

**Dearborn Heights Tax Increment  
Finance Authority**

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**Financial Report  
with Supplemental Information  
June 30, 2017**

# **Dearborn Heights Tax Increment Finance Authority**

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## Independent Auditor's Report

To the Board of Directors  
Dearborn Heights Tax Increment Finance Authority

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan (the "City") as of and for the year ended June 30, 2017, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 9, 2017, which contained unmodified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to November 9, 2017.

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

The accompanying financial statements of the Dearborn Heights Tax Increment Finance Authority are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### ***Other Matters***

#### *Required Supplemental Information*

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

*Plante & Moran, PLLC*

November 9, 2017

# **Dearborn Heights Tax Increment Finance Authority**

## **Management's Discussion and Analysis**

Our discussion and analysis of the Dearborn Heights Tax Increment Finance Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the Authority's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlight for the year ended June 30, 2017:

Captured property tax revenue, the Authority's largest revenue source, increased in 2017, which resulted in overall increase in revenue by approximately 5 percent.

### **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 Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements by providing information about the Authority's funds.

# Dearborn Heights Tax Increment Finance Authority

## Management's Discussion and Analysis (Continued)

### The Authority as a Whole

The following table shows, in a condensed format, the net position as of the current date and compared to the prior year:

	<u>2016</u>	<u>2017</u>	<u>Net Change</u>
<b>Assets</b>			
Current assets	\$ 2,380,319	\$ 2,647,493	\$ 267,174
Capital assets	<u>18,157,223</u>	<u>17,489,476</u>	<u>(667,747)</u>
Total assets	20,537,542	20,136,969	(400,573)
<b>Deferred Outflows of Resources -</b>			
Bond refunding loss being amortized	<u>276,041</u>	<u>220,832</u>	<u>(55,209)</u>
Total assets and deferred outflows of resources	20,813,583	20,357,801	(455,782)
<b>Liabilities</b>			
Current liabilities	160,088	157,616	(2,472)
Long-term liabilities	<u>15,785,000</u>	<u>15,085,000</u>	<u>(700,000)</u>
Total liabilities	<u>15,945,088</u>	<u>15,242,616</u>	<u>(702,472)</u>
<b>Net Position</b>			
Net investment in capital assets	2,648,264	2,625,308	(22,956)
Unrestricted	<u>2,220,231</u>	<u>2,489,877</u>	<u>269,646</u>
Total net position	<u>\$ 4,868,495</u>	<u>\$ 5,115,185</u>	<u>\$ 246,690</u>

The Authority's total net position increased from 2016 by approximately 5 percent.

# Dearborn Heights Tax Increment Finance Authority

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net position during the current year and as compared to the prior year:

	2016	2017	Net Change
<b>Revenue</b>			
Property taxes	\$ 1,873,112	\$ 1,972,996	\$ 99,884
Interest and other	14,786	20,316	5,530
Transfers in	258,900	249,700	(9,200)
Total revenue	2,146,798	2,243,012	96,214
<b>Program Expenses</b>			
Public works	369,706	327,614	(42,092)
Public safety	454,657	493,896	39,239
Recreation	61,432	30,167	(31,265)
Economic development	40,409	622,902	582,493
Debt service	964,616	653,338	(311,278)
Total program expenses	1,890,820	2,127,917	237,097
<b>Excess of Revenue Over Expenditures</b>	255,978	115,095	(140,883)
<b>Other Financing Sources</b>	-	131,595	131,595
<b>Change in Net Position</b>	<b>\$ 255,978</b>	<b>\$ 246,690</b>	<b>\$ (9,288)</b>

Total revenue for the Authority increased approximately \$96,000 from 2016, primarily due to the increase in property tax revenue. Total expenses increased approximately \$237,000 from 2016.

### The Authority's Funds

The fund financial statements provide detailed information about the funds of the Authority, not the Authority as a whole. The board of directors creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond proceeds. The Authority's funds for 2017 include the Operating Fund, Capital Projects Fund, and Debt Service Fund.

### Operating Fund Budgetary Highlights

The Operating Fund of the Authority accounts for all of the annual projects as planned by the board of directors. The Operating Fund spent approximately \$2.1 million in the current year, which was less than budgeted. This is due in part to a conservative budget for debt service expenses and also due to a conservative budget for various other expenses.

# **Dearborn Heights Tax Increment Finance Authority**

## **Management's Discussion and Analysis (Continued)**

### **Debt Administration**

The Authority paid over \$1.5 million in interest and principal on the related outstanding bonds in the current year.

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

The Authority's budget for next year calls for minor changes and, as always, the Authority will work hard to maintain a fair budget.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Dearborn Heights Tax Increment Finance Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority at 25637 Michigan Avenue, Dearborn Heights, MI 48125 or the City of Dearborn Heights, Michigan's finance office at 6045 Fenton, Dearborn Heights, MI 48127.

# Dearborn Heights Tax Increment Finance Authority

## Governmental Funds Balance Sheet/Statement of Net Position June 30, 2017

	Operating Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 2,647,311	\$ -	\$ 2,647,311	\$ -	\$ 2,647,311
Other assets	182	-	182	-	182
Capital assets:					
Assets not subject to depreciation (Note 4)	-	-	-	2,769,084	2,769,084
Assets subject to depreciation (Note 4)	-	-	-	14,720,392	14,720,392
Total assets	2,647,493	-	2,647,493	17,489,476	20,136,969
<b>Deferred Outflows of Resources -</b>					
Bond refunding loss being amortized	-	-	-	220,832	220,832
Total assets and deferred outflows	<b>\$ 2,647,493</b>	<b>\$ -</b>	<b>\$ 2,647,493</b>	17,710,308	20,357,801
<b>Liabilities</b>					
Accounts payable	\$ 2,741	\$ -	\$ 2,741	-	2,741
Due to the City	1,785	-	1,785	-	1,785
Accrued liabilities and other	-	-	-	153,090	153,090
Noncurrent liabilities:					
Due within one year - Current portion of long-term debt (Note 6)	-	-	-	1,160,000	1,160,000
Due in more than one year - Long-term debt (Note 6)	-	-	-	13,925,000	13,925,000
Total liabilities	4,526	-	4,526	15,238,090	15,242,616
<b>Net Position/Fund Balances</b>					
Fund balances:					
Assigned:					
Capital projects (Note 9)	93,373	-	93,373	(93,373)	-
Debt service (Note 9)	2,143,063	-	2,143,063	(2,143,063)	-
Other (Note 9)	19,052	-	19,052	(19,052)	-
Unassigned	387,479	-	387,479	(387,479)	-
Total net position/fund balances	2,642,967	-	2,642,967	(2,642,967)	-
Total liabilities and net position/fund balances	<b>\$ 2,647,493</b>	<b>\$ -</b>	<b>\$ 2,647,493</b>		
Net position:					
Net investment in capital assets				2,625,308	2,625,308
Unrestricted				2,489,877	2,489,877
Total net position				<b>\$ 5,115,185</b>	<b>\$ 5,115,185</b>

# Dearborn Heights Tax Increment Finance Authority

## Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended June 30, 2017

	Operating Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
<b>Revenue</b>					
Property taxes	\$ 1,972,996	\$ -	\$ 1,972,996	\$ -	\$ 1,972,996
Interest and other	20,316	-	20,316	-	20,316
Operating grants and contributions	-	249,700	249,700	-	249,700
	<u>1,993,312</u>	<u>249,700</u>	<u>2,243,012</u>	<u>-</u>	<u>2,243,012</u>
Total revenue					
<b>Expenditures</b>					
Public works	127,614	-	127,614	200,000	327,614
Public safety	26,149	-	26,149	467,747	493,896
Recreation	30,167	-	30,167	-	30,167
Economic development	622,902	-	622,902	-	622,902
Debt service	1,338,429	249,700	1,588,129	(934,791)	653,338
	<u>2,145,261</u>	<u>249,700</u>	<u>2,394,961</u>	<u>(267,044)</u>	<u>2,127,917</u>
Total expenditures					
<b>Excess of Revenue (Under) Over Expenditures</b>	(151,949)	-	(151,949)	267,044	115,095
<b>Other Financing Sources (Uses)</b>					
Proceeds from debt issuance/Debt premium or discount	15,216,595	-	15,216,595	(15,085,000)	131,595
Payment to bond refunding escrow agent	(14,795,000)	-	(14,795,000)	14,795,000	-
	<u>421,595</u>	<u>-</u>	<u>421,595</u>	<u>(290,000)</u>	<u>131,595</u>
Total other financing sources (uses)					
<b>Net Change in Fund Balances/Net Position</b>	269,646	-	269,646	(22,956)	246,690
<b>Fund Balances/Net Position - Beginning of year</b>					
	<u>2,373,321</u>	<u>-</u>	<u>2,373,321</u>	<u>2,495,174</u>	<u>4,868,495</u>
<b>Fund Balances/Net Position - End of year</b>					
	<u><b>\$ 2,642,967</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 2,642,967</b></u>	<u><b>\$ 2,472,218</b></u>	<u><b>\$ 5,115,185</b></u>

# **Dearborn Heights Tax Increment Finance Authority**

## **Notes to Financial Statements June 30, 2017**

### **Note I - Summary of Significant Accounting Policies**

#### **Reporting Entity**

The Dearborn Heights Tax Increment Finance Authority (the "Authority" or TIFA) is a component unit of the City of Dearborn Heights, Michigan (the "City") and is included in the basic financial statements of the City of Dearborn Heights, Michigan. The Authority was formed under Act 450 of the Public Acts of 1980 to develop southwest Dearborn Heights. A development plan was adopted that is financed by property tax revenue. The accompanying financial statements present the Authority.

#### **Accounting and Reporting Principles**

The Dearborn Heights Tax Increment Finance Authority follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

#### **Report Presentation**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The individual fund column presents the Authority's activities on the modified accrual basis of accounting, as discussed above, which demonstrates accountability for how the current resources have been spent. The government-wide columns are presented on the economic resources measurement focus and the full accrual basis of accounting in order to measure the cost of providing government services and the extent to which constituents have paid the full cost of government services.

On the full accrual basis of accounting, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

For the most part, the effect of interfund activity has been removed from these statements.

#### **Fund Accounting**

The Dearborn Heights Tax Increment Finance Authority accounts for its various activities in several different funds in order to demonstrate accountability for how certain resources were spent - separate funds allow the Authority to show the particular expenditures for which specific revenue was used. The various funds are aggregated into the following fund type:

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2017

### Note I - Summary of Significant Accounting Policies (Continued)

**Governmental funds** include all activities that provide general governmental services that are not business-type activities. The Dearborn Heights Tax Increment Finance Authority reports the following funds as “major” governmental funds:

- The Operating Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Debt Service Fund accounts for debt payments made on certain outstanding debt balances of the Authority.

Interfund activity: During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

#### **Basis of Accounting**

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

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2017

### Note I - Summary of Significant Accounting Policies (Continued)

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow."

#### Specific Balances and Transactions

**Cash, Cash Equivalents, and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at amortized cost.

**Capital Assets** - Capital assets, which include property and infrastructure assets (e.g., roads), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Dearborn Heights Tax Increment Finance Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Infrastructure, intangibles, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

<u>Capital Asset Class</u>	<u>Lives</u>
Buildings and improvements	5 to 50 years
Roads	25 years

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The Operating Fund and Debt Service Fund are generally used to liquidate governmental long-term debt.

# **Dearborn Heights Tax Increment Finance Authority**

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## **Notes to Financial Statements June 30, 2017**

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category. It is the deferred charge on refunding that results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

#### **Net Position Flow Assumption**

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

#### **Fund Balance Flow Assumption**

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

# **Dearborn Heights Tax Increment Finance Authority**

## **Notes to Financial Statements June 30, 2017**

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Fund Balance Policies**

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Dearborn Heights Tax Increment Finance Authority board has by resolution authorized the city Comptroller to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Dearborn Heights Tax Increment Finance Authority's 2016 tax is levied and collectible on July 1, 2016 and is recognized as revenue in the year ended June 30, 2017, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2016 taxable valuation of the City approximated \$1.17 billion (a portion of which is abated and a portion of which is captured by the TIFA), on which taxes levied consisted of 23.7362 mills. These captures, in conjunction with captures for which the TIFA is entitled to receive from other taxing authorities, resulted in approximately \$1,973,000 of property tax revenue for the TIFA in the current year.

# **Dearborn Heights Tax Increment Finance Authority**

## **Notes to Financial Statements June 30, 2017**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted for the Operating Fund on an activity basis. Annual budgets are not adopted for the capital projects or debt service funds. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2017 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget process begins in December and January after the TIFA administrator meets with the assessor and the treasurer to determine the estimated revenue for the new fiscal year.

The TIFA administrator contacts various city department heads to determine any needs for individual departments. Proposed projects and/or continuation projects are discussed with the department head.

A proposed budget is prepared by the administrator based on the TIFA finance and development plan. This proposed budget is then discussed with the mayor for his input and suggestions.

The proposed budget is then presented to the TIFA board for discussion. If there are any changes to the proposed budget, they are made at this time. The TIFA board is then presented with the budget for adoption, contingent upon the City Council's concurrence.

The budget is then presented to the City Council for adoption pursuant to the State TIFA Act. Every attempt is made to have the TIFA budget adopted around the time that the City's budget is adopted in June.

In July or August, the TIFA administrator meets with the city treasurer to determine the final and actual TIFA tax capture (revenue) as presented by the Michigan Treasury Department. The TIFA budget is amended as needed and presented to the TIFA board for approval contingent upon the City Council's concurrence. The City Council is then presented with the amended budget for approval.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2017

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the current year, the Authority had no unfavorable budget variances.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost.

The governing body has designated four banks for the deposit of authority funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and CDs, but not the remainder of state statutory authority as listed above.

The Dearborn Heights Tax Increment Finance Authority's deposits and investments are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements as cash and cash equivalents. The entire balance relates to bank deposits (checking accounts, savings accounts, and certificates of deposit) and is therefore subject to the following risks:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Dearborn Heights Tax Increment Finance Authority does not have a deposit policy for custodial credit risk. At year end, the Dearborn Heights Tax Increment Finance Authority had \$1,070 of bank deposits (certificates of deposit and checking and savings accounts); however, for the purpose of FDIC coverage, the component units are combined with that of the City. The City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2017

### Note 3 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity.

At year end, the Authority had the following investments which are rated by Moody's:

Investment	Amortized Cost	Rating
Pooled investments	\$ 346,241	A1
Commercial paper	2,300,000	A2

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Dearborn Heights Tax Increment Finance Authority has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Amortized Cost	Investment Maturities Less Than 1 Year
<b>Primary Government</b>		
Pooled investments	\$ 346,241	\$ 346,241
Commercial paper	2,300,000	2,300,000

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2017

### Note 4 - Capital Assets

Capital asset activity of the Authority's governmental activities was as follows:

<b>Governmental Activities</b>	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated -				
Land	\$ 2,769,084	\$ -	\$ -	\$ 2,769,084
Capital assets being depreciated:				
Roads	5,000,000	-	-	5,000,000
Buildings and improvements	22,063,424	-	-	22,063,424
Subtotal	27,063,424	-	-	27,063,424
Accumulated depreciation:				
Roads	4,400,000	200,000	-	4,600,000
Buildings and improvements	7,275,285	467,747	-	7,743,032
Subtotal	11,675,285	667,747	-	12,343,032
Net capital assets being depreciated	15,388,139	(667,747)	-	14,720,392
Net capital assets	\$ 18,157,223	\$ (667,747)	\$ -	\$ 17,489,476

Depreciation expense was charged to the public works and public safety programs as it relates to roads and the police and court facility, respectively.

### Note 5 - Debt Service Contributions

The Authority has committed to annually make a contribution to defray a portion of the debt service payments being made by the City related to 2013 General Obligation Building Authority Library bonds. The amount of the contribution is at the discretion of the TIFA board. At June 30, 2017, \$6,620,000 is outstanding on these bonds. During the year, the TIFA Operating Fund transferred \$226,625 to the City's governmental Library Fund to cover current year principal and interest expense payments.

### Note 6 - Long-term Debt

The Authority issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2017

### Note 6 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	<u>Matures</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>							
2007 Tax Increment Development Bonds	2031	4.00% - 4.50%	\$15,785,000	\$ -	\$15,785,000	\$ -	\$ -
2016 Tax Increment Development Bonds	2031	2.00% - 2.63%	-	15,085,000	-	15,085,000	1,160,000
Total governmental activities			<u>\$15,785,000</u>	<u>\$15,085,000</u>	<u>\$15,785,000</u>	<u>\$15,085,000</u>	<u>\$1,160,000</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,160,000	\$ 307,618	\$ 1,467,618
2019	1,195,000	284,068	1,479,068
2020	945,000	262,668	1,207,668
2021	965,000	243,568	1,208,568
2022	985,000	224,068	1,209,068
2023-2027	5,230,000	813,790	6,043,790
2028-2031	4,605,000	232,703	4,837,703
Total	<u>\$ 15,085,000</u>	<u>\$ 2,368,483</u>	<u>\$ 17,453,483</u>

**Advance Refunding** - During the year, the Authority issued \$15,085,000 in limited tax general obligation bonds with an average interest rate of 2.11 percent. The proceeds of these bonds were used to advance refund \$14,795,000 of outstanding Tax Increment Finance Authority bonds with an average interest rate of 4.34 percent. The net proceeds were \$14,704,369 (after payment of \$380,631 in underwriting fees, insurance, and other issuance costs). As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the general long-term debt of the City. The advance refunding reduced total debt service payments over the next 14 years by approximately \$2,345,000.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2017

### Note 7 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities

Net position reported in the statement of net position column is different than the fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

<b>Total Fund Balances - Modified Accrual Basis</b>	<b>\$ 2,642,967</b>
Amounts reported in the statement of net position are different because:	
Capital assets are not financial resources and are not reported in the funds	17,489,476
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds	(15,085,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(153,090)
Deferred outflows of resources are not financial resources and are not reported in the funds	<u>220,832</u>
<b>Total Net Position - Full Accrual Basis</b>	<b><u>\$ 5,115,185</u></b>

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2017

### Note 7 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities (Continued)

The change in net position reported in the statement of activities column is different than the change in fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

<b>Total Change in Fund Balances - Modified Accrual Basis</b>	\$ 269,646
Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(667,747)
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets	(15,085,000)
Repayment of bond principal is an expenditure in the governmental funds, but is not reported as an expense in the statement of activities (where it reduces debt)	15,785,000
Deferred charges on refunding are amortized over the life of debt on the statement of activities	<u>(55,209)</u>
<b>Total Change in Net Position - Full Accrual Basis</b>	<u>\$ 246,690</u>

### Note 8 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. The City has purchased commercial insurance for all such claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2017

### Note 9 - Fund Balance Constraints

The fund balance assignments of the Operating Fund are as follows:

Fund balances:

Capital improvements:

Westwood School	\$	462
Industrial park		28,474
Water main		21,596
Fire department		4,975
Justice center improvements		24,476
Tree trimming		204
Gulley Road		356
Daly Park		6,786
Sewer lining		360
Manhole catch basins		3,428
Beech Daly improvements		677
Commercial rehab program		1,460
DPW improvements		119
Total capital improvements		93,373
Debt service		2,143,063
Other:		
Westwood drug education		25
Vanborn commercial improvements		1,611
Sidewalk		8,729
Ordinance officer		6,275
Right of way		287
Emergency management		2,125
Total other		19,052
Unassigned		387,479
Total fund balance	\$	<u>2,642,967</u>

## **Required Supplemental Information**

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# Dearborn Heights Tax Increment Finance Authority

## Required Supplemental Information Budgetary Comparison Schedule - Operating Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Resources (inflows):</b>				
Property taxes	\$ 3,303,073	\$ 3,303,073	\$ 1,972,996	\$ (1,330,077)
Interest and other	-	-	20,316	20,316
<b>Total resources (inflows)</b>	<b>3,303,073</b>	<b>3,303,073</b>	<b>1,993,312</b>	<b>(1,309,761)</b>
<b>Charges to appropriations (outflows):</b>				
Public works:				
Administration	198,453	198,453	104,668	93,785
Contingency	641,669	627,890	3,328	624,562
Water main replacement	21,596	21,596	-	21,596
DPW improvements	1,619	1,619	1,500	119
Storm sewer cleaning and lining	360	360	-	360
Catch basin repairs	3,428	3,428	-	3,428
Gulley Road improvements	356	356	-	356
Right-of-way maintenance and repair	18,405	18,405	18,118	287
Sidewalk installation	8,729	8,729	-	8,729
Vanborn commercial improvements	1,611	1,611	-	1,611
Fire station roof	4,761	4,761	-	4,761
Library improvements	489,517	489,517	-	489,517
Beech Daly improvements	4,290	4,290	-	4,290
Public safety:				
Ordinance officer	30,396	30,396	24,120	6,276
Fire station improvements	4,761	4,761	-	4,761
Rescue squad	214	214	-	214
Justice Center improvements	26,408	26,408	2,029	24,379
Emergency management	2,125	2,125	-	2,125
Justice Center roof	97	97	-	97
Recreation - Daly Park improvements	32,190	32,190	30,167	2,023
Economic development:				
Westwood School drug information program	25	25	-	25
Industrial Park improvements	59,693	64,357	31,219	33,138
Commercial rehabilitation program	38,193	43,938	35,387	8,551
Library improvements	486,039	311,110	179,033	132,077
Westwood School improvements	462	462	-	462
Other	-	377,263	377,263	-
Debt service - Interest and principal	1,596,669	1,596,669	1,338,429	258,240
<b>Total charges to appropriations (outflows)</b>	<b>3,672,066</b>	<b>3,493,767</b>	<b>2,145,261</b>	<b>1,348,506</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(368,993)</b>	<b>(190,694)</b>	<b>(151,949)</b>	<b>38,745</b>
<b>Other Financing Sources (Uses) -</b>				
Proceeds from debt issuance	-	-	15,216,595	15,216,595
Payment to bond refunding escrow agent	-	-	(14,795,000)	(14,795,000)
<b>Net Change in Fund Balance</b>	<b>(368,993)</b>	<b>(190,694)</b>	<b>269,646</b>	<b>460,340</b>
<b>Fund Balance - Beginning of year</b>	<b>2,373,321</b>	<b>2,373,321</b>	<b>2,373,321</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 2,004,328</b>	<b>\$ 2,182,627</b>	<b>\$ 2,642,967</b>	<b>\$ 460,340</b>