

Kent County Land  
Bank Authority



Year Ended  
December 31,  
2015

Financial  
Statements

# KENT COUNTY LAND BANK AUTHORITY

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**INDEPENDENT AUDITORS' REPORT**

May 17, 2016

Board of Directors  
Kent County Land Bank Authority  
Grand Rapids, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the *Kent County Land Bank Authority* (the "Authority"), a discretely presented component unit of the County of Kent, Michigan, as of and for the year ended December 31, 2015, 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.

***Independent Auditors' Responsibility***

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kent County Land Bank Authority as of December 31, 2015, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

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

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2016 on our consideration of the Kent County Land Bank Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# KENT COUNTY LAND BANK AUTHORITY

## Management's Discussion and Analysis

The Kent County Land Bank Authority (the "Authority") is a Michigan public body corporate organized pursuant to the Michigan Land Bank Fast Track Act, 2003 P.A. 258, MCL 124.751-124.774, and an intergovernmental agreement entered into between the Michigan Land Bank Fast Track Authority and the Treasurer of the County of Kent, Michigan, dated November 19, 2009. The Authority is a discretely presented component unit of the County of Kent, Michigan.

The Authority presents this management's discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

### Financial Highlights

- The Authority's total net position increased by \$368,400 from the prior year. Ending net position totaled \$842,239.
- During the year ended December 31, 2015, the Authority sold over 110 properties to individuals, nonprofits, and through "as is" development agreements.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of the *statement of net position*, the *statement of revenues, expenses and change in net position*, the *statement of cash flows* and the *notes to the financial statements*.

- The *statement of net position* presents information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these items 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 revenues, expenses and change in net position* 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.
- The *statement of cash flows* presents information showing in greater detail how the Authority received and disbursed cash during the most recent fiscal year.
- The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The Authority's financial statements consist of a single enterprise fund (a proprietary fund type), as the Authority intends to recover all or a significant portion of its costs through user fees and charges (known as "business-type activities").

# KENT COUNTY LAND BANK AUTHORITY

## Management's Discussion and Analysis

### Financial Analysis

The net position of the Authority is summarized for the purpose of determining the overall financial position. The Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$842,239 at the end of the fiscal year. This is primarily due to the value of the Authority's property inventory. It should be noted that the resources needed to repay liabilities are contingent upon sales from the Authority's property inventory.

A comparative analysis of the data is presented below:

	December 31,	
	2015	2014
Current and other assets	\$ 2,434,189	\$ 1,949,237
Capital assets, net	9,690	13,082
<b>Total assets</b>	<b>2,443,879</b>	<b>1,962,319</b>
Long-term liabilities	550,000	1,150,000
Other liabilities	1,051,640	338,480
<b>Total liabilities</b>	<b>1,601,640</b>	<b>1,488,480</b>
<b>Net position</b>		
Investment in capital assets	9,690	13,082
Unrestricted	832,549	460,757
<b>Total net position</b>	<b>\$ 842,239</b>	<b>\$ 473,839</b>

A portion of the Authority's net position, \$9,690 (1.2 percent), reflects its investment in capital assets (e.g., land, buildings, machinery and equipment used in operations). The Authority uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

When comparing this fiscal year to the previous year, net position increased by \$368,400 (see below). Over time, the Authority expects that revenues will approximate expenses, as excess accumulations will be invested in additional programs.

# KENT COUNTY LAND BANK AUTHORITY

## Management's Discussion and Analysis

	Year Ended December 31,	
	2015	2014
Operating revenues	\$ 3,250,225	\$ 3,509,930
Operating expenses	<u>3,043,653</u>	<u>3,418,734</u>
Operating income	206,572	91,196
Nonoperating revenues (expenses)	<u>161,828</u>	<u>79,264</u>
Change in net position	368,400	170,460
Net position, beginning of year	<u>473,839</u>	<u>303,379</u>
Net position, end of year	<u>\$ 842,239</u>	<u>\$ 473,839</u>

Both operating revenues and expenses decreased as fewer properties were purchased for resale during the current year. Tax-foreclosed properties of approximately \$1,000,000 were purchased in the current year on a new line of credit. Many of these properties remained in inventory at year-end.

### Capital Asset and Debt Administration

**Capital Assets.** As of December 31, 2015, the Authority's capital assets amounted to \$9,690 (net of accumulated depreciation). The Authority had capital assets as of December 31, 2014 in the amount of \$13,082. This investment in capital assets is for office equipment.

Additional information on the Authority's capital assets can be found in Note 4 of this report.

**Long-term Debt.** At the end of the fiscal year, the Authority had total debt obligations of \$550,000. This debt was noncapital and was used to ensure available cash flows. As of December 31, 2014, the Authority had outstanding long-term debt obligations of \$1,150,000.

Additional information on the Authority's long-term debt can be found in Note 6 of this report.

### Economic Factors and Next Year's Budget

The following factors were considered by the Authority in determining its 2016 budget:

- Intent to purchase 80 properties from local governmental units through the 2016 tax foreclosure process.
- A special agreement with Wells Fargo and Bank of America will allow for foreclosed properties of minimal value to be donated to the Authority.
- Pay down the outstanding balances on the lines of credit.



# KENT COUNTY LAND BANK AUTHORITY

## Management's Discussion and Analysis

### Contacting the Authority

This financial report is designed to provide a general overview of the Authority's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Kent County Land Bank Authority, 347 S. Division Ave., Grand Rapids, Michigan 49503.

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## BASIC FINANCIAL STATEMENTS

# KENT COUNTY LAND BANK AUTHORITY

## Statement of Net Position

December 31, 2015

### Assets

#### Current assets:

Cash and cash equivalents	\$ 687,424
Taxes receivable	39,747
Current portion of land contracts receivable	10,746
Prepaid expenses	7,443
Property inventory	1,601,038
Total current assets	<u>2,346,398</u>

#### Noncurrent assets:

Capital assets, being depreciated, net	9,690
Land contracts receivable, net of current portion	87,791
Total noncurrent assets	<u>97,481</u>

Total assets 2,443,879

### Liabilities

#### Current liabilities:

Accounts payable	192,296
Accrued liabilities	13,469
Short-term borrowings	845,875
Current portion of notes payable	150,000
Total current liabilities	<u>1,201,640</u>

#### Noncurrent liabilities:

Note payable, net of current portion	<u>400,000</u>
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Total liabilities 1,601,640

### Net position

Investment in capital assets	9,690
Unrestricted	832,549

Total net position \$ 842,239

The accompanying notes are an integral part of these financial statements.

# KENT COUNTY LAND BANK AUTHORITY

## Statement of Revenues, Expenses

### and Change in Net Position

For the Year Ended December 31, 2015

Operating revenues	
Property sales	\$ 2,524,346
Grant revenues	665,788
Donations	57,266
Rental income	2,825
	<hr/>
Total operating revenues	3,250,225
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Operating expenses	
Cost of property sold	2,413,217
Personnel	341,084
Professional fees	158,734
Occupancy expenses	29,980
Depreciation	4,738
Write down of inventory values	40,900
Other expenses	55,000
	<hr/>
Total operating expenses	3,043,653
	<hr/>
Operating income	206,572
	<hr/>
Nonoperating revenues (expenses)	
Property taxes	207,598
Interest revenue	2,970
Interest expense	(48,740)
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Total nonoperating revenues (expenses)	161,828
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Change in net position	368,400
	<hr/>
Net position, beginning of year	473,839
	<hr/>
Net position, end of year	\$ 842,239
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The accompanying notes are an integral part of these financial statements.

# KENT COUNTY LAND BANK AUTHORITY

## Statement of Cash Flows

For the Year Ended December 31, 2015

Cash flows from operating activities	
Cash received from customers and users	\$ 3,218,469
Cash paid to vendors	(3,088,026)
Cash paid to employees	<u>(343,098)</u>
Net cash used in operating activities	<u>(212,655)</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	<u>(1,346)</u>
Cash flows from noncapital financing activities	
Property taxes received	200,481
Advances received from short-term borrowings	1,478,635
Repayments of short-term borrowings	(844,715)
Cash paid for interest	(48,740)
Repayments of notes payable	<u>(600,000)</u>
Net cash provided by noncapital financing activities	<u>185,661</u>
Cash flows from investing activities	
Interest received	<u>2,970</u>
Change in cash and cash equivalents	(25,370)
Cash and cash equivalents, beginning of year	<u>712,794</u>
Cash and cash equivalents, end of year	<u>\$ 687,424</u>

continued...

# KENT COUNTY LAND BANK AUTHORITY

## Statement of Cash Flows

For the Year Ended December 31, 2015

### Reconciliation of operating income to net cash used in operating activities

Operating income	\$ 206,572
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	4,738
Write down of inventory values	40,900
Change in:	
Accounts receivable	17,070
Land contracts receivable	(48,326)
Property inventory	(513,555)
Prepaid expenses	706
Accounts payable	81,754
Accrued liabilities	(2,014)
Unearned revenues	(500)
	<hr/>
Net cash used in operating activities	<u><u>\$ (212,655)</u></u>

### Supplemental cash flows information

*Non-cash transactions.* During the year ended December 31, 2015, the Authority received donations of property which were recorded in the accompanying financial statements at their estimated fair market value at the date of donation. These transactions, which totaled \$37,169, did not involve cash and, accordingly, have been excluded from the statement above.

The accompanying notes are an integral part of these financial statements.

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## NOTES TO FINANCIAL STATEMENTS

# KENT COUNTY LAND BANK AUTHORITY

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kent County Land Bank Authority (the “Authority”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The Authority’s significant accounting policies are described below.

#### Reporting Entity

The Authority was incorporated pursuant to the Michigan Land Bank Fast Track Act (Public Act 258) and an intergovernmental agreement between the Authority and the County of Kent, Michigan (the “County”). The Authority was legally established on September 8, 2010 and began operations subsequent to January 1, 2011. The Authority is governed by a five-member board, the chair of which is the Kent County Treasurer. Of the remaining four members, one must be a township elected official, one must be a county commissioner, and two must be City of Grand Rapids council members. No other governmental entities are part of the Authority; however, the Authority is a discretely presented component unit of the County of Kent.

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

The Authority uses a single proprietary or enterprise fund to account for and report its financial activities, which are limited to *business-type activities* - i.e., activities that are financed in whole or in part by fees charged to external parties and are operated in a manner similar to private business where the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Property sales, rental income and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such 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.

#### Assets, Liabilities, and Equity

##### *Cash and Cash Equivalents*

Cash and cash equivalents include amounts in demand deposit accounts. State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the United States, certain commercial papers, repurchase agreements and banker acceptances.

# KENT COUNTY LAND BANK AUTHORITY

## Notes to Financial Statements

### *Land Contracts Receivable*

Land contracts receivable represent mortgages between the Authority and individual residents for purchase of property owned by the Authority. Amounts have been classified in the statement of net position based on the payment due dates in accordance with loan amortization schedules. All receivables are reported at their gross value and are deemed to be fully collectible.

### *Prepaid Expenses*

The Authority has made certain payments in the current year for goods and/or services that will benefit a subsequent period. These amounts have been reported in the statement of net position as prepaid assets and will be expensed when the related benefit has been received. Prepays also include a security deposit for the Authority's leased facility.

### *Property Inventory*

The Authority may acquire by gift, devise, transfer, exchange, foreclosure, or purchase real or personal property, or rights of interest in real or personal property, on terms and conditions and in a manner the Authority considers appropriate. The properties are inventoried at cost or estimated fair market value if donated. The costs to rehabilitate a particular property that materially add value are added to the cost. The costs of normal maintenance and repairs that do not add to the value of the property are expensed as incurred.

### *Capital Assets*

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of one year. The Authority's capital assets consist of office equipment. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

Depreciation on capital assets is computed using the straight-line method over an estimated useful life of five years.

### *Short-term Borrowings*

Short-term borrowings are used to meet cash flow needs and, accordingly, are reported as current liabilities in the statement of net position.

# KENT COUNTY LAND BANK AUTHORITY

## Notes to Financial Statements

### *Property Tax Revenue*

The Authority receives property tax revenue under Public Act 260 of 2003 (The Tax Reverted Clean Title Act) which provides for the levy of a specific tax on property sold by a land bank authority. The tax is due and payable based on the General Property Tax Act. For the first 5 years after the sale of the property by the land bank, 50 percent of property taxes are provided to the land bank that sold the related parcel.

### *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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## 2. DEPOSITS

The Authority is permitted by State law and Board policy to invest in specific types of investments, as listed in the summary of significant accounting policies. At year-end, the carrying amount of the Authority's deposits was \$687,424. Custodial credit risk is the risk that, in the event of bank failure, the Authority's deposit might not be returned. The Authority's bank deposits are held by 2 financial institutions. As of year-end, \$415,323 of the combined bank balance of \$746,815 was exposed to custodial credit risk because it was in excess of FDIC limits.

## 3. LAND CONTRACTS RECEIVABLE

At year-end, the Authority had 3 land contracts receivable due from unrelated parties. The payments on these contracts are due in monthly installments ranging from \$300 to \$466 including interest at rates ranging from 5.500% to 6.536%.

Beginning balance	\$ 50,211
Additions	97,400
Reductions	<u>(49,074)</u>
Ending balance	98,537
Less amount due within one year and reported in current assets	<u>(10,746)</u>
Long-term portion	<u><u>\$ 87,791</u></u>

# KENT COUNTY LAND BANK AUTHORITY

## Notes to Financial Statements

### 4. CAPITAL ASSETS

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, being depreciated:					
Office equipment	\$ 23,015	\$ 1,346	\$ -	\$ -	\$ 24,361
Less accumulated depreciation for:					
Office equipment	(9,933)	(4,738)	-	-	(14,671)
Capital assets, net	<u>\$ 13,082</u>	<u>\$ (3,392)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,690</u>

### 5. SHORT-TERM BORROWINGS

	Credit Limit	Beginning Balance	Additions	Deductions	Ending Balance
Huntington Bank:					
Operating Line	\$ 200,000	\$ 13	\$ -	\$ (13)	\$ -
Tax foreclosure Line	1,000,000	-	1,000,000	(500,000)	500,000
Old National Bank:					
Construction Line	350,000	86,942	300,635	(269,702)	117,875
MSHDA Line	250,000	125,000	178,000	(75,000)	228,000
General Line	200,000	-	-	-	-
Total		<u>\$ 211,955</u>	<u>\$ 1,478,635</u>	<u>\$ (844,715)</u>	<u>\$ 845,875</u>

The Authority obtained multiple lines of credit. Both lines through Huntington Bank mature on June 30, 2016, and accrue interest at the LIBOR rate plus 2.25% (effective rate of 2.49% at December 31, 2015). The Old National Bank Construction Line matures on May 1, 2016, and accrues interest at a fixed rate of 4.25%. The Old National Bank MSHDA Line matures on May 16, 2016, and interest accrues at a fixed rate of 4.25%. The Old National Bank General Line matured on December 3, 2015 and was not renewed. All lines of credit are unsecured.

### 6. LONG-TERM DEBT

The Authority has obtained several notes payable to provide for operating cash flow. Repayment is due in full upon maturity with the option of interim partial payments at the Authority's discretion. Interest is due quarterly based on outstanding principal. Notes payable activity for the year ended December 31, 2015 is summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Notes payable	<u>\$ 1,150,000</u>	<u>\$ -</u>	<u>\$ (600,000)</u>	<u>\$ 550,000</u>	<u>\$ 150,000</u>

# KENT COUNTY LAND BANK AUTHORITY

## Notes to Financial Statements

### Notes payable

Grand Rapids Community Foundation note payable, unsecured, due in a single installment in July 2017; interest payable quarterly at a rate of 3.0 percent	\$ 400,000
Loan from an individual, unsecured, due in a single installment in July 2015 (expected to be repaid in full in 2016) interest payable quarterly at a rate of 3.0 percent through July 2015 and at a rate of 7.0 percent thereafter	<u>150,000</u>
Total notes payable	<u>\$ 550,000</u>

The annual principal and interest requirements to maturity on long-term debt outstanding at December 31, 2015 are as follows:

Year Ending December 31,	Principal	Interest
2016	\$ 150,000	\$ 17,250
2017	<u>400,000</u>	<u>9,000</u>
Total	<u>\$ 550,000</u>	<u>\$ 26,250</u>

## 7. LEASES

The Authority leases office space. The lease expires on October 31, 2019 and is classified as an operating lease. Total rental expense for the year ended December 31, 2015 was \$22,914.

The following is a schedule of future minimum annual lease payments required under this lease as of December 31, 2015:

Year Ending December 31,	Future Lease Obligation
2016	\$ 21,396
2017	23,800
2018	24,276
2019	<u>20,566</u>
Total	<u>\$ 90,038</u>

The Authority leases certain properties to existing tenants of tax-foreclosed properties acquired by the Authority. The lease terms are for a period of time not to exceed one year, based on the anticipated timing for rehabilitation and/or sale of the property. These properties are overseen by a third-party management company. Rental income for the year ended December 31, 2015 amounted to \$2,825.

# KENT COUNTY LAND BANK AUTHORITY

## Notes to Financial Statements

### 8. RETIREMENT PLAN

Effective October 1, 2013, the Authority established a 401(k) retirement plan for employees over the age of 21 with at least 3 months of service. In March 2015, the Board of Directors voted to eliminate the 4% employer match of employee contributions and instead increased employees' base pay. Employer and employee contributions to the plan for the year ended December 31, 2015, were \$379 and \$11,900, respectively. Participants are immediately vested in all contributions and proceeds may be withdrawn at any time, subject to an early withdrawal penalty.

### 9. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2015, the Authority carried commercial insurance to cover all risks of losses. The Authority has had no settled claims resulting from these risks that exceeded its commercial coverage since it began operations. There was no significant change in coverage during the year.

### 10. CONTINGENT LIABILITY

#### *Help for the Hardest Hit Grant Funding*

The Authority participates in a program with the U.S. Department of Treasury (through the Michigan State Housing Development Authority, "MSHDA") for the demolition of blighted properties. The funding is provided on a reimbursement-basis, plus \$500 per property for administrative costs and \$750 per property for continued maintenance. Each property must be approved by MSHDA prior to beginning any demolition. A mortgage agreement and demand note are executed for each project and MSHDA has an enforceable lien on the related property. Under the terms of the mortgage agreement, the debt is to be forgiven over a period of 5 years (20 percent after each full year) or is repayable to MSHDA if sold or transferred prior to that date. The Authority is considered by MSHDA to be a vendor for this program and not a subrecipient. Accordingly, the Authority's activity is not subject to the Single Audit Act.

Based on correspondence with MSHDA, the Authority expects that MSHDA will forgive the loan and release the lien if the Authority can demonstrate that it has not "personally benefited" from the sale or transfer of the property prior to completion of the five-year period. The Authority intends to sell the properties to local developers at a discounted rate in order to incentivize construction in these neighborhoods, which is anticipated to meet the criteria for demonstrating no personal gain. Accordingly, the mortgages have not been recorded as liabilities of the Authority. At December 31, 2015, the Authority had executed mortgage agreements in the amount of \$1,255,109 through the Hardest Hit program.

# KENT COUNTY LAND BANK AUTHORITY

## Notes to Financial Statements

### 11. ENVIRONMENTAL REMEDIATION

The Authority acquired a tax-foreclosed property through the County auction process which was subsequently found to be contaminated with hazardous materials. The property was classified as a Superfund site by the U.S. Environmental Protection Agency (EPA) who began remedial efforts to dispose of the hazardous materials. The EPA estimates the total cost of remediation at \$1,297,562 (\$824,006 of direct costs, and \$473,556 of indirect costs). The Michigan Land Bank Fast Track Act, 2003 P.A. 258, MCL 124.751-124.774, indicates that contaminated properties acquired by land banks "...shall not subject the authority to liability under the natural resources and environmental protection act, and it is not expected that the Authority will be identified by the EPA as a potentially responsible party." Accordingly, no liability has been recorded in the accompanying financial statements. Remedial action is being coordinated directly by the EPA and was in process at December 31, 2015.

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## INTERNAL CONTROL AND COMPLIANCE

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

May 17, 2016

Board of Directors  
Kent County Land Bank Authority  
Grand Rapids, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the *Kent County Land Bank Authority* (the "Authority"), a discretely presented component unit of the County of Kent, Michigan, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 17, 2016.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*Rehmann Lobson LLC*