

Kent County Land
Bank Authority



Year Ended
December 31,
2014

Financial
Statements

KENT COUNTY LAND BANK AUTHORITY

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INDEPENDENT AUDITORS' REPORT

May 7, 2015

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, 2014, 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, 2014, 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 7, 2015 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 "Rehmann Johnson 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 County of Kent, Michigan.

The Authority presents this management discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended December 31, 2014. 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 \$170,460 from the prior year. Ending net position totaled \$473,839.
- During the year ended December 31, 2014, the Authority sold over 270 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 \$473,839 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,	
	2014	2013
Current and other assets	\$ 1,949,237	\$ 1,786,647
Capital assets, net	13,082	17,685
Total assets	1,962,319	1,804,332
Long-term liabilities	1,150,000	1,300,000
Other liabilities	338,480	200,953
Total liabilities	1,488,480	1,500,953
Net position		
Investment in capital assets	13,082	17,685
Unrestricted	460,757	285,694
Total net position	\$ 473,839	\$ 303,379

A portion of the Authority's net position, \$13,082 (2.8 percent), reflects its investment in capital assets (e.g., land, buildings, machinery and equipment). 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 \$170,460 (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,	
	2014	2013
Operating revenues	\$ 3,509,930	\$ 2,619,148
Operating expenses	<u>3,418,734</u>	<u>2,590,006</u>
Operating income	91,196	29,142
Nonoperating revenues (expenses)	<u>79,264</u>	<u>(1,897)</u>
Change in net position	170,460	27,245
Net position, beginning of year	<u>303,379</u>	<u>276,134</u>
Net position, end of year	<u>\$ 473,839</u>	<u>\$ 303,379</u>

The Authority was established on September 8, 2010 and began operations during 2011; therefore, the Authority is in its initial years of operations and activity was expected to increase. While the amount of sales revenue has continued to increase since the prior year, the staffing level remains consistent.

Capital Asset and Debt Administration

Capital Assets. The Authority's capital assets for its business-type activities as of December 31, 2014 amounted to \$13,082 (net of accumulated depreciation). The Authority had capital assets as of December 31, 2013 in the amount of \$17,685. 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 \$1,150,000. This debt was noncapital and was used to ensure available cash flows. As of December 31, 2013, the Authority had outstanding long-term debt obligations of \$1,300,000.

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 2015 budget:

- Intent to purchase over 100 properties from local governmental units through the 2015 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, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 712,794
Accounts receivable	17,070
Taxes receivable	32,630
Current portion of land contracts receivable	8,337
Prepaid expenses	8,149
Property inventory	1,128,383
Total current assets	<u>1,907,363</u>

Noncurrent assets:

Capital assets, being depreciated, net	13,082
Land contracts receivable, net of current portion	41,874
Total noncurrent assets	<u>54,956</u>

Total assets 1,962,319

Liabilities

Current liabilities:

Accounts payable	110,542
Accrued liabilities	15,483
Short-term borrowings	211,955
Unearned revenues	500
Current portion of notes payable	750,000
Total current liabilities	<u>1,088,480</u>

Noncurrent liabilities:

Note payable, net of current portion	<u>400,000</u>
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Total liabilities 1,488,480

Net position

Investment in capital assets	13,082
Unrestricted	460,757

Total net position \$ 473,839

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, 2014

Operating revenues	
Property sales	\$ 2,754,456
Intergovernmental grants	713,630
Donations	36,044
Rental income	5,800
	<hr/>
Total operating revenues	3,509,930
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Operating expenses	
Cost of property sold	2,871,313
Personnel	314,625
Professional fees	136,859
Occupancy expenses	25,033
Depreciation	4,603
Write down of inventory values	33,385
Other expenses	32,916
	<hr/>
Total operating expenses	3,418,734
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Operating income	91,196
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Nonoperating revenues (expenses)	
Property taxes	118,513
Interest revenue	1,924
Interest expense	(41,173)
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Total nonoperating revenues (expenses)	79,264
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Change in net position	170,460
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Net position, beginning of year	303,379
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Net position, end of year	\$ 473,839
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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, 2014

Cash flows from operating activities	
Cash received from customers and users	\$ 3,461,865
Cash paid to vendors	(3,275,140)
Cash paid to employees	<u>(314,095)</u>
Net cash used in operating activities	<u>(127,370)</u>
Cash flows from noncapital financing activities	
Property taxes received	85,883
Advances received from short-term borrowings	501,204
Repayments of short-term borrowings	(318,396)
Cash paid for interest	(46,097)
Repayments of notes payable	<u>(150,000)</u>
Net cash provided by noncapital financing activities	<u>72,594</u>
Cash flows from investing activities	
Interest received	<u>1,924</u>
Net decrease in cash and cash equivalents	(52,852)
Cash and cash equivalents, beginning of year	<u>765,646</u>
Cash and cash equivalents, end of year	<u>\$ 712,794</u>

continued...

KENT COUNTY LAND BANK AUTHORITY

Statement of Cash Flows

For the Year Ended December 31, 2014

Reconciliation of operating income to net cash used in operating activities

Operating income	\$ 91,196
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	4,603
Write down of inventory values	33,385
Change in:	
Accounts receivable	7,930
Land contracts receivable	(50,211)
Property inventory	(173,991)
Prepaid expenses	75
Accounts payable	(35,103)
Accrued liabilities	530
Unearned revenues	(5,784)
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Net cash used in operating activities	<u><u>\$ (127,370)</u></u>

Supplemental cash flows information

Non-cash transactions. During the year ended December 31, 2014, 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 \$36,044, 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

Accounts Receivable

Accounts receivables consist primarily of amounts due from the State of Michigan as part of the Help for the Hardest Hit Blight Elimination program.

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. The amount reported as current includes interest earned by the Authority through year-end. 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. Prepaids 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 costs 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 live 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 \$712,494. 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, \$387,646 of the combined bank balance of \$718,353 was exposed to custodial credit risk because it was in excess of FDIC limits.

3. LAND CONTRACT RECEIVABLE

At year-end, the Authority had 2 land contracts receivable due from unrelated parties. The payments on these contracts are due in monthly installments ranging from \$252 to \$443 including interest at rates ranging from 6.000% to 6.536%.

Beginning balance	\$	-
Additions		51,800
Reductions		<u>(1,589)</u>
Ending Balance		50,211
Less amount due within one year and reported in current assets		<u>(8,337)</u>
Long-term portion	\$	<u><u>41,874</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	\$ -	\$ -	\$ -	\$ 23,015
Less accumulated depreciation for:					
Office equipment	(5,330)	(4,603)	-	-	(9,933)
Capital assets, net	<u>\$ 17,685</u>	<u>\$ (4,603)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,082</u>

5. SHORT-TERM BORROWINGS

	Credit Limit	Beginning Balance	Additions	Deductions	Ending Balance
Huntington Bank	\$ 200,000	\$ -	\$ 100,000	\$ (99,987)	\$ 13
Founders Bank and Trust:					
Construction Line	350,000	29,147	151,204	(93,409)	86,942
MSHDA Line	250,000	-	250,000	(125,000)	125,000
General Line	200,000	-	-	-	-
Total		<u>\$ 29,147</u>	<u>\$ 501,204</u>	<u>\$ (318,396)</u>	<u>\$ 211,955</u>

The Authority obtained four lines of credit. The line through Huntington Bank matures on May 31, 2015, and accrues interest at the LIBOR rate plus 2.25% (effective rate of 2.405% at December 31, 2014). The Founders Bank and Trust Construction Line matures on May 1, 2016, and accrues interest at a fixed rate of 4.0%. The Founders Bank and Trust MSHDA Line matures on May 16, 2015, and interest accrues at a fixed rate of 4.0%. The Founders Bank and Trust General Line matures on December 3, 2015, and accrues interest at a rate of 4.0%. 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, 2014 is summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Notes payable	<u>\$ 1,300,000</u>	<u>\$ -</u>	<u>\$ (150,000)</u>	<u>\$ 1,150,000</u>	<u>\$ 750,000</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
Grand Rapids Community Foundation note payable, unsecured, due in a single installment in 2014; interest payable quarterly at a rate of 3.0 percent	600,000
Loan from an individual, unsecured, due in a single installment in July 2015; interest payable quarterly at a rate of 3.0 percent	<u>150,000</u>
Total notes payable	<u>\$ 1,150,000</u>

The annual principal and interest requirements to maturity on long-term debt outstanding at December 31, 2014 are as follows:

Year Ending December 31,	Principal	Interest
2015	\$ 750,000	\$ 19,875
2016	-	12,000
2017	<u>400,000</u>	<u>9,000</u>
Total	<u>\$ 1,150,000</u>	<u>\$ 40,875</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, 2014 was \$13,435.

The following is a schedule of future minimum annual lease payments required under this lease as of December 31, 2014:

Year Ending December 31,	Future Lease Obligation
2015	\$ 20,976
2016	23,334
2017	23,800
2018	24,276
2019	<u>20,566</u>
Total	<u>\$ 112,952</u>

KENT COUNTY LAND BANK AUTHORITY

Notes to Financial Statements

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, 2014 amounted to \$5,800.

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. The Authority matches employee contributions up to 4 percent of eligible wages. Employer and employee contributions to the plan for the year ended December 31, 2014, were \$9,528 and \$10,005, respectively. At December 31, 2014, there were 4 participants in the plan. 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, 2014, 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, 2014, the Authority had executed mortgage agreements in the amount of \$761,520 through the Hardest Hit program.



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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 7, 2015

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, 2014, 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 7, 2015.

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 opinions 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 Loborn LLC