

December 18, 2020

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

We have audited the financial statements of the governmental activities and the major fund of the Lansing Brownfield Redevelopment Authority (the Authority), a discretely presented component unit of the City of Lansing, Michigan, 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 Lansing Brownfield Redevelopment 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 by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The Authority is party to loan agreements in which the associated loans are expected to be repaid by future collections of tax increment revenues related to the properties being redeveloped. Because of the uncertainty of future tax captures, management has estimated the collectability of such receivables to be zero and, therefore, no balance is reported in either the government-wide or fund financial statements.

We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements 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 Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

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

#### Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and 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 City Council, the Board of Directors, and management of the City and the Lansing Brownfield Redevelopment Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Maney Costeiran PC*

**LANSING BROWNFIELD  
REDEVELOPMENT AUTHORITY**

**REPORT ON FINANCIAL STATEMENTS  
(with required supplementary information)**

**YEAR ENDED JUNE 30, 2020**

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the Lansing Brownfield Redevelopment Authority (the "Authority"), a discretely presented 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Lansing Brownfield Redevelopment Authority as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified 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 December 18, 2020, on our consideration of the Lansing Brownfield Redevelopment 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

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The Lansing Brownfield Redevelopment Authority (the “Authority”) was established by the City of Lansing (the “City”) on August 17, 1997, pursuant to Public Act 381 of 1996. The 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.

**Using this Annual Report**

The 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 following:

- The *statement of net position* presents information on all of the Authority’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *statement of activities* presents information showing how the Authority’s net position changed during the most recent fiscal year.
- The *governmental fund balance sheet* presents information on the Authority’s assets, liabilities and deferred inflows of resources, with the residual reported as fund balance.
- The *statement of revenues, expenditures, and change in fund balance - general fund* presents information showing the Authority’s actual revenues and expenditures for the most recent fiscal year on the fund level perspective.
- The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Government-wide Financial Statements.** The net position of the Authority is summarized for the purpose of determining the overall fiscal position. As shown in the table below, the Authority’s liabilities exceeded assets by \$8.1 million at the end of the fiscal year.

	Governmental Activities	
	2020	2019
Assets		
Current and other assets	\$ 13,973,268	\$ 4,118,267
Liabilities		
Other liabilities	2,280,303	1,345,618
Noncurrent liabilities	19,760,000	500,000
Total liabilities	22,040,303	1,845,618
Net Position (deficit)		
Restricted	8,465,017	-
Unrestricted (deficit)	(16,532,052)	2,272,649
Total net position (deficit)	\$ (8,067,035)	\$ 2,272,649

	Governmental Activities	
	<u>2020</u>	<u>2019</u>
Revenues		
Program revenue		
Operating grants and contributions	\$ 1,174,048	\$ 778,932
General revenues		
Property taxes	3,763,175	3,036,500
Investment earnings	31,976	18,311
	<u>4,969,199</u>	<u>3,833,743</u>
Expenses		
Community and economic development	13,834,549	4,250,976
Interest and fees on long-term debt	1,474,334	-
	<u>15,308,883</u>	<u>4,250,976</u>
Change in net position	(10,339,684)	(417,233)
Net position, beginning of year	<u>2,272,649</u>	<u>2,689,882</u>
Net position (deficit), end of year	<u>\$ (8,067,035)</u>	<u>\$ 2,272,649</u>

When comparing the current fiscal year to the previous fiscal year, net position has decreased by approximately \$10.3 million, as compared to a decrease of approximately \$417,000 in the prior year. The primary reason for this decrease is disbursements related to the Red Cedar project that was funded by bond proceeds that commenced in the current year. Since the bond proceeds are reported in the statement of net position as a liability, there is not a revenue reported to offset the expenses related to redevelopment projects that are not capitalizable by the Authority. The Authority hopes to recoup these costs in the future in the form of increased tax captures related to this property.

Property tax revenues as well as redevelopment expenses increased for the year ended June 30, 2020 due to an increase in amounts captured related to project plans that were initiated during the year, as well as continued capture on previously existing plans. In addition, operating grants and contribution revenue increased this year due to an increase in project draws as compared to previous years.

### **General Fund Financial Analysis**

At the end of the current fiscal year, the Authority's governmental fund (the general fund) reported an ending fund balance of approximately \$11.6 million, an increase of approximately \$9 million in comparison to the prior year. The reasons for changes in activity for the general fund are substantially the same as discussed for the government-wide financial statements above as the bond issuance shows as an other financing source at the fund level.

**General Fund Budgetary Highlights**

In accordance with State statute, the Authority adopts a budget annually prior to the commencement of the fiscal year. The budget may be amended during the year by formal resolution of the Board of Directors. Accordingly, the budget was amended during the year for Brownfield plan amendments and additional intergovernmental grants received, as well as unexpended multi-year grants not included in the original budget. The Authority did not amend their budget for the above noted Red Cedar project because it occurred in early June and there was not enough time to procedurally amend the budget. This was the reason for the overages.

The primary variance between the final budget and the actual costs was the result of multi-year grants budgeted costs that were carried forward and spent in the current fiscal year.

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

**Long-term Obligation Administration**

At the end of the current fiscal year, the Authority had total long-term obligations outstanding of \$19,760,000. Proceeds from Limited Obligation Tax Increment Revenue Bonds (2 series’) were received in fiscal year 2019-20 for use on the Red Cedar project.

	Principal Balance <u>June 30, 2019</u>	Debt Proceeds	Principal Payments	Principal Balance <u>June 30, 2020</u>
Revenue bonds	\$ -	\$ 19,260,000	\$ -	\$ 19,260,000
Loan payable	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
	<u>\$ 500,000</u>	<u>\$ 19,260,000</u>	<u>\$ -</u>	<u>\$ 19,760,000</u>

Additional information on the Authority’s long-term obligations can be found in Note 5 of the financial statements.

**Economic Factors**

Lansing Brownfield Redevelopment 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 Lansing Brownfield Redevelopment Authority finances and to show accountability for the money it receives and expends. Additional information on the Authority can be found on the City of Lansing’s website at [www.lansingmi.gov](http://www.lansingmi.gov). Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: 1000 S. Washington Avenue, Suite 201, Lansing, Michigan 48910-3201.

## **BASIC FINANCIAL STATEMENTS**

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2020**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,347,756
Cash and cash equivalents - restricted	8,465,017
Loans receivable (due in more than one year)	160,495
<b>TOTAL ASSETS</b>	<b>13,973,268</b>
<b>LIABILITIES</b>	
Accounts payable	2,223,324
Accrued interest payable	56,979
Long-term obligations (due in more than one year)	19,760,000
<b>TOTAL LIABILITIES</b>	<b>22,040,303</b>
<b>NET POSITION</b>	
Restricted for Red Cedar Project	8,465,017
Unrestricted (deficit)	(16,532,052)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (8,067,035)</b>

See accompanying notes to financial statements.

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenues and Change in Net Position
Governmental activities			
Community and economic development	\$ 13,834,549	\$ 1,174,048	\$ (12,660,501)
Interest and fees on long-term debt	1,474,334	-	(1,474,334)
	15,308,883	\$ 1,174,048	(14,134,835)
General revenues			
Property taxes			3,763,175
Investment earnings			31,976
Total general revenues			3,795,151
Change in net position			(10,339,684)
Net position, beginning of the year			2,272,649
Net position (deficit), end of the year			\$ (8,067,035)

See accompanying notes to financial statements.

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
GOVERNMENTAL FUND  
BALANCE SHEET  
JUNE 30, 2020**

	General
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,347,756
Cash and cash equivalents - restricted	8,465,017
Loans receivable	160,495
<b>TOTAL ASSETS</b>	<b>\$ 13,973,268</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 2,223,324
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - loans receivable	160,495
<b>FUND BALANCE</b>	
Committed - revolving fund B	966,095
Restricted for Red Cedar Project	8,465,017
Unassigned	2,158,337
<b>TOTAL FUND BALANCE</b>	<b>11,589,449</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 13,973,268</b>

See accompanying notes to financial statements.

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2020**

**Total fund balance - governmental fund** \$ 11,589,449

Amounts reported for the governmental activities in the statement of net position are different because:

Long-term loans receivables are not available to pay for current period expenditures and are therefore unavailable in the funds. 160,495

Long-term obligations and related liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. Long-term obligations and related liabilities at year-end consist of:

Accrued interest payable	\$	(56,979)
Bonds and loans payable		<u>(19,760,000)</u>

(19,816,979)

**Net position of governmental activities**

\$ (8,067,035)

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2020**

	General
REVENUES	
Property taxes	\$ 3,763,175
Intergovernmental - Federal/State	1,180,951
Investment earnings	31,976
Other	21,778
TOTAL REVENUES	4,997,880
EXPENDITURES	
Current	
Community and economic development	
Administrative	161,039
Community development projects	13,673,510
Debt service	1,037,163
TOTAL EXPENDITURES	14,871,712
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(9,873,832)
OTHER FINANCING SOURCES (USES)	
Issuance of long-term debt	19,260,000
Bond discount	(380,192)
TOTAL OTHER FINANCING SOURCES (USES)	18,879,808
NET CHANGE IN FUND BALANCE	9,005,976
Fund balance, beginning of year	2,583,473
Fund balance, end of year	\$ 11,589,449

See accompanying notes to financial statements.

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020**

**Net change in fund balance - governmental fund** \$ 9,005,976

Amounts reported for governmental activities in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in loans receivable (28,681)

Repayment of long-term debt and borrowings of long-term debt are reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Issuance of long-term debt (19,260,000)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Change in accrued interest payable (56,979)

**Change in net position of governmental activities** \$ (10,339,684)

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements present the activities of the Lansing Brownfield Redevelopment Authority (the "Authority"). The Authority was established August 17, 1997, pursuant to Public Act 381 of 1996. The primary purpose of the Authority is to revitalize environmentally distressed areas in the City of Lansing. The Authority's activities are primarily funded through tax increment financing.

The Authority is a component unit of the City of Lansing, Michigan (the "City") because the City appoints the Authority's Board of Directors, it has the ability to significantly influence the Authority's operations, and it is financially accountable for the Authority as defined under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*. Accordingly, the Authority is presented as a discrete component unit in the City's financial statements and is an integral part of that reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable activities with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational requirement of a particular function or identifiable activity. Property taxes not properly included among program revenues are reportable instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial information is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial information is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within three months of the end of the current fiscal period or one-year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

The Authority reports a single major governmental fund - the general fund. The general fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those accounted for and reported in another fund, if any.

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assets, Liabilities, Deferred Inflows of Resources, and Equity

*Cash and Cash Equivalents*

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.

Restricted cash consists of amounts required to be maintained separately in accordance with bond covenants.

*Brownfield Loans*

The Authority is party to loan agreements which amount to funds advanced to local corporations 1) under the Brownfield Cleanup Revolving Loan Fund program of the U.S. Environmental Protection Agency and 2) under the Brownfield Local Sight Remediation Revolving Loan Fund (LSRLF). The LSRLF consists of certain local tax captures.

*Accounts Payable*

The Authority's accounts payable primarily relate to tax captures due to developers.

*Deferred Inflows of Resources*

In addition to liabilities, the fund level balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, from loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

*Fund Balances*

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance, if any, is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. A formal resolution of the Board of Directors is required to establish, modify, or rescind a fund balance commitment. The Authority reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Authority currently has no assigned fund balance, as the Board of Directors has not yet given the authority for the making of such assignments. Unassigned fund balance is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance.

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 - BUDGETARY INFORMATION**

The Authority has established the following procedures for determining the budgetary data presented in the accompanying required supplementary information to the financial statements:

- a. The secretary of the Authority's Board of Directors submits to the City Council of the City of Lansing a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by City Council resolution, pursuant to the Uniform Budgeting and Accounting Act (P.A. 621). This act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or to allow expenditures in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget and shall not exceed the amount appropriated.
- d. Formal budgetary integration is employed as a management control device during the year for the funds.
- e. Budgets are adopted on a basis consistent with generally accepted accounting principles.
- f. Expenditures may not exceed budget at the activity level.

**NOTE 3 - DEPOSITS**

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

Statement of Net Position

Cash and cash equivalents	\$ 5,347,756
Cash and cash equivalents - restricted	<u>8,465,017</u>
	<u>\$ 13,812,773</u>

Deposits

Cash and cash equivalents in checking/savings and in uncategorized pooled investment accounts and pooled cash at the City of Lansing.	<u>\$ 13,812,773</u>
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**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS (continued)**

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, \$14,624,522 of the Authority's bank balance of \$15,124,522 was exposed to custodial credit risk because it was uninsured and uncollateralized for the accounts that were specifically held in the Authority's name. The carrying amount of total cash and cash equivalents as of June 30, 2020 was \$13,812,773.

A portion of the above deposits are held by the City of Lansing, Michigan. Those specific deposit 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.

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. The Authority's amounts in the uncategorized pooled investment of \$8,415,942 had a S&P rating of AAAM and a weighted average maturity of 43 days.

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.

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.

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS (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, the Authority's uncategorized pooled investment was classified as level 2 fair value.

State statutes authorize the Authority to invest in:

- a. Bonds, securities, other obligations and repurchase agreements 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 qualified financial institution.
- 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. Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

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

**NOTE 4 - RECEIVABLES**

Receivables of governmental activities are comprised of loans receivable which consist of amounts funded by the U.S. Environmental Protection Agency (EPA) revolving loan funds, consisted of the following at June 30, 2020:

EPA Brownfield Revolving Loan Fund loan receivable from Sam Eyde Management, Inc. for cleanup related to the property located at 4000 N. Grand River Avenue in the City. Interest is accreted at 3.0% per annum. All unpaid principal and accreted interest is due in full on March 12, 2026.	\$ 151,495
EPA Brownfield Revolving Loan Fund loan receivable from the City of Lansing Economic Development Corporation. Interest is stated at 0%. Repayment is due in annual installments of \$4,500 through January 1, 2022.	<u>9,000</u>
	<u><u>\$ 160,495</u></u>

Of the above loans, \$133,474 is not expected to be collected within one year.

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - RECEIVABLES (continued)**

The Authority is also party to loan agreements, some funded by EPA revolving loan funds and others funded by local tax captures, in which the associated loans are expected to be repaid by future collections of tax increment revenues related to the properties being cleaned up. The liability of the local corporations is limited to any shortfalls in future collection of tax increment revenues. Because the balances that may eventually be collected from outside parties is not reasonably estimable due to the uncertainty of future tax captures, no balance is reported in either the government-wide or fund financial statements. The outstanding balance of such loans at June 30, 2020, consisted of the following:

EPA Brownfield Revolving Loan Fund loan to Brownfield Development Specialists, LLC for cleanup related to the "Dard Building" in the City. Interest is stated at 0%.	\$ 235,094
EPA Brownfield Revolving Loan Fund loan to Y Site, LLC for cleanup related to the former YMCA building. Interest is accreted at 3.0% per annum.	677,934
Locally funded Brownfield Revolving Loan Fund loan to the High Grade Material Company for demolition and cleanup related to a single parcel of property in the City. Interest is accreted at 5.0% per annum.	44,587
EPA Brownfield Revolving Loan Fund loan to the City of Lansing Economic Development Corporation related to property formerly owned by the City of Lansing Board of Water and Light. Interest is stated at 0%.	409,096
Locally funded Brownfield Revolving Loan Fund loan receivable to the City for cleanup related to a redevelopment of the former Potter Mill property. Interest is stated at 0%.	194,075
Locally funded Brownfield Revolving Loan Fund loan receivable to the City for cleanup related to redevelopment of the south side of the 2000 block of East Michigan Avenue. Interest is stated at 3%.	64,936
Locally funded Brownfield Revolving Loan Fund loan receivable to Motion Properties, Inc. for cleanup related to redevelopment of the Company's property. Interest is stated at 3%.	28,509
Locally funded Brownfield Revolving Loan Fund loan receivable to 515 Ionia, LLC for cleanup related to redevelopment of the Company's property. Interest is stated at 3%.	229,867
MDEQ Revitalization Revolving Loan to 2200 Block, LLC for development of the Provident Place property. Interest is stated at 1.5% and does not begin accruing until five years from the loan effective date.	487,580
Locally funded project by debt issuance, secured solely by tax increments from the development of the Red Cedar project. Initial interest rate at 3.59%.	<u>9,377,628</u>
	<u><u>\$ 11,749,306</u></u>

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM OBLIGATIONS**

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

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Amounts Due Within One Year
Revenue bonds	\$ -	\$ 19,260,000	\$ -	\$ 19,260,000	\$ -
Direct borrowings and direct placements					
Loan payable	500,000	-	-	500,000	-
	<u>\$ 500,000</u>	<u>\$ 19,260,000</u>	<u>\$ -</u>	<u>\$ 19,760,000</u>	<u>\$ -</u>

Revenue Bonds

\$9,660,000 Limited Obligation Tax Increment Revenue Bonds Series 2020-1A, due in annual installments of \$210,000 to \$530,000 beginning in June 2023 and through June 2050, with interest ranging from 3.590% to \$4.800%, payable annually.

\$ 9,660,000

\$9,600,000 Limited Obligation Tax Increment Revenue Bonds Series 2020-1B, due in annual installments of \$205,000 to \$525,000 beginning in June 2023 and through June 2050, with interest ranging from 3.590% to \$4.800%, payable annually.

9,600,000

Total revenue bonds

\$ 19,260,000

Direct Borrowings and Direct Placements

\$500,000 Revitalization Revolving Loan, due in annual installments of \$42,147 to 48,913 beginning in December 2022 and through December 2032, with interest of 1.50%, payable annually. No interest accrues before the date of the first payment.

\$ 500,000

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM OBLIGATIONS (continued)**

Annual debt service requirements to maturity for the Authority's bonds payable and direct borrowing and direct placements are as follows:

Year Ending June 30,	Revenue Bonds		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2021	\$ -	\$ 683,752	\$ -	\$ -
2022	-	691,434	-	-
2023	415,000	691,434	48,913	-
2024	440,000	676,535	42,147	6,766
2025	470,000	660,740	42,779	6,134
2026-2030	2,625,000	3,278,001	223,715	20,850
2031-2035	3,165,000	3,068,707	142,446	4,295
2036-2040	4,105,000	2,343,510	-	-
2041-2045	4,290,000	1,469,520	-	-
2046-2050	3,750,000	556,800	-	-
	<u>\$ 19,260,000</u>	<u>\$ 14,120,433</u>	<u>\$ 500,000</u>	<u>\$ 38,045</u>

**NOTE 6 - NONCANCELABLE LEASE AND SUBLEASE**

The Authority is party to an operating lease with the City for an open air parking lot, which is owned by the City. The initial lease term is for 70 years with early termination and renewal options connected to an associated sublease. Annual rent per the lease agreement is to be \$1, or any amounts actually received by the Authority pursuant to the sublease executed and agreed upon in connection with the lease agreement.

In addition, the Authority is party to a related sublease with Outfield Partners, LLC, a Michigan limited liability company (the "Subtenant"), for the same open air parking lot. The initial lease term is for 20 years with 7 renewal options for a period of 10 years each. Annual rent per the lease agreement is \$15,000 and continues for the remainder of the initial lease term.

Because the rents to be received under the sublease and paid under the lease are substantially identical, the Authority has determined that the substance of the transaction is that the City is leasing its parking lot to the Subtenant. The Authority will not record rental revenue or expense related to this arrangement. The minimum payments due under the initial lease term and to be collected under the sublease are as follows at June 30, 2020:

Year Ending June 30,	Amount
2021	\$ 15,000
2022	15,000
2023	15,000
2024	15,000
2025	15,000
2026-2030	75,000
2031-2035	75,000
	<u>\$ 225,000</u>

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - PROPERTY TAXES**

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of Lansing bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by Ingham County. Property tax revenue is recognized when levied in the government-wide financial statements and in the fund financial statements to the extent that it results in current receivables.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

The Economic Development Corporation of the City of Lansing (the "Corporation") provides administrative services to the Authority. Administrative services, consisting of operating costs and reimbursement of project expenses, charged to the Authority by the Corporation totaled \$161,039 for the year ended June 30, 2020.

**NOTE 9 - TAX ABATEMENTS**

The Authority provides tax abatements under the following program:

The Authority encourages environmental cleanup and economic development through its *Brownfield Redevelopment Plan* under Public Act 318. A developer performs redevelopment and cleanup activities at a site that is obsolete or blighted. The increased tax revenues resulting from the increase in taxable value are captured by the City and used to repay the developer for qualifying expenses. There is no provision for recovery of abated taxes because the developer is only paid for eligible expenses on a reimbursement-basis. Property taxes abated by the Authority under this program for fiscal year 2020, through direct reimbursement to developers from current tax captures amounted to \$2,005,477.

In addition, there are reserve liabilities reported in the financial statements as a component of accounts payable that represent tax captures set aside for future developer reimbursements. Property taxes abated by the Authority under this program for fiscal year 2020, amounted to \$806,575.

**NOTE 10 - RISK MANAGEMENT**

The Authority, as a discretely presented component unit of the City of Lansing, is exposed to various risks of loss 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 which is covered through the Authority's insurance policies. The Authority carries commercial insurance to cover these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage during the past three years.

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - NET POSITION/FUND BALANCE**

The statement of net position shows an unrestricted deficit of \$16,532,052 which is due to the full accrual accounting of all long-term debt, without reflecting a corresponding receivable for tax captures to be received in future periods (which cannot be accrued in accordance with generally accepted accounting principles). Total fund balance amounts to a positive balance of \$11,589,449. Fund balance at year end was \$8,465,017 restricted for unspent bond proceeds, committed for revolving fund B of \$966,095, and unassigned fund balance amounts \$2,158,337.

**NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENTS**

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities for all state and local governments, focusing on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries for whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE**

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 3,607,375	\$ 3,964,423	\$ 3,763,175	\$ (201,248)
Intergovernmental - Federal/State	-	675,000	1,180,951	505,951
Investment earnings	-	-	31,976	31,976
Other	-	-	21,778	21,778
<b>TOTAL REVENUES</b>	<u>3,607,375</u>	<u>4,639,423</u>	<u>4,997,880</u>	<u>358,457</u>
<b>EXPENDITURES</b>				
Current				
Community and economic development				
Administrative	153,118	161,039	161,039	-
Community development projects	3,454,257	4,478,384	13,673,510	(9,195,126)
Debt service	-	-	1,037,163	(1,037,163)
<b>TOTAL EXPENDITURES</b>	<u>3,607,375</u>	<u>4,639,423</u>	<u>14,871,712</u>	<u>(10,232,289)</u>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>(9,873,832)</u>	<u>(9,873,832)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of long-term debt	-	-	19,260,000	19,260,000
Bond discount	-	-	(380,192)	(380,192)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>18,879,808</u>	<u>18,879,808</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>-</u>	<u>-</u>	<u>9,005,976</u>	<u>9,005,976</u>
Fund balance, beginning of year	<u>2,583,473</u>	<u>2,583,473</u>	<u>2,583,473</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 2,583,473</u></u>	<u><u>\$ 2,583,473</u></u>	<u><u>\$ 11,589,449</u></u>	<u><u>\$ 9,005,976</u></u>

**LANSING BROWNFIELD REDEVELOPMENT AUTHORITY  
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2020**

**NOTE 1 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The approved budget of the Authority has been adopted at the activity level for the General Fund.

During the year ended June 30, 2020, the Authority incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
Community and Economic Development	\$ 4,639,423	\$ 13,834,549	\$ 9,195,126
Debt Service	-	1,037,163	1,037,163

**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, and  
Members of the Board of Directors of the  
Lansing Brownfield Redevelopment 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 governmental activities and the major fund of the Lansing Brownfield Redevelopment Authority (the Authority), a discretely presented 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 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 provision 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 the following instance of noncompliance or other matters that is required to be reported under *Governmental Auditing Standards*.

2020-003 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the Authority’s compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various areas.

Criteria: The Uniform Budgeting and Accounting Act requires the Authority to amend the original adopted budget “as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined.” The Act also states that “an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body.”

Cause: The City did not adequately monitor expenditures in relation to budgeted amounts in the areas where the overages occurred.

Effect: Having unfavorable budget variances as described above, the Authority is not in compliance with Public act 621 of 1978, as amended.

Recommendation: We recommend the City monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Correction Action Response: The City always wants to have a tighter reign over revenue and expenditures. We budget conservatively in order so stay solvent, though we will monitor finances closer in the next year to be certain we are close to actual as we feel comfortable projecting. For example, following last year’s audit the City implemented a mid-year budget amendment rather than strictly waiting until the end of the fiscal year.

## **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