
Calculated NPL	\$19,486,696	\$15,447,473	\$12,287,739

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016 the employer recognized pension expense of \$2,315,939. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (Deficit) Investment Returns	\$ 2,062,679	\$ -
Changes in assumptions	1,336,940	-
Differences between expected and actual experience	-	134,294
Contributions subsequent to the measurement date*	522,248	-
Total	\$ 3,921,867	\$ 134,294

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2016.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended

2017	\$ 936,301
2018	936,301
2019	936,301
2020	451,422
	<u>\$ 3,260,325</u>

MERS Traverse City Light and Power Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in MERS of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Benefits Provided

01 - Non Union – Open Division	
	2015 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Current/Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No
10 - Union closed to new hires, linked to Division 12	
	2015 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	5 years
COLA for Current/Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No
12 - Union hired after 7/1/2012, linked to Division 10	
	2015 Valuation
Benefit Multiplier:	1.5% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	55/15
	50/25
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

- Benefits provided include plans with multipliers ranging from 1.5 to 2.25.
- Vesting periods range from 6 to 10 years.
- Normal retirement age is 60 with early retirement at 55 with 25 years of service.
- Final average compensation is calculated based on 5 years.
- There are no member contributions.

Employees covered by benefits terms. At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	55
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>34</u>
	<u>95</u>

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 7.31 to 35.88% based on annual payroll for open divisions. One division that is closed to new employees has an annual employer contribution amount of \$73,328.

Net Pension Liability. The employer's Net Pension Liability was measured as of December 31, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3%-4%

Salary Increases: 4.5% in the long-term (1%, 2%, and 3% for calendar years 2014, 2015, and 2016, respectively).

Investment rate of return: 7.75%, net investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male 50% Female blend. For disabled retirees, the rates were based on the RP-2014 Disabled Retiree of a 50% Male and a 50% female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2015 that covered the period from December 31, 2008 through December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to provide the long-term expected rate of return by weighting the expected future real rates of return of the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate. The discount rate used to measure the total pension liability is 8.25% for 2015. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a)–(b)
Balances at 12/31/14			
Changes for the Year	\$26,685,121	\$16,226,402	\$10,458,719
Service Cost	295,317	-	295,317
Interest on Total Pension Liability	2,142,936	-	2,142,936
Difference between expected and actual experience	363,835	-	363,835
Change in Assumptions	1,444,054	-	1,444,054
Employer Contributions	-	858,331	(858,331)
Net investment Income	-	(234,339)	234,339
Benefit payments, including employee refunds	(1,715,605)	(1,715,605)	-
Administrative expense	-	(34,767)	34,767
Other Changes	(761)	-	(761)
Net Changes	2,529,776	(1,126,380)	3,656,156
Balances as of 12/31/15	\$29,214,897	\$15,100,022	\$14,114,875

Sensitivity of the Net Position Liability to changes in the discount rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease 7.25%	Current Discount Rate (8.25%)	1% Increase 9.25%
Net Pension Liability at 12/31/15	\$14,114,875	\$ 14,114,875	\$14,114,875
Change in Net Pension Liability (NPL)	3,370,807	-	(2,838,760)
Calculated NPL	\$17,485,682	14,114,875	\$11,276,115

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016 the employer recognized pension expense of \$1,930,353. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (Deficit) Investment Returns	\$ 1,404,390	\$ -
Changes in Experience	\$ 272,876	\$ -
Changes in Assumptions	\$ 1,083,036	\$ -
Contributions subsequent to the measurement date*	\$ 440,627	\$ -
Total	\$ 3,200,929	\$ -

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 2016.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended

2017	\$ 817,688
2018	817,688
2019	817,688
2020	307,238
	<u>\$2,760,302</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Deferred Compensation Plans

Downtown Development Authority Component Unit

The Downtown Development Authority sponsors the Traverse City Downtown Development Authority Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The administrator of the plan is ICMA Retirement Corporation. The plan is available to all employees. Participants may contribute any amount allowed by the plan and the employer will match employee contributions up to 7% percent of covered payroll based on the employee's employment contract. Plan provision and contribution requirements can only be amended by authorization of the Board of Directors. In the current year, the Downtown Development Authority contributed \$29,686 and the employees contributed \$24,353.

Primary Government and Light and Power Component Unit

The City and Traverse City Light and Power participated in the City's Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The City has ICMA Retirement Corporation and Mass Mutual as administrators for the Plan. Participants may contribute zero to six percent of covered payroll based on the employee's employment or labor union contract. Plan provision and contribution requirements can only be amended by authorization of the City Commission. In the current fiscal year, the employer contribution to the plan was \$537,579 and the employees contributed \$606,609. Of these amounts Traverse City Light and Power contributed \$150,104 and their employees contributed \$189,771.

E. Postemployment health benefits

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

Act 345 Retiree Health Insurance Plan

Description of benefits

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Funding Policy

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

For the fiscal year end June 30, 2016, the City contributed \$384,646 to fund the benefits. The balance of the Act 345 Retiree Health Insurance Fund to be used for future benefits is \$3,352,924 as of June 30, 2016.

Funding Progress

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

Annual required contribution	\$ 384,646
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	384,646
Contributions made	<u>384,646</u>
Increase in net OPEB obligation	-
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u><u>\$ -</u></u>

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/14	\$ 358,555	100%	-
6/30/15	368,876	100%	-
6/30/16	384,646	100%	-

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/14	\$ 3,698,682	\$ 7,153,649	\$3,454,967	51.7%	\$ 3,262,658	105.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

In the June 30, 2014, actuarial valuation, the individual entry-age actuarial cost method, and an amortization period of 20 years were utilized. The actuarial assumptions included a 7.5% rate of investment return and a payroll growth rate for open divisions assumed to be between 4.0 to 7.0%.

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Retiree Health Insurance Plan

Description of Benefits

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

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

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

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

Funding Policy

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

The City contribution was the annual required contribution in addition to the pay-as-you-go financing requirements. For the current year, the annual required contribution for the City and Traverse City Light and Power was \$258,717. Of this amount, the City’s portion of the annual required contribution was \$22,957 and Traverse City Light and Power’s portion of the annual required contribution was \$235,760. The actual employer contribution for the City was \$26,617 and \$235,760 for Traverse City Light and Power

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Funding Progress

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

Primary government

Annual required contribution	\$ 22,947
Interest on net OPEB asset	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	22,947
Contributions made	<u>64,370</u>
Increase in net OPEB asset	41,413
Net OPEB asset, beginning of year	<u>379,748</u>
Net OPEB asset, end of year	<u>\$ 421,161</u>

Component unit

Annual required contribution	\$ 264,231
Interest on net OPEB asset	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	264,231
Contributions made	<u>497,462</u>
Increase in net OPEB asset	233,231
Net OPEB asset, beginning of year	<u>1,149,539</u>
Net OPEB asset, end of year	<u>\$ 1,382,770</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/14	\$ 265,649	100%	\$ -
6/30/15	265,651	100%	\$ -
6/30/16	287,178	100%	\$ -

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Unfunded Liability (AAL) Entry Age (b)</u>	<u>AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/15	\$ 4,205,338	\$ 6,669,514	\$ 2,464,176	63%	not available	

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

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

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

In the December 31, 2015, actuarial valuation, the individual entry-age normal actuarial cost method, level dollar of payroll if the divisions are open to new hires and as a level dollar if the divisions are closed to new hires, and an amortization period of 30 years were utilized. The actuarial assumptions included an 8% rate of investment return.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

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

F. Entitlement commitment - power supply purchase Traverse City Light and Power

In September 2010, the Department entered into two 5-year agreements with the Lansing Board of Water & Light (“LBWL”) to commence January 1, 2011. The purchase power agreement allows for the purchase of a minimum of 10 megawatts of electric energy up to a maximum of 45 megawatts to replace its deficient energy needs from the expired agreement with MPPA power pool. The estimated cost for the 5-year term is \$40,000,000. The energy service agency agreement provides for LBWL to act as the Department’s agent with MISO. LBWL will enter into third party contracts to purchase energy and sell surplus energy into the MISO daily and hourly markets. The estimated cost for the 5-year term is \$375,000. For the year ended June 30, 2016, the Department recognized expenses totaling \$3,012,175.

The Department, along with other Michigan municipal utilities, is a member of the MPPA. The agency was formed to acquire interest in certain electric generating plants and related transmission lines to service its members. MPPA has acquired a 4.8% undivided interest in the Consumers Energy Campbell 3 plant, an 18.6% undivided interest in the Detroit Edison Belle River project, and 100% undivided interest in the Kalkaska Combustion Turbine project.

In 1983, the Department entered into a 35-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 26.35% of the energy generated by MPPA’s 4.8% interest in the Campbell 3 plant and 4.53% of the energy generated by MPPA’s 18.6% interest in the Belle River plant. In 2002, the Department entered into a 25-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 75.9% of the energy generated by MPPA’s 100% interest in the Kalkaska Combustion Turbine. In 2009, the Department entered into a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA’s renewable energy contract with Grainger Electric of Michigan, LLC. In 2011, the Department entered into a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA’s renewable energy contract with Northern American Natural Resources of Michigan. In 2015, the Department entered into an Energy Services Agreement with MPPA for the objective of accessing third party marketers in MISO for the purpose of reducing exposure to MISO market during volatile seasons. This is accomplished through MPPA soliciting bids and subsequently entering into contracts on behalf of TCL&P for firm priced energy supply during more volatile months.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2016, Traverse City Light and Power recognized expenses totaling \$16,647,070 to purchase power under the terms of all contracts with MPPA. The price of the power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and debt service costs.

Under the terms of the contracts, the Department must make minimum annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased). Future operating costs are estimated based on 2015 costs adjusted for inflation. The total estimated future operating costs, which do not include the annual debt payments, are as follows:

Year Ended December 31,	Operating Costs
2017	\$ 7,932,029
2018	8,169,990
2019	6,062,606
2020	6,244,484
2021	6,431,849
2022-2026	20,533,196
2027	3,741,742
	<u>\$59,115,896</u>

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

Year Ended December 31,	Principal	Interest	Total
2017	\$ 3,160,421	\$ 1,020,444	\$ 4,180,865
2018	3,300,335	880,189	4,180,524
2019	2,197,513	739,091	2,936,604
2020	2,276,835	656,765	2,933,600
2021	2,366,383	571,050	2,937,433
2022-2026	8,610,103	1,617,600	10,227,703
2027	1,738,110	86,906	1,825,016
	<u>\$23,649,700</u>	<u>\$5,572,045</u>	<u>\$29,221,745</u>

The MPPA and its member utilities were over-charged on their power sales contract agreements by Detroit Edison. Because of this, MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The Department's share of this trust fund was \$6,139 as of June 30, 2016.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

In December 2009, the Department entered into a 20-year purchase power agreement with Heritage Stoney Corners Wind Farm I, LLC to purchase up to 10 megawatts of electric energy and all associated renewable energy credits. For the year ended June 30, 2016, the Department recognized expenses totaling \$2,940,041.

In December 2014, the Department entered into a 20-year purchase power agreement with options to terminate on the 10th and 15th anniversary dates. The Agreement is with Heritage Sustainable Energy, LLC to purchase up to .6 MW of electric energy. For the year ended June 30, 2016, the Department recognized expenses totaling \$35,056.

G. Related party transactions

Component unit

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

H. Subsequent events

Component units

On August 29, 2016, the Brownfield Redevelopment Authority sent a commitment letter to make the annual reimbursement to the Authority’s TIF funds for \$114,000 for the Michigan Economic Growth Authority eligible expenses associated with the Larry C. Hardy parking deck under the Radio Center Brownfield Plan (TIF97).

On September 30, 2016, the Authority’s Board of Directors authorized the Executive Director to enter into a contract with the Downtown Traverse City Association through August 31, 2017, with an annual compensation of \$62,670. The Authority provides office space and administrative services to the Downtown Traverse City Association.

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

I. Designations of net position

Primary government

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

	Automobile Parking System Fund	Wastewater Fund	Water Fund	Internal Service Fund
Emergencies	\$ 25,492	\$ -	\$ 49,724	\$ -
Capital Expenditures	513,750	2,421,060	2,290,000	2,096,721
Future Maintenance	1,700,000	-	-	-
Total	\$ 2,239,242	\$ 2,421,060	\$ 2,339,724	\$ 2,096,721

Component unit

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

Emergencies	\$ 100,056
Minimum Cash Reserves	<u>9,700,000</u>
Total	<u>\$ 9,800,056</u>

J. Contingent liability

Primary government - Boot Lake Landfill

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

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

General contingencies

In the normal course of its operations, the City has become a party in various legal actions. The City has also become a party in various property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses, if any, related to related to legal actions are undetermined an have not been included as a liability in the financial statements.

K. GASB Pronouncements

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, addressed reporting by OPEB plans, whereas GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, addressed accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City will, after, adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The City is currently evaluating the impact of these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB Statement No. 75 is effective one year later.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TRAVERSE CITY
Required Supplementary Information
Act 345 Retirement System
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios

Ultimately 10 fiscal years will be displayed - which will be built prospectively from 2014.

Fiscal year ending June 30,	2014	2015	2016
Total Pension Liability			
Service Cost	\$ 492,852	\$ 644,925	\$ 678,748
Interest on the Total Pension Liability	2,897,030	2,993,916	3,036,795
Benefit changes	-	-	-
Difference between expected and actual experience of the Total Pension Liability	-	(802,207)	(372,033)
Assumption changes	-	-	-
Benefits paid and refunds	(2,096,654)	(2,251,552)	(2,312,077)
Net change in Total Pension Liability	<u>1,293,228</u>	<u>585,082</u>	<u>1,031,433</u>
Total Pension Liability - Beginning	<u>39,428,961</u>	<u>40,722,189</u>	<u>41,307,271</u>
Total Pension Liability- Ending (a)	<u><u>\$ 40,722,189</u></u>	<u><u>\$ 41,307,271</u></u>	<u><u>\$ 42,338,704</u></u>
Plan Fiduciary Net Position			
Employer contributions	\$ 1,639,480	\$ 1,683,306	\$ 1,810,565
Employee contributions	75,526	76,863	58,510
Pension plan net investment income	3,883,457	463,881	498,918
Benefit payments and refunds	(2,096,654)	(2,251,552)	(2,312,077)
Pension plan administrative expense	(10,567)	(16,523)	(15,450)
Other	(114,710)	-	159
Net Change in Plan Fiduciary Net Position	<u>3,376,532</u>	<u>(44,025)</u>	<u>40,625</u>
Plan Fiduciary Net Position - Beginning	<u>22,910,305</u>	<u>26,286,837</u>	<u>26,242,812</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 26,286,837</u></u>	<u><u>\$ 26,242,812</u></u>	<u><u>\$ 26,283,437</u></u>
Net Pension Liability - Ending (a)-(b)	\$ 14,435,352	\$ 15,064,459	\$ 16,055,267
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.55%	63.53%	62.08%
Covered Employee Payroll	\$ 3,018,448	\$ 3,384,682	\$ 3,443,789
Net Pension Liability as a Percentage of Covered Employee Payroll	478.24%	445.08%	466.21%

CITY OF TRAVERSE CITY
Required Supplementary Information
Act 345 Retirement System
Schedule of Contributions

Ultimately 10 fiscal years will be displayed - which will be built prospectively from 2014.

<u>FY Ending June 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2014	\$ 1,639,480	\$ 1,639,480	\$ -	\$ 3,018,448	54.32%
2015	1,683,306	1,683,306	-	3,384,682	49.73%
2016	1,760,565	1,810,565	(50,000)	3,443,789	52.57%

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution amounts are calculated as of June 30 twelve months prior to the beginning of the fiscal year in which the contributions are reported

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry-Age
Amortization Method	Level Percent
Remaining Amortization Period	18 year closed
Asset Valuation Method	4 Year Smoothed Market
Inflation	4%
Salary Increase	4% to 7%
Investment Rate of Return	7.5 % (net of expenses)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Male set back one year and Female (unadjusted) Mortality Table projected 20 years with Scale AA

CITY OF TRAVERSE CITY
Required Supplementary Information
Act 345 Retirement System
Schedule of Investment Returns

Ultimately 10 fiscal years will be displayed - which will be built prospectively from 2014.

<u>FY Ending June 30,</u>	<u>Annual Return *</u>
2014	17.06%
2015	1.77%
2016	1.92%

* Annual money-weighted rate of return, net of investment expenses

CITY OF TRAVERSE CITY
Required Supplementary Information
Act 345 Retiree Health Insurance Trust Fund
Schedule of Funding Progress

The below contributions are for health care benefits only and do not include amounts contributed for pension.
Actuarial valuations began being prepared every other year beginning in 2010.

Actuarial valuation date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
6/30/2004	\$ 2,645,396	\$ 8,091,713	\$ 5,446,317	32.7%	\$ 2,671,393	203.9%
6/30/2005	2,723,028	8,218,900	5,495,872	33.1	3,139,509	175.1
6/30/2006	2,977,346	8,643,119	5,665,773	34.4	3,509,371	161.5
6/30/2007	3,444,580	8,402,945	4,958,365	41.0	3,234,852	153.3
6/30/2008	3,655,194	6,710,657	3,055,463	54.5	3,173,479	96.3
6/30/2009	3,700,439	6,835,257	3,134,818	54.1	3,348,677	93.6
6/30/2010	3,774,317	7,115,866	3,341,549	53.0	3,308,083	101.0
6/30/2012	3,724,352	6,835,930	3,111,578	54.5	3,018,448	103.1
6/30/2014	3,698,682	7,153,649	3,454,967	51.7	3,262,658	105.9

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2006	313,977	100
2007	408,471	100
2008	373,161	100
2009	279,931	100
2010	331,647	100
2011	340,273	100
2012	385,164	100
2013	417,585	100
2014	358,555	100
2015	384,646	100
2016	385,866	100

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

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

Valuation date	June 30, 2014
Actuarial cost method	Individual entry-age actuarial cost method
Amortization method	Level percent
Remaining amortization period	25 years closed
Asset valuation method	4 years smoothed market
Actuarial assumptions	
Investment rate of return	7.50%
Projected salary increases	4.0-7.0%
Price inflation	3.00%

CITY OF TRAVERSE CITY
Required Supplementary Information
MERS Pension Plan
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios

Ultimately 10 years will be displayed - which will be built prospectively from 2014.

	December 31, 2014	2015
Total Pension Liability		
Service Cost	\$ 398,725	\$ 424,511
Interest on the Total Pension Liability	2,753,614	2,817,148
Benefit changes	-	-
Difference between expected and actual experience of the Total Pension Liability	-	(185,726)
Assumption changes	-	1,782,587
Benefits paid and refunds	(2,343,998)	(2,446,248)
Net change in Total Pension Liability	<u>808,341</u>	<u>2,392,272</u>
Total Pension Liability - Beginning	<u>34,349,779</u>	<u>35,158,120</u>
Total Pension Liability- Ending (a)	<u><u>\$ 35,158,120</u></u>	<u><u>\$ 37,550,392</u></u>
Plan Fiduciary Net Position		
Employer contributions	\$ 1,033,594	\$ 1,011,317
Employee contributions	-	-
Pension plan net investment income	1,480,312	(343,945)
Benefit payments and refunds	(2,343,998)	(2,446,248)
Pension plan administrative expense	(54,129)	(51,145)
Other	-	-
Net Change in Plan Fiduciary Net Position	<u>115,779</u>	<u>(1,830,021)</u>
Plan Fiduciary Net Position - Beginning	<u>23,817,161</u>	<u>23,932,940</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 23,932,940</u></u>	<u><u>\$ 22,102,919</u></u>
Net Pension Liability - Ending (a)-(b)	\$ 11,225,180	\$ 15,447,473
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	68.07%	58.86%
Covered Employee Payroll	\$ 5,254,135	\$ 5,597,405
Net Pension Liability as a Percentage of Covered Employee Payroll	213.64%	275.98%

CITY OF TRAVERSE CITY
Required Supplementary Information
MERS Pension Plan
Schedule of Contributions

Ultimately 10 fiscal years will be displayed - which will be built prospectively from 2015

<u>Fiscal year end June 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Valuation Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2015	\$ 975,124	\$ 975,124	\$ -	\$ 5,417,193	18.00%
2016	1,041,766	1,041,766	-	5,194,176	20.06%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	23 years
Asset valuation method	10 year smoothed
Inflation	2.5%
Salary increases	3.75
Investment rate of return	7.75%
Retirement age	Varies depending on plan adoption
Mortality	50% female/50% male 1994 group annual mortality table

TRAVERSE CITY LIGHT AND POWER

**REQUIRED SUPPLEMENTARY INFORMATION
MERS DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

Ultimately 10 fiscal years will be displayed - which will be built prospectively from 2014

	December 31,	
	2014	2015
Total pension liability:		
Service cost	\$ 313,020	\$ 295,317
Interest	2,083,781	2,142,935
Differences between expected and actuarial experience	-	363,835
Changes in assumptions	-	1,444,054
Benefit payments, including refunds	(1,626,244)	(1,715,604)
Other changes	-	(759)
Net change in total pension liability	770,557	2,529,778
Total pension liability, beginning of:	25,914,564	26,685,121
Total pension liability, end of year	26,685,121	29,214,899
Plan fiduciary net position		
Contribution - employer	773,230	858,331
Net investment income	1,000,478	(234,339)
Administrative expenses	(36,578)	(34,767)
Benefit payments, including refunds	(1,626,244)	(1,715,604)
Net change in plan fiduciary net position	110,886	(1,126,379)
Plan fiduciary net position, beginning of:	16,115,516	16,226,402
Plan fiduciary net position, end of year	16,226,402	15,100,023
Net pension liability	\$ 10,458,719	\$ 14,114,876
Plan fiduciary net position as a percent of total pension liability	60.81%	51.69%
Covered employee payroll	\$ 2,862,491	\$ 2,736,729
Net pension liability as a percent of covered employee payroll	365.37%	515.76%

TRAVERSE CITY LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION MERS DEFINED BENEFIT PENSION PLAN SCHEDULE OF EMPLOYER CONTRIBUTIONS For the Year Ended June 30, 2016

Ultimately 10 fiscal years will be displayed - which will be built prospectively from 2015		
	2015	2016
Actuarially determined contribut		
Contribution in relation to the actuari	\$ 770,572	\$ 891,939
determined contributic	(770,572)	(891,939)
Contribution deficiency (exce:	-	-
Covered employee payro	\$ 2,880,960	\$ 2,866,124
Contribution as a percentage of covere		
employee payro	26.75%	31.12%
Notes to schedul		
Actuarial cost metho	Entry Ag	
Amortization methc	Level percentage of payroll, op	
Remaining amortization peri	25 years	
Asset valuation methc	5 year smoothed (10 yr smoothed in 201	
Inflatio:	2.5% (3.5% 2014)	
Salary increase	3.75% to 14.5% (4.50% in 2014	
Investment rate of retu	7.75% (8.25% in 2014	
Retirment ag	Varies depending on plan adopti	
Mortality	RP-2014 mortality tables of a 50% Male and 50% Female ble	
	(50% female/50% male 1994 group annual mortality table 20	

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

Actuarial valuation date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
12/31/2006	\$ 1,079,242	\$ 4,622,001	\$ 3,542,759	23.4%	\$ 7,921,231	44.7%
12/31/2008	1,488,166	5,055,539	3,567,373	29.4	8,023,611	44.5
12/31/2010	2,531,410	5,381,283	2,849,873	47.0	8,152,207	35.0
12/31/2013	3,200,892	5,707,204	2,506,312	56.1	7,773,357	32.2
12/31/2015	4,205,338	6,669,513	2,464,175	63.1	not available	not available

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year ended/valuation June 30	Annual Required Contribution	Percentage Contributed
2008 / 2007	\$ 274,606	100%
2009 / 2008	286,964	100
2010 / 2009	303,667	100
2011 / 2010	317,334	100
2012 / 2011	303,667	100
2013 / 2012	284,110	100
2014 / 2013	265,649	100
2015 / 2014	265,651	100
2016 / 2015	258,717	100

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

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

Measurement date	December 31, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market Value
Actuarial assumptions	
Investment rate of return	8.00%
Projected salary increases	5.00%

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
General Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 8,463,000	\$ 8,463,000	\$ 8,559,711	\$ 96,711
Licenses and permits	284,300	284,300	297,926	13,626
Federal sources	10,000	10,000	13,039	3,039
State sources	1,381,000	1,381,000	1,326,587	(54,413)
Local sources	1,819,400	1,819,400	1,818,187	(1,213)
Charges for services	547,100	564,100	597,268	33,168
Fines and forfeits	14,000	14,000	8,027	(5,973)
Contributions	183,000	224,000	167,794	(56,206)
Reimbursements	707,000	755,000	669,705	(85,295)
Interest income	47,000	47,000	32,630	(14,370)
Other revenue	439,500	706,500	1,471,943	765,443
Total revenues	13,895,300	14,268,300	14,962,817	694,517
Expenditures				
General government	3,361,200	3,511,200	3,267,386	243,814
Public safety	6,354,300	6,399,300	6,239,109	160,191
Public works	1,345,000	1,353,000	1,527,271	(174,271)
Recreation and culture	2,211,600	2,409,600	2,281,298	128,302
Total expenditures	13,272,100	13,673,100	13,315,064	358,036
Excess of revenue over expenditures	623,200	595,200	1,647,753	1,052,553
Other financing sources (uses)				
Transfers in	1,292,000	1,352,000	1,491,443	139,443
Transfers out	(2,697,500)	(2,784,500)	(2,514,602)	269,898
Total other financing sources (uses)	(1,405,500)	(1,432,500)	(1,023,159)	409,341
Net change in fund balance	(782,300)	(837,300)	624,594	1,461,894
Fund balance, beginning of year	6,124,045	6,124,045	6,124,045	-
Fund balance, end of year	\$ 5,341,745	\$ 5,286,745	\$ 6,748,639	\$ 1,461,894

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Major Streets Special Revenue Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
State sources	\$ 1,095,300	\$ 1,175,300	\$ 1,221,961	\$ 46,661
Interest income	700	700	40	(660)
Total revenues	<u>1,096,000</u>	<u>1,176,000</u>	<u>1,222,001</u>	<u>46,001</u>
Expenditures				
Public works				
Personnel	485,000	485,000	430,403	54,597
Commodities	140,000	140,000	126,485	13,515
Contractual services	125,000	175,000	207,038	(32,038)
Other charges	534,000	534,000	471,460	62,540
Total expenditures	<u>1,284,000</u>	<u>1,334,000</u>	<u>1,235,386</u>	<u>98,614</u>
(Deficiency) of revenue over expenditures	(188,000)	(158,000)	(13,385)	144,615
Other financing sources (uses)				
Transfers in	134,000	104,000	64,943	(39,057)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>134,000</u>	<u>104,000</u>	<u>64,943</u>	<u>(39,057)</u>
Net change in fund balance	(54,000)	(54,000)	51,558	105,558
Fund balance, beginning of year	<u>192,924</u>	<u>192,924</u>	<u>192,924</u>	<u>-</u>
Fund balance, end of year	<u>\$ 138,924</u>	<u>\$ 138,924</u>	<u>\$ 244,482</u>	<u>\$ 105,558</u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Local Streets Special Revenue Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
State sources	\$ 342,000	\$ 475,000	\$ 534,023	\$ 59,023
Expenditures				
Public works				
Personnel	583,000	583,000	517,956	65,044
Contractual services	50,000	50,000	31,538	18,462
Commodities	86,000	86,000	51,781	34,219
Other charges	590,000	590,000	536,151	53,849
Total expenditures	1,309,000	1,309,000	1,137,426	171,574
(Deficiency) of revenue over expenditures	(967,000)	(834,000)	(603,403)	230,597
Other financing sources (uses)				
Transfer in	967,000	834,000	603,403	(230,597)
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2016

I. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

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

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

B. Excess of expenditures over appropriations

For the year ended June 30, 2016, actual expenditures in the General Fund Human Resources, City Attorney and Street, Alleys Sidewalks Departments exceed final appropriations by \$1,092, \$1,307, and \$182,333, respectively. These over expenditures were funded either by greater than anticipated revenues.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF TRAVERSE CIT
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 201

	General Fund				Budget Stabilization			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ 8,463,000	\$ 8,463,000	\$ 8,559,711	\$ 96,711	\$ -	\$ -	\$ -	\$ -
Licenses and permits	284,300	284,300	297,926	13,626	-	-	-	-
Federal sources	10,000	10,000	13,039	3,039	-	-	-	-
State sources	1,381,000	1,381,000	1,326,587	(54,413)	-	-	-	-
Local sources	1,799,000	1,799,000	1,798,832	(168)	-	-	-	-
Charges for services	362,600	362,600	346,864	(15,736)	-	-	-	-
Fines and forfeits	14,000	14,000	8,027	(5,973)	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
Reimbursements	700,000	748,000	655,570	(92,430)	-	-	-	-
Interest income	20,000	20,000	10,869	(9,131)	11,500	11,500	20,983	9,483
Other revenue	439,500	706,500	1,468,093	761,593	-	-	-	-
Total revenues	13,473,400	13,788,400	14,485,518	697,118	11,500	11,500	20,983	9,483
Expenditures								
General government	3,346,200	3,471,200	3,248,883	222,317	-	-	-	-
Public safety	6,269,000	6,314,000	6,233,256	80,744	-	-	-	-
Public works	1,345,000	1,353,000	1,527,271	(174,271)	-	-	-	-
Recreation and culture	1,911,100	1,961,100	1,855,507	105,593	-	-	-	-
Total expenditures	12,871,300	13,099,300	12,864,917	234,383	-	-	-	-
Excess (deficiency) of revenue over expenditures	602,100	689,100	1,620,601	931,501	11,500	11,500	20,983	9,483
Other financing sources (uses)								
Transfers in	1,037,000	1,037,000	1,176,443	139,443	-	-	-	-
Transfers out	(2,686,000)	(2,773,000)	(2,503,346)	269,654	(11,500)	(11,500)	(11,256)	244
Total other financing sources (uses)	(1,649,000)	(1,736,000)	(1,326,903)	409,097	(11,500)	(11,500)	(11,256)	244
Net change in fund balance	(1,046,900)	(1,046,900)	293,698	1,340,598	-	-	9,727	9,727
Fund balance, beginning of year	2,886,320	2,886,320	2,886,320	-	757,334	757,334	757,334	-
Fund balance, end of year	\$ 1,839,420	\$ 1,839,420	\$ 3,180,018	\$ 1,340,598	\$ 757,334	\$ 757,334	\$ 767,061	\$ 9,727

CITY OF TRAVERSE CIT
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 201

	Hazmat				Heritage Center Museum			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Local sources	20,400	20,400	19,355	(1,045)	-	-	-	-
Charges for services	-	-	6,633	6,633	31,000	31,000	31,953	953
Fines and forfeits	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
Reimbursements	-	-	-	-	-	-	9,827	9,827
Interest income	-	-	-	-	-	-	-	-
Other revenue	-	-	3,850	3,850	-	-	-	-
Total revenues	20,400	20,400	29,838	9,438	31,000	31,000	41,780	10,780
Expenditures								
General government	-	-	-	-	-	-	-	-
Public safety	24,300	24,300	5,593	18,707	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Recreation and culture	-	-	-	-	36,000	96,000	75,923	20,077
Total expenditures	24,300	24,300	5,593	18,707	36,000	96,000	75,923	20,077
Excess (deficiency) of revenue over expenditures	(3,900)	(3,900)	24,245	28,145	(5,000)	(65,000)	(34,143)	30,857
Other financing sources (uses)								
Transfers in	-	-	-	-	5,000	65,000	65,000	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	5,000	65,000	65,000	-
Net change in fund balance	(3,900)	(3,900)	24,245	28,145	-	-	30,857	30,857
Fund balance, beginning of year	50,420	50,420	50,420	-	(33,388)	(33,388)	(33,388)	-
Fund balance, end of year	\$ 46,520	\$ 46,520	\$ 74,665	\$ 28,145	\$ (33,388)	\$ (33,388)	\$ (2,531)	\$ 30,857

CITY OF TRAVERSE CIT'
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actua
For the Year Ended June 30, 201

	Cherry Capital Cable				Coast Guard Committee			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	61,000	61,000	15,361	(45,639)
Reimbursements	-	-	-	-	-	-	-	-
Interest income	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-
Total revenues	-	-	-	-	61,000	61,000	15,361	(45,639)
Expenditures								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	61,000	61,000	260	60,740
Public works	-	-	-	-	-	-	-	-
Recreation and culture	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	-	61,000	61,000	260	60,740
Excess (deficiency) of revenue over expenditures	-	-	-	-	-	-	15,101	15,101
Other financing sources (uses)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Net change in fund balance	-	-	-	-	-	-	15,101	15,101
Fund balance, beginning of year	4,741	4,741	4,741	-	425	425	425	-
Fund balance, end of year	<u>\$ 4,741</u>	<u>\$ 4,741</u>	<u>\$ 4,741</u>	<u>\$ -</u>	<u>\$ 425</u>	<u>\$ 425</u>	<u>\$ 15,526</u>	<u>\$ 15,101</u>

CITY OF TRAVERSE CITTM
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 201

	County Senior Center				Brown Bridge Maintenance			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	60,000	67,000	109,332	42,332
Fines and forfeits	-	-	-	-	-	-	-	-
Contributions	122,000	128,000	128,733	733	-	-	-	-
Reimbursements	-	-	-	-	-	-	-	-
Interest income	-	-	26	26	-	-	151	151
Other revenue	-	-	-	-	-	-	-	-
Total revenues	<u>122,000</u>	<u>128,000</u>	<u>128,759</u>	<u>759</u>	<u>60,000</u>	<u>67,000</u>	<u>109,483</u>	<u>42,483</u>
Expenditures								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Recreation and culture	122,500	128,500	126,109	2,391	60,000	67,000	87,662	(20,662)
Total expenditures	<u>122,500</u>	<u>128,500</u>	<u>126,109</u>	<u>2,391</u>	<u>60,000</u>	<u>67,000</u>	<u>87,662</u>	<u>(20,662)</u>
Excess (deficiency) of revenue over expenditures	(500)	(500)	2,650	3,150	-	-	21,821	21,821
Other financing sources (uses)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(500)	(500)	2,650	3,150	-	-	21,821	21,821
Fund balance, beginning of year	66,800	66,800	66,800	-	19,543	19,543	19,543	-
Fund balance, end of year	<u>\$ 66,300</u>	<u>\$ 66,300</u>	<u>\$ 69,450</u>	<u>\$ 3,150</u>	<u>\$ 19,543</u>	<u>\$ 19,543</u>	<u>\$ 41,364</u>	<u>\$ 21,821</u>

CITY OF TRAVERSE CITY
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 201

	Opera House				Banner Program			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	-	-	-	-	-	-
Charges for services	93,500	103,500	102,486	(1,014)	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
Reimbursements	4,000	4,000	4,308	308	3,000	3,000	-	(3,000)
Interest income	500	500	14	(486)	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-
Total revenues	<u>98,000</u>	<u>108,000</u>	<u>106,808</u>	<u>(1,192)</u>	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>(3,000)</u>
Expenditures								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Recreation and culture	70,000	110,000	131,972	(21,972)	12,000	12,000	1,500	10,500
Total expenditures	<u>70,000</u>	<u>110,000</u>	<u>131,972</u>	<u>(21,972)</u>	<u>12,000</u>	<u>12,000</u>	<u>1,500</u>	<u>10,500</u>
Excess (deficiency) of revenue over expenditures	<u>28,000</u>	<u>(2,000)</u>	<u>(25,164)</u>	<u>(23,164)</u>	<u>(9,000)</u>	<u>(9,000)</u>	<u>(1,500)</u>	<u>7,500</u>
Other financing sources (uses)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>28,000</u>	<u>(2,000)</u>	<u>(25,164)</u>	<u>(23,164)</u>	<u>(9,000)</u>	<u>(9,000)</u>	<u>(1,500)</u>	<u>7,500</u>
Fund balance, beginning of year	<u>60,970</u>	<u>60,970</u>	<u>60,970</u>	<u>-</u>	<u>21,140</u>	<u>21,140</u>	<u>21,140</u>	<u>-</u>
Fund balance, end of year	<u>\$ 88,970</u>	<u>\$ 58,970</u>	<u>\$ 35,806</u>	<u>\$ (23,164)</u>	<u>\$ 12,140</u>	<u>\$ 12,140</u>	<u>\$ 19,640</u>	<u>\$ 7,500</u>

CITY OF TRAVERSE CIT
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2011

	Economic Development				Stormwater Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
Reimbursements	-	-	-	-	-	-	-	-
Interest income	15,000	15,000	587	(14,413)	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-
Total revenues	<u>15,000</u>	<u>15,000</u>	<u>587</u>	<u>(14,413)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures								
General government	15,000	40,000	18,503	21,497	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Recreation and culture	-	-	-	-	-	-	-	-
Total expenditures	<u>15,000</u>	<u>40,000</u>	<u>18,503</u>	<u>21,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue over expenditures	<u>-</u>	<u>(25,000)</u>	<u>(17,916)</u>	<u>7,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)								
Transfers in	-	-	-	-	250,000	250,000	250,000	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>(25,000)</u>	<u>(17,916)</u>	<u>7,084</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Fund balance, beginning of year	<u>2,039,740</u>	<u>2,039,740</u>	<u>2,039,740</u>	<u>-</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,039,740</u>	<u>\$ 2,014,740</u>	<u>\$ 2,021,824</u>	<u>\$ 7,084</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ -</u>

CITY OF TRAVERSE CIT
Schedule of GASB 54 Consolidation
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 201

	Public Arts Commission				Total General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 8,463,000	\$ 8,463,000	\$ 8,559,711	\$ 96,711
Licenses and permits	-	-	-	-	284,300	284,300	297,926	13,626
Federal sources	-	-	-	-	10,000	10,000	13,039	3,039
State sources	-	-	-	-	1,381,000	1,381,000	1,326,587	(54,413)
Local sources	-	-	-	-	1,819,400	1,819,400	1,818,187	(1,213)
Charges for services	-	-	-	-	547,100	564,100	597,268	33,168
Fines and forfeits	-	-	-	-	14,000	14,000	8,027	(5,973)
Contributions	-	35,000	23,700	(11,300)	183,000	224,000	167,794	(56,206)
Reimbursements	-	-	-	-	707,000	755,000	669,705	(85,295)
Interest income	-	-	-	-	47,000	47,000	32,630	(14,370)
Other revenue	-	-	-	-	439,500	706,500	1,471,943	765,443
Total revenues	-	35,000	23,700	(11,300)	13,895,300	14,268,300	14,962,817	694,517
Expenditures								
General government	-	-	-	-	3,361,200	3,511,200	3,267,386	243,814
Public safety	-	-	-	-	6,354,300	6,399,300	6,239,109	160,191
Public works	-	-	-	-	1,345,000	1,353,000	1,527,271	(174,271)
Recreation and culture	-	35,000	2,625	32,375	2,211,600	2,409,600	2,281,298	128,302
Total expenditures	-	35,000	2,625	32,375	13,272,100	13,673,100	13,315,064	358,036
Excess (deficiency) of revenue over expenditures	-	-	21,075	21,075	623,200	595,200	1,647,753	1,052,553
Other financing sources (uses)								
Transfers in	-	-	-	-	1,292,000	1,352,000	1,491,443	139,443
Transfers out	-	-	-	-	(2,697,500)	(2,784,500)	(2,514,602)	269,898
Total other financing sources (uses)	-	-	-	-	(1,405,500)	(1,432,500)	(1,023,159)	409,341
Net change in fund balance	-	-	21,075	21,075	(782,300)	(837,300)	624,594	1,461,894
Fund balance, beginning of year	-	-	-	-	6,124,045	6,124,045	6,124,045	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,075</u>	<u>\$ 21,075</u>	<u>\$ 5,341,745</u>	<u>\$ 5,286,745</u>	<u>\$ 6,748,639</u>	<u>\$ 1,461,894</u>

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Revenues
Budget (GAAP Basis) and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Property taxes				
Real estate and personal property	\$ 8,350,000	\$ 8,350,000	\$ 8,447,797	\$ 97,797
Collection fees	13,000	13,000	14,094	1,094
Penalties and interest on taxes	100,000	100,000	97,820	(2,180)
Total property taxes	8,463,000	8,463,000	8,559,711	96,711
Licenses and permits				
Business	265,100	265,100	269,591	4,491
Nonbusiness	19,200	19,200	28,335	9,135
Total licenses and permits	284,300	284,300	297,926	13,626
Federal sources	10,000	10,000	13,039	3,039
State sources				
State - shared revenues				
Sales and use tax	1,335,000	1,335,000	1,278,328	(56,672)
Liquor licenses	46,000	46,000	48,259	2,259
Other state	-	-	-	-
Total state sources	1,381,000	1,381,000	1,326,587	(54,413)
Local sources				
City fee - Component Units	1,799,000	1,799,000	1,798,832	(168)
Charges for services				
General fees and services	29,300	29,300	34,641	5,341
Use and admission fees	288,300	288,300	275,967	(12,333)
Fine and forfeitures - ordinance and cost	45,000	45,000	36,256	(8,744)
Total charges for services	362,600	362,600	346,864	(15,736)
Fines and forfeits				
Parking violations	14,000	14,000	8,027	(5,973)
Reimbursements	700,000	748,000	655,570	(92,430)
Interest income	20,000	20,000	10,869	(9,131)
Other revenue				
Rents and royalties	2,500	2,500	10,410	7,910
Contributions	396,000	413,000	433,256	20,256
Sale of assets	2,500	252,500	994,053	741,553
Other	38,500	38,500	30,374	(8,126)
Total other revenue	439,500	706,500	1,468,093	761,593
Total revenues	\$ 13,473,400	\$ 13,788,400	\$ 14,485,518	\$ 697,118

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Expenditures
Budget (GAAP Basis) and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government				
City Commission				
Personnel	\$ 35,200	\$ 43,200	\$ 43,797	\$ (597)
Commodities	1,000	1,000	559	441
Contractual services	41,500	58,500	54,794	3,706
Other charges	6,300	6,300	5,067	1,233
Total City Commission	84,000	109,000	104,217	4,783
City Manager's Office				
Personnel	362,000	362,000	347,626	14,374
Commodities	4,500	4,500	7,100	(2,600)
Contractual services	24,000	24,000	28,134	(4,134)
Other charges	8,200	8,200	5,902	2,298
Total City Manager's Office	398,700	398,700	388,762	9,938
Human Resources				
Personnel	81,600	106,600	107,358	(758)
Commodities	1,000	1,000	2,201	(1,201)
Contractual services	22,400	27,400	28,688	(1,288)
Other charges	4,000	4,000	1,845	2,155
Total Human Resources	109,000	139,000	140,092	(1,092)
Geographic Information Systems				
Personnel	78,000	78,000	38,971	39,029
Commodities	500	500	49	451
Contractual services	21,500	21,500	25,493	(3,993)
Total Geographic Information Systems	100,000	100,000	64,513	35,487
City Attorney's Office				
Personnel	161,400	186,400	184,194	2,206
Commodities	1,700	1,700	950	750
Contractual services	12,200	42,200	47,719	(5,519)
Other charges	2,700	2,700	1,444	1,256
Total City Attorney's Office	178,000	233,000	234,307	(1,307)
City Clerk's Office				
Personnel	392,400	392,400	352,666	39,734
Commodities	21,000	26,000	32,607	(6,607)
Contractual services	32,500	45,500	40,901	4,599
Other charges	17,100	17,100	22,419	(5,319)
Total City Clerk's Office	463,000	481,000	448,593	32,407

Continued.....

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Expenditures
Budget (GAAP Basis) and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Assessor's Office				
Personnel	354,800	\$ 354,800	\$ 363,165	\$ (8,365)
Commodities	13,000	13,000	9,933	3,067
Contractual services	47,000	47,000	26,633	20,367
Other charges	4,200	4,200	6,319	(2,119)
Total Assessor's Office	<u>419,000</u>	<u>419,000</u>	<u>406,050</u>	<u>12,950</u>
Treasurer's Office				
Personnel	358,000	358,000	339,020	18,980
Commodities	21,000	21,000	11,963	9,037
Contractual services	38,600	38,600	37,294	1,306
Other charges	8,400	8,400	5,361	3,039
Total Treasurer's Office	<u>426,000</u>	<u>426,000</u>	<u>393,638</u>	<u>32,362</u>
Building and grounds				
Other charges	<u>120,000</u>	<u>120,000</u>	<u>95,902</u>	<u>24,098</u>
Planning/Zoning				
Personnel	404,100	419,100	415,674	3,426
Commodities	7,500	7,500	5,030	2,470
Contractual services	25,300	25,300	28,909	(3,609)
Other charges	13,800	13,800	11,062	2,738
Total Planning/Zoning	<u>450,700</u>	<u>465,700</u>	<u>460,675</u>	<u>5,025</u>
Cemetery				
Personnel	245,300	245,300	239,421	5,879
Commodities	12,000	12,000	12,409	(409)
Contractual services	17,500	17,500	11,881	5,619
Other charges	95,000	95,000	79,679	15,321
Total Cemetery	<u>369,800</u>	<u>369,800</u>	<u>343,390</u>	<u>26,410</u>
Appropriations	<u>161,000</u>	<u>141,000</u>	<u>133,752</u>	<u>7,248</u>
Capital outlay	<u>67,000</u>	<u>69,000</u>	<u>34,992</u>	<u>34,008</u>
Total general government	<u>3,346,200</u>	<u>3,471,200</u>	<u>3,248,883</u>	<u>222,317</u>
Public Safety				
Police				
Personnel	2,786,000	2,786,000	2,802,387	(16,387)
Commodities	82,200	82,200	94,101	(11,901)
Contractual services	384,900	384,900	339,832	45,068
Other charges	366,900	366,900	315,956	50,944
Total Police	<u>3,620,000</u>	<u>3,620,000</u>	<u>3,552,276</u>	<u>67,724</u>

Continued.....

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Expenditures
Budget (GAAP Basis) and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fire				
Personnel	2,067,800	\$ 2,082,800	\$ 2,103,765	\$ (20,965)
Commodities	80,000	80,000	102,019	(22,019)
Contractual services	150,050	150,050	130,527	19,523
Other charges	351,150	381,150	344,669	36,481
Total Fire	2,649,000	2,694,000	2,680,980	13,020
Total public safety	6,269,000	6,314,000	6,233,256	80,744
Public Works				
Streets, alleys and sidewalks				
Personnel	443,000	443,000	457,117	(14,117)
Commodities	31,000	31,000	32,229	(1,229)
Contractual services	210,500	210,500	161,910	48,590
Other charges	(37,500)	(37,500)	178,077	(215,577)
Total Streets, Alleys and Sidewalks	647,000	647,000	829,333	(182,333)
Engineering				
Personnel	613,400	621,400	629,630	(8,230)
Commodities	18,000	18,000	14,597	3,403
Contractual services	47,300	47,300	32,217	15,083
Other charges	19,300	19,300	21,494	(2,194)
Total Engineering	698,000	706,000	697,938	8,062
Total public works	1,345,000	1,353,000	1,527,271	(174,271)
Recreation and Culture				
Parks				
Personnel	1,028,000	1,028,000	1,004,934	23,066
Commodities	61,800	61,800	65,434	(3,634)
Contractual services	232,000	232,000	164,446	67,554
Other charges	589,300	639,300	620,693	18,607
Total Parks	1,911,100	1,961,100	1,855,507	105,593
Total expenditures	\$ 12,871,300	\$ 13,099,300	\$ 12,864,917	\$ 234,383
				Concluded

CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Transfers
Budget (GAAP Basis) and Actual
General Fund before GASB 54 Consolidation
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Transfers in				
Brown Bridge Trust	\$ 250,000	\$ 250,000	\$ 227,606	\$ (22,394)
Other funds	28,000	28,000	27,236	(764)
City fee - Proprietary Funds	759,000	759,000	921,601	162,601
Total Transfers In	<u>\$ 1,037,000</u>	<u>\$ 1,037,000</u>	<u>\$ 1,176,443</u>	<u>\$ 139,443</u>
Transfers out				
Major Streets	496,000	\$ 333,000	\$ 64,943	\$ 268,057
Local Streets	605,000	\$ 605,000	\$ 603,403	1,597
Capital Projects	1,335,000	1,585,000	1,585,000	-
Stormwater Fund	250,000	250,000	250,000	-
Total Transfers Out	<u>\$ 2,686,000</u>	<u>\$ 2,773,000</u>	<u>\$ 2,503,346</u>	<u>\$ 269,654</u>

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Assets					
Cash and cash equivalents	\$ 2,696,306	\$ 425	\$ 1,825,869	\$ 21,265	\$ 4,543,865
Investments	104,868	-	4,693	682,028	791,589
Receivables					
Accounts	18,652	-	-	-	18,652
Taxes	-	-	8,720	-	8,720
Special assessments	-	-	324,397	-	324,397
Due from other governments	217,657	-	-	-	217,657
Total assets	<u>\$ 3,037,483</u>	<u>\$ 425</u>	<u>\$ 2,163,679</u>	<u>\$ 703,293</u>	<u>\$ 5,904,880</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 192,649	\$ -	\$ -	\$ -	\$ 192,649
Accrued and other liabilities	26	-	-	-	26
Due to other funds	139,484	-	-	15,980	155,464
Unearned revenue	5,813	-	-	-	5,813
Advance from component unit	-	-	689	-	689
Total liabilities	<u>337,972</u>	<u>-</u>	<u>689</u>	<u>15,980</u>	<u>354,641</u>
Deferred inflows of resources					
Unavailable revenue	-	-	323,528	-	323,528
Fund balances					
Nonspendable					
Cemetery perpetual care	-	-	-	687,313	687,313
Restricted					
Debt service	-	425	-	-	425
Joint planning	17,075	-	-	-	17,075
Capital improvements	236,908	-	847,230	-	1,084,138
Public welfare or civic improvement organizations	2,415,510	-	-	-	2,415,510
Act 345 retirement	30,018	-	-	-	30,018
Committed					
Capital improvements	-	-	992,232	-	992,232
Total fund balances	<u>2,699,511</u>	<u>425</u>	<u>1,839,462</u>	<u>687,313</u>	<u>5,226,711</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,037,483</u>	<u>\$ 425</u>	<u>\$ 2,163,679</u>	<u>\$ 703,293</u>	<u>\$ 5,904,880</u>

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
Revenues					
Property taxes and special assessments	\$ 1,768,294	\$ -	\$ 117,102	\$ -	\$ 1,885,396
Federal sources	260	-	-	-	260
State sources	886,076	-	-	-	886,076
Local sources	-	2,286,400	-	-	2,286,400
Charges for services	156,231	-	-	24,118	180,349
Contributions	949,900	-	108	-	950,008
Interest income	10,155	-	6,911	30,506	47,572
Total revenues	<u>3,770,916</u>	<u>2,286,400</u>	<u>124,121</u>	<u>54,624</u>	<u>6,236,061</u>
Expenditures					
Current expenditures					
General government	42,215	-	-	-	42,215
Public safety	1,816,425	-	-	-	1,816,425
Public works	1,756,282	-	36,219	-	1,792,501
Capital outlay	-	-	208,955	83,245	292,200
Debt service					
Principal	-	1,845,000	-	-	1,845,000
Interest and fiscal charges	-	441,400	-	-	441,400
Total expenditures	<u>3,614,922</u>	<u>2,286,400</u>	<u>245,174</u>	<u>83,245</u>	<u>6,229,741</u>
Excess (deficiency) of revenues over expenditures	<u>155,994</u>	<u>-</u>	<u>(121,053)</u>	<u>(28,621)</u>	<u>6,320</u>
Other financing sources (uses)					
Transfers in	-	-	-	-	-
Transfers (out)	(65,000)	-	-	(15,980)	(80,980)
Total other financing sources (uses)	<u>(65,000)</u>	<u>-</u>	<u>-</u>	<u>(15,980)</u>	<u>(80,980)</u>
Net change in fund balance	90,994	-	(121,053)	(44,601)	(74,660)
Fund balances, beginning of year	<u>2,608,517</u>	<u>425</u>	<u>1,960,515</u>	<u>731,914</u>	<u>5,301,371</u>
Fund balances, end of year	<u><u>\$ 2,699,511</u></u>	<u><u>\$ 425</u></u>	<u><u>\$ 1,839,462</u></u>	<u><u>\$ 687,313</u></u>	<u><u>\$ 5,226,711</u></u>

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016

	Act 302 Police Training Fund	State Preparedness Equipment Grant Fund	College Parking Fund	Act 345 Millage Fund	Traverse City and Garfield Township Joint Planning Fund	PEG Capital Fund
ASSETS						
Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 15,472	\$ 27,152	\$ 17,075	\$ 21,024
Investments	-	-	-	-	-	-
Receivables						
Accounts	-	-	-	2,969	-	3,916
Due from other governments	-	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,472</u>	<u>\$ 30,121</u>	<u>\$ 17,075</u>	<u>\$ 24,940</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 7,762	\$ 103	\$ -	\$ 8,372
Accrued and other liabilities	-	-	26	-	-	-
Unearned revenue	-	-	-	-	-	-
Due to other funds	-	-	7,684	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>15,472</u>	<u>103</u>	<u>-</u>	<u>8,372</u>
Fund balances						
Restricted						
Joint planning	-	-	-	-	17,075	-
Capital improvements	-	-	-	-	-	16,568
Public welfare or civic improvement organizations	-	-	-	-	-	-
Act 345 retirement	-	-	-	30,018	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,018</u>	<u>17,075</u>	<u>16,568</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,472</u>	<u>\$ 30,121</u>	<u>\$ 17,075</u>	<u>\$ 24,940</u>

Continued...

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016

	Senior Center Building Fund	Homeland Security Training Grant Fund	McCauley Estate Trust Fund	County Road Commission Projects Fund	Brown Bridge Trust Park Improvement Fund	Stormwater Asset Management Grant Fund	Total
ASSETS							
Assets							
Cash and cash equivalents	\$ 226,153	\$ -	\$ 15,756	\$ 936,741	\$ 1,436,933	\$ -	\$ 2,696,306
Investments	-	-	104,868	-	-	-	104,868
Receivables							
Accounts	-	-	-	-	11,767	-	18,652
Due from other governments	-	-	-	-	-	217,657	217,657
Total assets	\$ 226,153	\$ -	\$ 120,624	\$ 936,741	\$ 1,448,700	\$ 217,657	\$ 3,037,483
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ 87,791	\$ -	\$ 88,621	\$ 192,649
Accrued and other liabilities	-	-	-	-	-	-	26
Unearned revenue	5,813	-	-	-	-	-	5,813
Due to other funds	-	-	2,764	-	-	129,036	139,484
Total liabilities	5,813	-	2,764	87,791	-	217,657	337,972
Fund balances							
Restricted							
Joint planning	-	-	-	-	-	-	17,075
Capital improvements	220,340	-	-	-	-	-	236,908
Public welfare or civic improvement organizations	-	-	117,860	848,950	1,448,700	-	2,415,510
Act 345 retirement	-	-	-	-	-	-	30,018
Total fund balances	220,340	-	117,860	848,950	1,448,700	-	2,699,511
Total liabilities and fund balances	\$ 226,153	\$ -	\$ 120,624	\$ 936,741	\$ 1,448,700	\$ 217,657	\$ 3,037,483

Concluded

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016

	Act 302 Police Training Fund	State Preparedness Equipment Grant Fund	College Parking Fund	Act 345 Millage Fund	Traverse City and Garfield Township Joint Planning Fund	PEG Capital Fund
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ 1,768,294	\$ -	\$ -
Federal sources	-	-	-	-	-	-
State sources	5,600	-	-	-	-	-
Charges for services	-	-	19,760	-	-	-
Contributions	-	-	-	-	6,000	15,770
Interest income	-	-	-	549	-	-
Total revenues	5,600	-	19,760	1,768,843	6,000	15,770
Expenditures						
Current expenditures						
General government	-	-	19,873	-	9,190	13,152
Public safety	5,600	-	-	1,810,565	-	-
Public works	-	-	-	-	-	-
Total expenditures	5,600	-	19,873	1,810,565	9,190	13,152
Excess (deficiency) of revenues over expenditures	-	-	(113)	(41,722)	(3,190)	2,618
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net change in fund balance	-	-	(113)	(41,722)	(3,190)	2,618
Fund balances, beginning of year	-	-	113	71,740	20,265	13,950
Fund balances, end of year	\$ -	\$ -	\$ -	\$ 30,018	\$ 17,075	\$ 16,568

Continued....

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016

	Senior Center Building Fund	Homeland Security Training Grant Fund	McCauley Estate Trust Fund	County Road Commission Projects Fund	Brown Bridge Trust Park Improvement Fund	Stormwater Asset Management Grant Fund	Total
Revenues							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,768,294
Federal sources	-	260	-	-	-	-	260
State sources	-	-	-	-	-	880,476	886,076
Charges for services	-	-	-	-	136,471	-	156,231
Contributions	13,138	-	-	776,916	-	138,076	949,900
Interest income	85	-	9,002	-	519	-	10,155
Total revenues	<u>13,223</u>	<u>260</u>	<u>9,002</u>	<u>776,916</u>	<u>136,990</u>	<u>1,018,552</u>	<u>3,770,916</u>
Expenditures							
Current expenditures							
General government	-	-	-	-	-	-	42,215
Public safety	-	260	-	-	-	-	1,816,425
Public works	-	-	-	737,730	-	1,018,552	1,756,282
Total expenditures	<u>-</u>	<u>260</u>	<u>-</u>	<u>737,730</u>	<u>-</u>	<u>1,018,552</u>	<u>3,614,922</u>
Excess (deficiency) of revenues over expenditures	<u>13,223</u>	<u>-</u>	<u>9,002</u>	<u>39,186</u>	<u>136,990</u>	<u>-</u>	<u>155,994</u>
Other financing sources (uses)							
Transfers in	-	-	-	-	-	-	-
Transfers (out)	-	-	(65,000)	-	-	-	(65,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(65,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(65,000)</u>
Net change in fund balance	13,223	-	(55,998)	39,186	136,990	-	90,994
Fund balances, beginning of year	<u>207,117</u>	<u>-</u>	<u>173,858</u>	<u>809,764</u>	<u>1,311,710</u>	<u>-</u>	<u>2,608,517</u>
Fund balances, end of year	<u>\$ 220,340</u>	<u>\$ -</u>	<u>\$ 117,860</u>	<u>\$ 848,950</u>	<u>\$ 1,448,700</u>	<u>\$ -</u>	<u>\$ 2,699,511</u>

Concluded

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2016

	Parking Deck Bond Redemption Taxable	Parking Deck Bond Redemption Non-Taxable	Old Town Parking Deck Bond Redemption	Total
ASSETS				
Assets				
Cash and cash equivalents	\$ -	\$ 325	\$ 100	\$ 425
Accounts receivable	-	-	-	-
Total assets	\$ -	\$ 325	\$ 100	\$ 425
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Fund balances				
Restricted for debt service	-	325	100	425
Total liabilities and fund balancess	\$ -	\$ 325	\$ 100	\$ 425

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2016

	Parking Deck Bond Redemption Taxable	Parking Deck Bond Redemption Non-Taxable	Old Town Parking Deck Bond Redemption	Total
Revenues				
Local sources	\$ 153,625	\$ 666,481	\$ 1,466,294	\$ 2,286,400
Expenditures				
Debt service				
Principal	135,000	295,000	1,415,000	1,845,000
Interest and fiscal charges	18,625	371,481	51,294	441,400
Total expenditures	153,625	666,481	1,466,294	2,286,400
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	-	325	100	425
Fund balances, end of year	<u>\$ -</u>	<u>\$ 325</u>	<u>\$ 100</u>	<u>\$ 425</u>

CITY OF TRAVERSE CITY, MICHIGAN
Combining Balance Sheet
Nonmajor Capital Projects Fund
June 30, 2016

	Parking Deck Bond Construction Taxable	Parking Bond Construction Non-taxable	Special Assessments	Total
ASSETS				
Assets				
Cash and cash equivalents	\$ 107,459	\$ 739,771	\$ 978,639	\$ 1,825,869
Investments	-	-	4,693	4,693
Receivables				
Taxes	-	-	8,720	8,720
Special assessments	-	-	324,397	324,397
Total assets	\$ 107,459	\$ 739,771	\$ 1,316,449	\$ 2,163,679
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Advance from component unit	-	-	689	689
Total liabilities	-	-	689	689
Deferred inflows of resources				
Unavailable revenue	-	-	323,528	323,528
Fund balances				
Restricted				
Capital improvements	107,459	739,771	-	847,230
Committed				
Capital improvements	-	-	992,232	992,232
Total fund balances	107,459	739,771	992,232	1,839,462
Total liabilities, deferred inflows of resources, and fund balances	\$ 107,459	\$ 739,771	\$ 1,316,449	\$ 2,163,679

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Capital Projects Fund
For the Year Ended June 30, 2014

	Parking Deck Bond Construction Taxable	Parking Deck Bond Construction Non-Taxable	Special Assessments	Total
Revenues				
Special assessments	\$ -	\$ -	\$ 117,102	\$ 117,102
Contributions	-	-	108	108
Interest income	84	592	6,235	6,911
Total revenues	84	592	123,445	124,121
Expenditures				
Public works	-	-	36,219	36,219
Capital outlay	-	-	208,955	208,955
Total expenditures	-	-	245,174	245,174
Net change in fund balances	84	592	(121,729)	(121,053)
Other financing sources (uses)				
Transfer out	-	-	-	-
Net change in fund balances	84	592	(121,729)	(121,053)
Fund balances, beginning of year	107,375	739,179	1,113,961	1,960,515
Fund balances, end of year	\$ 107,459	\$ 739,771	\$ 992,232	\$ 1,839,462

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2016

	<u>Tax Collection</u>	<u>Imprest Payroll</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 75,209	\$ 17,909	\$ 186,210	\$ 279,328
Receivables				
Accounts	-	16,543	-	16,543
Taxes	215,111	-	-	215,111
	<u>215,111</u>	<u>-</u>	<u>-</u>	<u>215,111</u>
Total assets	<u>\$ 290,320</u>	<u>\$ 34,452</u>	<u>\$ 186,210</u>	<u>\$ 510,982</u>
Liabilities				
Accrued and other liabilities	\$ -	\$ 34,452	\$ 186,210	\$ 220,662
Due to other governmental units	290,320	-	-	290,320
	<u>290,320</u>	<u>-</u>	<u>-</u>	<u>290,320</u>
Total liabilities	<u>\$ 290,320</u>	<u>\$ 34,452</u>	<u>\$ 186,210</u>	<u>\$ 510,982</u>

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
TAX COLLECTION				
Assets				
Cash and cash equivalents	\$ -	\$ 39,308,769	\$ 39,233,560	\$ 75,209
Taxes receivable	163,095	40,324,782	40,272,766	215,111
Total assets	\$ 186,072	\$ 79,633,551	\$ 79,506,326	\$ 290,320
Liabilities				
Due to other governmental units	\$ 163,095	\$ 79,633,550	\$ 79,506,325	\$ 290,320
IMPREST PAYROLL				
Assets				
Cash and cash equivalents	\$ -	\$ 14,058,348	\$ 14,040,439	\$ 17,909
Accounts receivable	243,471	104,296	331,224	16,543
Total assets	\$ 19,356	\$ 14,162,644	\$ 14,371,663	\$ 34,452
Liabilities				
Accrued and other liabilities	\$ 243,471	\$ 14,501,147	\$ 14,710,166	\$ 34,452
RETIREE HEALTH INSURANCE				
Assets				
Cash and cash equivalents	\$ -	\$ 274,185	\$ 87,975	\$ 186,210
Accounts receivable	228,405	-	228,405	-
Total assets	\$ 142,535	\$ 274,185	\$ 316,380	\$ 186,210
Liabilities				
Accrued and other liabilities	\$ 228,405	\$ 45,780	\$ 87,975	\$ 186,210

Continued....

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
TOTAL - ALL AGENCY FUNDS				
Assets				
Cash and cash equivalents	\$ -	\$ 53,641,302	\$ 53,361,974	\$ 279,328
Receivables				
Accounts	471,876	104,296	559,629	16,543
Taxes	<u>163,095</u>	<u>40,324,782</u>	<u>40,272,766</u>	<u>215,111</u>
Total assets	<u>\$ 347,963</u>	<u>\$ 94,070,380</u>	<u>\$ 94,194,369</u>	<u>\$ 510,982</u>
Liabilities				
Accrued and other liabilities	\$ 471,876	\$ 14,546,927	\$ 14,798,141	\$ 220,662
Due to other governmental units	<u>163,095</u>	<u>79,633,550</u>	<u>79,506,325</u>	<u>290,320</u>
Total liabilities	<u>\$ 347,963</u>	<u>\$ 94,180,477</u>	<u>\$ 94,304,466</u>	<u>\$ 510,982</u>

Concluded

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Fiduciary Net Position
Pension and Other Postemployment Benefit Funds
June 30, 2016

		Other Postemployment Benefit Funds			
	Act 345 Pension Trust Fund	Act 345 Retiree Health Insurance Trust	Retiree Health Insurance Trust	Total	
Assets					
Cash and cash equivalents	\$ 2,750,858	\$ 3,280,535	\$ -	\$ 6,031,393	
Investments, at fair value					
Fixed income mutual funds	4,839,726	-	-	4,839,726	
Domestic equities	6,117,090	-	-	6,117,090	
International equities	3,486,136	-	-	3,486,136	
Real estate	1,532,228	-	-	1,532,228	
Other	7,626,872	-	-	7,626,872	
MERS total market fund	-	-	3,815,706	3,815,706	
Receivables					
Accounts receivable	8,800	72,389	-	81,189	
Accrued interest	11,821	-	-	11,821	
Total assets	<u>26,373,531</u>	<u>3,352,924</u>	<u>3,815,706</u>	<u>33,542,161</u>	
Liabilities					
Accounts payable	90,094	-	-	90,094	
Total liabilities	<u>90,094</u>	<u>-</u>	<u>-</u>	<u>90,094</u>	
Net Position					
Held in trust for pension benefits and other postemployment benefits	<u>\$ 26,283,437</u>	<u>\$ 3,352,924</u>	<u>\$ 3,815,706</u>	<u>\$ 33,452,067</u>	

CITY OF TRAVERSE CITY, MICHIGAN
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Postemployment Benefit Funds
For the Year Ended June 30, 2016

		Other Postemployment Benefit Funds		
	Act 345 Pension Trust Fund	Act 345 Retiree Health Insurance Trust	Retiree Health Insurance Trust	Total
Additions				
Contributions				
City contributions	\$ 1,810,565	\$ 384,646	\$ -	\$ 2,195,211
Employee contributions	58,510	-	-	58,510
Other	159	-	-	159
Total contributions	1,869,234	384,646	-	2,253,880
Investment earnings				
Interest and dividends	314,474	5,985	-	320,459
Net increase in fair value of investments	280,575	-	25,543	306,118
Investment advisor fees	(96,131)	-	-	(96,131)
Net investment earnings	498,918	5,985	25,543	530,446
Total additions	2,368,152	390,631	25,543	2,784,326
Deductions				
Pension benefits paid	2,312,077	-	-	2,312,077
Health insurance premiums paid	-	402,688	500,000	902,688
Administrative expense	15,450	-	-	15,450
Total deductions	2,327,527	402,688	500,000	3,230,215
Net increase (decrease) in plan net position	40,625	(12,057)	(474,457)	(445,889)
Net position held in trust, beginning of year	26,242,812	3,364,981	4,290,163	33,897,956
Net position held in trust, end of year	\$ 26,283,437	\$ 3,352,924	\$ 3,815,706	\$ 33,452,067

INTERNAL CONTROL AND COMPLIANCE



Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.
Grand Rapids, MI 49534
FAX (616) 828-0307

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

**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 19, 2016

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Traverse City, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Traverse City, Michigan's basic financial statements, and have issued our report thereon dated December 19, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Traverse City, Michigan's financial statements are free from 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*.

Purpose of this Report

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

Orlando Haefner LLC