

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

**Financial Report**

**June 30, 2016**

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## Independent Auditors' Report

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

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 (the "City") as of and for the year ended June 30, 2016, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 5, 2016, which contained unmodified 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 December 5, 2016.

### ***In Relation to Opinion on Accompanying Financial Statements***

The Tax Increment Finance Authority of the City of St. Clair Shores (the "Authority") is presented for the purpose of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

### ***Other Matter***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule 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, 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.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
December 5, 2016

**Tax Increment Finance Authority  
of the City of St. Clair Shores  
Management's Discussion and Analysis  
June 30, 2016**

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, 2016. Please read it in conjunction with the Authority's financial statements.

**Using this Annual Report**

This annual report consists of two parts: the 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 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.

**The Authority as a Whole**

The following table shows the net position of the governmental activities in a condensed format as of June 30, 2016 in comparison to the prior year (rounded to the nearest hundred):

	June 30	
	2016	2015
<b>Assets</b>		
Current and other	\$ 1,103,500	\$ 1,027,300
<b>Liabilities</b>		
Current	637,000	47,200
<b>Net Position</b>	\$ 466,500	\$ 980,100

The Authority's combined net position decreased approximately \$513,600 from a year ago. At June 30, 2016, the Authority's net position is unrestricted.

**Tax Increment Finance Authority  
of the City of St. Clair Shores  
Management's Discussion and Analysis  
June 30, 2016**

The following table shows the comparison of changes in the net position of the governmental activities during the year ended June 30, 2016 to the prior year (rounded to the nearest hundred):

	June 30	
	2016	2015
<b>Revenue</b>		
Property taxes	\$ 466,300	\$ 437,700
Interest and other	2,700	1,900
<b>Total revenue</b>	<b>469,000</b>	<b>439,600</b>
<b>Expenses</b>		
Operations	982,600	436,400
<b>Change in net position</b>	<b>(513,600)</b>	<b>3,200</b>
<b>Net position - beginning of year</b>	<b>980,100</b>	<b>976,900</b>
<b>Net Position - end of year</b>	<b>\$ 466,500</b>	<b>\$ 980,100</b>

**Governmental Activities**

The Authority's total governmental revenue was approximately \$469,000. The primary source of revenue for the Authority is property taxes, which comprise about 99 percent of the total revenue. In 2016, total revenue increased approximately 6.7 percent compared to the prior year, primarily due to an increase in property taxes. In 2016, the largest expense of the Authority was for park projects for the Blossom Heath seawall replacement. In total, there was a decrease in net position of approximately \$513,600.

**The Governmental Fund**

Our analysis of the Authority's governmental fund (the Authority's only fund) is included on pages 4 and 5 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. In the current year, there were no adjustments necessary to convert the modified accrual fund statement to the full accrual statement of net position.

The Authority's governmental fund balance decreased by approximately \$513,600 during the year ended June 30, 2016. This results in a total fund balance of approximately \$466,500.

**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 the budget for park projects by \$520,000 and decrease the other expenditures budget by a net of \$101,000. Actual total revenue was approximately \$3,000 higher than the final budget. Actual expenditures were lower than the final budget by approximately \$51,000, primarily due to park project, miscellaneous and repair & maintenance expenditures coming in lower than anticipated.

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

As a result of the limitation on future increases 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 Position  
June 30, 2016**

	Governmental Fund	Adjustments (Note 1)	Statement of Net Position
<b>Assets</b>			
Cash and cash equivalents	\$ 1,090,328	\$ -	\$ 1,090,328
Other	3,317	-	3,317
Prepaid items	9,830	-	9,830
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,103,475</u>	<u>\$ -</u>	<u>\$ 1,103,475</u>
<b>Liabilities</b>			
Accounts payable	\$ 35,091	\$ -	\$ 35,091
Accrued and other liabilities	1,854	-	1,854
Advance due to primary government	600,000	-	600,000
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>636,945</u>	<u>-</u>	<u>636,945</u>
<b>Fund Balances / Net Position</b>			
Fund balance - unassigned / Net position - unrestricted	<u>466,530</u>	<u>-</u>	<u>466,530</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances / net position	<u>\$ 1,103,475</u>	<u>\$ -</u>	<u>\$ 1,103,475</u>

See Accompanying Notes to the Financial Statements

**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  
For the Year Ended June 30, 2016**

	Governmental Fund	Adjustments (Note 1)	Statement of Activities
<b>Revenues</b>			
Property taxes	\$ 466,317	\$ -	\$ 466,317
Interest income	1,422	-	1,422
Other revenue	1,298	-	1,298
	<u>469,037</u>	<u>-</u>	<u>469,037</u>
<b>Expenditures</b>			
Current			
Professional services	23,625	-	23,625
Administration	50,000	-	50,000
Repairs and maintenance	20,593	-	20,593
Rentals	9,799	-	9,799
Utilities	14,128	-	14,128
Projects	685,379	-	685,379
Council-specific projects	120,000	-	120,000
Other	57,254	-	57,254
Interest	1,854	-	1,854
	<u>982,632</u>	<u>-</u>	<u>982,632</u>
Net change in fund balance / change in net position	(513,595)	-	(513,595)
Fund balance / net position - beginning of year	<u>980,125</u>	<u>-</u>	<u>980,125</u>
Fund balance / net position - end of year	<u>\$ 466,530</u>	<u>\$ -</u>	<u>\$ 466,530</u>

See Accompanying Notes to the Financial Statements

**Tax Increment Finance Authority  
of the City of St. Clair Shores  
Notes to the Financial Statements  
June 30, 2016**

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**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Tax Increment Finance Authority of the City of St. Clair Shores, Michigan (TIFA or the "Authority") 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 used by the Tax Increment Finance Authority of the City of St. Clair Shores.

**Reporting Entity**

TIFA is governed by a 13-member board, which is appointed by the City Council. TIFA 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 (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. The accompanying financial statements present TIFA.

*Discretely Presented Component Units* – TIFA is a component unit of the City and is included in the basic financial statements of the City at June 30, 2016 as a discretely presented component unit.

**Accounting and Reporting Principles**

TIFA follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

**Report Presentation**

Governmental accounting principles require that financial reports include two different perspectives, the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for the governmental fund, which is reported as a separate column in the fund financial statements.

**Basis of Accounting**

The governmental fund uses the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

**Tax Increment Finance Authority  
of the City of St. Clair Shores  
Notes to the Financial Statements  
June 30, 2016**

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Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, TIFA considers amounts collected within 60 days of year end to be available for recognition.

**Fund Accounting**

TIFA accounts for its various activities in one fund in order to demonstrate accountability for how certain resources have been spent.

The governmental fund includes all activities of TIFA, which is a component unit of the City of St. Clair Shores.

**Specific Balances and Transactions**

*Cash, Cash Equivalents, and Investments* – 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.

**Net Position Flow Assumption**

Sometimes, TIFA will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is TIFA's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Fund Balance Flow Assumption**

Sometimes, TIFA will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is TIFA's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. TIFA itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of TIFA's highest level of decision making authority. The City Council of the City of St. Clair Shores is the highest level of decision-making authority for TIFA that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by TIFA for specific purposes but do not meet the criteria to be classified as committed. The City Council of the City of St. Clair Shores has by resolution authorized the finance director to assign

**Tax Increment Finance Authority  
of the City of St. Clair Shores  
Notes to the Financial Statements  
June 30, 2016**

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fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**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, 2016 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. The law also allows investments outside the state of Michigan when fully insured. 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.

*Custodial Credit Risk of Bank Deposits* - 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 \$564,910 of bank deposits (certificates of deposit and checking and savings accounts) 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 estimated risk level are used as depositories.

**Tax Increment Finance Authority  
of the City of St. Clair Shores  
Notes to the Financial Statements  
June 30, 2016**

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*Credit Risk* – 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:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 25,418	NR	N/A

**Note 4 - Advance Due to Primary Government**

TIFA received an advance from the Utility Fund of the City in the amount of \$600,000. The interest rate is 1.25%. Annual payments are payable to the City through April 1, 2022 as follows:

<u>Year ending June 30,</u>	
2017	\$ 100,000
2018	100,000
2019	100,000
2020	100,000
2021	100,000
2022	100,000
	<u>\$ 600,000</u>

**Tax Increment Finance Authority  
of the City of St. Clair Shores, Michigan  
Required Supplementary Information  
Budgetary Comparison Schedule  
Governmental Fund  
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 465,000	\$ 465,000	\$ 466,317	\$ 1,317
Interest income	1,200	1,200	1,422	222
Other revenue	-	-	1,298	1,298
	<u>466,200</u>	<u>466,200</u>	<u>469,037</u>	<u>2,837</u>
<b>Expenditures</b>				
Current				
Professional services	37,000	27,000	23,625	(3,375)
Administration	50,000	50,000	50,000	-
Repairs and maintenance	95,000	30,000	20,593	(9,407)
Rentals	10,000	10,000	9,799	(201)
Utilities	15,000	15,000	14,128	(872)
Projects	230,425	710,425	685,379	(25,046)
Council-specific projects	120,000	120,000	120,000	-
Other	55,575	69,575	57,254	(12,321)
Interest	-	-	1,854	1,854
	<u>613,000</u>	<u>1,032,000</u>	<u>982,632</u>	<u>(49,368)</u>
Net change in fund balance	(146,800)	(565,800)	(513,595)	52,205
Fund balance - beginning of year	<u>980,125</u>	<u>980,125</u>	<u>980,125</u>	<u>-</u>
Fund balance - end of year	<u>\$ 833,325</u>	<u>\$ 414,325</u>	<u>\$ 466,530</u>	<u>\$ 52,205</u>