

**Tax Increment Finance  
Authority of the City of  
St. Clair Shores, Michigan**

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**Financial Report  
June 30, 2012**

# **Tax Increment Finance Authority of the City of St. Clair Shores, Michigan**

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## Independent Auditor's Report

To the Board of Directors  
Tax Increment Finance Authority of the  
City of St. Clair Shores, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores, Michigan (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 19, 2012, which expressed unqualified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to November 19, 2012.

The Tax Increment Finance Authority of the City of St. Clair Shores, Michigan (the "Authority") is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified on pages 2-5, 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 (GASB), which 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 supplemental 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.

*Plante & Moran, PLLC*

December 17, 2012

# Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the Tax Increment Finance Authority of the City of St. Clair Shores, Michigan's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Authority's financial statements.

### Using this Annual Report

This annual report consists of two parts, management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include information that presents two different views of the Authority:

- The first column of the financial statements includes information on the Authority's governmental fund under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Authority's sources and uses of funds.
- The adjustments column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The third column presents the Authority's operations on a full accrual basis, which provides both long- and short-term information about the Authority's overall financial status. The statement of net assets 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.

### The Authority as a Whole

The following table shows the net assets of the governmental activities in a condensed format as of June 30, 2012 in comparison to the prior year (rounded to the nearest thousand):

	June 30	
	2012	2011
<b>Assets - Current and other</b>	\$ 875,000	\$ 989,000
<b>Liabilities</b>		
Current	51,000	5,000
Long term	-	415,000
Total liabilities	51,000	420,000
<b>Net Assets</b>	<b>\$ 824,000</b>	<b>\$ 569,000</b>

# Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

## Management's Discussion and Analysis (Continued)

The Authority's combined net assets increased 45 percent from a year ago, increasing from approximately \$569,000 to \$824,000 as a result of the continued pay-down of the Authority's bonded debt. At June 30, 2012, all of the Authority's net assets are unrestricted.

The following table shows the comparison of changes of the net assets of the governmental activities during the year ended June 30, 2012 to the prior year (rounded to the nearest thousand):

	Year Ended June 30	
	2012	2011
<b>Revenue</b>		
Property taxes	\$ 521,000	\$ 613,000
Interest and other	2,000	9,000
Total revenue	523,000	622,000
<b>Expenses</b>		
Operations	259,000	614,000
Interest	9,000	28,000
Total expenses	268,000	642,000
<b>Change in Net Assets</b>	255,000	(20,000)
<b>Net Assets - Beginning of year</b>	569,000	589,000
<b>Net Assets - End of year</b>	<b>\$ 824,000</b>	<b>\$ 569,000</b>

### Governmental Activities

The Authority's total governmental revenue was approximately \$523,000. The primary source of revenue for the Authority is property taxes, which comprise about 99 percent of the total revenue. In 2012, total revenue decreased approximately 16 percent compared to the prior year, primarily due to decreased property taxes. In 2012, the largest expense of the Authority was administration. In total, there was an increase in net assets of approximately \$255,000. This increase was due to operations.

# **Tax Increment Finance Authority of the City of St. Clair Shores, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **The General Fund**

Our analysis of the Authority's governmental fund (the Authority's only fund) is included on pages 5 and 6 in the first column of the respective statements. The fund column provides detailed information about the governmental fund using the modified accrual method of accounting. The most significant differences result from the reporting of long-term debt. On the modified accrual basis, long-term debt proceeds are recorded as another financing source when received and payments of principal on long-term debt are recorded as debt service expense when paid, rather than as increases and decreases to liabilities, respectively.

The Authority's governmental fund balance decreased by approximately \$162,000 during the year ended June 30, 2012. This was due primarily to expenditures exceeding revenue as budgeted. This results in a total fund balance of approximately \$824,000.

### **Governmental Fund Budgetary Highlights**

Over the course of the year, the Authority amended the budget to take into account events during the year. The most significant changes were to increase utilities expenditures by \$10,000 and to increase repair and maintenance expenditures by \$10,000. Actual revenue was within \$8,000 of the final budget. Actual expenditures were lower than the final budget by approximately \$66,000, primarily due to professional services and other expenditures that were less than anticipated.

### **Capital Assets and Debt Administration**

At the end of 2012, the Authority had \$0 of Tax Increment Bonds outstanding. The Authority does not have an investment in capital assets, as any capital outlay is incurred for assets that will benefit and be the responsibility of the City of St. Clair Shores, Michigan.

### **Economic Factors and Next Year's Budgets and Rates**

As a result of continued decreases expected in property tax values, the Authority will need to carefully evaluate planned projects for future years to be in line with reduced revenue.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens and taxpayers 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's administration.

# Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

## Governmental Fund Balance Sheet/Statement of Net Assets June 30, 2012

	Governmental Fund	Adjustments (Note 1)	Statement of Net Assets
<b>Assets - Cash and cash equivalents (Note 3)</b>	<b><u>\$ 875,457</u></b>	<b><u>\$ -</u></b>	<b>\$ 875,457</b>
<b>Liabilities</b>			
Accounts payable	\$ 22,811	\$ -	22,811
Due to primary government	<u>28,333</u>	<u>-</u>	<u>28,333</u>
Total liabilities	<u>51,144</u>	<u>-</u>	<u>51,144</u>
<b>Fund Balance/Net Assets - Fund balance - Unassigned/Net assets - Unrestricted</b>	<u>824,313</u>	<u>\$ -</u>	<u>\$ 824,313</u>
Total liabilities and fund balance	<b><u>\$ 875,457</u></b>		

# Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

## Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2012

	Governmental Fund	Adjustments (Note 1)	Statement of Activities
<b>Revenue</b>			
Property taxes	\$ 520,706	\$ -	\$ 520,706
Interest	2,075	-	2,075
Total revenue	522,781	-	522,781
<b>Expenditures</b>			
Professional services	23,054	-	23,054
Administration	50,000	-	50,000
Repairs and maintenance	18,361	-	18,361
Utilities	17,596	-	17,596
Blossom Heath Park	21,694	-	21,694
Council-specific projects	120,000	-	120,000
Other	7,882	-	7,882
Debt service:			
Principal	415,000	(415,000)	-
Interest	10,894	(1,791)	9,103
Total expenditures	684,481	(416,791)	267,690
<b>Excess of Revenue (Under) Over Expenditures and Change in Net Assets</b>	(161,700)	416,791	255,091
<b>Fund Balance/Net Assets - Beginning of year</b>	986,013	(416,791)	569,222
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 824,313</u>	<u>\$ -</u>	<u>\$ 824,313</u>

# Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

## Budgetary Comparison Statement Governmental Fund Year Ended June 30, 2012

	Original Budget - Unaudited	Final Budget - Unaudited	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenue</b>				
Property taxes	\$ 528,000	\$ 528,000	\$ 520,706	\$ (7,294)
Interest	3,000	3,000	2,075	(925)
Total revenue	531,000	531,000	522,781	(8,219)
<b>Expenditures</b>				
Professional services	50,000	50,000	23,054	26,946
Administration	50,000	50,000	50,000	-
Repairs and maintenance	20,000	30,000	18,361	11,639
Utilities	10,000	20,000	17,596	2,404
Blossom Heath Park	25,000	25,000	21,694	3,306
Council-specific projects	120,000	120,000	120,000	-
Other	30,000	30,000	7,882	22,118
Debt service:				
Principal	415,000	415,000	415,000	-
Interest	10,894	10,894	10,894	-
Total expenditures	730,894	750,894	684,481	66,413
<b>Excess of Expenditures Over Revenue</b>	(199,894)	(219,894)	(161,700)	58,194
<b>Fund Balance - Beginning of year</b>	986,013	986,013	986,013	-
<b>Fund Balance - End of year</b>	<b>\$ 786,119</b>	<b>\$ 766,119</b>	<b>\$ 824,313</b>	<b>\$ 58,194</b>

# **Tax Increment Finance Authority of the City of St. Clair Shores, Michigan**

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## **Notes to Financial Statements June 30, 2012**

### **Note I - Significant Accounting Policies**

The Tax Increment Finance Authority of the City of St. Clair Shores, Michigan (TIFA or the "Authority") is organized pursuant to Michigan Public Act No. 450 of 1980. The primary purpose of TIFA is to encourage economic activity in the City of St. Clair Shores, Michigan (the "City"). This purpose is accomplished by TIFA collecting captured property taxes in accordance with state law and budgeting expenditures for improvements in TIFA district boundaries. TIFA's governing body, consisting of 13 individuals, is appointed by the City Council.

TIFA's basic financial statements present combined governmental fund modified accrual financial statements and government-wide full accrual financial statements. As of and for the year ended June 30, 2012, adjustments were made to the amounts in the governmental fund for long-term debt and related accrued interest in order to arrive at the government-wide full accrual financial statements.

TIFA is a component unit of the City of St. Clair Shores, Michigan and is included in the basic financial statements of the City at June 30, 2012 as a discretely presented component unit.

#### **Basis of Accounting**

The accounting policies of TIFA conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. There are no component units required to be included in these financial statements.

The following is a summary of the significant accounting policies:

The government-wide full accrual financial statements (the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. For the purpose of the government-wide financial statements, TIFA reports a liability for the outstanding 1997 Tax Increment Bonds which will be repaid through captured property taxes in future periods. A significant portion of TIFA's activities in previous years related to investments in infrastructure that are the property of and are reported as an asset in the basic financial statements of the City of St. Clair Shores, Michigan rather than in TIFA's financial statements.

# Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

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## Notes to Financial Statements June 30, 2012

### Note I - Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes susceptible to accrual, that is, when it becomes both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, TIFA's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is TIFA's policy to spend funds in this order: committed, assigned, and unassigned.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Fund Equity** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the TIFA board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board.
- **Assigned:** Intent to spend resources on specific purposes expressed by the governing body
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the governmental fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the governmental fund.

# **Tax Increment Finance Authority of the City of St. Clair Shores, Michigan**

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## **Notes to Financial Statements June 30, 2012**

### **Note 1 - Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Budget Information**

The annual budget is prepared and adopted by the TIFA board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2012 has not been calculated. During the year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a total expenditure basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the TIFA board is included in the basic financial statements. This statement is presented on a line-item basis for informational purposes.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes TIFA to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. TIFA is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. TIFA has designated four banks for the deposit of its funds. TIFA's deposits and investment policies are in accordance with statutory authority.

# Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

## Notes to Financial Statements June 30, 2012

### Note 3 - Deposits and Investments (Continued)

TIFA's deposits are subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, TIFA's deposits may not be returned to it. At year end, TIFA had approximately \$610,660 of bank deposits that were uninsured and uncollateralized. TIFA believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, TIFA evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable risk level are used as depositories.

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. TIFA has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 4,886	AAA	Standard & Poor's

### Note 4 - Long-term Debt

Long-term debt consists of the 1997 Tax Increment Bonds with interest rates ranging from 5.05 percent to 5.25 percent and maturing through 2012. The original issue amount of the 1997 Tax Increment Bonds was \$3,500,000.

The following is a summary of long-term debt transactions for the year ended June 30, 2012:

Balance - July 1, 2011	\$ 415,000
Debt retired	<u>415,000</u>
Balance - June 30, 2012	<u><u>\$ -</u></u>