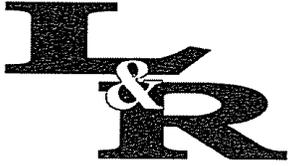


TAX INCREMENT FINANCE AUTHORITIES #1, #2, #3, TRUST
AND REVOLVING LOAN FUND
OF THE CITY OF LAPEER, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
AND
INDEPENDENT AUDITORS' REPORT

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

1000 Coolidge Road
East Lansing, MI 48823

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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, 2017, 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. 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.

Vickie L. Crouch, CPA, CGFM
Principal
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA
Principal
Steve@LNRCPA.COM

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, 2017, 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.



Certified Public Accountants

December 19, 2017
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, 2017. 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 \$30,000.
- Provided funding for the Energy Savings Program Contract Debt Service of \$158,558.
- Provided an operations subsidy for the Oakdale Development Fund of \$38,951.
- Provided funding for Community Center improvements and equipment of \$39,201.
- 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 \$53,384.
- Provided funding for the Oak Street reconstruction project of \$262,331.
- Provided funding for the M-24 pedestrian connection of \$2,240.

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 increased from \$4,179,216 to \$4,363,470, an increase of \$184,254 or 4.4%. In the prior year the Tax Increment Finance Authority net assets decreased from \$4,247,370 to \$4,179,216, a decrease of \$68,154 or 1.6%.

Table 1
Net Assets
(In Millions)

	<u>Governmental Activities</u> 2017	<u>Governmental Activities</u> 2016
Current and other assets	\$1.8	\$1.4
Capital assets	<u>2.6</u>	<u>2.8</u>
Total assets	<u>4.4</u>	<u>4.2</u>
Long-term debt		
Outstanding	0.0	0.0
Other liabilities	<u>0.1</u>	<u>0.0</u>
Total liabilities	<u>0.1</u>	<u>0.0</u>
Net assets:		
Invested in capital assets, Net of debt	2.6	2.8
Restricted	0.0	0.0
Assigned (deficit)	<u>1.7</u>	<u>1.4</u>
Total net assets	<u>\$4.3</u>	<u>\$4.2</u>

Governmental Activities

As stated previously, the net assets of the Tax Increment Finance Authority's governmental activities increased by \$184,254 or 4.4%. 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 \$1,698,935.

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 Millions)

	Governmental <u>Activities</u> 2017	Governmental <u>Activities</u> 2016
Revenues:		
Program revenues:		
Charges for Services	\$0.0	\$0.0
Operating grants and Contributions	0.0	0.0
General revenues:		
Property taxes	1.0	1.1
Other	<u>0.1</u>	<u>0.1</u>
Total Revenues	<u>1.1</u>	<u>1.2</u>
Expenses:		
General government	\$1.0	\$1.2
Interest on long-term Debt	<u>0.0</u>	<u>0.0</u>
Total Expenses	<u>1.0</u>	<u>1.2</u>
Increase in net assets before transfers	0.1	0.0
Transfers	<u>0.0</u>	<u>0.0</u>
Increase in Net Assets	0.1	0.0
Net assets, July 1	4.2	4.2
Prior Period Adjustment	<u>0.0</u>	<u>0.0</u>
Net assets, June 30	<u>\$4.3</u>	<u>\$4.2</u>

Total revenue from all sources totaled \$1,162,994 of which 88.3% or \$1,027,371 was from property taxes. Other revenues consisted of State reimbursement of \$83,443, unrestricted investment earnings of \$2,433 and miscellaneous revenue of \$49,747. The Tax Increment Finance Authority captured the City of Lapeer millage rate of 9.8000 and the County Operating millage of 3.7.666 for this fiscal year.

The governmental activities of the Tax Increment Finance Authority had an expense of \$978,740 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 \$598,632 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 \$978,740 for governmental activities was funded from \$1,027,371 in property taxes.

THE TAX INCREMENT FINANCE AUTHORITY'S FUNDS

The Tax Increment Finance Authority District #1 received a total of \$199,804 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 \$38,201, energy savings program contract of \$158,558, Community Center operational subsidy of \$30,000, park maintenance of \$150 and debt service for the Community Center Chiller of \$14,967.

The Tax Increment Finance Authority District #2 received a total of \$85,511 in captured property taxes. The Tax Increment Finance Authority District #2 expended funds on various projects this year which included Oak Street reconstruction of \$262,331 and M-24 pedestrian connection of \$1,120. Additionally, the district paid an administration fee to the City of Lapeer of \$8,644 for accounting services and project management and a Parks and Recreation operations subsidy of \$36,234.

The Tax Increment Finance Authority District #3 received a total of \$742,056 in captured property taxes. The Tax Increment Finance Authority District #3 expended funds on various projects this year which included the M-24 pedestrian connection of \$1,120 and Return of Excess Revenues of \$50,000. Additionally, the district paid an administration fee to the City of Lapeer of \$106,198 for accounting services and project management, a Parks and Recreation operation subsidy of \$17,000 and an Oakdale Development operations subsidy of \$38,951. Other expenses of the district were administration, legal, and audit fees of \$27,267.

The Tax Increment Finance Authority Trust received rental income of \$49,747. The Tax Increment Finance Authority Trust expended funds on repairs and maintenance of \$4,855, supplies of \$118, utilities of \$4,050, insurance of \$1,313, property taxes of \$9,959 and miscellaneous of \$16.

The Tax Increment Finance Authority Revolving Loan Fund received interest income of \$433. The Tax Increment Finance Authority Revolving Loan Fund expended funds on miscellaneous of \$14.

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, 2017 amounted to \$2,664,535 (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, 2017

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash	\$ 1,582,614
Receivables	
Notes	180,000
Due from other units	6,109
Capital assets not being depreciated	14,400
Capital assets (net of accumulated depreciation)	<u>2,650,135</u>
TOTAL ASSETS	<u>\$ 4,433,258</u>
LIABILITIES	
Current liabilities	
Deposits payable	\$ 5,814
Due to other units	<u>63,974</u>
TOTAL LIABILITIES	<u>69,788</u>
NET POSITION	
Net investment in capital assets	2,664,535
Assigned	<u>1,698,935</u>
TOTAL NET POSITION	<u>4,363,470</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 4,433,258</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**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		PROGRAM REVENUES	
EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
FUNCTIONS/PROGRAMS			
Primary Government			
Governmental Activities			
General government	\$ <u>978,740</u>	\$ <u> </u>	\$ <u> </u>
	General Revenues		
	Property taxes levied for general purposes		
	State Reimbursement		
	Miscellaneous		
	Unrestricted investment earnings		
	Total General Revenues and Transfers		
	Change in Net Position		
	NET POSITION, JULY 1		
	NET POSITION, JUNE 30		

See accompanying notes to financial statements.

NET (EXPENSE) REVENUE AND
CHANGES IN NET POSITION

PROGRAM REVENUES	PRIMARY GOVERNMENT		
CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
\$ <u> </u>	\$ <u> (978,740)</u>	\$ <u> </u>	\$ <u> (978,740)</u>
	1,027,371		1,027,371
	83,443		83,443
	49,747		49,747
	<u> 2,433</u>	<u> </u>	<u> 2,433</u>
	<u> 1,162,994</u>	<u> </u>	<u> 1,162,994</u>
	184,254		184,254
	<u> 4,179,216</u>	<u> </u>	<u> 4,179,216</u>
	<u> \$ 4,363,470</u>	<u> </u>	<u> \$ 4,363,470</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, 2017

	T.I.F.A. TRUST	T.I.F.A. #1
ASSETS		
Cash in checking	\$ 2,295	\$ 670
Cash in savings	417,231	49,953
Notes receivable	180,000	
Due from other units		2,974
	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 599,526</u></u>	<u><u>\$ 53,597</u></u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Security deposit payable	\$ 5,814	\$
Due to other units		
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>5,814</u>	<u> </u>
 FUND BALANCE		
Unreserved	<u>593,712</u>	<u>53,597</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 599,526</u></u>	<u><u>\$ 53,597</u></u>

See accompanying notes to financial statements.

T.I.F.A. #2	T.I.F.A. #3	REVOLVING LOAN FUND	TOTAL GOVERNMENTAL FUNDS
\$ 1,011	\$ 1,490	\$ 997	\$ 6,463
90,122	755,024	263,821	1,576,151
<u>2,450</u>	<u>685</u>	<u> </u>	<u>180,000</u>
<u>\$ 93,583</u>	<u>\$ 757,199</u>	<u>\$ 264,818</u>	<u>\$ 1,768,723</u>
\$ 62,331	\$ 1,643	\$	\$ 5,814
<u>62,331</u>	<u>1,643</u>	<u> </u>	<u>63,974</u>
<u>31,252</u>	<u>755,556</u>	<u>264,818</u>	<u>1,698,935</u>
<u>\$ 93,583</u>	<u>\$ 757,199</u>	<u>\$ 264,818</u>	<u>\$ 1,768,723</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, 2017

Total fund balances - governmental funds	\$ 1,698,935
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 \$3,987,826.	<u>2,664,535</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>4,363,470</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, 2017

	T.I.F.A. TRUST	T.I.F.A. #1
REVENUES		
Property taxes	\$	\$ 199,804
Interest earnings	652	101
State reimbursement		67,553
Rental income	<u>49,747</u>	<u> </u>
TOTAL REVENUES	<u>50,399</u>	<u>267,458</u>
EXPENDITURES		
Administration/attorney/audit	225	
Excess revenue return		
Landscaping and lot maintenance	500	
Community center operations		30,000
Community center improvements	1,000	26,701
Energy management upgrade		158,558
Chiller debt		14,967
Carpet		11,500
City administration		
Park maintenance and administration		150
Oak Street		
M-24 project pedestrian connection		
Oakdale operations		
Miscellaneous expense	16	
Repairs and maintenance	4,855	
Supplies	118	
Utilities	4,050	
Insurance	1,313	
Property taxes	<u>9,959</u>	<u> </u>
TOTAL EXPENDITURES	<u>22,036</u>	<u>241,876</u>
EXCESSS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	28,363	25,582
FUND BALANCE, JULY 1	<u>565,349</u>	<u>28,015</u>
FUND BALANCE, JUNE 30	<u><u>\$ 593,712</u></u>	<u><u>\$ 53,597</u></u>

See accompanying notes to financial statements.

T.I.F.A. #2	T.I.F.A. #3	REVOLVING LOAN FUND	TOTAL GOVERNMENTAL FUNDS
\$ 85,511	\$ 742,056	\$	\$ 1,027,371
210	1,037	433	2,433
4,895	10,995		83,443
<hr/>	<hr/>	<hr/>	<hr/>
90,616	754,088	433	1,162,994
	27,267		27,492
	50,000		50,000
			500
			30,000
			27,701
			158,558
			14,967
			11,500
8,644	106,198		114,842
36,234	17,000		53,384
262,331			262,331
1,120	1,120		2,240
	38,951		38,951
		14	30
			4,855
			118
			4,050
			1,313
			9,959
<hr/>	<hr/>	<hr/>	<hr/>
308,329	240,536	14	812,791
(217,713)	513,552	419	350,203
<hr/>	<hr/>	<hr/>	<hr/>
248,965	242,004	264,399	1,348,732
<hr/>	<hr/>	<hr/>	<hr/>
\$ 31,252	\$ 755,556	\$ 264,818	\$ 1,698,935

**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, 2017

Net changes in fund balances - total governmental funds	\$	350,203
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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>(165,949)</u>
Change in net position of governmental activities	\$	<u><u>184,254</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, 2017

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, 2017

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. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end 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, 2017

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, 2017

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, 2017, the carrying amount of the Authority's deposits was \$1,582,614 and the bank balance was \$1,582,566, of which \$6,511 was covered by federal depository insurance. The remaining balance of \$1,576,055 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, 2017, 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, 2017

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>3,821,877</u>	<u>165,949</u>	_____	<u>3,987,826</u>
Total capital assets being depreciated, net	<u>2,816,084</u>	<u>(165,949)</u>	_____	<u>2,650,135</u>
Total Capital Assets	\$ <u>2,830,484</u>	\$ <u>(165,949)</u>	\$ _____	\$ <u>2,664,535</u>

NOTE 5: NOTES RECEIVABLE

The Authority had two note receivables with local businesses. One was paid in full during the year.

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: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that cities and other local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the Authority. For the year ended June 30, 2017 there were expenditures in excess of budget.

	BUDGET	ACTUAL	VARIANCE
Administration/Attorney/Audit	\$ 25,000	\$ 27,267	\$(2,267)
Oakdale Operation	31,763	38,951	(7,188)
Excess revenue return		50,000	(50,000)

**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, 2017

NOTE 7: 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.

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, 2017

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Property taxes	\$ 225,556	\$ 225,556	\$ 199,804	\$ (25,752)
Interest earnings	100	100	101	1
State Reimbursement	_____	_____	67,553	67,553
TOTAL REVENUES	225,656	225,656	267,458	41,802
EXPENDITURES				
Administration/attorney/audit	3,000	3,000		3,000
Park maintenance/landscaping	900	900	150	750
Community Center operations Community Center	30,000	30,000	30,000	
improvements/equipment	26,701	26,701	26,701	
Energy management upgrade	158,558	158,558	158,558	
Chiller debt	14,967	14,967	14,967	
Carpet	11,500	11,500	11,500	
Reserve for future projects	2,384	2,384	_____	2,384
TOTAL EXPENDITURES	248,010	248,010	241,876	6,134
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(22,354)	(22,354)	25,582	47,936
FUND BALANCE, JULY 1				
	28,015	28,015	28,015	_____
FUND BALANCE, JUNE 30				
	\$ 5,661	\$ 5,661	\$ 53,597	\$ 47,936

**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, 2017

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Property taxes	\$ 88,164	\$ 88,164	\$ 85,511	\$ (2,653)
Interest earnings	725	725	210	(515)
State Reimbursement			4,895	4,895
	<u>88,889</u>	<u>88,889</u>	<u>90,616</u>	<u>1,727</u>
EXPENDITURES				
Administration/legal	500	500		500
City administration fee	8,644	8,644	8,644	
Crampton Park - weed operation	1,300	1,300		1,300
Park maintenance operations subsidy	36,234	36,234	36,234	
M-24 tunnel	30,000	30,000	1,120	28,880
Oak street	262,331	262,331	262,331	
Fire truck replacement	50,000	50,000		50,000
Planning for future projects	28,218	199,249		199,249
	<u>417,227</u>	<u>588,258</u>	<u>308,329</u>	<u>279,929</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(328,338)	(499,369)	(217,713)	281,656
FUND BALANCE, JULY 1				
	<u>248,965</u>	<u>248,965</u>	<u>248,965</u>	
FUND BALANCE, JUNE 30				
	<u><u>\$ (79,373)</u></u>	<u><u>\$ (250,404)</u></u>	<u><u>\$ 31,252</u></u>	<u><u>\$ 281,656</u></u>

**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

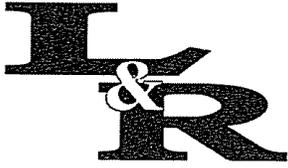
GENERAL OPERATIONS - TIFA #3

FOR THE YEAR ENDED JUNE 30, 2017

	BUDGETED AMOUNTS			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
REVENUES				
Property taxes	\$ 756,136	\$ 756,136	\$ 742,056	\$ (14,080)
Interest earnings	425	425	1,037	612
State reimbursement	10,000	10,000	10,995	995
TOTAL REVENUES	766,561	766,561	754,088	(12,473)
EXPENDITURES				
Administration/attorney/audit	25,000	25,000	27,267	(2,267)
Oakdale operations	31,763	31,763	38,951	(7,188)
City administration	106,198	106,198	106,198	
Park maintenance operations subsidy	17,000	17,000	17,000	
M-24 tunnel	30,000	30,000	1,120	28,880
Woods at Oakdale study	18,300	18,300		18,300
Fire truck replacement	200,000	200,000		200,000
Excess revenue return			50,000	(50,000)
TOTAL EXPENDITURES	428,261	428,261	240,536	187,725
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	338,300	338,300	513,552	175,252
FUND BALANCE, JULY 1	242,004	242,004	242,004	
FUND BALANCE, JUNE 30	\$ 580,304	\$ 580,304	\$ 755,556	\$ 175,252

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

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information 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, 2017, in accordance with auditing standards generally accepted in the United States of America, 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 as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in 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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider the following deficiencies in the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan's internal control to be significant deficiencies:

Segregation of Duties

Segregation of duties is an arrangement of responsibilities such that the work of one employee serves as a check on the work of others. The least desirable situation is one in which a single employee is responsible for an entire accounting process from the origin of each transaction to the ultimate posting in the general ledger. This situation enhances the likelihood that intentional or unintentional errors will occur and remain undetected.

Because it is often difficult in a small governmental unit to segregate accounting duties, alternative controls should be implemented to compensate for lack of a segregation of duties. Such controls as management supervision are an effective means of improving control and reducing the risk of error without incurring additional cost.

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We noted certain matters that we reported to management of the Tax Increment Finance Authorities #1, #2, #3, Trust and Revolving Loan Fund of the City of Lapeer, Michigan, in a separate letter dated December 19, 2017.

This report is intended solely for the information and use of management and the Board and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Layton & Richardson, P.C." in a cursive, professional style.

Certified Public Accountants

East Lansing, Michigan
December 19, 2017