

Monitor Township Downtown  
Development Authority

Audited Financial Statements

*Year ended December 31, 2007*

Monitor Township Downtown  
Development Authority

Audited Financial Statements

Year ended December 31, 2007

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**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Report of Independent Auditors

Members of the Board  
Monitor Township Downtown  
Development Authority  
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Monitor Township Downtown Development Authority, Bay County, Michigan, a component unit of Monitor Township, Bay County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of Monitor Township Downtown Development Authority's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Monitor Township Downtown Development Authority, Bay County, Michigan, as of December 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Government 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.

Monitor Township Downtown Development Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is required to supplement, although not required to be part of, the financial statements.

*Andrews Hooper & Pavlik P.L.C.*

Bay City, Michigan  
May 8, 2008

1601 Marquette Street, Suite 4 • Bay City, Michigan 48706 • 989.667.4900 • fax 989.667.4949 • www.ahpplc.com

Monitor Township Downtown Development Authority

Statement of Net Assets

December 31, 2007

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 633,961
Taxes receivable	113,850
Capital assets, net	456,568
Total assets	<u>1,204,379</u>
<b>Liabilities</b>	
Accounts payable	6,552
Deferred revenue	113,850
Total liabilities	<u>120,402</u>
<b>Net assets</b>	
Investment in capital assets	456,568
Unrestricted	627,409
Total net assets	<u><u>\$1,083,977</u></u>

*See accompanying notes.*

Monitor Township Downtown Development Authority

Statement of Activities

Year ended December 31, 2007

<b>Functions</b>	<b>Expenses</b>	<b>Program Revenues</b>	<b>Governmental Activities</b>
			<b>Net (Expense) Revenue and Change in Net Assets</b>
<b>Primary government</b>			
Governmental activities:			
General government	\$144,826	-	\$ (144,826)
Total government activities	144,826		(144,826)
<b>General revenues</b>			
Property taxes from local sources			335,039
Interest			23,477
Miscellaneous			13
Total general revenues			358,529
<b>Net assets</b>			
Change in net assets			213,703
Net assets - beginning			870,274
Net assets - ending			\$1,083,977

*See accompanying notes.*

Monitor Township Downtown Development Authority

Balance Sheet - Governmental Fund

December 31, 2007

	<b>Special Revenue Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$633,961
Taxes receivable	113,850
Total assets	<u>\$747,811</u>
<b>Liabilities</b>	
Accounts payable	\$ 6,552
Deferred revenue	113,850
Total liabilities	<u>120,402</u>
<b>Fund balance</b>	
Unreserved	627,409
Total fund balance	<u>627,409</u>
Total liabilities and fund balance	<u>\$747,811</u>

*See accompanying notes.*

Monitor Township Downtown Development Authority

Reconciliation of the Governmental Fund  
Balance Sheet to the Statement of Net Assets

December 31, 2007

**Total Governmental Fund Balance** \$ 627,409

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 are not reported in the governmental funds:

Capital assets

456,568

**Total net assets of governmental activities**

\$1,083,977

*See accompanying notes.*

Monitor Township Downtown Development Authority

Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Governmental Fund

Year ended December 31, 2007

	<b>Special Revenue Fund</b>
	<u>          </u>
<b>Revenues</b>	
Property taxes from local sources	\$335,039
Interest	23,477
Other revenue	13
Total revenues	<u>358,529</u>
<b>Expenditures</b>	
Administrative wages	31,296
Administrative benefits	14,712
Administrative fees - Township	4,742
Association fees and dues	1,092
Auditing	6,800
Contracted services	22,600
Insurance	1,908
Legal fees	10,298
Maintenance	17,088
Miscellaneous	1,102
Meetings and travel	972
Owners association fees	10,780
Office expenses	917
Permit fees, site reviews, and selling expenses	-
Printing and marketing	1,281
Property taxes	1,992
Public works - engineering	4,114
Utilities - phone	1,072
Bay Futures, Inc	10,000
TIF plan and development	2,060
Total general government expenditures	<u>144,826</u>
Net change in fund balance	213,703
Fund balance - beginning	413,706
Fund balance - ending	<u><u>\$627,409</u></u>

See accompanying notes.

Monitor Township Downtown Development Authority

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance of Governmental Fund to the Statement of Activities

Year ended December 31, 2007

**Net Change in Fund Balance - Total Governmental Fund** \$213,703

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

Governmental funds report capital outlays as expenditures in the year acquired.

In the statement of activities, these costs are depreciated over their  
useful lives with undepreciated costs expensed in the year of disposition.

-

Governmental funds report debt service principal payments as expenditures.

In the statement of activities, these amounts are not expensed.

-

**Net Change in Net Assets**

\$213,703

*See accompanying notes.*

# Monitor Township Downtown Development Authority

## Notes to Financial Statements

December 31, 2007

### **1. Summary of Significant Accounting Policies**

#### **Introduction**

The Monitor Township Downtown Development Authority (DDA) complies with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The DDA's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* includes the preparation of a Management's Discussion and Analysis (MDA). The DDA has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is required to supplement, although not required to be part of, the financial statements.

#### **Financial Reporting Entity**

The DDA was established pursuant to the Downtown Development Authority Act (Public Act 197 of 1975), as amended. An ordinance was adopted, effective March 25, 1989, which created the DDA and further designated the boundaries of the district within the Township of Monitor, Bay County, Michigan. The DDA operates under the directorship of a board consisting of nine members appointed by the Monitor Township Board. The annual budget of the DDA is approved by the Monitor Township Board. The DDA cannot levy taxes, capture taxes or issue debt without the approval of the Monitor Township Board. The DDA is a discretely presented component unit of Monitor Township and is included in the Monitor Township audit report as such. The DDA was created to halt property value deterioration and the causes thereof, to increase property tax valuation, and to promote economic growth within the development district.

#### **Government-wide Financial Statements**

The basic financial statements of the DDA include both government-wide (reporting the DDA as a whole) and fund financial statements (reporting the DDA's major fund). The government-wide and fund financial statements categorize primary activities as governmental activities. The government-wide financial statements consist only of governmental activities. Governmental activities consist solely of the DDA's one special revenue fund, which is its operating fund. This is also the DDA's only major fund.

# Monitor Township Downtown Development Authority

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Government-wide Financial Statements (continued)

In the government-wide statement of net assets, the governmental column is presented on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The net assets of the DDA are reported in two parts: invested in capital assets and unrestricted net assets. The DDA first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the DDA's functions. The functions are also supported by general government revenues. The government-wide statement of activities reduces gross expenses by related program revenues, operating grants and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The net costs (by function) are normally covered by general revenue (local sources, interest income, etc.).

This government-wide focus is more on the sustainability of the DDA as an entity and the change in the DDA's net assets resulting from the current year's activities.

#### Fund Financial Statements

The financial transactions of the DDA are reported in individual funds in the fund financial statements. The DDA has one major fund, the Special Revenue Fund. This fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures.

The Special Revenue Fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provision or administrative action. Revenues are derived primarily from tax increment revenue and the sale of land within the development district. The activity of the DDA was accounted for in a Special Revenue Fund to comply with the Department of Treasury's "Uniform Chart of Accounts for Counties and Local Units of Government in Michigan."

#### Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

# Monitor Township Downtown Development Authority

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Measurement Focus and Basis of Accounting (continued)

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred, regardless of the timing of cash flows. Property taxes are recognized in the year for which they are levied. Deferred revenue relates to property taxes levied on December 1 and receivable as of December 31, 2007, which apply to 2008 resources.

The governmental fund financial statements are presented using the current economic resources measurement focus and the modified accrual basis of accounting. Revenue is recorded as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period. For this purpose, the government considers revenue to be available if it is collectible within the current period or within 60 days after year end. Deferred revenue is recorded for amounts levied on December 1, but not received within 60 days after year end. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

#### Assets, Liabilities, and Fund Equity

##### Deposits and Investments

The DDA considers cash and cash equivalents to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

The DDA reports its cash, cash equivalents, and investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the DDA intends to hold the investment until maturity. These statements also address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

As an element of interest rate risk, the Statements require certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified are also disclosed. The DDA had no investments at December 31, 2007.

# Monitor Township Downtown Development Authority

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Assets, Liabilities, and Fund Equity (continued)

##### Deposits and Investments (continued)

State statutes authorize the DDA to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union that is covered by federal deposit insurance; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The DDA is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

##### Taxes Receivable

Management of the DDA considers all taxes receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be expensed in the period of uncollectibility.

##### Capital Assets

Capital assets are reported at historical cost in the government-wide financial statements. Additions, improvements, and other major capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for routine repairs, maintenance, or supplies are expensed as incurred.

##### Long-Term Obligations

Long-term debt is reported as liabilities in the government-wide statement of net assets. The DDA had no long-term debt at December 31, 2007.

##### Fund Equity

Unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

##### Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Monitor Township Downtown Development Authority

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities, and Fund Equity (continued)**

Budgets and Budgetary Policies

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the special revenue fund. All annual appropriations lapse at fiscal year end. The DDA does not maintain a formalized encumbrance accounting system.

All budgets are adopted at least 30 days prior to the beginning of the calendar year and are approved by the Monitor Township Board. During the year, the DDA had budget amendments.

**2. Deposits**

At December 31, 2007, the book value of deposits was \$633,961, consisting primarily of interest bearing savings and checking accounts. At December 31, 2007, the bank balances of the DDA's deposits were:

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$200,000
Uninsured and uncollateralized	439,534
Total	<u>\$639,534</u>

Custodial risk is the risk that in the event of a bank failure, the DDA's deposits may not be returned to it. The DDA does not have a deposit policy for custodial credit risk. As of December 31, 2007, \$433,961 was exposed to custodial credit risk. The DDA has no investments other than funds placed in savings and checking accounts with high quality financial institutions.

**3. Capital Assets**

As of December 31, 2007, capital assets owned by the DDA included land located within the district. Approximately 176.75 acres of land was purchased by the DDA on July 26, 1990. The DDA has no depreciable assets at December 31, 2007. A summary of capital assets activity is as follows:

	<u>Balance January 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2007</u>
Capital asset not being depreciated:				
Land	\$456,568	-	-	\$456,568

## Monitor Township Downtown Development Authority

### Notes to Financial Statements (continued)

#### **4. Tax Increment Finance Procedure**

The tax increment finance procedure is outlined in Public Act 197 of 1975, as amended. It allows the DDA to receive a portion of the taxes created as a result of increased property values over a base year value on property located within the district. These property taxes are collected by the Monitor Township Treasurer who then pays the collected taxes to the Treasurer of the DDA. Taxes are levied and become an enforceable lien on property on July 1 and December 1 and payable no later than September 14 and February 28, respectively. The DDA recognizes the tax revenues when they are due and payable.

The DDA approved an amended Tax Increment Financing (TIF) Plan in April 2007. The amended Plan requires the DDA to capture 100% of tax increment revenue taxes. The 2006 rate had been 70%. The DDA Board determines the percentage to be received on an annual basis, based on the budget approved by the Monitor Township Board of Trustees.

#### **5. Risk Management**

The risk of loss category to which the DDA is exposed and for which it has purchased insurance is for liability only. There have been no significant reductions in insurance coverage as compared to the previous year.

#### **6. Excess of Expenditures Over Appropriations in Budgetary Funds**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The DDA incurred no expenditures in excess of the amounts appropriated as of December 31, 2007.

#### **7. Related Party Transactions**

The DDA has an agreement with Monitor Township (Township), Bay County, Michigan; in which the Township provides administrative services to the DDA. The Township is responsible to pay the DDA's sole employee, withhold applicable payroll taxes, and employee fringe benefits. The agreement requires the DDA to reimburse the Township for the costs of their employee and supplies used, plus a 10% administrative fee. The DDA paid approximately \$50,000 to the Township under this arrangement during the year ended December 31, 2007.

The DDA has a development agreement with Quantum Composites, Inc. and another agreement with John P. O'Brien and Ann M. O'Brien for reimbursement of qualified costs related to handicapped accessibility. The President of Quantum Composites and an O'Brien are board members of the DDA. See Note 5 for the details of these agreements.

## Monitor Township Downtown Development Authority

### Notes to Financial Statements (continued)

#### **7. Related Party Transactions (continued)**

The DDA is a member of the Valley Center Technology Park Owners Association (Association). The Association provides for maintenance and improvements related to Valley Center Technology Park assets owned or controlled by the Association. The DDA paid the Association approximately \$10,780 during the year ended December 31, 2007. The DDA contributed to the Association at a rate of approximately 35%, which is their approximate share of land ownership with the Association.

#### **8. Employee Benefits**

Through its agreement with Monitor Township (Township), the DDA contributes to employee benefit plans established by the Township on behalf of their employee. The Township has a defined contribution retirement plan that covers substantially all employees. The plan requires a mandatory employee contribution of 5% of base pay and allows an additional participant contribution up to 10% of base pay. The employer contribution to the plan is 15% of base pay.

#### **9. Other Matters and Subsequent Events**

The DDA entered into a Tax Increment Financing (TIF) development agreement with a third-party to provide assistance with infrastructure for a major construction project adjoining the Technology Park. The agreement is being further amended in 2008. Bay County and Monitor Township approved the development agreement along with the DDA Board during March 2007. As part of the project, Monitor Township amended the Tax Increment Financing Plan for the DDA and final approval was obtained during April 2007. The TIF plan will be in place until December 31, 2016 unless associated commitments are paid off sooner.

The DDA will finance the infrastructure development and repay its financing through 2011. After the financing has been repaid, the DDA is scheduled to “sunset.”

## Required Supplemental Information

Monitor Township Downtown Development Authority

Special Revenue Fund - Budgetary Comparison Schedule

Year ended December 31, 2007

	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Favorable (Unfavorable) Variance</b>
<b>Revenues</b>				
Property taxes from local sources	\$297,038	\$170,511	\$335,039	\$ 164,528
Interest	16,400	5,400	23,477	18,077
Sale of land	54,000	108,000	-	(108,000)
Other	-	-	13	13
<b>Total revenues</b>	<b>367,438</b>	<b>283,911</b>	<b>358,529</b>	<b>74,618</b>
<b>Expenditures</b>				
Administrative wages	30,385	30,385	31,296	(911)
Administrative benefits	14,878	16,078	14,712	1,366
Administrative fees - Township	4,700	4,700	4,742	(42)
Association fees and dues	1,092	1,092	1,092	-
Auditing	5,400	6,800	6,800	-
Consulting services	2,000	600	-	600
Contracted services	50,000	50,000	22,600	27,400
Insurance	2,370	2,370	1,908	462
Legal fees	26,200	26,200	10,298	15,902
Maintenance	19,700	19,700	17,088	2,612
Miscellaneous	2,300	2,300	1,102	1,198
Meetings and travel	2,500	2,500	972	1,528
Owners association fees	10,780	10,780	10,780	-
Office expenses	3,250	2,050	917	1,133
Permit fees, site reviews, and selling expenses	5,000	5,000	-	5,000
Printing and marketing	3,000	3,000	1,281	1,719
Property taxes	2,400	2,400	1,992	408
Public works - engineering	50,000	50,000	4,114	45,886
Utilities-phone	1,200	1,200	1,072	128
Bay futures, Inc.	10,000	10,000	10,000	-
TIF plan and development	21,000	21,000	2,060	18,940
<b>Total general government expenditures</b>	<b>268,155</b>	<b>268,155</b>	<b>144,826</b>	<b>123,329</b>
Excess of expenditures under revenues	99,283	15,756	213,703	197,947
Fund balance - beginning	413,706	413,706	413,706	-
<b>Fund balance - ending</b>	<b>\$512,989</b>	<b>\$429,462</b>	<b>\$627,409</b>	<b>\$ 197,947</b>

See accompanying notes.