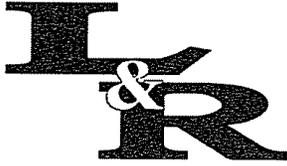


DOWNTOWN DEVELOPMENT AUTHORITY
OF THE CITY OF LAPEER, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
AND
INDEPENDENT AUDITORS' REPORT

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Members of the Downtown Development
Authority of the City of Lapeer, Michigan
Lapeer, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Downtown Development Authority of the City of Lapeer, Michigan** as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Downtown Development Authority of the City of Lapeer, Michigan as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

A handwritten signature in cursive script that reads "Layton & Richardson, P.C.".

Certified Public Accountants

December 21, 2018
East Lansing, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Downtown Development Authority of the City of Lapeer's financial performance provides an overview of the Downtown Development Authority's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the Downtown Development Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Downtown Development Authority provided contributions to the Center for the Arts in the amount of \$130,587 for Programming and Promotion service agreements.
- Provided funding for the DIG Clay Street and Downtown lot project in the amount of \$9,730.
- Provided funding for the debt service on the Lapeer County Abstract Building in the amount of \$14,319.
- Provided a contribution to the Parking Fund in the amount of \$6,811.
- Provided funding for Downtown Maintenance in the amount of \$7,500.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Downtown Development Authority as a whole and present a longer-term view of the Downtown Development Authority's finances. Fund financial statements provide more detailed information about the Downtown Development Authority's funds - not the Downtown Development Authority as a whole. These statements tell how these services were financed in the short term as well as what remains for future spending.

Reporting the Downtown Development Authority as a Whole

One of the most important questions asked about the Downtown Development Authority's finances is, "Is the Downtown Development Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Downtown Development Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Downtown Development Authority's *net assets* and changes in them. You can think of the Downtown Development Authority's net assets - the difference between assets and liabilities - as one way to measure the Downtown Development Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Downtown Development Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Downtown Development Authority's captured property tax base to assess the *overall health* of the Downtown Development Authority.

In the Statement of Net Position and the Statement of Activities, the Downtown Development Authority is shown as a governmental activity while within the City of Lapeer's audit they are shown as a component unit:

- Governmental activities - The Downtown Development Authority's services are reported here. Property taxes finance most of these activities.

Reporting the Downtown Development Authority's Most Significant Funds

The fund financial statements provide detailed information about the Downtown Development Authority's funds. The Downtown Development Authority's funds utilize the *governmental* accounting approach.

- *Governmental funds* - Most of the Downtown Development Authority's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Downtown Development Authority's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Downtown Development Authority's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in reconciliation at the bottom of the fund financial statements.

THE DOWNTOWN DEVELOPMENT AUTHORITY AS A WHOLE

Table 1 was summarized from the Downtown Development Authority Statement of Net Position and provides a comparison of the current and prior years. The net assets of the Downtown Development Authority increased from \$765,800 to \$775,784, an increase of \$9,984 or 1.3%. In the prior year, the net assets decreased from \$788,904 to \$765,800, a decrease of \$23,104 or 2.9%.

Table 1
Net Assets
(In Thousands)

	<u>Governmental Activities</u> 2018	<u>Governmental Activities</u> 2017
Current and other assets	\$ 87.5	\$ 96.7
Capital assets	<u>688.3</u>	<u>669.1</u>
Total assets	<u>775.8</u>	<u>765.8</u>
Long-term debt		
Outstanding	0.0	0.0
Other liabilities	<u>0.0</u>	<u>0.0</u>
Total liabilities	<u>0.0</u>	<u>0.0</u>
Net assets:		
Invested in capital assets,		
Net of debt	688.3	669.1
Restricted	0.0	0.0
Assigned (deficit)	<u>87.5</u>	<u>96.7</u>
Total net assets	<u>\$775.8</u>	<u>\$765.8</u>

Governmental Activities

As stated previously, the net assets of the Downtown Development Authority's governmental activities increased by \$9,984 or 1.3%. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - is recorded as Assigned Fund Balance of \$87,461.

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide program revenues, other revenues, and expenses of the Downtown Development Authority and provides a comparison of the current and prior years.

Table 2
Changes in Net Assets
(In Thousands)

	Governmental <u>Activities</u> 2018	Governmental <u>Activities</u> 2017
Revenues:		
Program revenues		
Charges for Services	\$0.0	\$0.0
Operating grants and Contributions	0.0	0.0
General revenues:		
Property taxes	89.9	86.3
Other	<u>158.0</u>	<u>120.1</u>
Total Revenues	<u>247.9</u>	<u>206.4</u>
Expenses:		
General government	\$237.9	\$229.5
Interest on long-term Debt	<u>0.0</u>	<u>0.0</u>
Total Expenses	<u>237.9</u>	<u>229.5</u>
Increase (decrease) in net assets Before transfers	10.0	(23.1)
Transfers	<u>0.0</u>	<u>0.0</u>
Increase (decrease) in net assets	10.0	(23.1)
Net assets, July 1	<u>765.8</u>	<u>788.9</u>
Net assets, June 30	<u>\$775.8</u>	<u>\$765.8</u>

Total revenue from all sources totaled \$247,893 of which 36.3% or \$89,876 is from property taxes. Other revenues consisted of unrestricted investment earnings of \$197, special events and promotions of \$18,565, contribution from the City of Lapeer of \$108,843 and other revenue of \$30,412. The Downtown Development Authority captured the City of Lapeer millage of 9.8000, the County operating millage of 3.7421 and the Lapeer EMS millage of 0.9935 for this fiscal year.

The governmental activities of the Downtown Development Authority had an expense of \$237,909 including depreciation expense of \$29,547 for the past fiscal year. Due to utilizing full accrual on the government-wide statements, the expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Position and are depreciated over the useful life of the asset. Only the current year depreciation would be included as an expense. Additionally, the Downtown Development Authority had transfers to the General Fund in the amount of \$8,935 for payment of the city administration fee, transfers to the Major Street Fund of \$2,919 and to the Parking Fund of \$6,811 for the Clay Street and Downtown Lot DIG project, a transfer to the 2005 Equipment Financing Fund of \$14,319 to pay the debt service on the LCA Building, a transfer to the Park Fund in the amount of \$7,500 to fund Downtown Maintenance, and a transfer to the Parking Fund in the amount of \$6,132 to provide an operational subsidy to the Parking Fund.

The \$237,909 for governmental activities; including the transfers of \$46,616 to the General Fund, Major Street Fund, Park Fund, 2005 Equipment Financing Fund, and the Parking Fund of the City of Lapeer, was partially funded from \$89,473 in property taxes. The balance of this cost was funded from other revenues.

THE DOWNTOWN DEVELOPMENT AUTHORITY'S FUNDS

The Downtown Development Authority District #1 received a total of \$89,473 in captured property taxes. The Downtown Development Authority District #1 expended funds on various projects this year which included the reimbursement to the City of Lapeer for debt service on the Clay Street and Downtown Lot DIG Project in the amount of \$9,730. It also expended funds for transfers to the 2005 Equipment Financing Fund of \$14,319 to pay the debt service on the LCA Building, the Park Fund in the amount of \$7,500 to provide funding for Downtown Maintenance, the Parking Fund in the amount of \$6,132 to provide an operational subsidy to the Parking Fund, the Center For the Arts' Programming Services Agreement in the amount of \$130,587. Other expenses of the district included DDA Director services of \$47,021, legal fees of \$1,172, Main Street program of \$3,316, property maintenance and utilities of \$4,018, property insurance of \$3,062, CBD beautification of \$1,250, special events and promotions of \$15,447 and other miscellaneous items in the amount of \$4,610. Additionally, the district paid an administration fee to the City of Lapeer in the amount of \$8,935 for accounting services and project management. The assigned fund balance decreased from \$96,667 to \$87,461, a decrease of \$9,206 or 9.52%.

Downtown Development Authority Budgetary Highlights

The Downtown Development Authority Budget total did not change during the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Downtown Development Authority's investment in capital assets for its governmental activities as of June 30, 2018 amounts to \$688,323 (net of accumulated depreciation). This is an increase of \$19,190 from the prior year amount of \$669,133. This investment in capital assets is for land, buildings, and equipment.

Debt

The Downtown Development Authority does not have any outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Inflationary trends in the region compare favorably to national indices.
- Projected captured taxable value as determined by the City Assessor.

The Downtown Development Authority reviews its current budget to determine available fund balances to be appropriated for next year's budget. This along with the projected captured taxable value from the city assessor provides the basis of establishing the annual budget. Funds are appropriated based upon project recommendations made by the City of Lapeer staff to the Downtown Development Authority Board. Funds not appropriated for specific projects are budgeted as "Unappropriated". These funds can then be utilized to fund any project that may develop during the fiscal year or to provide additional funding to a project if actual costs were to exceed the budget.

Requests for Information

This financial report is designed to provide a general overview of the Downtown Development 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 City of Lapeer, Director of Financial Services, 576 Liberty Park, Lapeer, MI 48446.

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**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2018

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET POSITION
ASSETS			
Cash - checking	\$ 13,748	\$	\$ 13,748
Cash - savings	72,419		72,419
Due from other funds	1,294		1,294
Capital assets not being depreciated		154,000	154,000
Capital assets (net of accumulated depreciation)	<u> </u>	<u>534,323</u>	<u>534,323</u>
TOTAL ASSETS	<u>\$ 87,461</u>	<u>\$ 688,323</u>	<u>\$ 775,784</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>
 FUND BALANCE/NET POSITION			
Net investment in capital assets		688,323	688,323
Assigned/Unrestricted	<u>87,461</u>	<u> </u>	<u>87,461</u>
TOTAL FUND BALANCE/NET POSITION	<u>87,461</u>	<u>688,323</u>	<u>775,784</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 87,461</u>	 <u>\$ 688,323</u>	 <u>\$ 775,784</u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balances - governmental funds	\$	87,461
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 as assets in governmental funds. The cost of the assets is \$972,592 and the accumulated depreciation is \$284,269		688,323
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	775,784

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
EXPENDITURES			
General government	\$ 257,099	\$ (48,737)	\$ 208,362
Depreciation		29,547	29,547
	<u>257,099</u>	<u>(19,190)</u>	<u>237,909</u>
REVENUES			
Program Revenues			
Operating grants and contributions			
Net program expense	<u>(257,099)</u>	<u>19,190</u>	<u>(237,909)</u>
General Revenues			
Property taxes	89,876		89,876
Interest income	197		197
Special events/promotions	18,565		18,565
Miscellaneous	30,412		30,412
Contribution from primary government	<u>108,843</u>		<u>108,843</u>
	<u>247,893</u>		<u>247,893</u>
CHANGE IN NET POSITION	(9,206)	19,190	9,984
FUND BALANCE/ NET POSITION, JULY 1	<u>96,667</u>	<u>669,133</u>	<u>765,800</u>
FUND BALANCE/ NET POSITION, JUNE 30	<u>\$ 87,461</u>	<u>\$ 688,323</u>	<u>\$ 775,784</u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

Net changes in fund balances - total governmental funds	\$ (9,206)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.	
Less: current year depreciation	(29,547)
Purchases of fixed assets	<u>48,737</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 9,984</u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1: REPORTING ENTITY

In accordance with the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Downtown Development Authority is considered a component unit of the City of Lapeer, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, and the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the Downtown Development Authority of the City of Lapeer are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Lapeer, Michigan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Downtown Development Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government of the Downtown Development Authority of the City of Lapeer. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally 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 statement of activities demonstrates the degree to which the direct expenses of a 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.

Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are 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 year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered 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 period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

Measurement Focus, Basis of Accounting and Financial Statements - Concluded

Property taxes, franchise fees, licenses 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 Downtown Development Authority.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Downtown Development Authority as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in the government-wide statements. Accumulated depreciation is reported on the government-wide statement. The straight-line depreciation method is applied over the estimated useful lives of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	20-40 years

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Concluded

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the City Treasurer is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

FDIC regulations provide that deposits of governmental units are to be separately insured for the amount of \$250,000 in an insured bank for savings deposits and \$250,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$250,000. For the purpose of these rules, the term “savings deposits” includes NOW accounts, money market deposit accounts, and other interest-bearing checking accounts.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. As of June 30, 2018, the carrying amount of the Authority’s deposits was \$86,167 and the bank balance was \$89,882 of which \$13,748 was covered by federal depository insurance. The remaining balance of \$76,134 was uninsured and uncollateralized.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2018

NOTE 3: **CASH, CASH EQUIVALENTS AND INVESTMENTS** - Concluded

Deposits - Concluded

Due to significantly higher cash flow at certain periods during the year, the amount the Authority held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2018, the Authority did not have any investment that would be subject to rating.

Interest Rate Risk

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 designing its portfolio in a manner to attain a market rate of return throughout the budgetary and economic cycles while preserving and protecting capital.

Concentration of Credit Risk

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 to prevent over concentration of assets in a specific maturity, individual financial institution, or specific class of securities.

Custodial Credit Risk

The Authority will minimize custodial credit risk, which is the risk of loss due to failure of the security issuer or backer by:

- Limiting investments to the types of securities listed in the Authority's investment policy.
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Authority will do business in accordance with the Authority's investment policy.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018

NOTE 4: CAPITAL ASSETS

A summary of changes in the Authority's capital assets is as follows:

	JULY 1	ADDITIONS	DELETIONS	JUNE 30
Capital assets not being depreciated				
Land	\$ <u>154,000</u>	\$ _____	\$ _____	\$ <u>154,000</u>
Capital assets being depreciated				
Buildings	769,854			769,854
Machinery and equipment		48,737		48,737
Less: Accumulated depreciation				
Buildings	<u>254,721</u>	<u>29,547</u>	_____	<u>284,268</u>
Total capital assets being depreciated, net	<u>515,133</u>	<u>19,190</u>	_____	<u>534,323</u>
Net capital assets	<u>\$ 669,133</u>	<u>\$ 19,190</u>	<u>\$ _____</u>	<u>\$ 688,323</u>

NOTE 5: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that cities and other local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the Authority.

No expenditures were made in excess of the budget.

NOTE 6: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

In February, 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved have been replaced with five new classifications: non-spendable, restricted, committed, assigned and unassigned.

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2018

NOTE 6: **DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - Concluded**

Non-spendable – assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted – amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed – amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.)

Assigned – amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee, or a delegated municipality official.

Unassigned – all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classifications and Procedures

For committed fund balance, the Authority's highest level of decision-making authority is the Board. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution.

For assigned fund balance, the Authority Trustees are authorized to assign amounts to a specific purpose.

The Authority has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first, therefore restricted resources will be used first, then unrestricted resources if they are needed.

The Authority has not formally adopted a policy that determines whether committed, assigned, or unassigned amounts are considered to be spent when an expenditure is incurred for purposes which amounts from any of those fund balance classifications could be used.

REQUIRED SUPPLEMENTARY INFORMATION

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Property taxes	\$ 81,797	\$ 81,797	\$ 89,473	\$ 7,676
Penalty and interest			403	403
Interest income	240	240	197	(43)
Donations				
Special events/promotions	14,000	14,000	18,565	4,565
Miscellaneous	35,000	11,000	30,412	19,412
Contributions from primary government	108,000	108,000	108,843	843
TOTAL REVENUES	239,037	215,037	247,893	32,856
EXPENDITURES				
Insurance	2,500	3,100	3,062	38
Attorney	1,000	1,200	1,172	28
Main Street program	10,000	3,400	3,316	84
CIP funded project	10,000	10,000	1,598	8,402
Design committee	1,200			
Beautification	1,000	1,250	1,250	
Special events/promotions	13,110	17,010	15,447	1,563
Property maintenance and utilities	4,000	4,249	4,018	231
Programming and promotion services agreement	117,500	131,000	130,587	413
Contractual services	45,000	47,100	47,021	79
Miscellaneous	3,248	3,748	3,012	736
Contribution to primary government	46,618	46,619	46,616	3
TOTAL EXPENDITURES	255,176	268,676	257,099	11,577
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,139)	(53,639)	(9,206)	44,433
FUND BALANCE, JULY 1	96,667	96,667	96,667	
FUND BALANCE, JUNE 30	\$ 80,528	\$ 43,028	\$ 87,461	\$ 44,433