

Kent County Land
Bank Authority



Year Ended
December 31,
2017

Financial
Statements

KENT COUNTY LAND BANK AUTHORITY

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INDEPENDENT AUDITORS' REPORT

June 12, 2018

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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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, 2017, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 June 12, 2018 on our consideration of the 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.

Rehmann Lobson LLC

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, 2017. 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 \$199,244 from the prior year. Ending net position totaled \$1,073,190.
- During the year ended December 31, 2017, the Authority sold over 87 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 and liabilities, 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 exceeded liabilities by \$1,073,190 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 of the Authority's property inventory.

A comparative analysis of the data is presented below:

	December 31,	
	2017	2016
Current and other assets	\$ 3,143,666	\$ 2,201,454
Capital assets, net	1,460	4,818
Total assets	3,145,126	2,206,272
Long-term liabilities	1,068,883	400,000
Other liabilities	1,003,053	932,326
Total liabilities	2,071,936	1,332,326
Net position		
Investment in capital assets	1,460	4,818
Unrestricted	1,071,730	869,128
Total net position	\$ 1,073,190	\$ 873,946

A portion of the Authority's net position, \$1,460 (0.1%), 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. The vast majority of the Authority's net position is unrestricted and can be utilized at the direction of the Board.

When comparing this fiscal year to the previous year, net position increased by \$199,244. 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,	
	2017	2016
Operating revenues	\$ 1,405,028	\$ 3,016,653
Operating expenses	<u>1,567,269</u>	<u>3,203,950</u>
Operating loss	(162,241)	(187,297)
Nonoperating revenues	<u>361,485</u>	<u>219,004</u>
Change in net position	199,244	31,707
Net position, beginning of year	<u>873,946</u>	<u>842,239</u>
Net position, end of year	<u>\$ 1,073,190</u>	<u>\$ 873,946</u>

Operating revenues decreased in the current year as fewer properties were sold. In addition, the Authority's participation in the Help for the Hardest Hit program concluded in the current year, which resulted in less funding passed through from Michigan State Housing Development Authority (MSHDA). The overall decrease in operating expenses was due to lower construction costs that resulted from a decline in the number of tax foreclosed properties acquired by the Authority. Tax-foreclosed properties totaling \$225,186 were purchased in the current year on a new line of credit. The City of Grand Rapids placed the restriction that these properties must be sold to income qualified buyers, which resulted in all of the properties requiring significant renovations. Consequently, almost all of these properties remained in inventory at year-end.

Capital Asset and Debt Administration

Capital Assets. As of December 31, 2017, the Authority's capital assets amounted to \$1,460 (net of accumulated depreciation). The Authority had capital assets as of December 31, 2016 in the amount of \$4,818. 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 \$1,068,883. This debt was noncapital and was used to ensure available cash flows. As of December 31, 2016, the Authority had outstanding long-term debt obligations of \$400,000.

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

KENT COUNTY LAND BANK AUTHORITY

Management's Discussion and Analysis

Economic Factors and Next Year's Budget

The following factors were considered by the Authority in determining its 2018 budget:

- Intent to purchase 20-25 properties from local governmental units through the 2018 tax foreclosure process.
- Construction of 20-25 modular homes.
- Establishment of "fee-for-service" relationships with non-profit and for-profit developers.
- Taking on scattered site brownfield tax increment finance projects.

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, 2017

Assets

Current assets:

Cash	\$	76,246
Taxes receivable		19,906
Land contracts receivable		3,700
Prepaid expenses		7,403
Property inventory		3,036,411
Total current assets		<u>3,143,666</u>

Noncurrent assets:

Capital assets, being depreciated, net		<u>1,460</u>
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Total assets

3,145,126

Liabilities (all current)

Accounts payable		75,408
Accrued liabilities		22,017
Short-term borrowings		905,628
Notes payable		<u>1,068,883</u>

Total liabilities (all current)

2,071,936

Net position

Investment in capital assets		1,460
Unrestricted		<u>1,071,730</u>

Total net position

\$ 1,073,190

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, 2017

Operating revenues	
Property sales	\$ 955,028
Grant revenues	50,000
Donations	400,000
	<hr/>
Total operating revenues	1,405,028
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Operating expenses	
Cost of property sold	1,039,318
Personnel	347,320
Professional fees	91,318
Occupancy expenses	28,342
Depreciation	3,358
Other expenses	57,613
	<hr/>
Total operating expenses	1,567,269
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Operating loss	(162,241)
	<hr/>
Nonoperating revenues (expenses)	
Property taxes	402,845
Interest revenue	2,248
Interest expense	(43,608)
	<hr/>
Total nonoperating revenues	361,485
	<hr/>
Change in net position	199,244
	<hr/>
Net position, beginning of year	873,946
	<hr/>
Net position, end of year	\$ 1,073,190
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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, 2017

Cash flows from operating activities	
Cash received from customers and users	\$ 1,560,125
Cash paid to vendors	(2,947,800)
Cash paid to employees	<u>(344,845)</u>
Net cash used in operating activities	<u>(1,732,520)</u>
Cash flows from noncapital financing activities	
Property taxes received	406,676
Advances received from short-term borrowings	904,280
Repayments of short-term borrowings	(761,527)
Cash paid for interest	(43,608)
Proceeds from notes payable	1,068,883
Repayments of notes payable	<u>(400,000)</u>
Net cash provided by in noncapital financing activities	<u>1,174,704</u>
Cash flows from investing activities	
Interest received	<u>2,248</u>
Change in cash	(555,568)
Cash, beginning of year	<u>631,814</u>
Cash, end of year	<u>\$ 76,246</u>

continued...

KENT COUNTY LAND BANK AUTHORITY

Statement of Cash Flows

For the Year Ended December 31, 2017

Reconciliation of operating loss to net cash used in operating activities

Operating loss	\$ (162,241)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,358
Change in:	
Accounts receivable	71,394
Land contracts receivable	83,703
Prepaid expenses	(274)
Property inventory	(1,656,434)
Accounts payable	(74,501)
Accrued liabilities	2,475
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Net cash used in operating activities	<u><u>\$ (1,732,520)</u></u>

concluded

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, property taxes, 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

Cash includes 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

Receivables

Receivables primarily consist of taxes receivable from local municipalities. 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 expenses and will be expensed when the related benefit has been received. Prepaid expenses also include a security deposit for the Authority's leased facility.

Property Inventory

The Authority may acquire by gift, transfer, exchange, 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 acquisition cost if donated. The costs to rehabilitate a particular property that materially add value are added to the cost. At December 31, 2017, the Authority had outstanding commitments through construction contracts of approximately \$647,700.

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 acquisition cost 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.

Property Taxes

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% of property taxes are provided to the land bank that sold the related parcel.

KENT COUNTY LAND BANK AUTHORITY

Notes to Financial Statements

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 \$75,946. Custodial credit risk is the risk that, in the event of bank failure, the Authority's deposit might not be returned. State law does not require and the Authority's investment policy does not have specific limits in excess of state law pertaining to custodial credit risk. The Authority's bank deposits are held at two financial institutions. As of year-end, none of the combined bank balance of \$98,352 was exposed to custodial credit risk as it was not in excess of FDIC limits. In addition, the Authority had \$300 of petty cash on hand.

3. LAND CONTRACTS RECEIVABLE

At year-end, the Authority had one land contract receivable due from an unrelated party. The payments on this contract are due in monthly installments of \$300, including interest at a rate of 6.0%. All amounts are expected to be collected in the next fiscal year.

Beginning balance	\$ 80,318
Installment payments	<u>(76,618)</u>
Ending balance	<u>\$ 3,700</u>

4. CAPITAL ASSETS

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, being depreciated:					
Office equipment	\$ 24,361	\$ -	\$ -	\$ -	\$ 24,361
Less accumulated depreciation for:					
Office equipment	<u>(19,543)</u>	<u>(3,358)</u>	-	-	<u>(22,901)</u>
Capital assets, net	<u>\$ 4,818</u>	<u>\$ (3,358)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,460</u>

KENT COUNTY LAND BANK AUTHORITY

Notes to Financial Statements

5. SHORT-TERM BORROWINGS

	Credit Limit	Beginning Balance	Additions	Deductions	Ending Balance
Huntington Bank:					
Tax foreclosure line	\$ 300,000	\$ 710,000	\$ 300,000	\$ (710,000)	\$ 300,000
Operating line	200,000	-	200,000	-	200,000
Construction line	700,000	-	121,000	-	121,000
Old National Bank:					
Construction line	500,000	52,875	283,280	(51,527)	284,628
Total		<u>\$ 762,875</u>	<u>\$ 904,280</u>	<u>\$ (761,527)</u>	<u>\$ 905,628</u>

The Authority has obtained multiple lines of credit for cash flow purposes. The Operating and Tax Foreclosure Credit lines through Huntington Bank mature on June 30, 2018, and accrue interest at the LIBOR rate plus 2.25% (effective rate of 3.79% at December 31, 2017). The Huntington Bank Construction line matures on April 30, 2019, and accrues interest at the LIBOR rate plus 2.32% (effective rate of 3.86% at December 31, 2017). The Old National Bank Construction Line matures on May 1, 2018, and accrues interest at the prime rate plus 0.75% (effective rate of 5.00% at December 31, 2017). All lines of credit are unsecured.

6. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2017 is summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Notes payable	<u>\$ 400,000</u>	<u>\$ 1,068,883</u>	<u>\$ (400,000)</u>	<u>\$ 1,068,883</u>	<u>\$ 1,068,883</u>

The Authority has an outstanding note payable in the amount of \$1,068,883 to IFF, an Illinois not-for-profit corporation. The loan can be drawn upon up to \$1,100,000. Repayment is due in full upon maturity in October 2018 with the option of interim partial payments at the Authority's discretion. Interest is due monthly based on outstanding principal at a rate of 5.625% and is expected to be approximately \$50,000 during 2018.

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, 2017 was \$23,800.

The following is a schedule of future minimum annual lease payments required under this lease as of December 31, 2017:

Year Ending December 31,	Future Lease Obligation
2018	\$ 24,276
2019	<u>20,566</u>
Total	<u>\$ 44,842</u>

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. Employee contributions to the plan for the year ended December 31, 2017, were \$14,912. Participants are immediately vested in all contributions and proceeds may be withdrawn at any time, subject to an early withdrawal penalty. Effective March 1, 2015, the Authority no longer makes direct contributions to the 401(k). Instead, employees are provided benefit through a "cafeteria plan." The Authority contributes 25% of each eligible employee's salary for benefits (such as retirement, health insurance, tuition reimbursement, etc.). The use of these funds is at the discretion of the employee.

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, 2017, 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 in any of the past three fiscal years. There was no significant change in coverage during the year.

10. CONTINGENT LIABILITY

Help for the Hardest Hit Grant Funding

The Authority participated 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% after each full year, with the final year being 2021) 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 5 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, 2017, the Authority had received \$2.5 million in grant funding through the Hardest Hit program.



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 OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 12, 2018

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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 12, 2018.

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