



**CITY OF LITCHFIELD  
TAX INCREMENT FINANCE AUTHORITY  
HILLSDALE COUNTY, MICHIGAN  
ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2021**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of the  
Tax Increment Finance Authority  
City of Litchfield, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the Tax Increment Finance Authority, a component unit of the City of Litchfield, Michigan (the "Authority"), as of and for the year ended June 30, 2021, 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.

### **Auditor's 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 auditor's 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 policies used and the reasonableness of significant accounting 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 and the major fund of the Authority, as of June 30, 2021, and the respective changes in financial position 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.



Gabridge & Company, PLC  
Grand Rapids, MI  
November 12, 2021

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

**City of Litchfield Tax Increment Finance Authority**  
**Management's Discussion and Analysis**  
**June 30, 2021**

As management of the City of Litchfield Tax Increment Finance Authority, Michigan (The "Authority" or "government") we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

**Financial Highlights**

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$3,087,099 (*net position*). The Authority had an *unrestricted net position* of \$1,313,317.
- The Authority's revenues were \$823,588 and expenses were \$743,604 for an increase in net position of \$79,984.
- At the close of the current fiscal year, the Authority's general fund, the sole governmental fund, reported a fund balance of \$557,454, a decrease of \$81,232 in comparison with the prior year. Approximately 99.9% of this amount, or \$557,144, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$557,144, or approximately 47.1% of total general fund expenditures.

**Overview of the Financial Statements**

The discussion and analysis provided here is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus,

revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the Authority that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Authority include only community and economic development.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be divided into one category: governmental funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains one individual governmental fund, the general fund. The Authority adopts an annual appropriated budget for the general fund. A budgetary comparison schedule for the general fund has been provided to demonstrate compliance with these budgets.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Authority's budgetary comparison schedules.

### **Government-wide Overall Financial Analysis**

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$3,087,099 at the close of the most recent fiscal year.

## City of Litchfield Tax Increment Finance Authority's Net Position

ASSETS	Governmental Activities	
	2021	2020
<i>Current Assets</i>		
Cash and Investments	\$ 645,193	\$ 676,427
Accounts Receivables, Net	7,632	786
Current Portion of Notes Receivable	66,621	65,252
Prepaid Items	310	-
<b>Total Current Assets</b>	<b>719,756</b>	<b>742,465</b>
<i>Noncurrent Assets</i>		
Notes Receivable, Net	33,439	107,208
Investment in Land and Infrastructure Development	655,803	457,406
Capital Assets, Net	1,773,782	1,738,563
<b>Total Assets</b>	<b>3,182,780</b>	<b>3,045,642</b>
<b>LIABILITIES</b>		
<i>Current Liabilities</i>		
Accounts Payable	31,172	31,204
Customer Deposits	64,509	-
Deferred Revenue	-	7,323
<b>Total Liabilities</b>	<b>95,681</b>	<b>38,527</b>
<b>NET POSITION</b>		
Investment in Capital Assets	1,773,782	1,738,563
Unrestricted	1,313,317	1,268,552
<b>Total Net Position</b>	<b>\$ 3,087,099</b>	<b>\$ 3,007,115</b>

A large portion of the Authority's net position, \$1,773,782 (or 57.5%), reflects its investment in capital assets (e.g., buildings and improvements and equipment and furniture), less any related outstanding debt that was used to acquire those assets. The Authority uses these capital assets to promote economic development. Accordingly, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of \$1,313,317, or 42.5%, is unrestricted.

Some of the more significant changes in assets and liabilities of the Authority are as follows:

- Net increase in investment in land and infrastructure development of \$198,397 due to the completion of a unit in their condo development project.
- Decrease in cash and investments of \$31,234 due to paying a contractor for the completion of a unit in their condo development project.

- Customer deposits increased \$64,509 is a result of a prepayment on an industrial loan, a down payment made on the completed condo unit, and donations made for tuition scholarships related to Litchfield Initiative's training programs.

### City of Litchfield Tax Increment Finance Authority's Changes in Net Position

<b>Revenues</b>	<b>Governmental Activities</b>	
	<b>2021</b>	<b>2020</b>
<b>Program Revenues</b>		
Charges for Services, Litchfield Initiative	\$ 71,093	\$ 61,298
Charges for Services, Golf Course	70,353	53,630
Charges for Services, Rents and Other	51,627	61,294
Operating Grants and Contributions	5,600	-
<b>Total Program Revenues</b>	<b>198,673</b>	<b>176,222</b>
<b>General Revenues</b>		
Property Taxes	145,908	158,247
Interest and Investment Earnings	19,547	11,103
Unrestricted State Sources	459,460	448,016
<b>Total General Revenues</b>	<b>624,915</b>	<b>617,366</b>
<b>Total Revenues</b>	<b>823,588</b>	<b>793,588</b>
<b>Expenses</b>		
General Development	69,239	70,613
Contributions to Primary Government	357,000	642,115
Litchfield Initiative	120,915	144,117
Golf Course	196,450	100,682
<b>Total Expenses</b>	<b>743,604</b>	<b>957,527</b>
<b>Change in Net Position</b>	<b>79,984</b>	<b>(163,939)</b>
<i>Net Position at Beginning of Period</i>	<i>3,007,115</i>	<i>3,171,054</i>
<b>Net Position at End of Period</b>	<b>\$ 3,087,099</b>	<b>\$ 3,007,115</b>

Governmental activities increased the Authority's net position by \$79,984 compared to a decrease of \$163,939 for the year ended June 30, 2020. Reasons for the increase in net position are as follows:

- Charges for services increased from \$176,222 to \$193,073 primarily because more tuition payments were received from the activities of Litchfield Initiative due to the addition of customized on-site training.
- Contributions to primary government decreased from \$957,527 to \$743,604 because in the previous fiscal year, the Authority purchased land for future industrial park development and transferred the land to the City of Litchfield to hold with the other industrial park lots.

## Financial Analysis of Governmental Funds

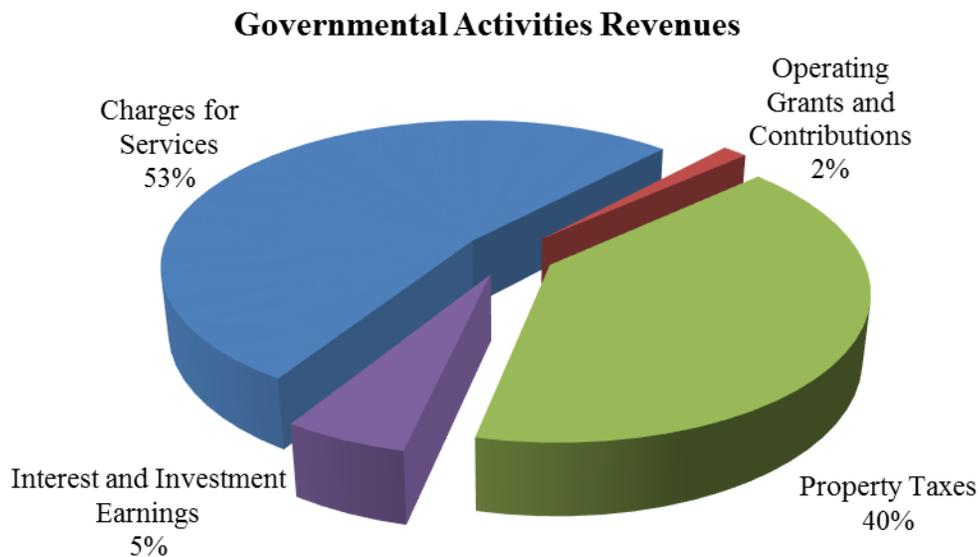
As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's near-term financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Authority itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Authority's Board.

The general fund is the chief operating fund, and sole governmental fund, of the Authority. At the end of the current fiscal year, unassigned fund balance of the general fund was \$557,144, which is available for spending at the government's discretion. \$310, or 0.1%, of the total fund balance is in non-spendable form (prepaid expenditures). As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 47.1% of total general fund expenditures. The fund balance of the Authority's general fund decreased by \$81,232 during the current fiscal year primarily due to the purchase of a liquor license for the golf course.

## Governmental Activities

The following chart summarizes the revenue sources for the governmental activities of the Authority for the most recent fiscal year-end.



## General Fund Budgetary Highlights

*Original budget compared to final budget.* There were no significant amendments made to the original budgeted appropriations or the original estimated revenues. Minor amendments were made to better allocate expenditures within the fund.

*Final budget compared to actual results.* The Authority's had one minor expenditure in excess of the amount appropriated during the year ended June 30, 2021:

	<b>Final Budget</b>	<b>Actual Amount</b>	<b>Negative Variance</b>
Golf Course	\$ 226,853	\$ 231,669	\$ (4,816)

## Capital Assets

The Authority's investment in capital assets as of June 30, 2021 amounts to \$1,773,782 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements and equipment and furniture.

At June 30, 2021, the Authority did not carry any outstanding debt obligations on its financial books.

More detailed information about the Authority's capital assets can be found in the notes to the financial statements.

## Economic Condition and Outlook

The Authority currently maintains a stable inventory of successful manufacturing companies within the industrial park. COVID-19 has caused prolonged supply-chain issues. Trained labor shortages are anticipated to continue to be a major concern for many of the businesses in the Authority's district. The Authority will keep their workforce training project going at Litchfield Regional Training Center, the Krohn Center, and on-site at area manufacturers desiring customized training to confront this issue. There will be a loss of one of the manufacturing companies within the Authority's district in late 2021. The Authority will continue recruitment of businesses to ensure continued success in the City of Litchfield's employment force and protect the tax base in the Authority's district. Sale of the golf course and restaurant is anticipated before the Spring of 2022. City Administration will continue to assist the Authority with financial review and estimates that approximately \$1.21 million of revenues will be available for appropriation in the general fund in the upcoming budget. The Authority will monitor and adjust revenue and expenditure projections accordingly.

## Contacting the Authority

This financial report is designed to provide a general overview of the Authority's finances to its citizens, customers, investors, and creditors and to demonstrate the Authority's accountability for

the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

City of Litchfield Administrative Office  
221 Jonesville Street  
Litchfield, MI 49252

## **Basic Financial Statements**

**City of Litchfield Tax Increment Finance Authority**  
**Statement of Net Position**  
**June 30, 2021**

**ASSETS**

*Current Assets*

Cash and Investments	\$	645,193
Accounts Receivables, Net		7,632
Current Portion of Notes Receivable		66,621
Prepaid Items		310
<b>Total Current Assets</b>		<b>719,756</b>

*Noncurrent Assets*

Notes Receivable, Net		33,439
Investment in Land and Infrastructure Development		655,803
Capital Assets not being Depreciated		637,494
Capital Assets being Depreciated, Net		1,136,288
<b>Total Assets</b>		<b>3,182,780</b>

**LIABILITIES**

*Current Liabilities*

Accounts Payable		31,172
Customer Deposits		64,509
<b>Total Liabilities</b>		<b>95,681</b>

**NET POSITION**

Investment in Capital Assets		1,773,782
<i>Unrestricted</i>		1,313,317
<b>Total Net Position</b>	<b>\$</b>	<b>3,087,099</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Litchfield Tax Increment Finance Authority  
Statement of Activities  
For the Year Ended June 30, 2021**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Governmental Activities:</b>					
Community and Economic Development	\$ 743,604	\$ 193,073	\$ 5,600	\$ --	\$ (544,931)
<b><i>Total Governmental Activities</i></b>	<b>\$ 743,604</b>	<b>\$ 193,073</b>	<b>\$ 5,600</b>	<b>\$ --</b>	<b>\$ (544,931)</b>
<b>General Purpose Revenues:</b>					
					145,908
					19,547
					459,460
					624,915
					<b>79,984</b>
					3,007,115
					<b>\$ 3,087,099</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Litchfield Tax Increment Finance Authority**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2021**

		<u>General</u>
<b>ASSETS</b>		
Cash and Investments	\$	645,193
Accounts Receivables, Net		7,632
Prepaid Items		310
<i>Total Assets</i>	<b>\$</b>	<b>653,135</b>
<b>LIABILITIES</b>		
Accounts Payable	\$	31,172
Customer Deposits		64,509
<i>Total Liabilities</i>		<u>95,681</u>
<b>FUND BALANCE</b>		
Nonspendable		310
Unassigned		557,144
<i>Total Fund Balance</i>		<u>557,454</u>
<i>Total Liabilities and Fund Balance</i>	<b>\$</b>	<b>653,135</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Litchfield Tax Increment Finance Authority**  
**Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position**  
**June 30, 2021**

Total Fund Balance - Governmental Fund	\$ 557,454
General government capital assets of \$2,317,157, net of accumulated depreciation of \$543,375, are not financial resources and, accordingly, are not reported in the funds.	1,773,782
Notes receivable, net includes notes receivable and accrued interest income expected to be collected in future years and are not available to pay for current year expenditures and, accordingly, are not reported in the funds.	100,060
Investment in land and infrastructure development are not current financial resources and, accordingly, are not reported in the funds.	655,803
<b>Total Net Position - Governmental Activities</b>	<b>\$ <u>3,087,099</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Litchfield Tax Increment Finance Authority**  
**Statement of Revenues, Expenditures, and Change in Fund Balance**  
**Governmental Fund**  
**For the Year Ended June 30, 2021**

	<b>General</b>
<b>Revenues</b>	
Property Taxes	\$ 145,908
Intergovernmental	465,060
Charges for Services	141,446
Interest and Rents	58,414
Other Revenues	72,757
<b><i>Total Revenues</i></b>	<b>883,585</b>
<b>Expenditures</b>	
General Development	472,233
Contributions to Primary Government	
Administrative	100,000
Fire department services	25,000
Police services	22,000
Equipment	26,000
Utilities	184,000
Litchfield Regional Training Center	120,915
Golf Course	231,669
<b><i>Total Expenditures</i></b>	<b>1,181,817</b>
<b><i>Excess of Revenues Over</i></b>	
<b><i>(Under) Expenditures</i></b>	<b>(298,232)</b>
<b>Other Financing Sources</b>	
Proceeds from Sale of Investments	217,000
<b><i>Net Other Financing Sources</i></b>	<b>217,000</b>
<b><i>Net Change in Fund Balance</i></b>	<b>(81,232)</b>
<i>Fund Balance at Beginning of Period</i>	638,686
<b><i>Fund Balance at End of Period</i></b>	<b>\$ 557,454</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Litchfield Tax Increment Finance Authority**  
**Reconciliation of Governmental Fund Statement of Revenues, Expenditures, and**  
**Change in Fund Balance with Statement of Activities**  
**For the Year Ended June 30, 2021**

Total Net Change in Fund Balance - Governmental Fund	\$	(81,232)
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay of \$91,234 exceeds depreciation expense of \$56,015.</p>		
		35,219
<p>Governmental funds report collection of long-term loans receivable as other revenues; however, in the statement of activities, the collection reduces long-term loans receivable. In addition, the change in interest receivable is reported as interest and investment earnings in governmental activities; however, the change is not recognized in governmental funds.</p>		
		(72,400)
<p>Governmental funds report development of investment property as expenditures and sales of investment property as other financing sources; however, in governmental activities, development and sales increases or decreases the investment in land and infrastructure development while the net gain or loss is reported against interest and investment earnings.</p>		
		198,397
<b>Changes in Net Position - Governmental Activities</b>	<b>\$</b>	<b><u>79,984</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

## **Notes to the Financial Statements**

# City of Litchfield Tax Increment Finance Authority

## Notes to the Financial Statements

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### **Note 1 - Summary of Significant Accounting Policies**

The financial statements of the City of Litchfield Tax Increment Finance Authority (the “Authority” or “government”) have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the Authority’s accounting policies are described below.

#### **Reporting Entity**

The Authority is organized and incorporated as authorized by and pursuant to the Tax Increment Finance Authority Act, P.A. 450 of 1981, as amended. The Authority is a component unit of the City of Litchfield, Michigan and is governed by a separate board appointed by the City Council, created to promote economic growth in the City of Litchfield, Michigan.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the Authority. The Authority’s government-wide activities are considered *governmental activities*, which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program 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*.

Separate financial statements are provided for the governmental fund.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon

# City of Litchfield Tax Increment Finance Authority

## Notes to the Financial Statements

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as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, state revenue sharing, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

### **Financial Statement Presentation – Assets, Liabilities, and Equity**

#### ***Deposits and Investments***

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, all local government investment pools, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value at the balance sheet date.

State statutes and Authority policy authorize the Authority to invest in:

- Bonds, securities, other obligations, and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.

## City of Litchfield Tax Increment Finance Authority

### Notes to the Financial Statements

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- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through March, 1997.

#### ***Receivables***

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

#### ***Notes Receivable***

The Authority uses the reserve method for valuing delinquent notes related to loans it has made to local manufacturing companies that potentially may not be fully collected. The reserve is estimated based on historical collections, the Authority's level of subordination to other company's creditors, and the economic condition of the companies.

#### ***Prepaid Items***

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepaid expenditures are equally offset by nonspendable fund balance, which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

#### ***Investment in Land and Infrastructure Development***

Investment in land represents land developed by the Authority for residential housing and industrial expansion. The Authority anticipates selling the land to developers. Additionally, the Authority is investing in development of infrastructure in the new residential housing complexes. When the development is complete, the infrastructure will be contributed to the City of Litchfield, at which time it will be capitalized and depreciated in the governmental activities of the City.

#### ***Capital Assets***

Capital assets, which include buildings and improvements and furniture and equipment, are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their acquisition value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or

## City of Litchfield Tax Increment Finance Authority

### Notes to the Financial Statements

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materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. No interest expense has been incurred or capitalized on capital assets reported in proprietary funds. Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and Improvements	10 - 50
Equipment and Furniture	3 - 20

#### ***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 restricted – net position to have been depleted before unrestricted – net position is applied.

#### ***Fund Balance Flow Assumptions***

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. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### ***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

## City of Litchfield Tax Increment Finance Authority

### Notes to the Financial Statements

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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 Authority Board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) 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 Authority Board, or its designee, is authorized to assign fund balance. The Authority 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.

*Unassigned fund balance* is the residual classification for the Authority's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Authority Board.

#### ***Property Tax Revenue Recognition***

The City of Litchfield, the primary government, bills and collects property taxes and distributes them to the Authority. Properties are assessed as of December 31, and the related property taxes are levied and become payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent real property taxes are turned over to the County and added to the County tax roll. The County remits all of the City's uncollected delinquent real property tax to the Authority by June 30. Subsequently, the City remits to the Authority the portion of delinquent real property taxes owed. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

#### ***Use of Estimates***

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**City of Litchfield Tax Increment Finance Authority**

Notes to the Financial Statements

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

***Budgetary and Budgetary Accounting***

The general fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The Authority employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Authority’s Board submits to the City’s Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to July 1, the budget is legally enacted through passage of resolution.
- d. The budget is legally adopted at the fund level. Any revisions that alter the total expenditures must be approved by the City Council. Violations, if any, are noted in the required supplementary information section.
- e. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

***Excess of Expenditures over Budget***

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. Budgetary control is exercised at the activity level in the general fund.

The Authority had one expenditure in excess of the amount appropriated during the year ended June 30, 2021:

	<b>Final Budget</b>	<b>Actual Amount</b>	<b>Negative Variance</b>
Golf Course	\$ 226,853	\$ 231,669	\$ (4,816)

# City of Litchfield Tax Increment Finance Authority

## Notes to the Financial Statements

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### Note 3 - Deposits and Investments

Following is a reconciliation of deposit balances as of June 30, 2021:

<b>Statement of Net Position</b>	
Cash and Investments	\$ 645,193
<b>Deposits and Investments</b>	
Checking and Savings Accounts	\$ 393,757
Certificates of Deposit (matures within one year)	250,936
Cash on Hand	500
<b>Total Deposits and Investments</b>	<b>\$ 645,193</b>

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be returned. State law does not require, and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$348,519 of the Authority's bank balance of \$390,189 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Authority believes it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Credit Risk - Investments.** State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. All investments are insured under SPIC. There were no investments where credit risk ratings were applicable.

**Interest Rate Risk.** Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for investments held at year-end are summarized as follows: there were \$250,936 of certificates of deposit that mature within one year.

# City of Litchfield Tax Increment Finance Authority

## Notes to the Financial Statements

### *Fair Value Measurement*

The Authority is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Authority's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

As of June 30, 2021, the Authority had an investment in land and infrastructure development (not included above) in the amount of \$655,803 with a Level 3 fair value measurement. The Authority's certificates of deposit were not subjected to fair value measurement.

### **Note 4 - Notes Receivable**

*2019 Note to Harvard Clothing Company* in the amount of \$65,000 for business purposes, payable in monthly installments of \$628, which includes interest at a rate of 3.00% per annum, until paid in full.

*2017 Note to Speedrack Products Group, LTD* in the amount of \$262,000 for business purposes, payable in bi-annual installments of \$30,686, which includes interest at a rate of 2.00% per annum, until paid in full.

The following is a summary of the long-term notes receivable activity during the year:

	<b>Beginning Balance</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Harvard Clothing Company	\$ 51,731	\$ (12,637)	\$ 39,094	\$ 6,155
Speedrack Products Group, LTD	119,734	(59,268)	60,466	60,466
Interest Receivable	995	(495)	500	-
<b><i>Total Notes Receivable, Net</i></b>	<b>\$ 172,460</b>	<b>\$ (72,400)</b>	<b>\$ 100,060</b>	<b>\$ 66,621</b>

## City of Litchfield Tax Increment Finance Authority

### Notes to the Financial Statements

The following is the maturity schedule of outstanding notes receivable:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2022	\$ 66,621	\$ 3,184	\$ 69,805
2023	6,544	988	7,532
2024	6,740	792	7,532
2025	6,942	590	7,532
2026	7,150	381	7,531
Thereafter	5,563	226	5,789
Totals:	<u>\$ 99,560</u>	<u>\$ 6,161</u>	<u>\$ 105,721</u>

#### Note 5 - Capital Assets

Capital asset activity during the year was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 548,983	\$ -	\$ -	\$ 548,983
Construction in Progress	7,277	-	(5,000)	2,277
Intangible Assets	-	86,234	-	86,234
<i>Subtotal</i>	<u>556,260</u>	<u>86,234</u>	<u>(5,000)</u>	<u>637,494</u>
Capital Assets being Depreciated				
Buildings and Improvements	1,452,753	-	-	1,452,753
Equipment and Furniture	216,910	10,000	-	226,910
<i>Subtotal</i>	<u>1,669,663</u>	<u>10,000</u>	<u>-</u>	<u>1,679,663</u>
Less Accumulated Depreciation				
Buildings and Improvements	(360,945)	(36,620)	-	(397,565)
Equipment and Furniture	(126,415)	(19,395)	-	(145,810)
<i>Subtotal</i>	<u>(487,360)</u>	<u>(56,015)</u>	<u>-</u>	<u>(543,375)</u>
Capital Assets being Depreciated, Net	<u>1,182,303</u>	<u>(46,015)</u>	<u>-</u>	<u>1,136,288</u>
Capital Assets, Net	<u>\$ 1,738,563</u>	<u>\$ 40,219</u>	<u>\$ (5,000)</u>	<u>\$ 1,773,782</u>

#### Note 6 - Leases

The Authority leases property to local manufacturers for varying monthly lease payments with annual renewable options. During the year ended June 30, 2021, the Authority recognized lease revenue in the amount of \$50,250.

## City of Litchfield Tax Increment Finance Authority

### Notes to the Financial Statements

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#### **Note 7 - Subsequent Events**

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals in the United States and worldwide. In response, the United States federal government and individual state and local governments have implemented measures to combat the outbreak that have impacted business operations. During the 2020-2021 fiscal year, the Authority's operations were significantly impacted, as shelter-in-place orders and government mandates impacted census volumes. The Authority has moved to mitigate the impact by managing the workforce, actively managing cash balances, and implementing other cost reduction measures.

## **Required Supplementary Information**

**City of Litchfield Tax Increment Finance Authority**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Positive (Negative) Final to Actual</b>
<b>Revenues</b>				
Property Taxes	\$ 143,444	\$ 141,564	\$ 145,908	\$ 4,344
Intergovernmental	483,000	465,059	465,060	1
Charges for Services	120,229	136,210	141,446	5,236
Interest and Rents	67,052	61,522	58,414	(3,108)
Other Revenues	71,904	72,755	72,757	2
<b>Total Revenues</b>	<u>885,629</u>	<u>877,110</u>	<u>883,585</u>	<u>6,475</u>
<b>Other Financing Sources</b>				
Proceeds from Sale of Investments	<u>205,000</u>	<u>237,061</u>	<u>217,000</u>	<u>(20,061)</u>
<b>Total Revenues and Other Financing Sources</b>	<u>1,090,629</u>	<u>1,114,171</u>	<u>1,100,585</u>	<u>(13,586)</u>
<b>Expenditures</b>				
General Development	824,100	863,784	472,233	391,551
Contributions to Primary Government	357,000	357,000	357,000	--
Litchfield Regional Training Center	149,845	197,212	120,915	76,297
Golf Course	151,136	226,853	231,669	(4,816)
<b>Total Expenditures</b>	<u>1,482,081</u>	<u>1,644,849</u>	<u>1,181,817</u>	<u>463,032</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures</b>	<u>(391,452)</u>	<u>(530,678)</u>	<u>(81,232)</u>	<u>449,446</u>
<b>Net Change in Fund Balance</b>	<u>(391,452)</u>	<u>(530,678)</u>	<u>(81,232)</u>	<u>449,446</u>
<b>Fund Balance at Beginning of Period</b>	638,686	638,686	638,686	--
<b>Fund Balance at End of Period</b>	<u>\$ 247,234</u>	<u>\$ 108,008</u>	<u>\$ 557,454</u>	<u>\$ 449,446</u>

November 12, 2021

To the Board of the  
Tax Increment Finance Authority  
City of Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of Litchfield, Michigan Tax Increment Finance Authority (the "Authority") for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 1, 2021. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. There were no new accounting policies adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2021. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 12, 2021.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Matters*

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements

the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

**Restriction on Use**

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

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC  
Grand Rapids, MI