

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of TC & Chtr Twp of Garfield Rec Auth	County Grand Traverse
Fiscal Year End June 30, 2007	Opinion Date September 25, 2007	Date Audit Report Submitted to State October 12, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

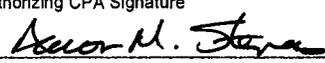
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES **NO** **Check each applicable box below.** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State Zip MI 48823
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA		License Number 1101024055

**CITY OF TRAVERSE CITY AND CHARTER
TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Traverse City, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2007**

**CITY OF TRAVERSE CITY
AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
The City of Traverse City and Charter Township
of Garfield Recreational Authority
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Traverse City and Charter Township of Garfield Recreational Authority as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the City of Traverse City and Charter Township of Garfield Recreational Authority as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison for the General Fund as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The individual fund budgetary schedules for the capital project and debt service funds listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in the relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 25, 2007

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Management's Discussion and Analysis

As management of the City of Traverse City and Charter Township of Garfield Recreational Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the Authority exceed its liabilities at the close of the fiscal year by \$698,015. Of this amount \$159,285 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The Authority's net assets increased by \$196,030.
- This is the third year of the Authority's operations. In the initial year of operations, with approval of the citizens of the City of Traverse City and Charter Township of Garfield, a millage was issued which allowed the Authority to issue bonds in the amount of \$6,650,000. Approximately seven percent or \$497,000 of bond proceeds are not yet expended as of fiscal year end June 30, 2007. These proceeds are held for additional property purchase at Hickory Meadows and infrastructure work at the Grand Traverse Common Barns.
- During the year, the Authority incurred capital outlay expenses on Grand Traverse Commons Barns and Hickory Meadows properties. These projects included engineering services at the Common Barns for the water and sewer system and barn stabilization project at Hickory Meadows, which cost approximately \$78,000.

Overview of the Financial Statements

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

Government-wide Statements

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

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

The *statement of activities* presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, amortization expense associated with other assets).

Both of the government wide financial statements distinguish the function of the Authority, which is principally supported by property taxes (*governmental activities*). The governmental activities of the Authority include the acquisition, construction, operation, maintenance, or improvement of public recreation centers, and public parks as may be acquired by the Authority or as may be transferred to it by a participating municipality.

The government-wide financial statements include only the Authority itself (known as the *primary government*). 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 and 9 of this report.

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 Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Authority is accounted for in governmental funds (General, Debt Service and Capital Project Funds).

Governmental funds. *Governmental funds* are used to account for essentially the same function reported 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 the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the *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 the *governmental funds* and *governmental activities*.

The Authority maintains three 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 fund, debt service fund and capital projects fund. All are considered major funds.

The Authority adopts an annual appropriated budget for its funds. A budgetary comparison statement or schedules have been provided herein to demonstrate compliance with that budget. The governmental fund financial statements can be found on pages 10 through 13 of this report. The Authority does not maintain proprietary or fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Authority’s financial statements. The notes to the financial statements can be found on pages 14 through 19 of this report.

Other information. In addition to the financial statements and accompanying notes, this report also presents certain *required supplementary information*. This information is limited to this management discussion and analysis.

The Authority’s Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Authority, assets exceed liabilities by approximately \$698,000 and is a 39% increase over prior year at the close of the fiscal year, June 30, 2007.

Investment in capital assets net of related debt of \$163,770 is the cost of the assets purchased and the remaining balance to be spent on capital projects, less depreciation, less the long term debt outstanding used to finance the acquisition. The debt will be repaid from voter approved property taxes collected as the debt and interest payments come due. Restricted net assets of approximately \$438,000 are shown separately to recognize legal constraints from debt covenants.

City of Traverse City and Charter Township of Garfield Recreational Authority

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
Governmental Activities		
Current and other assets	\$ 1,182,916	\$1,111,002
Capital assets	<u>6,072,245</u>	<u>6,005,992</u>
Total assets	7,255,161	7,116,994
Accrued expenses	92,146	70,009
Long-term liabilities outstanding	<u>6,465,000</u>	<u>6,545,000</u>
Total liabilities	6,557,146	6,615,009
Net assets		
Investment in capital assets, net of related debt	163,770	41,862
Restricted		
Debt service	235,132	190,463
Capital project	139,828	108,577
Unrestricted	<u>159,285</u>	<u>161,083</u>
Total net assets	<u>\$ 698,015</u>	<u>\$ 501,985</u>

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
Governmental Activities		
Revenue		
Program revenue		
Charges for services	\$ 12	\$ 8
Capital grants and contributions	-	52,965
General revenue		
Property taxes	511,471	494,317
Interest earned	<u>45,147</u>	<u>33,905</u>
Total revenue	<u>556,630</u>	<u>581,195</u>
Expenses		
Recreation and culture	104,541	66,404
Interest expense and paying agent fees	<u>256,059</u>	<u>257,637</u>
Total expenses	<u>360,600</u>	<u>324,041</u>
Increase in net assets	196,030	257,154
Net assets – beginning of year	<u>501,985</u>	<u>244,831</u>
Net assets – end of year	<u>\$ 698,015</u>	<u>\$ 501,985</u>

Governmental activities

Revenues by Source

Because the Authority receives the bulk of its revenue from property taxes of approximately \$511,000, it held a strong cash position though out the year and it was able to cover its operation cost throughout the year. Remaining revenue of approximately \$45,000 consists of investment income.

The revenue resources are constrained for the operation, maintenance and capital needs of the Authority and may not be utilized for other purposes as defined by the resource documentation.

Expenses

In 2007, total expenses approximated \$360,000. The bulk of the expenses were related to interest on bond obligations and consulting contract with Otwell Mawby for Grand Traverse Common Barns visioning process (determining what the community wants the Common Barns property to become).

Financial Analysis of the Authority'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 *General Fund* 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, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Authority. At the end of the fiscal year, the total fund balance was \$159,285, which was unreserved and undesignated. The fund balance was higher than expected because actual expenditures were less than the anticipated expenditures.

During the year, Capital Project Fund expenditures were less than expected by approximately \$504,000. This was primarily attributed to budgeted capital expenditures relating to three capital projects not complete at fiscal year end. The capital projects are the Wilson property acquisition in the amount of \$100,000, the installation of water and wastewater main installation at the Grand Traverse Common Barns in the amount of \$127,720 and the Franke Road extension in the amount of \$132,000.

General Fund Budgetary Highlights

During the year, General Fund expenditures were less than budgetary estimates by approximately \$20,000. This was primarily attributed to the consulting project, Grand Traverse Common Barns visioning process (determining what the community wants the Common Barns property to become) actual expenditures being less than the anticipated expenditures.

Capital Asset and Debt Administration

Capital assets are primarily comprised of land and Grand Traverse Common Barns renovation costs, which amount to \$6,072,245 (net of accumulated depreciation). Additional information on the Authority's capital assets can be found in Note 3 on page 17 of this report.

City of Traverse City and Charter Township of Garfield Recreational Authority Capital Assets (net of depreciation)

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Land	\$ 5,567,462	\$ 5,560,304
Buildings	487,783	445,688
Construction in progress	<u>19,000</u>	<u>-</u>
Total	<u>\$ 6,072,245</u>	<u>\$ 6,005,992</u>

Long-term debt consisted of a bond obligation for the purchase of various parcels of land; as of fiscal year end there was an outstanding balance of \$6,465,000, reduced this year by the principal payment due in the amount of \$80,000. Additional information can be found in Note 4 on page 19 of this report.

Economic Factors and Next Year's Budgets and Rates

The next year continues the strong fiscal position of the Authority. Property tax rates will remain the same as last year, .0994 for the general operating millage and .26 for the debt service millage. The remaining fund balance in the Capital Project Fund will be used the following projects at the Grand Traverse Common Barns property. The Grand Traverse Commons Barns property projects include water and wastewater main installation and Franke Road construction.

Requests for Information

This financial report is designed to provide a general overview of Authority finances for all those with an interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Richard I. Lewis, City of Traverse City and Charter Township of Garfield Recreational Authority, 400 Boardman Avenue, Traverse City, MI 49684.

FINANCIAL STATEMENTS

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Statement of Net Assets
June 30, 2007**

	Governmental Activities
Assets	
Cash	\$ 1,123,851
Accounts receivable	12
Unamortized bond costs	46,246
Unamortized bond discount	12,807
Land	5,567,462
Capital assets, net of accumulated depreciation	485,783
Construction in progress	19,000
	7,255,161
Liabilities	
Accounts payable	28,812
Accrued interest payable	63,334
Non-current liabilities	
Due within one year	100,000
Due in more than one year	6,365,000
	6,557,146
Net Assets	
Investment in capital assets, net of related debt	163,770
Restricted	
Debt service	235,132
Capital project	139,828
Unrestricted	159,285
	\$ 698,015

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

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Statement of Activities
For the Year Ended June 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Net (Expense) Revenue</u>
Culture and recreation	\$ 104,541	\$ 12	\$ (104,529)
Interest on long-term debt and paying agent fees	256,059	-	(256,059)
	<u>\$ 360,600</u>	<u>\$ 12</u>	<u>(360,588)</u>
General revenues			
Property taxes			511,471
Unrestricted investment earnings			45,147
			<u>556,618</u>
			196,030
			<u>501,985</u>
			<u>\$ 698,015</u>

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

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Balance Sheet
Governmental Funds
June 30, 2007**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Construction Bond Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 169,085	\$ 298,466	\$ 656,300	\$ 1,123,851
Accounts receivable	12	-	-	12
Total assets	<u><u>\$ 169,097</u></u>	<u><u>\$ 298,466</u></u>	<u><u>\$ 656,300</u></u>	<u><u>\$ 1,123,863</u></u>
Liabilities				
Accounts payable	\$ 9,812	\$ -	\$ 19,000	\$ 28,812
Fund balance				
Reserved for				
Debt service	-	298,466	-	298,466
Capital projects	-	-	637,300	637,300
Unreserved and undesignated	159,285	-	-	159,285
Total fund balances	<u>159,285</u>	<u>298,466</u>	<u>637,300</u>	<u>1,095,051</u>
Total liabilities and fund balances	<u><u>\$ 169,097</u></u>	<u><u>\$ 298,466</u></u>	<u><u>\$ 656,300</u></u>	<u><u>\$ 1,123,863</u></u>

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

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to
Net Assets of Governmental Activities on the Statement of Net Assets
June 30, 2007**

Fund balances - total governmental funds \$ 1,095,051

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

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

Add: land	5,567,462
Add: buildings	503,177
Add: construction in progress	19,000
Deduct: accumulated depreciation	(17,394)
Add: unamortized assets	67,813
Deduct: accumulated amortization	(8,760)

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

Deduct: bonds payable	(6,465,000)
Deduct: accrued interest on non-current liabilities	<u>(63,334)</u>

Net assets of governmental activities \$ 698,015

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

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Construction Bond Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 139,002	\$ 372,469	\$ -	\$ 511,471
Reimbursements	12	-	-	12
Interest	5,637	8,259	31,251	45,147
Total revenues	<u>144,651</u>	<u>380,728</u>	<u>31,251</u>	<u>556,630</u>
Expenditures				
Current				
Office supplies	177	-	-	177
Professional services	81,589	-	1,954	83,543
Printing	1,580	-	-	1,580
Utilities	2,263	-	-	2,263
Insurance and bonds	2,867	-	-	2,867
Capital outlay	57,973	-	19,000	76,973
Debt service				
Principal	-	80,000	-	80,000
Interest and fiscal charges	-	256,651	-	256,651
Total expenditures	<u>146,449</u>	<u>336,651</u>	<u>20,954</u>	<u>504,054</u>
Net change in fund balances	(1,798)	44,077	10,297	52,576
Fund balances, beginning of year	161,083	254,389	627,003	1,042,475
Fund balances, end of year	<u>\$ 159,285</u>	<u>\$ 298,466</u>	<u>\$ 637,300</u>	<u>\$ 1,095,051</u>

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

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007**

Net change in fund balances	\$ 52,576
<p>Amounts reported for governmental activities in the statement of activities are different because</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives.</p>	
Add: capital outlay	78,005
Deduct: depreciation expense	(11,752)
<p>Governmental funds report bond related costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as amortization expense.</p>	
Deduct: bond issuance costs amortization	(2,654)
Deduct: bond discount amortization	(737)
<p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are normally paid with expendable and available resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are recorded regardless when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis until due, rather than as it accrues.</p>	
Add: decrease in accrued interest on bonds	592
Add: principal payments	80,000
Change in net assets of governmental funds	\$ 196,030

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

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Traverse City and Charter Township of Garfield Recreational Authority (the "Authority") is incorporated for the purpose of the acquisition, construction, operation, maintenance, or improvement of public recreation centers, public parks, and public conference centers as may be acquired by the Authority or as may be transferred to it by a participating municipality. The Authority may donate, sell, lease or transfer any such facilities so acquired, only after the participating municipalities have given authorization.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or 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. There were no grants and contributions in the current fiscal year.

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.

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 collectible 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 expenditures are recorded only when payment is due. Property taxes and

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 *Debt Service Fund* is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

The *Capital Project Fund* is used to account for bond proceeds to be used for the acquisition or construction of major capital facilities or equipment.

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported on the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 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 recorded at estimated fair value at the date of donation. 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40

Long-term obligations – In the government-wide financial statements long-term debt is reported as liabilities in the governmental activities statement of net assets. Bond discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

straight-line method. Bond discounts and issuance costs are reported as other assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, net of discount, is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

Budgetary Information – The General Fund, Debt Service Fund and Construction Bond Fund are under formal budgetary control and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Authority follows the process below in establishing the budgetary data reflected in the financial statements:

- The management team prepares and submits a proposed budget to the Authority's Board of Directors for review and consideration. The Authority submits the proposed budget to the participating municipalities for review and comment at their respective public meetings. Public hearings are held to obtain taxpayer comments by the Authority. The process is completed and the budget is legally adopted through the Board of Directors resolution prior to the beginning of the budgetary year for the Authority's funds.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the Board of Directors during the year.

2. CASH

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

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
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Notes to Financial Statements

The Authority's cash is comprised of bank deposits held with a financial institution with a bank balance of \$1,123,917 at June 30, 2007.

Deposits

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 \$1,123,917. Of that amount, \$100,000 was covered by federal depository insurance and the remainder of \$1,023,917 was uninsured and uncollateralized.

Interest rate risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated –				
Construction in progress	\$ -	\$ 19,000	\$ -	\$ 19,000
Land	<u>5,560,304</u>	<u>7,158</u>	<u>-</u>	<u>5,567,462</u>
Total capital assets not being depreciated	<u>5,560,304</u>	<u>26,158</u>	<u>-</u>	<u>5,586,462</u>

**CITY OF TRAVERSE CITY AND
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RECREATIONAL AUTHORITY**

Notes to Financial Statements

Capital assets being depreciated

Buildings	\$	451,330	\$	59,005	\$	7,158	\$	503,177
Less accumulated depreciation for Buildings		5,642		11,752		-		17,394
Total capital assets being depreciated, net		445,688		47,253		7,158		485,783

**Governmental activities
capital assets, net**

	\$	<u>6,005,992</u>	\$	<u>73,411</u>	\$	<u>7,158</u>	\$	<u>6,072,245</u>
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Depreciation expense in the amount of \$11,752 was charged to the culture and recreation function.

4. NON-CURRENT LIABILITIES

The following is a summary of changes in non-current liabilities of the Authority for the year ended June 30, 2007:

	<u>Balance</u> <u>07/01/06</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/07</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
2004 general obligation recreation bond, interest rates ranging from 2.50% - 4.45%, matures 2025.	<u>\$ 6,545,000</u>	<u>\$ (80,000)</u>	<u>\$ 6,465,000</u>	<u>\$ 100,000</u>

The annual requirements to pay the debt principal and interest outstanding are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 100,000	\$ 254,030
2009	120,000	251,005
2010	150,000	247,105
2011	160,000	242,255
2012	185,000	236,649
2013-17	1,365,000	1,056,894
2018-22	2,340,000	706,561
2023-25	2,045,000	141,091
	<u>\$ 6,465,000</u>	<u>\$ 3,135,590</u>

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

5. PROPERTY TAXES

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City and Garfield Township as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 15; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County. Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property of the Authority for the 2006 levy were assessed and equalized at \$1,471,827,520, representing 50 percent of estimated current market value. The Authority's debt and general operating tax rate for fiscal year 2006-07 was 0.26 and .0994 mills, respectively.

6. RELATED PARTY TRANSACTIONS

The City of Traverse City (the "City"), a related party (by virtue of common board members and management), provides management services on behalf of the Authority. These services include maintaining financial records and reporting. In return for these services, the City received fees from the Authority in the amount of \$16,550 during the year ended June 30, 2007.

7. RISK MANAGEMENT

The Authority participates in a pool, the Michigan Township Participating Plan, with other municipalities for property, liability, wrongful acts, auto, bond, and crime. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Authority has not been informed of any special assessments being required.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
General Fund**

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenues				
Property taxes	\$ 146,450	\$ 146,450	\$ 139,002	\$ (7,448)
Interest	500	500	5,637	5,137
Reimbursements	-	-	12	12
Total revenues	<u>146,950</u>	<u>146,950</u>	<u>144,651</u>	<u>(2,299)</u>
Expenditures				
Office supplies	750	750	177	(573)
Professional services	54,550	95,000	81,589	(13,411)
Printing	750	750	1,580	830
Utilities	10,000	2,500	2,263	(237)
Insurance and bonds	4,000	4,000	2,867	(1,133)
Capital outlay	50,000	64,000	57,973	(6,027)
Total expenditures	<u>120,050</u>	<u>167,000</u>	<u>146,449</u>	<u>(20,551)</u>
Net change in fund balance	26,900	(20,050)	(1,798)	18,252
Fund balance, beginning of year	<u>161,083</u>	<u>161,083</u>	<u>161,083</u>	<u>-</u>
Fund balance, end of year	<u>\$ 187,983</u>	<u>\$ 141,033</u>	<u>\$ 159,285</u>	<u>\$ 18,252</u>

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

OTHER SUPPLEMENTARY INFORMATION

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Debt Service Fund**

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 382,650	\$ 382,650	\$ 372,469	\$ (10,181)
Interest	3,500	3,500	8,259	4,759
Total revenues	386,150	386,150	380,728	(5,422)
Expenditures				
Debt service				
Principal	80,000	80,000	80,000	-
Interest and fiscal charges	255,400	255,400	256,651	1,251
Total expenditures	335,400	335,400	336,651	1,251
Net change in fund balance	50,750	50,750	44,077	(6,673)
Fund balance, beginning of year	254,389	254,389	254,389	-
Fund balance, end of year	\$ 305,139	\$ 305,139	\$ 298,466	\$ (6,673)

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Capital Project Fund**

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenues				
Interest	\$ 10,000	\$ 10,000	\$ 31,251	\$ 21,251
Expenditures				
Professional services	25,000	25,000	1,954	(23,046)
Capital outlay	500,000	500,000	19,000	(481,000)
Total expenditures	525,000	525,000	20,954	(504,046)
Net change in fund balance	(515,000)	(515,000)	10,297	525,297
Fund balance, beginning of year	627,003	627,003	627,003	-
Fund balance, end of year	\$ 112,003	\$ 112,003	\$ 637,300	\$ 525,297

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

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MANAGEMENT LETTER

To the Board of Directors
The City of Traverse City and Charter Township of Garfield Recreational Authority
Traverse City, Michigan

As you know, we have recently completed our audit of the records of the City of Traverse City and Charter Township of Garfield Recreational Authority as of and for the year ended June 30, 2007. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is a result of our evaluation of the internal control structure and our discussions with management.

1. The Authority should adopt written financial management policies.

Based on our discussions with management, we noted that the Authority has not formally adopted any written policies. It is the Authority's practice to generally follow the policies of the City of Traverse City when needed, but the adoption of those policies has not been formally implemented by the Board.

Financial administration policies should be designed to establish internal controls over the financial processes of the Authority. These policies are also necessary to meet the requirements of the Michigan Department of Treasury's Uniform Accounting Procedures Manual.

The Authority should develop, adopt, and implement policies that will provide for an adequate accounting and internal control system. Specifically, we suggest that the Authority develop, formally adopt, and implement written policies, especially in the following areas:

- Purchasing
- Code of Conduct and Conflict of Interest
- Capital assets
- Investments
- Anti-fraud, Anti-theft, and Anti-corruption
- Fraud disclosure/whistleblower rights
- Credit cards (if any)
- ACH transactions (if any)

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated September 25, 2007.

This report is intended solely for the information and use of the Board of Directors and management of the City of Traverse City and Charter Township of Garfield Recreational Authority, and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 25, 2007

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Board of Directors
The City of Traverse City and Charter Township of Garfield Recreational Authority
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Traverse City and Charter Township of Garfield Recreational Authority, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that might be significant material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance:

INVESTMENT POLICY REQUIRED BY MICHIGAN COMPILED LAW

Based on our discussions with management, we noted that the Authority has not formally adopted an investment policy as required by Michigan Compiled Law (MCL 129.95).

We recommend the Board adopt a formal investment policy that complies with Public Act 20 of 1943. Such formal adoption should be documented in the minutes to the Board meeting. The policy should address the issues of authorized investments, custodial credit risk, concentration of credit risk, and interest rate risk.

We noted certain matters that we reported to management of the City of Traverse City and Charter Township of Garfield Recreational Authority in a separate letter dated September 25, 2007.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 25, 2007