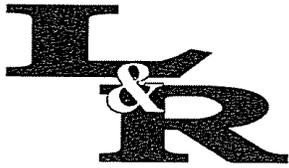


LOCAL DEVELOPMENT FINANCE AUTHORITY  
OF THE CITY OF LAPEER, MICHIGAN  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
AND  
INDEPENDENT AUDITORS' REPORT

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# Layton & Richardson, P.C.

*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

Members of the Local Development  
Finance Authority of the City of Lapeer  
Lapeer, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the **Local Development Finance Authority 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.

### 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 Local Development Finance Authority 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.

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## 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 Local Development Finance Authority of the City of Lapeer's financial performance provides an overview of the Local Development Finance Authority's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the Local Development Finance Authority's financial statements.

### FINANCIAL HIGHLIGHTS

The Local Development Finance Authority:

- Reimbursed the City of Lapeer \$32,070 for the Elba Township property tax payment in accordance with the Land Transfer Agreement between the City of Lapeer and Elba Township.
- Returned excess funds of \$50,000. The returned funds are distributed based upon the ratio of the taxing jurisdictions' millage to the total millage captured.
- Provided funding for the John Conley Drive resurfacing project debt service of \$62,503.
- Provided funding for land balancing of City-owned lots in the Industrial Park to aid in future development of \$8,682.

### 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 Local Development Finance Authority as a whole and present a longer-term view of the Local Development Finance Authority's finances. Fund financial statements provide more detailed information about the Local Development Finance Authority's funds - not the Local Development 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 Local Development Finance Authority as a Whole

One of the most important questions asked about the Local Development Finance Authority's finances is, "Is the Local Development 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 Local Development 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 Local Development Finance Authority's *net assets* and changes in them. You can think of the Local Development Finance Authority's net assets - the difference between assets and liabilities - as one way to measure the Local Development Finance Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Local Development 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 Local Development Finance Authority's captured property tax base to assess the *overall health* of the Local Development Finance Authority:

In the Statement of Net Position and the Statement of Activities, the Local Development 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 Local Development Finance Authority's services are reported here. Property taxes finance most of these activities.

## Reporting the Local Development Finance Authority's Most Significant Funds

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

- *Governmental funds* – Most of the Local Development 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 Local Development 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 Local Development 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 LOCAL DEVELOPMENT FINANCE AUTHORITY AS A WHOLE

Table 1 was summarized from the Local Development Finance Authority Statement of Net Position and provides a comparison of the current and prior years. The net assets of the Local Development Finance Authority increased from \$523,827 to \$659,817, an increase of \$135,999 or 26.0%. In the prior year, the net assets increased from \$382,535 to \$523,827, an increase of \$141,292 or 36.9%.

Table 1  
Net Assets  
(In Thousands)

	Governmental <u>Activities</u> 2017	Governmental <u>Activities</u> 2016
Current and other assets	\$453.0	\$317.1
Capital assets	<u>206.8</u>	<u>206.7</u>
Total assets	<u>659.8</u>	<u>523.8</u>
Long-term debt		
Outstanding	0.0	0.0
Other liabilities	<u>1.8</u>	<u>0.0</u>
Total liabilities	<u>1.8</u>	<u>0.0</u>
Net assets:		
Invested in capital assets, Net of debt	206.8	206.7
Restricted	0.0	0.0
Assigned (deficit)	<u>451.2</u>	<u>317.1</u>
Total net assets	<u>\$658.0</u>	<u>\$523.8</u>

## Governmental Activities

As stated previously, the net assets of the Local Development Finance Authority's governmental activities increased by \$135,999 or 26.0%. 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 \$451,205.

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 Local Development Finance Authority and provides a comparison of the current and prior years.

Table 2  
Changes in Net Assets  
(In Thousands)

	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	204.2	367.1
Other	<u>132.3</u>	<u>0.4</u>
Total Revenues	<u>336.5</u>	<u>367.5</u>
Expenses:		
General government	\$202.3	\$226.2
Interest on long-term Debt	<u>0.0</u>	<u>0.0</u>
Total Expenses	<u>202.3</u>	<u>226.2</u>
Increase (Decrease) in net assets Before transfers	134.2	141.3
Transfers	<u>0.0</u>	<u>0.0</u>
Increase (Decrease) in net assets	134.2	141.3
Net assets, July 1	523.8	382.5
Prior Period Adjustment	<u>0.0</u>	<u>0.0</u>
Net assets, June 30	<u>\$658.0</u>	<u>\$523.8</u>

Total revenue from all sources totaled \$336,443 of which 60.7% or \$204,127 was from property taxes. Other revenues consisted of State reimbursement of \$131,726 and unrestricted investment earnings of \$590. The Local Development Finance Authority captured the City of Lapeer millage rate of 9.8000 and the County Operating millage of 3.7666 for this fiscal year.

The governmental activities of the Local Development Finance Authority had an expense of \$202,291 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.

The \$202,291 for governmental activities was funded from \$204,127 in property taxes.

## **THE LOCAL DEVELOPMENT FINANCE AUTHORITY'S FUNDS**

The Local Development Finance Authority received a total of \$204,127 in captured property taxes. The Local Development Finance Authority expended funds on various projects this year which included the reimbursement to the City of Lapeer for the Elba Township property tax payment in accordance with the Land Transfer Agreement between the City of Lapeer and Elba Township of \$32,070. Other expenses of the district included return of excess revenue of \$50,000, land balancing of \$8,682, legal and accounting fees of \$25,373 and landscaping and lot maintenance of \$3,125. Additionally, the Authority paid the City of Lapeer an administration fee of \$20,538 for accounting services and project management and John Conley Drive resurfacing project debt service of \$62,503.

### **Local Development Finance Authority Budgetary Highlights**

The Local Development Finance Authority Budget total did not change during the fiscal year.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The Local Development Finance Authority's investment in capital assets for its governmental activities as of June 30, 2017 amounts to \$206,774 (net of accumulated depreciation). This investment in capital assets is for land. The Local Development Finance Authority's investment in capital assets did not change from the prior fiscal year.

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

### **Debt**

The Local Development Finance Authority does not have any outstanding debt.

## **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 Local Development 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 Local Development Finance Authority Board. Funds not appropriated for specific projects are budgeted as "Planning 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 Local Development 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.

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2017

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET POSITION
<b>ASSETS</b>			
Cash - checking	\$ 530	\$	\$ 530
Cash - savings	452,513		452,513
Capital assets not being depreciated	<u>                    </u>	<u>206,774</u>	<u>206,774</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 453,043</u></b>	<b><u>\$ 206,774</u></b>	<b><u>\$ 659,817</u></b>
 <b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Due to other funds	<u>\$ 1,838</u>	<u>\$</u>	<u>\$ 1,838</u>
 <b>FUND BALANCE/NET POSITION</b>			
Net investment in capital assets	\$	\$ 206,774	\$ 206,774
Assigned	<u>451,205</u>	<u>                    </u>	<u>451,205</u>
<b>TOTAL FUND BALANCE/NET POSITION</b>	<b><u>451,205</u></b>	<b><u>206,774</u></b>	<b><u>657,979</u></b>
 <b>TOTAL LIABILITIES AND FUND BALANCE/NET POSITION</b>	 <b><u>\$ 453,043</u></b>	 <b><u>\$ 206,774</u></b>	 <b><u>\$ 659,817</u></b>

See accompanying notes to financial statements.

**LOCAL DEVELOPMENT FINANCE AUTHORITY 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	\$ 451,205
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 governmental funds. The cost of the assets is \$ 206,774 and the accumulated depreciation is \$0.	<u>206,774</u>
Total net position - governmental activities	<u><u>\$ 657,979</u></u>

See accompanying notes to financial statements.

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2017

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
EXPENDITURES/EXPENSES			
General government	\$ <u>202,291</u>	\$ _____	\$ <u>202,291</u>
REVENUES			
General revenues			
Property taxes	204,127		204,127
State Reimbursement	131,726		131,726
Interest income	<u>590</u>		<u>590</u>
	<u>336,443</u>		<u>336,443</u>
CHANGES IN NET POSITION	134,152		134,152
FUND BALANCE/ NET POSITION, JULY 1	<u>317,053</u>	<u>206,774</u>	<u>523,827</u>
FUND BALANCE/ NET POSITION, JUNE 30	<u><u>\$ 451,205</u></u>	<u><u>\$ 206,774</u></u>	<u><u>\$ 657,979</u></u>

See accompanying notes to financial statements.

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**LOCAL DEVELOPMENT FINANCE AUTHORITY 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 Local Development Finance Authority is considered a component unit 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 Local Development Finance Authority of the City of Lapeer are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Lapeer, Michigan.

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

The accounting policies of the Local Development Finance Authority of the City of Lapeer 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 Statement

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 Local Development Finance Authority 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.

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.

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2017

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

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.

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 Local Development Finance Authority as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

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 costs 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. Accumulated depreciation is reported on the government-wide statement. 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

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2017

**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.

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 \$453,053 and the bank balance was \$453,053, of which \$530 was covered by federal depository insurance. The remaining balance of \$452,523 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.

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2017

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

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.

**NOTE 4: CAPITAL ASSETS**

A summary of changes in the Authority's capital assets is as follows for the year ended June 30, 2017:

	BALANCE, JULY 1	ADDITIONS	DELETIONS	BALANCE, JUNE 30
Capital assets not being depreciated				
Land	\$ <u>206,774</u>	\$ _____	\$ _____	\$ <u>206,774</u>

These assets were purchased by the Local Development Finance Authority. They are in the name of the City of Lapeer.

**NOTE 5: 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 no expenditures in excess of budget but the budget was adopted with the deficiency of revenues over expenditures greater than beginning fund balances creating a negative ending budget fund balance.

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2017

**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.

*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.

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REQUIRED SUPPLEMENTARY INFORMATION

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**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL OPERATIONS

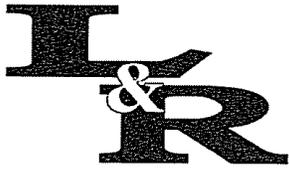
FOR THE YEAR ENDED JUNE 30, 2017

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
<b>REVENUES</b>				
Property taxes	\$ 189,850	\$ 189,850	\$ 204,127	\$ 14,277
State reimbursement	25,000	25,000	131,726	106,726
Interest earnings	375	375	590	215
TOTAL REVENUES	215,225	215,225	336,443	121,218
<b>EXPENDITURES</b>				
Attorney/accounting	27,000	27,000	25,373	1,627
City administration	20,538	20,538	20,538	
Landscaping and lot maintenance	3,000	5,000	3,125	1,875
Elba Township mills	32,070	32,070	32,070	
Planning for future projects	138,347	136,347		136,347
Excess revenue returned	50,000	50,000	50,000	
John Conley Drive debt service	62,503	62,503	62,503	
Land balancing	100,000	100,000	8,682	91,318
Fire truck replacement	100,000	100,000		100,000
TOTAL EXPENDITURES	533,458	533,458	202,291	331,167
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	(318,233)	(318,233)	134,152	452,385
<b>FUND BALANCE, JULY 1</b>				
	317,053	317,053	317,053	
<b>FUND BALANCE, JUNE 30</b>				
	\$ (1,180)	\$ (1,180)	\$ 451,205	\$ 452,385

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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 Local Development  
Finance Authority of the City of Lapeer  
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 Local Development Finance Authority 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 Local Development Finance Authority 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 Local Development Finance Authority of the City of Lapeer, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Local Development Finance Authority 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 Local Development Finance Authority of the City of Lapeer, Michigan's internal control to be significant deficiencies:

**Finding 2017-001** P.A. 621 of 1978 that cities and other local units of government shall not budget expenditures in excess of the amounts appropriated in the formal budget document adopted by the City Commission unless there is enough fund balance to cover the excess. It was noted in Note 5 of the financial statements that there were excess of expenditures over revenues greater than the beginning fund balances creating a negative ending budget fund balance.

### 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.

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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.

We noted certain matters that we reported to management of the Local Development Finance Authority 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.

  
*Layton & Richardson, P.C.*  
Certified Public Accountants

East Lansing, Michigan  
December 19, 2017