

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

Financial Report

June 30, 2018



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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, 2018, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 19, 2018, 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 November 19, 2018.

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
November 19, 2018

**Tax Increment Finance Authority
of the City of St. Clair Shores
Management's Discussion and Analysis
June 30, 2018**

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, 2018. 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, 2018 in comparison to the prior year (rounded to the nearest hundred):

	June 30	
	2018	2017
Assets		
Current and other	\$ 973,100	\$ 991,500
Liabilities		
Current	423,300	526,300
Net Position	\$ 549,800	\$ 465,200

The Authority's combined net position increased approximately \$84,500 from a year ago. At June 30, 2018, the Authority's net position is unrestricted.

The decrease in current liabilities is attributable to the \$100,000 payment made during the current fiscal year on the advance due to the City of St. Clair Shores.

**Tax Increment Finance Authority
of the City of St. Clair Shores
Management's Discussion and Analysis
June 30, 2018**

The following table shows the comparison of changes in the net position of the governmental activities during the year ended June 30, 2018 to the prior year (rounded to the nearest hundred):

	June 30	
	2018	2017
Revenue		
Property taxes	\$ 587,100	\$ 499,400
Interest and other	6,700	1,400
	593,800	500,800
Expenses		
Operations	509,300	502,100
	84,500	(1,300)
Change in net position		
Net position - beginning of year	465,200	466,500
Net Position - end of year	\$ 549,700	\$ 465,200

Governmental Activities

The Authority's total governmental revenue was approximately \$593,800. The primary source of revenue for the Authority is property taxes, which comprise about 99 percent of the total revenue. In 2018, total revenue increased approximately 18.6 percent compared to the prior year, primarily due to an increase in property taxes. In 2018, the largest expense of the Authority was for Nautical Mile planning services provided by MKSK. In total, there was an increase in net position of approximately \$84,500 due to actual expenditures being lower than budget by \$92,000.

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 increased by approximately \$84,500 during the year ended June 30, 2018. This results in a total fund balance of approximately \$549,700.

Governmental Fund Budgetary Highlights

Over the course of the year, the Authority did amend the budget. Actual total revenue was approximately \$5,800 more than the final budget. Actual expenditures were lower than the final budget by approximately \$92,000 as various project, repairs & maintenance, services and rentals came 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, 2018**

	Governmental Fund	Adjustments (Note 1)	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 961,077	\$ -	\$ 961,077
Receivables			
Other	2,094	-	2,094
Prepaid items	9,890	-	9,890
	<u>973,061</u>	<u>-</u>	<u>973,061</u>
Total assets	<u>\$ 973,061</u>	<u>\$ -</u>	<u>\$ 973,061</u>
Liabilities			
Accounts payable	\$ 22,052	\$ -	22,052
Accrued and other liabilities	1,236	-	1,236
Advance due to primary government	400,000	-	400,000
	<u>423,288</u>	<u>-</u>	<u>423,288</u>
Total liabilities	<u>423,288</u>	<u>-</u>	<u>423,288</u>
Fund Balances / Net Position			
Fund balance - unassigned / Net position - unrestricted	<u>549,773</u>	<u>-</u>	<u>\$ 549,773</u>
	<u>\$ 973,061</u>	<u>\$ -</u>	
Total liabilities and fund balances / net position	<u>\$ 973,061</u>	<u>\$ -</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, 2018**

	<u>Governmental Fund</u>	<u>Adjustments (Note 1)</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 587,127	\$ -	\$ 587,127
Interest income	2,063	-	2,063
Other revenue	4,668	-	4,668
	<u>593,858</u>	<u>-</u>	<u>593,858</u>
Expenditures			
Current			
Professional services	181,230	-	181,230
Administration	50,000	-	50,000
Repairs and maintenance	9,871	-	9,871
Rentals	9,121	-	9,121
Utilities	8,966	-	8,966
Projects	62,280	-	62,280
Council-specific projects	139,648	-	139,648
Other	42,237	-	42,237
Interest	5,956	-	5,956
	<u>509,309</u>	<u>-</u>	<u>509,309</u>
Net change in fund balance / change in net position	84,549	-	84,549
Fund balance / net position - beginning of year	<u>465,224</u>	<u>-</u>	<u>465,224</u>
Fund balance / net position - end of year	<u>\$ 549,773</u>	<u>\$ -</u>	<u>\$ 549,773</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, 2018**

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, 2018 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, 2018**

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, 2018**

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, 2018 has not been calculated. During the year, the budget can be 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 \$435,204 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.

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of the City of St. Clair Shores
Notes to the Financial Statements
June 30, 2018**

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	\$ 25,874	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>	
2019	\$ 100,000
2020	100,000
2021	100,000
2022	100,000
	<u>\$ 400,000</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, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 587,066	\$ 587,066	\$ 587,127	\$ 61
Interest income	1,000	1,000	2,063	1,063
Other revenue	-	-	4,668	4,668
	<u>588,066</u>	<u>588,066</u>	<u>593,858</u>	<u>5,792</u>
Expenditures				
Current				
Professional services	20,000	20,000	181,230	161,230
Administration	50,000	50,000	50,000	-
Repairs and maintenance	25,000	25,000	9,871	(15,129)
Rentals	25,000	25,000	9,121	(15,879)
Utilities	15,000	15,000	8,966	(6,034)
Projects	270,000	270,000	62,280	(207,720)
Council-specific projects	150,000	150,000	139,648	(10,352)
Other	40,000	40,000	42,237	2,237
Interest	6,265	6,265	5,956	(309)
	<u>601,265</u>	<u>601,265</u>	<u>509,309</u>	<u>(91,956)</u>
Total expenditures				
Net change in fund balance	(13,199)	(13,199)	84,549	97,748
Fund balance - beginning of year	<u>465,224</u>	<u>465,224</u>	<u>465,224</u>	<u>-</u>
Fund balance - end of year	<u>\$ 452,025</u>	<u>\$ 452,025</u>	<u>\$ 549,773</u>	<u>\$ 97,748</u>