

**STURGIS DOWNTOWN
DEVELOPMENT AUTHORITY
STURGIS, MICHIGAN**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2018

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1–2
Management's Discussion and Analysis	3–6
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	10
Statement of Revenue, Expenditures, and Changes in Fund Balance	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to Financial Statements	13–23
Required Supplemental Information	
Budgetary Comparison Schedule:	
General Fund	24

INDEPENDENT AUDITOR'S REPORT

Authority Board
Sturgis Downtown Development Authority
Sturgis, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sturgis Downtown Development Authority, Michigan, (a component unit of Sturgis City) as of and for the year ended September 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.

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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



January 25, 2019

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

The Authority's overall financial position decreased by \$8,638 during the fiscal year ended September 30, 2018, which represents 6.3 percent of the net position at the beginning of the year. This decrease includes the sale of a piece of real estate in the amount of \$35,000 during the fiscal year ended September 30, 2018.

The Authority's Governmental Funds reflected a total fund balance at September 30, 2018 of \$111,636, which was an increase of \$48,844 from the prior year end.

The total Governmental Fund expenditures for the year ended September 30, 2018, amounted to \$44,776, of which \$37,989 were funded from tax increment financing.

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 Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements by providing information about the Authority's most significant funds.

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Authority as a Whole

The following table shows, in a condensed format, the net position as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

	Governmental Funds	
	2018	2017
Assets	\$ 150,191	\$ 94,286
Liabilities	<u>38,555</u>	<u>31,494</u>
Fund Balance	<u>\$ 111,636</u>	<u>\$ 62,792</u>

The following table shows, in a condensed format, the net position of the current date as required by GASB 34 stated under the full accrual basis.

	Governmental Activities	
	2018	2017
Current and other assets	\$ 150,191	\$ 94,286
Capital assets	<u>122,972</u>	<u>192,018</u>
Total assets	273,163	286,304
Current and other liabilities	50,596	31,494
Long-term liabilities	<u>93,261</u>	<u>116,866</u>
Total liabilities	143,857	148,360
Net position		
Invested in capital assets, net of related debt	17,670	75,152
Unrestricted	<u>111,636</u>	<u>62,792</u>
Total net position	<u>\$ 129,306</u>	<u>\$ 137,944</u>

**STURGIS DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following table shows the changes of the net position during the current year as compared to the prior year, under the modified accrual basis of accounting:

	Governmental Funds	
	2018	2017
Revenue		
Tax increment financing	\$ 37,989	\$ 38,363
State sources	4,157	4,688
Dumpster fees	16,223	17,786
Housing rents	-	1,875
Contributions	-	-
Interest	251	12
Other	<u>35,000</u>	<u>555</u>
Total revenue	93,620	63,279
Program expenditures		
Economic development	29,416	34,239
Debt service	<u>15,360</u>	<u>15,296</u>
Total expenditures	<u>44,776</u>	<u>49,535</u>
Excess (deficiency)	<u>\$ 48,844</u>	<u>\$ 13,744</u>

The following table shows, in a condensed format, the changes in net position as of the current date as required by GASB 34 stated under the full accrual basis of accounting.

	Governmental Activities	
	2018	2017
Revenues		
Program revenues		
Charges for services	\$ 16,223	\$ 19,661
Operating grants and contributions	-	-
General revenues		
Captured property taxes	37,989	38,363
State unrestricted sources	4,157	4,688
Unrestricted investment earnings	251	12
Other	35,000	555
Asset impairment	<u>-</u>	<u>(26,000)</u>
Total revenues	93,620	37,279
Expenses		
Economic development	<u>102,258</u>	<u>77,470</u>
Change in net position	<u>\$ (8,638)</u>	<u>\$ (40,191)</u>

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Authority's Funds

Our analysis of the Authority's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detailed information about the significant funds, not the Authority as a whole. Major funds for the fiscal year ended September 30, 2018 include the General Fund. The General Fund pays for all of the Authority's economic development services and is funded primarily by captured property taxes.

General Fund Budgetary Highlights

As shown in the required supplemental information, the Authority budgeted a decrease of \$12,205 in the original budget and a decrease of \$12,205 in the amended budget. Actual operating results ended up as an increase of \$48,844.

Capital Assets and Debt Administration

During the year ended September 30, 2018, the Authority sold real estate in the amount of \$35,000. The Authority reflected an asset disposition in the notes to the financial statements regarding this sale. The capital assets schedule is presented in Note 4 on page 21.

During the year ended September 30, 2018, the Authority paid scheduled debt service payments of principal and interest totaling \$15,296. The outstanding bank debt balance was \$105,302. The debt service schedule is presented in Note 5 on page 22.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION SEPTEMBER 30, 2018

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash investments	\$ 145,823
Accounts receivable	1,829
Prepaid assets	2,539
Capital assets - net	<u>122,972</u>
 Total assets	 273,163
 LIABILITIES	
Accounts payable	5,970
Debt obligation:	
Due within one year	12,041
Due in more than one year	<u>93,261</u>
 Total liabilities	 <u>111,272</u>
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	<u>32,585</u>
 NET POSITION	
Invested in capital assets, net of related debt	17,670
Unrestricted	<u>111,636</u>
 Total net position	 <u>\$ 129,306</u>

See accompanying notes to financial statements

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES YEAR ENDED SEPTEMBER 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Primary government				
Governmental activities:				
Economic development	\$ <u>102,258</u>	\$ <u>16,223</u>	\$ <u>-</u>	\$ (86,035)
	General revenues:			
	Captured property taxes			37,989
	State unrestricted sources			4,157
	Unrestricted investment earnings			251
	Other			<u>35,000</u>
	Total general revenues			<u>77,397</u>
	CHANGE IN NET POSITION			(8,638)
	NET POSITION - BEGINNING			<u>137,944</u>
	NET POSITION - ENDING			<u>\$ 129,306</u>

See accompanying notes to the financial statements

FUND FINANCIAL STATEMENTS

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

**GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2018**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 145,823
Accounts receivable	1,829
Due from governmental units	-
Prepaid items	<u>2,539</u>
Total assets	<u><u>\$ 150,191</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 5,970
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	32,585
 FUND BALANCE	
Nonspendable - Prepaid items	2,539
Unassigned	<u>109,097</u>
Total fund balance	<u><u>111,636</u></u>
 Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$ 150,191</u></u>

See accompanying notes to the financial statements

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2018

Total governmental fund balances		\$	111,636
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.			
Governmental capital assets	\$	586,362	
Less accumulated depreciation		<u>(463,390)</u>	122,972
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Note payable			<u>(105,302)</u>
Net position of governmental activities		\$	<u>129,306</u>

See accompanying notes to the financial statements

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED SEPTEMBER 30, 2018**

	<u>General Fund</u>
REVENUES	
Tax increment financing	\$ 37,989
State sources	4,157
Dumpster fees	16,223
Interest	251
Other	<u>35,000</u>
Total revenues	93,620
EXPENDITURES	
Economic development	
Wages and benefits	5,709
Professional services	775
Advertising and promotions	1,791
Communications	783
Insurance	4,472
Rentals	1,800
Miscellaneous	1,356
Dumpster service	12,730
Property taxes	-
Debt service - principal	11,564
Debt service - interest	<u>3,796</u>
Total expenditures	<u>44,776</u>
NET CHANGE IN FUND BALANCE	48,844
FUND BALANCE - BEGINNING	<u>62,792</u>
FUND BALANCE - ENDING	<u><u>\$ 111,636</u></u>

See accompanying notes to the financial statements

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

GOVERNMENTAL FUNDS

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

Net change in fund balances - total governmental funds	\$ 48,844
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets	-
Net effect of capital asset disposition	(35,000)
Depreciation expense	(34,046)
Loan proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets.	
Principal payments on debt obligations	<u>11,564</u>
Change in net position of governmental activities	<u>\$ (8,638)</u>

See accompanying notes to the financial statements

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Sturgis Downtown Development Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting policies establishing GAAP and used by the Authority are discussed below.

Reporting Entity

The Sturgis Downtown Development Authority was established in accordance with Michigan Act 198, 1975. The Authority operates a Board-Chairperson form of government and its basic purpose is correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance.

The accompanying financial statements pertain to the financial activities of the Sturgis Downtown Development Authority. These activities have also been presented with the financial statements of the City of Sturgis, Michigan, as a component unit.

Basis of Accounting - Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the Authority as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Authority and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Authority.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the Authority or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The Authority reports the following major funds:

General Fund - The general fund is the general operating fund of the Authority. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from captured property taxes from other governmental units.

The following is a description of the major category and fund type within that category:

Governmental Fund - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Authority considers captured property taxes, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the governmental fund types of the Authority:

General Fund - The general fund is the general operating fund of the Authority. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from captured property taxes from other governmental units.

Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general fund. The Authority adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- * On or about May 1, the Authority Board submits to the City of Sturgis Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted to obtain taxpayer comments.
- * On or about June 20, the budget is legally enacted through passage of resolution.
- * The Authority Board is authorized to transfer budgeted amounts within departments.
- * The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- * Appropriations for the general fund lapse at the end of the fiscal year.
- * Budgeted amounts are as originally adopted or as amended by the Authority Board.

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government of federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories and Prepaid Items - All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed/sold rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes levied on July 1 are recorded as receivables and unavailable revenue. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date.

Capital Assets and Depreciation - Capital assets, which include property, buildings and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Land improvements	15
Buildings and improvements	20

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

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 while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenues represent property taxes levied (captured) and collected for next years operation.

Net Position and Fund Equity - The difference between fund assets and liabilities is "Net Position" on the government-wide, proprietary, and fiduciary fund statements and "Fund Balance" on governmental fund statements. Net Position are classified as "Invested in Capital Assets, Net of Related Debt," legally "Restricted" for specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are a) not in a spendable form or b) legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purpose because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed - Amounts that can be used only for specific purpose determined by a formal action by DDA Board resolution. These amounts can not be used for any other purpose unless the DDA Board removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed.

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Position and Fund Equity - (continued)

Assigned - Amounts that are designated by the DDA Manager for a particular purpose but are not spendable until a budget ordinance is passed by the DDA Board.

Unassigned - Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Use of Estimates - The preparation of financial statements in conformity with 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.

NOTE 2 - CASH AND INVESTMENTS

The Authority uses financial institutions for cash and cash equivalent purposes, which are in accordance with statutory authority.

The accounts maintained in the financial institutions are money market checking and savings.

At September 30, 2018, the carrying amount of the Authority's deposits was \$145,823 and the bank balance was \$145,823. The differences between the balances are the result of checks issued by the Authority but not yet presented for payment. The risk exposure of all cash and cash equivalents at September 30, 2018, is as follows:

Insured	\$ 145,823
Uninsured	<u>-</u>
Total cash and cash equivalents	<u>\$ 145,823</u>

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3 - RECEIVABLES

Receivables as of year end for the Authority's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Captured property taxes from	
Sturgis City	\$ -
Dumpster fees	1,829
Miscellaneous	<u>-</u>
Gross receivables	1,829
Less allowances for uncollectibles	<u>-</u>
Net total receivables	<u>\$ 1,829</u>

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2018, was as follows:

	Balance October 1, 2017	Additions	Disposals	Balance September 30, 2018
<u>Primary Government</u>				
Governmental activities				
Capital assets, being depreciated:				
Land improvements	\$ 283,662	\$ -	\$ -	\$ 283,662
Buildings and improvements	<u>378,364</u>	<u>-</u>	<u>75,664</u>	<u>302,700</u>
Subtotal	662,026	-	75,664	586,362
Accumulated depreciation				
Land improvements	203,360	18,911	-	222,271
Buildings and improvements	<u>266,648</u>	<u>15,135</u>	<u>40,664</u>	<u>241,119</u>
Subtotal	<u>470,008</u>	<u>34,046</u>	<u>40,664</u>	<u>463,390</u>
Net capital assets being depreciated	<u>\$ 192,018</u>			<u>\$ 122,972</u>

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

Governmental activities:	
Economic development	<u>\$ 34,046</u>

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 5 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2018:

	Balance October 1, 2017	Additions	Reductions	Balance September 30, 2018	Current Portion
Loan payable	\$ <u>116,866</u>	\$ <u>-</u>	\$ <u>11,564</u>	\$ <u>105,302</u>	\$ <u>12,041</u>

Long-term debt payable at September 30, 2018, consisted of the following individual issue:

Note payable to Farmers State Bank in the amount of \$180,000, monthly payment of \$1,275 including interest at 3.29%, final payment due August 1, 2026, unsecured	\$ <u>105,302</u>
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Prepayment Penalty - the loan agreement contains the following prepayment penalty clause: prepayment penalty of 5% on the current balance if payoff is within the first year; second year will require a 4% penalty; third year will require a 3% penalty; fourth year will require a 2% penalty; fifth year will require a 1% penalty on current balance at time of payoff.

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2018, including both principal and interest, are as follows:

	Principal	Interest	Total
2019	\$ 12,041	\$ 3,255	\$ 15,296
2020	12,493	2,803	15,296
2021	13,006	2,290	15,296
2022	13,275	2,021	15,296
2023	13,719	1,577	15,296
Thereafter	<u>40,768</u>	<u>3,927</u>	<u>44,695</u>
Total	\$ <u>105,302</u>	\$ <u>15,873</u>	\$ <u>121,175</u>

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 6 - CAPTURED TAXES

Captured taxes represent the property taxes on the increment in taxable value of the downtown development district property since the adoption of the development plan. These taxes are earmarked for purposes consistent with the development plan.

NOTE 7 - RENT EXPENSE

The Authority rents office space on a month to month agreement at \$150 per month. Rent expense of the year ended September 30, 2018 was \$1,800.

NOTE 8 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the Authority management and adopted by the Authority Board; subsequent amendments are approved by the Authority Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Authority were adopted on a fund level basis.

During the year ended September 30, 2018, the Authority did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

REQUIRED SUPPLEMENTAL INFORMATION

STURGIS DOWNTOWN DEVELOPMENT AUTHORITY

REQUIRED SUPPLEMENTAL INFORMATION GENERAL FUND BUDGETARY COMPARISON SCHEDULE YEAR ENDED SEPTEMBER 30, 2018

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
REVENUES				
Tax increment financing	\$ 38,000	\$ 38,000	\$ 37,989	\$ (11)
State sources	4,140	4,140	4,157	17
Dumpster fees	16,500	16,500	16,223	(277)
Interest	50	50	251	201
Other	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>35,000</u>
Total revenues	58,690	58,690	93,620	34,930
EXPENDITURES				
Economic development				
Wages and benefits	32,600	32,600	5,709	26,891
Professional services	1,000	1,000	775	225
Advertising and promotions	1,000	1,000	1,791	(791)
Communications	800	800	783	17
Insurance	4,750	4,750	4,472	278
Rentals	1,800	1,800	1,800	-
Miscellaneous	400	400	1,356	(956)
Dumpster service	12,000	12,000	12,730	(730)
Property taxes	1,250	1,250	-	1,250
Debt service - principal	11,000	11,000	11,564	(564)
Debt service - interest	<u>4,295</u>	<u>4,295</u>	<u>3,796</u>	<u>499</u>
Total expenditures	<u>70,895</u>	<u>70,895</u>	<u>44,776</u>	<u>26,119</u>
NET CHANGE IN FUND BALANCE	(12,205)	(12,205)	48,844	61,049
FUND BALANCE – BEGINNING	<u>62,792</u>	<u>62,792</u>	<u>62,792</u>	<u>-</u>
FUND BALANCE – ENDING	<u>\$ 50,587</u>	<u>\$ 50,587</u>	<u>\$ 111,636</u>	<u>\$ 61,049</u>