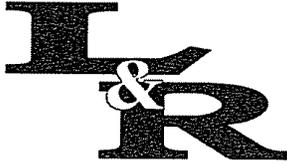


TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST
AND REVOLVING LOAN FUND
OF THE CITY OF LAPEER, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
AND
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

Members of the Tax Increment Finance
Authorities #1, #2, #3, Trust and
Revolving Loan Fund of the
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Lapeer, Michigan

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Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the **Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan** as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan as of June 30, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan's internal control over financial reporting and compliance.



Certified Public Accountants

December 16, 2016
East Lansing, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Tax Increment Finance Authority of the City of Lapeer's financial performance provides an overview of the Tax Increment Finance Authority's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Tax Increment Finance Authority's financial statements.

FINANCIAL HIGHLIGHTS

- Provided an operational subsidy to the Community Center of \$104,736.
- Provided funding for the Energy Savings Program Contract Debt Service of \$158,558.
- Provided funding for the Oakdale roof replacement debt payment of \$27,087.
- Provided an operations subsidy for the Oakdale Development Fund of \$35,599.
- Provided funding for Community Center improvements and equipment of \$34,753.
- The Tax Increment Finance Authority returned excess funds of \$50,000. The returned funds are distributed based upon the ratio of the taxing jurisdiction's millage to the total millage.
- Provided funding for the debt service on the Community Center Chiller of \$14,967.
- Provided operations and administration subsidies to Parks and Recreation of \$53,000.
- Provided funding for Park signage of \$9,000.
- Provided funding for replacement of the Public Safety building roof of \$67,490.
- Provided funding for the Lincoln Street reconstruction project of \$125,000.
- Provided funding for the M-24 pedestrian tunnel of \$15,374.
- Provided funding for the Lapeer Community Schools Athletic Complex of \$200,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Tax Increment Finance Authority as a whole and present a longer-term view of the Tax Increment Finance Authority's finances. Fund financial statements provide more detailed information about the Tax Increment Finance Authority's funds - not the Tax Increment Finance Authority as a whole. These statements tell how these services were financed in the short term as well as what remains for future spending.

Reporting the Tax Increment Finance Authority as a Whole

One of the most important questions asked about the Tax Increment Finance Authority's finances is, "Is the Tax Increment Finance Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Tax Increment Finance Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Tax Increment Finance Authority's *net assets* and changes in them. You can think of the Tax Increment Finance Authority's net assets - the difference between assets and liabilities - as one way to measure the Tax Increment Finance Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Tax Increment Finance Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Tax Increment Finance Authority's captured property tax base to assess the *overall health* of the Tax Increment Finance Authority.

In the Statement of Net Position and the Statement of Activities, the Tax Increment Finance Authority is shown as a governmental activity while within the City of Lapeer's audit they are shown as a component unit:

- Governmental activities - The Tax Increment Finance Authority's services are reported here. Property taxes finance most of these activities.

Reporting the Tax Increment Finance Authority's Most Significant Funds

The fund financial statements provide detailed information about the Tax Increment Finance Authority's funds. The Tax Increment Finance Authority's funds utilize the *governmental* accounting approach.

- *Governmental funds* - Most of the Tax Increment Finance Authority's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Tax Increment Finance Authority's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Tax Increment Finance Authority's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in reconciliation at the bottom of the fund financial statements.

THE TAX INCREMENT FINANCE AUTHORITY AS A WHOLE

Table 1 was summarized from the Tax Increment Finance Authority Statement of Net Position and provides a comparison of the current and prior years. The net assets of the Tax Increment Finance Authority decreased from \$4,247,370 to \$4,179,216, a decrease of \$68,154 or 1.6%. In the prior year the Tax Increment Finance Authority net assets decreased from \$4,776,458 to \$4,247,370, a decrease of \$529,088 or 11.1%.

Table 1
Net Assets
(In Hundred Thousands)

	<u>Governmental Activities</u> 2016	<u>Governmental Activities</u> 2015
Current and other assets	\$1.4	\$1.2
Capital assets	<u>2.8</u>	<u>3.0</u>
Total assets	<u>4.2</u>	<u>4.2</u>
Long-term debt		
Outstanding	0.0	0.0
Other liabilities	<u>0.0</u>	<u>0.0</u>
Total liabilities	<u>0.0</u>	<u>0.0</u>
Net assets:		
Invested in capital assets, Net of debt	2.8	3.0
Restricted	0.0	0.0
Assigned (deficit)	<u>1.4</u>	<u>1.2</u>
Total net assets	<u>\$4.2</u>	<u>\$4.2</u>

Governmental Activities

As stated previously, the net assets of the Tax Increment Finance Authority's governmental activities decreased by \$68,154 or 1.6%. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - is recorded as Assigned Fund Balance of \$1,348,732.

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide program revenues, other revenues, and expenses of the Tax Increment Finance Authority and provides a comparison of current and prior years.

Table 2
Changes in Net Assets
(In Hundred Thousands)

	Governmental <u>Activities</u> 2016	Governmental <u>Activities</u> 2015
Revenues:		
Program revenues:		
Charges for Services	\$0.0	\$0.0
Operating grants and Contributions	0.0	0.0
General revenues:		
Property taxes	1.1	1.1
Other	<u>0.1</u>	<u>0.1</u>
Total Revenues	<u>1.2</u>	<u>1.2</u>
Expenses:		
General government	\$1.2	\$1.7
Interest on long-term Debt	<u>0.0</u>	<u>0.0</u>
Total Expenses	<u>1.2</u>	<u>1.7</u>
Increase in net assets before transfers	0.0	(0.5)
Transfers	<u>0.0</u>	<u>0.0</u>
Increase in Net Assets	0.0	(0.5)
Net assets, July 1	4.2	4.7
Prior Period Adjustment	<u>0.0</u>	<u>0.0</u>
Net assets, June 30	<u>\$4.2</u>	<u>\$4.2</u>

Total revenue from all sources totaled \$1,154,268 of which 95.9% or \$1,106,541 was from property taxes. Other revenues consisted of unrestricted investment earnings of \$2,092 and miscellaneous revenue of \$45,635. The Tax Increment Finance Authority captured the City of Lapeer millage rate of 9.8000 and the County Operating millage of 3.7886 for this fiscal year.

The governmental activities of the Tax Increment Finance Authority had an expense of \$1,222,422 for the past fiscal year. Due to utilizing full accrual on the government-wide statements, the expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Position and are depreciated over the useful life of the asset. Only the current year depreciation would be included as an expense. Included in the expense were contributions to various City Funds in the amount of \$645,564 for payment on their commitments to various projects and Return of Excess Revenues from Tax Increment Finance Authority Districts #3 in the amount of \$50,000.

The \$1,222,422 for governmental activities was partially funded from \$1,106,541 in property taxes and other revenues. The balance of this cost was funded from prior years' property tax captures retained for future projects.

THE TAX INCREMENT FINANCE AUTHORITY'S FUNDS

The Tax Increment Finance Authority District #1 received a total of \$272,627 in captured property taxes. The Tax Increment Finance Authority District #1 expended funds on various projects this year which included Community Center improvements and equipment of \$34,753, energy savings program contract of \$158,558, Community Center operational subsidy of \$104,736 and debt service for the Community Center Chiller of \$14,967.

The Tax Increment Finance Authority District #2 received a total of \$87,558 in captured property taxes. The Tax Increment Finance Authority District #2 expended funds on various projects this year which included Park signage of \$9,000 and M-24 pedestrian tunnel of \$7,687. Additionally, the district paid an administration fee to the City of Lapeer of \$10,848 for accounting services and project management and a Parks and Recreation operations subsidy of \$36,000.

The Tax Increment Finance Authority District #3 received a total of \$746,356 in captured property taxes. The Tax Increment Finance Authority District #3 expended funds on various projects this year which included the debt payment for the Oakdale roof replacement at a cost of \$27,087, the Public Safety Building roof replacement of \$67,490, M-24 pedestrian tunnel of \$7,687, Lincoln Street reconstruction of \$125,000, Lapeer Community Schools Athletic Complex of \$200,000 and Return of Excess Revenues of \$50,000. Additionally, the district paid an administration fee to the City of Lapeer of \$106,656 for accounting services and project management, a Parks and Recreation operation subsidy of \$17,000 and an Oakdale Development operations subsidy of \$35,599. Other expenses of the district were administration, legal, and audit fees of \$22,814.

The Tax Increment Finance Authority Trust received rental income of \$45,635. The Tax Increment Finance Authority Trust expended funds on repairs and maintenance of \$5,167, supplies of \$262, utilities of \$3,167, insurance of \$1,756, property taxes of \$9,849 and landscaping and lot maintenance of \$900.

The Tax Increment Finance Authority Revolving Loan Fund received interest income of \$699. The Tax Increment Finance Authority Revolving Loan Fund did not expend any funds.

Tax Increment Finance Authority Budgetary Highlights

- The Tax Increment Finance Authority total budget did not change during the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Tax Increment Finance Authority's investment in capital assets for its governmental activities as of June 30, 2016 amounted to \$2,830,484 (net of accumulated depreciation). This investment in capital assets includes land, buildings and machinery and equipment. The Tax Increment Finance Authority's investment in capital assets remained virtually unchanged from the prior fiscal year.

There were no major capital asset events during the current fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Inflationary trends in the region compare favorably to national indices.
- Projected captured taxable value as determined by the City Assessor.

The Tax Increment Finance Authority reviews its current budget to determine available fund balances to be appropriated for next year's budget. This along with the projected captured taxable value from the city assessor provides the basis of establishing the annual budget. Funds are appropriated based upon project recommendations made by the City of Lapeer staff to the Tax Increment Finance Authority Board. Funds not appropriated for specific projects are budgeted as "Reserve for Future Projects". These funds can then be utilized to fund any project that may develop during the fiscal year or to provide additional funding to a project if actual costs were to exceed the budget.

Requests for Information

This financial report is designed to provide a general overview of the Tax Increment Finance Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lapeer, Director of Financial Services, 576 Liberty Park, Lapeer, MI 48446.

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**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

STATEMENT OF NET POSITION

JUNE 30, 2016

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash	\$ 1,167,525
Receivables	
Notes	180,813
Due from other units	9,897
Capital assets not being depreciated	14,400
Fixed assets (net of accumulated depreciation)	<u>2,816,084</u>
TOTAL ASSETS	<u><u>\$ 4,188,719</u></u>
LIABILITIES	
Current liabilities	
Deposits payable	\$ 4,132
Due to other units	<u>5,371</u>
TOTAL LIABILITIES	<u>9,503</u>
NET POSITION	
Net investment in capital assets	2,830,484
Assigned	<u>1,348,732</u>
TOTAL NET POSITION	<u>4,179,216</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 4,188,719</u></u>

See accompanying notes to financial statements.

NET (EXPENSE) REVENUE AND
CHANGES IN NET POSITION

PROGRAM REVENUES <u>CAPITAL</u> GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
\$ <u><u> </u></u>	\$ <u>(1,222,422)</u>	\$ <u> </u>	\$ <u>(1,222,422)</u>
	1,106,541		1,106,541
	45,635		45,635
	<u>2,092</u>	<u> </u>	<u>2,092</u>
	<u>1,154,268</u>	<u> </u>	<u>1,154,268</u>
	(68,154)		(68,154)
	<u>4,247,370</u>	<u> </u>	<u>4,247,370</u>
	\$ <u><u>4,179,216</u></u>	\$ <u><u> </u></u>	\$ <u><u>4,179,216</u></u>

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2016

	T.I.F.A. TRUST	T.I.F.A. #1
ASSETS		
Cash in checking	\$ 909	\$ 1,583
Cash in savings	388,572	22,192
Notes receivable	180,000	
Due from other units		<u>4,240</u>
TOTAL ASSETS	<u>\$ 569,481</u>	<u>\$ 28,015</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Security deposit payable	\$ 4,132	\$
Due to other units		
TOTAL LIABILITIES	<u>4,132</u>	
 FUND BALANCE		
Unreserved	<u>565,349</u>	<u>28,015</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 569,481</u>	<u>\$ 28,015</u>

See accompanying notes to financial statements.

T.I.F.A. #2	T.I.F.A. #3	REVOLVING LOAN FUND	TOTAL GOVERNMENTAL FUNDS
\$ 1,934	\$ 791	\$ 1,011	\$ 6,228
247,942	240,016	262,575	1,161,297
4,013	1,644	813	180,813
<u>253,889</u>	<u>242,451</u>	<u>264,399</u>	<u>1,358,235</u>
\$ 4,924	\$ 447	\$	\$ 4,132
<u>4,924</u>	<u>447</u>	<u></u>	<u>5,371</u>
<u>248,965</u>	<u>242,004</u>	<u>264,399</u>	<u>1,348,732</u>
<u><u>253,889</u></u>	<u><u>242,451</u></u>	<u><u>264,399</u></u>	<u><u>1,358,235</u></u>

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**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION**

JUNE 30, 2016

Total fund balances - governmental funds	\$ 1,348,732
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in the governmental funds. The cost of the assets is \$6,652,361 and the accumulated depreciation is \$3,821,877.	<u>2,830,484</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>4,179,216</u>

See accompanying notes to financial statements.

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	T.I.F.A. TRUST	T.I.F.A. #1
REVENUES		
Property taxes	\$	\$ 272,627
Interest earnings	516	88
Rental income	<u>45,635</u>	<u> </u>
TOTAL REVENUES	<u>46,151</u>	<u>272,715</u>
EXPENDITURES		
Administration/attorney/audit		
Excess revenue return		
Landscaping and lot maintenance	900	
Community center operations		104,736
Community center improvements		34,753
Energy management upgrade		158,558
Chiller debt		14,967
City administration		
Cramton Park - signage		
Park maintenance and administration		
Lincoln street		
M-24 project pedestrian connection		
Oakdale operations		
Public safety building roof		
Roof replacement debt service		
Lapeer Community Schools Athletic Complex		
Repairs and maintenance	5,167	
Supplies	262	
Utilities	3,167	
Insurance	1,756	
Property taxes	<u>9,849</u>	<u> </u>
TOTAL EXPENDITURES	<u>21,101</u>	<u>313,014</u>
EXCESSS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	25,050	(40,299)
FUND BALANCE, JULY 1	<u>540,299</u>	<u>68,314</u>
FUND BALANCE, JUNE 30	<u>\$ 565,349</u>	<u>\$ 28,015</u>

See accompanying notes to financial statements.

T.I.F.A. #2	T.I.F.A. #3	REVOLVING LOAN FUND	TOTAL GOVERNMENTAL FUNDS
\$ 87,558 364	\$ 746,356 425	\$ 699	\$ 1,106,541 2,092 45,635
<hr/>	<hr/>	<hr/>	<hr/>
87,922	746,781	699	1,154,268
	22,814 50,000		22,814 50,000 900 104,736 34,753 158,558 14,967 117,504 9,000 53,000 125,000 15,374 35,599 67,490 27,087 200,000 5,167 262 3,167 1,756 9,849
10,848 9,000 36,000 7,687	106,656 17,000 125,000 7,687 35,599 67,490 27,087 200,000		
<hr/>	<hr/>	<hr/>	<hr/>
63,535	659,333		1,056,983
<hr/>	<hr/>	<hr/>	<hr/>
24,387	87,448	699	97,285
<hr/>	<hr/>	<hr/>	<hr/>
224,578	154,556	263,700	1,251,447
<hr/>	<hr/>	<hr/>	<hr/>
\$ 248,965	\$ 242,004	\$ 264,399	\$ 1,348,732

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

Net changes in fund balances - total governmental funds	\$	97,285
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p style="margin-left: 40px;">Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.</p>		
Less: current year depreciation		<u>(165,439)</u>
Change in net position of governmental activities	\$	<u><u>(68,154)</u></u>

See accompanying notes to financial statements.

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1: REPORTING ENTITY

In accordance with the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund are considered component units of the City of Lapeer, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, and the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund are presented as the financial statements of funds which are an integral part of the financial reporting oversight unit of the City of Lapeer, Michigan.

The Tax Increment Finance Authorities (T.I.F.A.) and Revolving Loan Fund were established by the Lapeer City Commission in accordance with Act 450 of P.A. 1980, as follows:

AUTHORITY	DATE ESTABLISHED
T.I.F.A. #1	April 19, 1982
T.I.F.A. #2	April 18, 1983
T.I.F.A. #3	May 21, 1984
T.I.F.A. Trust	March 30, 1987
Revolving Loan	February 4, 1993

The Lapeer City Commission designated the members of the Lapeer City Tax Increment Finance Authorities #1, #2, #3, Trust, and Revolving Loan Fund Board of Directors to constitute the Board of the Tax Increment Finance Authority (T.I.F.A.), and Revolving Loan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

Government-Wide and Fund Financial Statements - Concluded

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statement is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statement is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first. Unrestricted resources are used as they are needed.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables

Receivables have been recognized for all significant amounts due the Authority. No allowances have been made for uncollectible amounts.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Lapeer as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Concluded

Capital Assets – Concluded

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in the government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide statement of net position. The straight-line depreciation method is applied over the estimated useful lives of fixed assets. The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	20-40 years
Equipment	5-20 years
Vehicles	3-10 years

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the City Treasurer is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS - Concluded**

FDIC regulations provide that deposits of governmental units are to be separately insured for the amount of \$250,000 for deposits in an insured bank for savings deposits and \$250,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$250,000. For the purpose of these rules, the term "savings deposits" includes NOW accounts, money market deposit accounts, and other interest-bearing checking accounts.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2016, the carrying amount of the Authority's deposits was \$1,167,525 and the bank balance was \$1,167,703, of which \$0 was covered by federal depository insurance. The remaining balance of \$1,167,703 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Authority held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2016, the Authority did not have any investment that would be subject to rating.

Interest Rate Risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio in a manner to attain a market rate of return throughout the budgetary and economic cycles while preserving and protecting capital.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio to prevent over concentration of assets in a specific maturity, individual financial institution, or specific class of securities.

Custodial Credit Risk

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by:

- Limiting investments to the types of securities listed in the Authority's investment policy.
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Authority will do business in accordance with the Authority's investment policy.

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016

NOTE 4: **CAPITAL ASSETS**

A summary of changes in the Authority's capital assets is as follows:

	BALANCE, JULY 1	ADDITIONS	DELETIONS	BALANCE, JUNE 30
Capital assets not being depreciated				
Land	\$ <u>14,400</u>	\$ _____	\$ _____	\$ <u>14,400</u>
Capital assets being depreciated				
Buildings	6,637,961			6,637,961
Less: accumulated depreciation				
Buildings	<u>3,656,438</u>	<u>165,439</u>	_____	<u>3,821,877</u>
Total capital assets being depreciated, net	<u>2,981,523</u>	(<u>165,439</u>)	_____	<u>2,816,084</u>
Total Capital Assets	\$ <u>2,995,923</u>	\$ (<u>165,439</u>)	\$ _____	\$ <u>2,830,484</u>

NOTE 5: **NOTES RECEIVABLE**

The Authority has two note receivables with local businesses.

	Balance June 30, 2016
\$70,000 payable to the Authority In monthly installments of \$777 Including interest at 6%	\$ 813

The other note is receivable from Lapeer Neighborhood, Inc. for \$180,000. No payment schedule has been made but full payment is expected.

NOTE 6: **DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS**

In February, 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved have been replaced with five new classifications: non-spendable, restricted, committed, assigned and unassigned.

Non-spendable – assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted – amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2016

NOTE 6: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - Concluded

Committed – amounts constrained on use imposed by formal action of the government’s highest level of decision making authority (i.e., Board, Council, etc.)

Assigned – amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee, or a delegated municipality official.

Unassigned – all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classifications and Procedures

For committed fund balance, the Authority’s highest level of decision-making authority is the Board. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution.

For assigned fund balance, the Authority Trustees are authorized to assign amounts to a specific purpose.

The Authority has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first, therefore restricted resources will be used first, then unrestricted resources if they are needed.

The Authority has not formally adopted a policy that determines whether committed, assigned, or unassigned amounts are considered to be spent when an expenditure is incurred for purposes which amounts from any of those fund balance classifications could be used.

REQUIRED SUPPLEMENTARY INFORMATION

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL OPERATIONS - TIFA #1

FOR THE YEAR ENDED JUNE 30, 2016

	BUDGETED AMOUNTS			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
REVENUES				
Property taxes	\$ 258,228	\$ 258,228	\$ 272,627	\$ 14,399
Interest earnings	150	150	88	(62)
TOTAL REVENUES	258,378	258,378	272,715	14,337
EXPENDITURES				
Administration/attorney/audit	3,000	3,000		3,000
Park maintenance/landscaping	900	900		900
Community Center operations	104,736	104,736	104,736	
Community Center improvements/equipment	34,753	34,753	34,753	
Energy management upgrade	158,558	158,558	158,558	
Chiller debt	14,967	14,967	14,967	
TOTAL EXPENDITURES	316,914	316,914	313,014	3,900
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(58,536)	(58,536)	(40,299)	18,237
FUND BALANCE, JULY 1	68,314	68,314	68,314	
FUND BALANCE, JUNE 30	\$ 9,778	\$ 9,778	\$ 28,015	\$ 18,237

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL OPERATIONS - TIFA #2

FOR THE YEAR ENDED JUNE 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Property taxes	\$ 88,164	\$ 88,164	\$ 87,558	\$ (606)
Interest earnings	725	725	364	(361)
TOTAL REVENUES	88,889	88,889	87,922	(967)
EXPENDITURES				
Administration/legal	500	500		500
City administration fee	10,848	10,848	10,848	
Crampton Park - signage	9,000	9,000	9,000	
Crampton Park - weed operation	1,300	1,300		1,300
Park maintenance operations subsidy	36,000	36,000	36,000	
M-24 tunnel	47,000	47,000	7,687	39,313
Planning for future projects	199,249	199,249		199,249
TOTAL EXPENDITURES	303,897	303,897	63,535	240,362
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(215,008)	(215,008)	24,387	239,395
FUND BALANCE, JULY 1	224,578	224,578	224,578	
FUND BALANCE, JUNE 30	\$ 9,570	\$ 9,570	\$ 248,965	\$ 239,395

**TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST AND
REVOLVING LOAN FUND OF THE CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

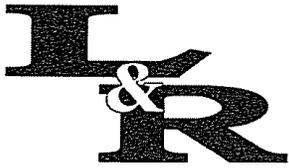
GENERAL OPERATIONS - TIFA #3

FOR THE YEAR ENDED JUNE 30, 2016

	BUDGETED AMOUNTS			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
REVENUES				
Property taxes	\$ 727,696	\$ 727,696	\$ 746,356	\$ 18,660
Interest earnings	650	650	425	(225)
TOTAL REVENUES	728,346	728,346	746,781	18,435
EXPENDITURES				
Administration/attorney/audit	25,000	25,000	22,814	2,186
Oakdale operations	35,599	35,599	35,599	
Roof replacement				
debt service	27,087	27,087	27,087	
Public safety				
building roof	150,000	150,000	67,490	82,510
City administration	106,656	106,656	106,656	
Park maintenance				
operations subsidy	17,000	17,000	17,000	
Lincoln Street	77,000	125,000	125,000	
M-24 tunnel	47,000	47,000	7,687	39,313
B street	48,000			
Lapeer Community				
Schools - athletic complex	200,000	200,000	200,000	
Excess revenue return	50,000	50,000	50,000	
Reserve for future projects	87,452	87,452		87,452
TOTAL EXPENDITURES	870,794	870,794	659,333	211,461
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(142,448)	(142,448)	87,448	229,896
FUND BALANCE, JULY 1	154,556	154,556	154,556	
FUND BALANCE, JUNE 30	\$ 12,108	\$ 12,108	\$ 242,004	\$ 229,896

OTHER SUPPLEMENTARY INFORMATION

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Members of the Tax Increment Finance
Authorities #1, #2, #3, Trust and
Revolving Loan Fund of the City of Lapeer
Lapeer, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities of the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan's basic financial statements and have issued our report thereon dated December 16, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Layton & Richardson, P.C."

Certified Public Accountants

East Lansing, Michigan
December 16, 2016