



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

**Annual Audited Financial Statements
For the Year Ended June 30, 2025**

**Prepared by City Treasurer's Office
Vredevelde Haefner LLC - Auditors**

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

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Vredeveld Haefner LLC

CPAs and Consultants
10302 20th Avenue
Grand Rapids, MI 49534
Fax (616) 828-0307

Douglas J. Vredeveld, CPA
(616) 446-7474
Michael J. Vredeveld, CPA
(616) 648-8447

INDEPENDENT AUDITORS' REPORT

December 16, 2025

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

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Traverse City Downtown Development Authority (the Authority), a Component Unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 7 and the budgetary comparison information on pages 22 through 25 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2025, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Oredovold Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the **Downtown Development Authority** (the “Authority”), we offer readers of the Authority’s financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2025.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$11,170,089 (*net position*).
- The Authority’s total net position increased by \$1,539,294.
- As of the close of the current fiscal year, the Authority’s governmental funds reported combined ending fund balances of \$9,182,481 an increase of \$1,520,569 in comparison with the prior year.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The Authority’s governmental activity is economic development. The Authority has no business-type activities.

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

The government-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority only has governmental funds. The Authority does not maintain enterprise or fiduciary funds.

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

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

The Authority maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for all three funds; the General Fund, TIF 97 and Old Town TIF Special Revenue Funds, each of which are considered to be major funds. The governmental funds financial statements can be found on pages 10-13 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

Other Information

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$11,170,089 at the close of the most recent fiscal year.

Downtown Development Authority's Net Postion

	<u>June 30</u>	
	<u>2025</u>	<u>2024</u>
Governmental Activities		
Current assets	\$ 9,798,724	\$ 8,333,996
Non Current assets	<u>2,360,498</u>	<u>1,997,110</u>
Total Assets	<u>12,159,222</u>	<u>10,331,106</u>
Long-term liabilities	322,132	28,227
Other liabilities	<u>667,001</u>	<u>672,084</u>
Total Liabilities	<u>989,133</u>	<u>700,311</u>
Net Position		
Net investment in capital	1,997,110	1,997,110
Restricted	8,653,068	7,064,453
Unrestricted	<u>519,911</u>	<u>569,232</u>
	<u><u>\$ 11,170,089</u></u>	<u><u>\$ 9,630,795</u></u>

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

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

The Authority's net position increased by \$1,539,294 key highlights are as follows:

- The increase in net position for 2025 compared to an increase of \$494,157 in 2024. Property taxes increased by approximately \$511,000 due in large part to a significant increase in the captured value of the TIF 97 plan and 2025 being the eighth year of capture for the Old Town TIF plan. Charges for services decrease by \$683,000 with the transfer of Auto Parking employees to the City Primary Government and subsequent reduction in administrative fees charged to the Primary Government to cover the costs related to these employees. Total expenses decreased by approximately \$1,340,000, again due to the transfer of Auto Parking staff and a reduction in Old Town TIF contributions to City construction projects being the key factors.

Downtown Development Authority's Changes in Net Postion

	June 30	
	2025	2024
Governmental Activities		
Program revenues		
Charges for services	\$ 347,751	\$ 1,037,719
Operating grants	114,417	176,912
Capital grants	-	56,226
General revenues		
Property taxes	5,264,766	4,753,542
Unrestricted investment earnings	<u>7,622</u>	<u>4,882</u>
Total Revenue	5,734,556	6,029,281
Expenses		
Economic development	<u>4,195,262</u>	<u>5,535,124</u>
Change in net position	1,539,294	494,157
Net position beginning of year	<u>9,630,795</u>	<u>9,136,638</u>
Net position end of year	<u>\$ 11,170,089</u>	<u>\$ 9,630,795</u>

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$9,182,481, an increase of \$1,520,569 in comparison with the prior year. \$8,653,068 is restricted and available only for spending for the benefit of the applicable TIF districts.

The General Fund is the chief operating fund of the Authority. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$500,102. 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 38.3 percent of total General Fund expenditures. During the current fiscal year, the fund balance of the Authority's General Fund decreased by \$63,389 compared to an anticipated increase of \$4,615.

The TIF 97 Special Revenue Fund had a fund balance of \$7,474,214, which increased \$1,187,889 although anticipated to decrease \$1,404,982. This difference was attributed to actual expenditures being under budget because of the timing of construction projects the district has committed funding to.

The Old Town TIF Special Revenue Fund has a fund balance of \$1,195,624, an increase of \$396,069 compared to a projected decrease of 41,460. The timing of district funded construction projects was the key factor in the increased fund balance for the Old Town TIF Fund.

Economic Factors and Next Year's Budgets

The following factors were considered in preparing the Authority's budget for the 2025-26 fiscal year:

- The construction of a formal Farmers Market Pavilion (in coordination with the redevelopment of Lot B), using TIF-97 funding.
- Work on the Lower Boardman/Ottaway River, including a \$657,750 grant from NOAA, in coordination with the Grand Traverse Band of Ottawa and Chippewa Indians.
- The construction of Rotary Square, using funds from the \$1 million grant from Rotary Charities and TIF-97.
- Implementation of signage, street paint and other infrastructure elements to convert State Street, Boardman Avenue and Pine Street to two-way circulation, using TIF-97 funding.

Requests for Information

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

FINANCIAL STATEMENTS

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

Statement of Net Position
June 30, 2025

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 9,760,465
Due from other governments	8,948
Prepaid items	29,311
Lease asset, net of amortization	363,388
Capital assets not being depreciated	<u>1,997,110</u>
Total assets	<u>12,159,222</u>
Liabilities	
Accounts payable	417,645
Accrued liabilities	34,635
Unearned revenue	163,963
Accrued compensated absences due within one year	9,502
Lease liability - current	41,256
Lease liability - long term	<u>322,132</u>
Total liabilities	<u>989,133</u>
Net position	
Net investment in capital assets	1,997,110
Restricted for tax increment finance districts	8,653,068
Unrestricted	<u>519,911</u>
Total net position	<u>\$ 11,170,089</u>

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

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

**Statement of Activities
For the Year Ended June 30, 2025**

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities	<u>\$ 4,195,262</u>	<u>\$ 347,751</u>	<u>\$ 114,417</u>	<u>\$ -</u>	<u>\$ (3,733,094)</u>
General revenues					
Unrestricted property taxes					122,431
Restricted property taxes for tax increment finance districts					5,142,335
Unrestricted investment income					7,622
Total general revenues					<u>5,272,388</u>
Change in net position					1,539,294
Net position, beginning of year					<u>9,630,795</u>
Net position, end of year					<u>\$ 11,170,089</u>

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

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

**Balance Sheet
Governmental Funds
June 30, 2025**

	<u>General Fund</u>	<u>TIF 97 Fund</u>	<u>Old Town TIF Fund</u>	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 729,281	\$ 7,685,433	\$ 1,345,751	\$ 9,760,465
Due from other governments	4,448	4,500	-	8,948
Prepaid expenditures	<u>12,541</u>	<u>15,520</u>	<u>1,250</u>	<u>29,311</u>
Total assets	<u>\$ 746,270</u>	<u>\$ 7,705,453</u>	<u>\$ 1,347,001</u>	<u>\$ 9,798,724</u>
Liabilities				
Accounts payable	35,029	231,239	151,377	\$ 417,645
Accrued liabilities	34,635	-	-	34,635
Unearned revenue	<u>163,963</u>	<u>-</u>	<u>-</u>	<u>163,963</u>
Total liabilities	<u>233,627</u>	<u>231,239</u>	<u>151,377</u>	<u>616,243</u>
Fund balances				
Nonspendable - prepaid expenditures	12,541	15,520	1,250	29,311
Restricted - tax increment finance districts	-	7,458,694	1,194,374	8,653,068
Unassigned	<u>500,102</u>	<u>-</u>	<u>-</u>	<u>500,102</u>
Total fund balances	<u>512,643</u>	<u>7,474,214</u>	<u>1,195,624</u>	<u>9,182,481</u>
Total liabilities and fund balances	<u>\$ 746,270</u>	<u>\$ 7,705,453</u>	<u>\$ 1,347,001</u>	<u>\$ 9,798,724</u>

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

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

**Reconciliation of Fund Balances on the Balance Sheet for Governmental
Funds to Net Position of Governmental Activities on the
Statement of Net Position
June 30, 2025**

Fund balances - total governmental funds	\$ 9,182,481
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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	1,997,110
Deduct - accrued compensated absences	<u>(9,502)</u>
Net position of governmental activities	<u>\$ 11,170,089</u>

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

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

**Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2025**

	<u>General Fund</u>	<u>TIF 97 Fund</u>	<u>Old Town TIF Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 122,431	\$ 4,214,672	\$ 927,663	\$ 5,264,766
Grants and contributions	114,417	-	-	114,417
Reimbursements	999,334	-	-	999,334
Interest income	7,622	15,263	1,882	24,767
Total revenues	<u>1,243,804</u>	<u>4,229,935</u>	<u>929,545</u>	<u>6,403,284</u>
Expenditures				
Economic development				
Salaries	544,023	-	-	544,023
Fringe benefits	103,298	-	-	103,298
Office supplies and utilities	62,730	25,355	-	88,085
Professional services	594,124	1,394,393	338,582	2,327,099
Travel and conferences	1,375	-	-	1,375
Repairs and maintenance	1,643	-	-	1,643
Contributions to district construction projects	-	654,578	194,894	849,472
Contributions to other governments - debt service	-	913,720	-	913,720
Debt service				
Principal	-	39,761	-	39,761
Interest	-	14,239	-	14,239
Total expenditures	<u>1,307,193</u>	<u>3,042,046</u>	<u>533,476</u>	<u>4,882,715</u>
Net change in fund balance	(63,389)	1,187,889	396,069	1,520,569
Fund balance, beginning of year	<u>576,032</u>	<u>6,286,325</u>	<u>799,555</u>	<u>7,661,912</u>
Fund balance, end of year	<u>\$ 512,643</u>	<u>\$ 7,474,214</u>	<u>\$ 1,195,624</u>	<u>\$ 9,182,481</u>

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

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

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2025**

Net changes in fund balances - total governmental funds	\$ 1,520,569
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Amounts reported for *governmental activities* in the statement of activities
are different because:

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

Add - decrease in compensated absences	<u>18,725</u>
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Change in net position of governmental activities	<u>\$ 1,539,294</u>
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The accompanying notes are an integral part of these financial statements.

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

**Notes to Financial Statements
For the Year Ended June 30, 2025**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Authority is a component unit of the City because the City appoints the Authority's Board of Directors, it has the ability to significantly influence the Authority's operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61. Accordingly, the Authority is presented as a discretely presented component unit in the City's financial statements.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The Authority has no business-type activities.

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

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the years for which they are levied.

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

**Notes to Financial Statements
For the Year Ended June 30, 2025**

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

The Authority reports the following major governmental funds:

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

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

Capital Assets – The Authority has capitalized two parcels of land purchased by the Authority for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are then reported as the City's capital assets.

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

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

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

**Notes to Financial Statements
For the Year Ended June 30, 2025**

Accrued compensated absences - Employees earn Paid Time Off, if Paid Time Off is not used before the anniversary date, a maximum of 120 hours are eligible for rollover into the next work year and accumulation in the PTO “bucket.” The estimated amount due to employees as of June 30, 2025 is more likely than not to be used as time off or settled during or upon separation from employment, and is accrued in the government-wide financial statements.

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

Net Position and Fund Balance Flow Assumptions – Sometimes the Authority 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 government’s policy to use restricted resources first, then unrestricted resource as they are needed. Further, when 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.

2. CASH AND CASH EQUIVALENTS

Michigan Compiled Laws, Section 129.91 authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers’ acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

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

**Notes to Financial Statements
For the Year Ended June 30, 2025**

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

The Authority's cash and cash equivalents are cash on hand and demand deposits with a bank. The Authority's cash and cash equivalents are comprised of bank deposits with a balance of \$9,760,465 at June 30, 2025.

Custodial credit risk - deposits

Custodial risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The State does not require and the Authority has not adopted a policy regarding custodial credit risk. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$9,760,465. The Federal Deposit Insurance Corporation insures \$250,000 and the remainder of \$9,510,465 is uninsured and not collateralized.

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable are related to vendors and construction projects including approximately \$113,500 for contributions to City construction projects and \$157,500 for City Administration/service fee. Accrued liabilities in the governmental activities consist of accrued payroll liabilities.

4. CAPITAL ASSETS

Capital assets consist of land purchased and improved for the City Civic Square.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	<u>\$ 1,977,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,977,110</u>

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
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**Notes to Financial Statements
For the Year Ended June 30, 2025**

Right to Use Assets consist of the lease of property for use as a downtown public restroom

	Beginning Balance restated	Increases	Decreases	Ending Balance
Right to Use Asset	<u>\$ 403,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 403,149</u>
Accumulated Amortization	<u>-</u>	<u>39,761</u>	<u>-</u>	<u>39,761</u>
Total Right to Use Asset	<u>\$ 403,149</u>	<u>\$ (39,761)</u>	<u>\$ -</u>	<u>\$ 363,388</u>

5. ACCRUED COMPENSATED ABSENCES

Changes in accrued compensated absences consist of the following:

	Balance 07/01/24	Additions	Reductions	Balance 06/30/25
Accrued compensated absences	<u>\$28,227</u>	<u>\$ 26,785</u>	<u>\$ 45,510</u>	<u>\$ 9,502</u>

Compensated absences are liquidated by the General Fund.

6. LEASE LIABILITY

The DDA has entered into a lease agreement for right to use property in a downtown building as a public restroom location. The lease end date is March 31, 2033. This lease obligation is recorded as a liability at present value using the DDA's incremental borrowing rate unless otherwise noted in the lease terms. The principal and interest requirements are as follows:

**CITY OF TRAVERSE CITY
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**Notes to Financial Statements
For the Year Ended June 30, 2025**

Fiscal Year	End	Principal	Interest
	2026	\$ 41,257	\$ 12,743
	2027	42,808	11,192
	2028	44,418	9,582
	2029	46,089	7,911
	2030	47,823	6,177
	2031-2033	<u>140,993</u>	<u>7,507</u>
Total		<u>\$ 363,388</u>	<u>\$ 55,112</u>

8. COMMITMENTS

The 2017 City of Traverse City Downtown Development Tax Exempt Refunding Bonds are reported on the City of Traverse City financial statements. The Authority has pledged tax increment revenues for the payment of these bonds. The City has pledged its limited tax full faith and credit for the payment of the principal and interest on the bonds. The following are the obligations, including interest, expected to be paid from the collection of tax increment revenues in the Tax Increment Financing and Development Plan No. 97.

Fiscal Year	End	Amount
	2026	\$ 874,459
	2027	825,656
	2028	<u>782,541</u>
		<u>\$ 2,482,656</u>

The Authority has committed to assist the City with various infrastructure related projects within their boundaries including bridge repairs, street upgrades and streetscape improvements. The Authority has paid or been billed for their entire commitment for active projects. The Authority has committed \$252,700 for projects that have not started as of 6/30/2025. The Authority will pay these commitments using district eligible TIF captured funds.

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

**Notes to Financial Statements
For the Year Ended June 30, 2025**

9. PROPERTY TAXES

The Authority's property taxes are levied each July 1 on the taxable valuation of applicable property located in the Districts of the Authority as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through July 31 and unpaid taxes become delinquent if not paid by March 1 of the succeeding year. Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of the assessed value. The taxable value for real and personal property for the Authority for the 2023 levy was \$286,126,788. The Authority's general operating tax rate for fiscal year 2023-24 was 1.58790 mills.

Property tax revenue for the TIF's, which are included in the Downtown Development Authority, is derived pursuant to the tax increment financing development plans. The Old Town TIF tax increment financing development plan captured it's first taxes during the fiscal year end June 30, 2018. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing districts. The City bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property at March 1 are purchased and collected by Grand Traverse County. Collection of delinquent personal property tax remains the responsibility of the City of Traverse City. Property tax revenue is recognized when levied in the government-wide financial statements and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the tax increment financing authority districts to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1997 for TIF 97 (\$32,860,088). The base year on other properties is determined by the date of entry into the district. The fiscal year 2024-25 captured taxable values for TIF 97 was \$200,641,353. The base year of initial properties was 2017 for Old Town TIF (\$45,424,382). The base year on other properties is determined by the date of entry into the district. The fiscal year 2024-25 captured taxable values for Old Town TIF was \$52,956,002.

10. ADMINISTRATIVE SERVICES REVENUE

The Authority entered into a contract with the Downtown Traverse City Association (a non-for-profit organization). The Authority provides office space and administrative services to the association for an annual fee of \$75,000.

**CITY OF TRAVERSE CITY
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**Notes to Financial Statements
For the Year Ended June 30, 2025**

The Authority's General Fund is reimbursed an administrative fee for indirect cost from the TIF 97 and Old Town TIF Funds as approved in the budget. The revenue recorded in the General Fund and expenditures in the TIF Fund are eliminated in the government wide financial statements. Income from the administrative fee for the year ended June 30, 2025 was \$668,728.

11. RISK OF LOSS

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

12. PRIOR PERIOD ADJUSTMENT

The right to use asset and associated lease liability were recorded as of June 30, 2024. This change had no impact on net assets.

13. DEFERRED COMPENSATION PLAN

The Authority sponsors the Traverse City Downtown Development Authority Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The administrator of the plan is ICMA Retirement Corporation. The plan is available to all employees. The employer contributes 4% to the plan and will match employee contributions up to an additional 6%. Plan provision and contribution requirements can only be amended by a resolution from the Board of Directors. In fiscal year 2025 the Authority contributed \$39,546 and the employees contributed \$32,071 to this plan.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
General Fund
For the Year Ended June 30, 2025**

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 130,000	\$ 130,000	\$ 122,431	\$ (7,569)
Grants and contributions	1,875,000	1,875,000	114,417	(1,760,583)
Reimbursements	794,728	794,728	999,334	204,606
Interest income	2,000	2,000	7,622	5,622
Total revenues	<u>2,801,728</u>	<u>2,801,728</u>	<u>1,243,804</u>	<u>(1,557,924)</u>
Expenditures				
Economic development				
Salaries	430,000	430,000	544,023	(114,023)
Fringe benefits	111,113	111,113	103,298	7,815
Office supplies and utilities	85,000	85,000	62,730	22,270
Professional services	1,716,000	1,716,000	594,124	1,121,876
Travel and conferences	5,000	5,000	1,375	3,625
Repairs and maintenance	-	-	1,643	(1,643)
Capital outlay	450,000	450,000	-	450,000
Total expenditures	<u>2,797,113</u>	<u>2,797,113</u>	<u>1,307,193</u>	<u>1,489,920</u>
Net change in fund balance - revenues over (under) expenditures	4,615	4,615	(63,389)	(68,004)
Fund balance, beginning of year	<u>576,032</u>	<u>576,032</u>	<u>576,032</u>	<u>-</u>
Fund balance, end of year	<u>\$ 580,647</u>	<u>\$ 580,647</u>	<u>\$ 512,643</u>	<u>\$ (68,004)</u>

**CITY OF TRAVERSE CITY
DOWNTOWN DEVELOPMENT AUTHORITY
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**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Special Revenue Fund - TIF 97
For the Year Ended June 30, 2025**

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,165,820	\$ 4,165,820	\$ 4,214,672	\$ 48,852
Interest income	<u>4,500</u>	<u>4,500</u>	<u>15,263</u>	<u>10,763</u>
Total revenues	<u>4,170,320</u>	<u>4,170,320</u>	<u>4,229,935</u>	<u>59,615</u>
Expenditures				
Economic development				
Office supplies, repairs and utilities	270,000	270,000	25,355	244,645
Professional services	1,557,215	1,557,215	1,394,393	162,822
Contributions to district construction projects	2,834,367	2,834,367	654,578	2,179,789
Contributions to other governments - debt service	913,720	913,720	913,720	-
Debt service				
Principal	-	-	39,761	(39,761)
Interest	<u>-</u>	<u>-</u>	<u>14,239</u>	<u>(14,239)</u>
Total expenditures	<u>5,575,302</u>	<u>5,575,302</u>	<u>3,042,046</u>	<u>2,533,256</u>
Net change in fund balance - revenues over (under) expenditures	(1,404,982)	(1,404,982)	1,187,889	2,592,871
Fund balance, beginning of year	<u>6,286,325</u>	<u>6,286,325</u>	<u>6,286,325</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,881,343</u>	<u>\$ 4,881,343</u>	<u>\$ 7,474,214</u>	<u>\$ 2,592,871</u>

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

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Special Revenue Fund - Old Town TIF
For the Year Ended June 30, 2025**

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 823,427	\$ 823,427	\$ 927,663	\$ 104,236
Interest income	<u>100</u>	<u>100</u>	<u>1,882</u>	<u>1,782</u>
Total revenues	<u>823,527</u>	<u>823,527</u>	<u>929,545</u>	<u>106,018</u>
Expenditures				
Economic development				
Professional services	393,483	393,483	338,582	54,901
Contributions to district construction projects	<u>378,120</u>	<u>471,504</u>	<u>194,894</u>	<u>276,610</u>
Total expenditures	<u>771,603</u>	<u>864,987</u>	<u>533,476</u>	<u>331,511</u>
Net change in fund balance - revenues over (under) expenditures	51,924	(41,460)	396,069	437,529
Fund balance, beginning of year	<u>799,555</u>	<u>799,555</u>	<u>799,555</u>	<u>-</u>
Fund balance, end of year	<u>\$ 851,479</u>	<u>\$ 758,095</u>	<u>\$ 1,195,624</u>	<u>\$ 437,529</u>

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

Notes to Required Supplementary Information

1. BUDGETARY INFORMATION

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

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



Vredeveld Haefner LLC

CPAs and Consultants
10302 20th Avenue
Grand Rapids, MI 49534
Fax (616) 828-0307

Douglas J. Vredeveld, CPA
(616) 446-7474
Michael J. Vredeveld, CPA
(616) 648-8447

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 16, 2025

Members of the Board
City of Traverse City Downtown Development Authority
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 and each major fund of the City of Traverse City Downtown Development Authority (the Authority), a Component Unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 16, 2025.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Oradaveld Haefner LLC