

**CITY OF LANSING
BUILDING AUTHORITY**

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, Members of the City Council
of the City of Lansing, and Members of the Board of
Directors of the City of Lansing Building Authority
Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Lansing Building Authority (the "Authority"), a blended component unit of the City of Lansing, Michigan, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Lansing Building Authority as of June 30, 2020, and the respective changes in 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

Report on 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.

Emphasis of Matter

Exclusive Presentation

As discussed in Note 1, the financial statements referred to above present only the City of Lansing Building Authority and do not purport to, and do not, present fairly the financial position of the City of Lansing, Michigan, as of June 30, 2020, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated on our consideration of the City of Lansing Building Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Maney Costeiran PC

December 18, 2020

**CITY OF LANSING BUILDING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The City of Lansing Building Authority (the “Authority”) was established pursuant to Act 31, Public Acts of Michigan, as amended, and is a blended component unit of the City of Lansing, Michigan. The Building Authority presents this management discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

The assets and deferred outflows of resources of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$87,334 (net position for all activities). All of this amount (unrestricted net position for all activities) may be used to meet the Authority’s ongoing obligations to citizens and creditors. Other highlights include:

- The Authority’s total net position increased by \$41,402 during the most current fiscal year.
- The Authority’s total outstanding long-term obligations decreased by a net of \$1,128,722 during the current fiscal year. There are outstanding long-term obligations at year-end in the amount of \$23,026,648.

Overview of the Financial Statements

Basic Financial Statements. The Authority’s financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board. The Authority is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. See Note 1 to the financial statements for a summary of the Authority’s significant accounting policies.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The net position of the Authority is summarized for the purpose of determining the overall fiscal position. As shown below, the Authority’s total assets and deferred outflows of resources exceeded liabilities by \$87,334 at the end of the fiscal year. The entire balance of the Authority’s net position is considered unrestricted.

	Net Position	
	2020	2019
Assets		
Current and other assets	\$ 22,887,220	\$ 23,472,472
Deferred Outflows	3,007,730	3,168,852
Liabilities		
Current and other liabilities	2,780,968	2,440,022
Long-term obligations	23,026,648	24,155,370
Total liabilities	25,807,616	26,595,392
Net Position		
Unrestricted	\$ 87,334	\$ 45,932

When comparing the current fiscal year to the previous fiscal year net position has increased by \$41,402. The current year increase in net position was more than the prior year decrease due to a reduction in interest expense.

	Net Position	
	2020	2019
Operating revenue	\$ 1,315,161	\$ 1,658,884
Operating expenses	1,273,759	2,007,219
Change in net position	41,402	(348,335)
Net position, beginning of year	45,932	394,267
Net position, end of year	<u>\$ 87,334</u>	<u>\$ 45,932</u>

Capital Assets. The Authority has no capital assets at this time.

Long-term Obligation Administration

At the end of the current fiscal year, the City of Lansing Building Authority had total long-term obligations outstanding, net of unamortized discounts, of \$23,026,648. General obligation bonds were issued to provide funds for the construction and acquisition of major capital facilities for the City of Lansing, Michigan. General obligation bonds are direct obligations and pledge the full faith and credit of the City of Lansing, Michigan. These bonds are outstanding with varying amounts of principal maturing until 2040.

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Bonds Payable	\$ 24,282,490	\$ -	\$ 1,130,000	\$ 23,152,490
Unamortized discounts on bonds	(127,120)	63,334	62,056	(125,842)
Total	<u>\$ 24,155,370</u>	<u>\$ 63,334</u>	<u>\$ 1,192,056</u>	<u>\$ 23,026,648</u>

Additional information on the Authority's long-term debt can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budget and Rates

City of Lansing Building Authority expenses are governed by the laws of the State of Michigan and bond indenture covenants. These laws and covenants determine how bond proceeds are spent and how and when debt retirement payments are made.

Requests for Information

This financial report is designed to provide a general overview of the City of Lansing Building Authority 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 made with the City of Lansing Finance Department at (517) 483-4500.

BASIC FINANCIAL STATEMENTS

**CITY OF LANSING BUILDING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2020**

ASSETS	
Current	
Cash and cash equivalents	\$ 482,144
Investments	156,395
Receivables	
Interest	113,692
Leases receivable, current	<u>1,742,982</u>
Total current assets	2,495,213
Noncurrent assets	
Investments	1,782,241
Leases receivable	<u>18,609,766</u>
Total noncurrent assets	<u>20,392,007</u>
TOTAL ASSETS	<u>22,887,220</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on bond refunding	<u>3,007,730</u>
LIABILITIES	
Current liabilities	
Current portion of accrued interest payable	983,907
Current portion of long-term debt	<u>2,011,849</u>
Total current liabilities	2,995,756
Noncurrent liabilities	
Accrued interest payable, net of current portion	1,797,061
Long-term debt, net of current portion	<u>21,014,799</u>
Total noncurrent liabilities	<u>22,811,860</u>
TOTAL LIABILITIES	<u>25,807,616</u>
NET POSITION	
Unrestricted	<u><u>\$ 87,334</u></u>

See accompanying notes to financial statements.

**CITY OF LANSING BUILDING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

OPERATING REVENUES	
Lease revenue	\$ 1,214,888
Interest revenue	<u>100,273</u>
TOTAL OPERATING REVENUES	<u>1,315,161</u>
OPERATING EXPENSES	
Interest expenses and fees	1,271,659
Other expenses	<u>2,100</u>
TOTAL OPERATING EXPENSES	<u>1,273,759</u>
CHANGE IN NET POSITION	41,402
Net position, beginning of year	<u>45,932</u>
Net position, end of year	<u><u>\$ 87,334</u></u>

See accompanying notes to financial statements.

**CITY OF LANSING BUILDING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments received on capital leases	\$ 1,481,463
Cash received from the City of Lansing, Michigan	362,225
Interest and fees paid	(768,168)
Principal paid on general obligation bonds	(1,130,000)
Payment of bond costs	<u>(2,100)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(56,580)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	<u>(1,938,636)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,995,216)
Cash and cash equivalents, beginning of year	<u>2,477,360</u>
Cash and cash equivalents, end of year	<u><u>\$ 482,144</u></u>
Reconciliation of operating income to net cash (used) by operating activities	
Operating income	\$ 41,402
Adjustments to reconcile operating income to net cash (used) by operating activities	
Amortization of premiums and discounts on bond payable	1,278
Amortization of deferred charge on bond refunding	161,122
Decrease in:	
Accrued interest receivable	86,680
Due from City of Lansing, Michigan	362,225
Lease receivable	79,622
Increase (decrease) in:	
Accrued interest payable	341,091
Long-term obligations	<u>(1,130,000)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u><u>\$ (56,580)</u></u>

See accompanying notes to financial statements.

**CITY OF LANSING BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lansing Building Authority (the "Authority") was established pursuant to Act 31, Public Acts of Michigan, as amended. The Authority has entered into various lease agreements with the City of Lansing, Michigan (the "City") covering buildings, parking lots, recreation facilities, and stadiums constructed by the Authority.

Reporting Entity

These financial statements represent the financial position and the results of operations of a blended component unit of the City and are an integral part of that reporting entity. A blended component unit is a legally separate entity from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and its financial data is combined with data of the appropriate funds.

Basis of Presentation

All operations of the Authority are accounted for in a single enterprise fund (a type of proprietary fund). 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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Restricted net position is reported for assets that are subject to restrictions beyond the Authority's control, less any liabilities payable from such restricted assets. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Deferred Outflows of Resources, Liabilities, and Equity

Deposits and Investments

The Authority's cash and cash equivalents are considered to be demand deposits and amounts held by the City of Lansing, Michigan for the benefit of the Authority.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have established market values are reported at estimated fair value.

**CITY OF LANSING BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Deferred Outflows of Resources, Liabilities, and Equity (continued)

Deposits and Investments (continued)

In accordance with Michigan Compiled Laws, the Authority is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. The United States government or Federal agency obligations repurchase agreements.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

The Authority follows the investment policy of the City of Lansing.

Deferred Outflows of Resources

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

Long-term Obligations

In the financial statements, long-term debt is reported as a liability. Bond discounts and premiums are deferred and amortized over the life of the applicable bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount and premium. Bond issuance costs are reported as expenses as incurred.

**CITY OF LANSING BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Deferred Outflows of Resources, Liabilities, and Equity (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit balances as of June 30, 2020:

Statement of net position	
Cash and cash equivalents	\$ 482,144
Investments, current	156,395
Investments, noncurrent	<u>1,782,241</u>
Total	<u><u>\$ 2,420,780</u></u>
Deposits and investments	
Cash and cash equivalents in money market accounts and pooled cash at the City of Lansing	\$ 482,144
Investments	<u>1,938,636</u>
	<u><u>\$ 2,420,780</u></u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require, and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$2,069,862 of the Authority's bank balance of \$2,222,450 was exposed to custodial credit risk because it was uninsured and uncollateralized for the accounts that were specifically held in the Authority's name.

A portion of the above deposits and investments are held by the City of Lansing, Michigan. Those specific deposit and investment accounts are not held in the name of the Authority. The amount of federal depositary insurance and custodial credit risk of investments is determined for the City of Lansing, Michigan as a whole, and cannot be separately identified for the Authority related to these accounts.

The Authority's investment policy does not specifically address this risk, although the Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**CITY OF LANSING BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk - Investments

As of June 30, 2020, the Authority's investments consisted of U.S. government debt securities totaling \$1,938,636.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and the Authority does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Credit Risk

State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, are summarized as follows:

S&P AA+	\$ 1,030,974
Unrated	<u>907,662</u>
Total	<u><u>\$ 1,938,636</u></u>

Interest Rate Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. For investments held at year-end maturities are as follows:

Due within 1 year	\$ 156,395
Due in 1 - 5 years	<u>1,782,241</u>
Total	<u><u>\$ 1,938,636</u></u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

**CITY OF LANSING BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. As of June 30, 2020, all of the Authority's investments were classified as level 2 fair value.

NOTE 3 - LEASES RECEIVABLE

The Authority has entered into various lease agreements with the City for buildings, parking lots, recreation facilities, and stadiums acquired or constructed by the Authority. These agreements generally terminate with the retirement of the related bond issues. Annual lease payments under these agreements are equal to the related bond principal and interest due each year. At termination of a lease, title to the leased property is passed to the City.

Under the accrual basis of accounting the Authority's leases are classified as sales leases. As a result, leases receivable are recognized in the accompanying statement of net position, whereas capital assets are not.

All lease agreements provide for the lessee to use, operate and maintain the property, at its own expense, subject to the terms and conditions of the agreements.

Future minimum lease payments to be received under these lease agreements are as follows:

Year Ended June 30,	Amount
2021	\$ 3,292,035
2022	3,269,687
2023	2,069,136
2024	1,508,136
2025	767,510
Thereafter	25,980,374
Total minimum lease payments	36,886,878
Less amount representing interest	(16,534,130)
	\$ 20,352,748

**CITY OF LANSING BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2020:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>	<u>Amounts Due Within One Year</u>
General Obligation Bonds	\$ 24,282,490	\$ -	\$ 1,130,000	\$ 23,152,490	\$ 2,011,849
Unamortized premium/ (discount) on bonds	<u>(127,120)</u>	<u>63,334</u>	<u>62,056</u>	<u>(125,842)</u>	<u>-</u>
	<u>\$ 24,155,370</u>	<u>\$ 63,334</u>	<u>\$ 1,192,056</u>	<u>\$ 23,026,648</u>	<u>\$ 2,011,849</u>

General Obligations Bond

\$8,161,692 2009 Building Authority refunding bonds, unrefunded portion, due in amounts ranging from \$430,653 to \$861,849 plus interest ranging from 6.25% - 6.85% through 2024 (unlimited tax, general obligation). \$ 2,767,490

\$7,245,000 2014 Building Authority refunding bonds due in amounts ranging from \$0 to \$1,060,000 plus interest of 4.75% through 2039 (unlimited tax, general obligation). 7,245,000

\$6,765,000 2015 Building Authority refunding bonds due in amounts ranging from \$1,150,000 to \$1,185,000 plus interest of 3.0% through 2022 (limited tax, general obligation). 2,335,000

\$10,805,000 2017 Building Authority refunding bonds due in amounts ranging from \$200,000 to \$1,200,000 starting on June 1, 2026 and continuing through 2040. Interest is payable semi-annually at rates from 3.305% to 4.075% (limited tax, general obligation). 10,805,000

\$ 23,152,490

**CITY OF LANSING BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - LONG-TERM OBLIGATIONS (continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Business-type Activities

Year Ended June 30,	General Obligations Bonds		
	Principal	Interest	Total
2021	\$ 2,011,849	\$ 1,740,710	\$ 3,752,559
2022	1,948,908	1,744,152	3,693,060
2023	711,080	1,781,431	2,492,511
2024	430,653	1,491,857	1,922,510
2025	-	767,510	767,510
2026-2030	1,460,000	3,691,143	5,151,143
2031-2035	7,170,000	3,040,431	10,210,431
2036-2040	9,420,000	1,054,734	10,474,734
	\$ 23,152,490	\$ 15,311,968	\$ 38,464,458

Prior Year Defeased Debt

In the prior year, the City of Lansing, Michigan sold one of the City-owned parking structures. The construction of this structure was initially financed by bonds issued by the Authority. The proceeds from this sale were used to defease the remaining principal of the Authority's 2012 and 2018 refunding bonds in the amounts of \$4,775,000 and \$5,750,000, respectively. The defeased bonds mature on May 1, 2020 through 2027. Accordingly, \$9,600,000 of defeased debt remains outstanding at year-end related to this transaction.

Also, as of June 30, 2020, defeased bonds related to the prior year refunding of the 2005 Building Authority Refunding Bonds were still outstanding in the amount of \$2,555,000. The defeased bonds are scheduled to be paid by the escrow agent in installments on June 1 of years 2021 through 2022.

NOTE 5 - RISK MANAGEMENT

The Authority as a blended component unit of the City of Lansing, is exposed to various risks that are covered by the City's policies including losses related to issues of cyber security, liability, errors and omissions, flood, boiler and machinery, property, employee bonding, crime, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage during the past three years.

NOTE 6 - SUBSEQUENT EVENT

Subsequent to year end, the Authority has approved borrowing \$8,735,000 of refunding bonds to refund the 2014 Building Authority Refunding Bonds as described in Note 4.

**CITY OF LANSING BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - UPCOMING CHANGES IN ACCOUNTING STANDARDS/REGULATIONS

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2021-2022 fiscal year.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

**INDEPENDENT AUDITOR'S 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***

The Honorable Mayor, Members of the City Council
of the City of Lansing, and Members of the Board of
Directors of the City of Lansing Building Authority
Lansing, 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 City of Lansing Building Authority (the Authority), a blended component unit of the City of Lansing, Michigan, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 18, 2020.

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) as a basis for designing 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses:

2020-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition of various financial statement amounts within the City's accounting records were proposed by the auditors. In addition, we received several revisions to the City's trial balance (the final version coming in early December 2020), each of which contained material corrections to previous trial balances.

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the recording of all appropriate journal entries to assure the trial balance from which the financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Cause: Over the past several years, the City's Finance Department, who prepares the reconciliations of all accounts, has reduced in size due to budget reductions, staffing reductions and staffing turnover. These changes have placed a significant burden on the month and year end close processes, and have contributed to journal entries not being completed or reviewed timely.

Effect: The Authority's accounting records were initially misstated by amounts material to the financial statements. Necessary adjustments were brought to the attention of management and were subsequently recorded in the Authority's general ledger.

Recommendation: We recommend that the Authority take steps to assure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: Management of the Authority will continue to review auditor recommendations/ corrections and internal procedures related to the identification and correction of potential errors in the financial statements prior to the beginning of future audits. The Finance team will meet to review adjustments made to this year's financial statements and will develop a plan to address the most significant issues in a timelier manner going forward. Within budget constraints, Management will look to increase staffing levels and/or obtain temporary assistance earlier in the fiscal year, in order to perform more timely analyses of the various account balances.

2020-02 BANK RECONCILIATIONS

Condition: Throughout the year, the City failed to complete bank reconciliations on a timely basis for most of its cash accounts, including the pooled account which the Authority is part of. Several individual bank account reconciliations were not completed for the entire fiscal year until approximately four months after fiscal year end while audit fieldwork was ongoing.

Criteria: Completion of timely bank account reconciliations and review thereof, represent an important control used to detect and prevent misstatements and errors. Such reconciliations should be completed and reviewed monthly for all accounts.

Cause: Over the past several years, the City's Finance Department, who prepares the reconciliations of all entity accounts, has reduced in size due to staffing reductions and staffing turnover. These changes have placed a significant burden on the month and year end close processes, and have contributed to reconciliations not being completed or reviewed timely.

Effect: As a result of this condition, all activities that have cash transactions have an increased risk that misstatements in the accounting records, whether caused by error or fraud, would not be detected and corrected on a timely basis.

2020-02 BANK RECONCILIATIONS (continued)

Recommendation: We recommend the City take steps to assure all bank reconciliations are completed and tied to the general ledger in a timely fashion and all differences be resolved in a timely manner.

Correction Action Response: Management of the City will work on several areas of improvement to alleviate this issue.

- a. We will continue to review the need for the various bank accounts that have been established over the years with the view toward more consolidation.
- b. We will assign the responsibility for each of the bank accounts to various Finance staff members, including using City Treasury staff, who will be responsible for reconciling those statements in a timely manner.
- c. We will review the old outstanding reconciling items with the view toward clearing them up before the end of the next fiscal year.
- d. We will look to increase staffing levels in Finance and/or obtain temporary assistance earlier in the fiscal year, in order to perform more timely analyses of the various bank statements.

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 financial statements. 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 *Governmental Auditing Standards*.

Authority’s Responses to Findings

The Authority’s responses to the findings identified in our audit are described above. The Authority’s responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 entity’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.

Maney Costeiran PC

December 18, 2020

December 18, 2020

To the Honorable Mayor, Members of the City Council
of the City of Lansing, and Members of the Board of
Directors of the City of Lansing Building Authority
Lansing, Michigan

We have audited the financial statements of the City of Lansing Building Authority for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to City Council dated May 5, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Lansing Building Authority are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2020. We noted no transactions entered into the Building Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Lease receivable balances are based on past experience and future estimates of lease collections.

We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements detected as a result of audit procedures and corrected by management are described in connection with our report on internal control over financial reporting.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2020.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

Manes Costeiron PC