

**Local Community Stabilization Authority  
Lansing, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2016**

Local Community Stabilization Authority

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INDEPENDENT AUDITOR'S REPORT

Authority Council  
Local Community Stabilization Authority  
Lansing, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Local Community Stabilization Authority (the Authority) as of and for the year ended September 30, 2016, 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. 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 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 each major fund of the Local Community Stabilization Authority as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison 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.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 3, 2017

# **Local Community Stabilization Authority**

## **Management's Discussion and Analysis**

This section of the Local Community Stabilization Authority (the "Authority") report presents our discussion and analysis of the Authority's financial performance during the year ended September 30, 2016. The intent of this analysis is to provide citizens, taxpayers, and other interested individuals with a better understanding of how the Authority's money and other assets are managed. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

### **Using this Annual Report**

The statement of net position and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the Authority's funds have been disbursed appropriately.

The fund financial statements present a short-term view; they tell us how resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Authority in more detail than the government-wide financial statements by providing information about the Authority's most significant funds.

### **Financial Highlights**

The following represents the most significant financial highlights for the year ended September 30, 2016.

### **Metro Act Assessments**

Telecom providers regulated under the Metropolitan Extension Telecommunications Rights-of-Way Oversight Act (METRO Act), 2002 PA 48, pay an annual maintenance fee based on the linear feet occupied by the provider regardless of the quantity or type of the provider's facilities utilizing the public rights-of-way or whether the facilities are leased to another provider. The annual maintenance fees are allocated to municipalities under a fee-sharing mechanism prescribed in the METRO Act, and are to be used by the municipalities solely for rights-of-way related purposes.

### **Use Tax Collections**

The Local Community Stabilization Authority Act (LCSA Act), 2014 PA 86, authorizes the Authority to levy a portion of the use tax called the local community stabilization share under the Use Tax Act, 1937 PA 94. The LCSA Act requires the Authority to distribute the local community stabilization share revenue to each city as prescribed by the LCSA Act.

### **Debt Reimbursement Collections**

The LCSA Act authorizes the Authority to reimburse certain municipalities for the amount of ad valorem property taxes and any specific tax levied for the payment of principal and interest of obligations either approved by the voters before January 1, 2013 or incurred before January 1, 2013 pledging the unlimited or limited taxing power for the municipality that are lost as a result of the exemption of industrial personal property and commercial personal property under the General Property Tax Act, 1893 PA 206.

# Local Community Stabilization Authority

## Management's Discussion and Analysis

### The Authority as a Whole

The following table shows, in a condensed format, the net position as of September 30, 2016, compared to the prior year.

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets	\$ 77,633,746	\$ 2,834,680
LIABILITIES		
Current liabilities	<u>5,884</u>	<u>3,955</u>
NET POSITION		
Restricted	77,506,641	2,784,296
Unrestricted	<u>121,221</u>	<u>46,429</u>
TOTAL NET POSITION	<u>\$ 77,627,862</u>	<u>\$ 2,830,725</u>

The Authority's total net position was \$77,627,862 at September 30, 2016. Of this amount, \$77,506,641 is reported as restricted for municipality fee sharing. The balance of \$121,221 is unrestricted.

The following table shows the changes in net position for the 2016 fiscal year compared to the prior year.

	<u>2016</u>	<u>2015</u>
REVENUES		
Program revenues		
Operating grants and contributions	\$ 128,619,184	\$ 21,774,126
General revenues		
Investment earnings	-	311
Miscellaneous	-	6,790
TOTAL REVENUES	128,619,184	21,781,227
PROGRAM EXPENSES		
General government	28,588,934	203,571
Public works	<u>25,233,113</u>	<u>18,746,931</u>
TOTAL PROGRAM EXPENSES	<u>53,822,047</u>	<u>18,950,502</u>
CHANGE IN NET POSITION	<u>\$ 74,797,137</u>	<u>\$ 2,830,725</u>

### Governmental Activities

The Authority's current governmental revenues totaled \$128,619,184, with the greatest revenue sources being the Local Community Stabilization Share tax levied by the Authority under the Use Tax Act and telecom provider annual maintenance fees imposed under the Metropolitan Extension Telecommunications Rights-of-Way Oversight Act, which make up approximately 100 percent of total governmental revenues. This is an increase of \$106,837,957 primarily because the levy of the local community stabilization share tax began on October 1, 2015.

The Authority incurred expenses of \$53,822,047 during the year. As a special purpose government, the majority of the governmental expenses incurred are general government use tax or public works right of way related expenses for municipality fee sharing totaling over 99 percent of the Authority's expenses.

# **Local Community Stabilization Authority**

## **Management's Discussion and Analysis**

### **The Authority's Funds**

The analysis of the Authority's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the individual funds, not the Authority as a whole. The Authority's Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Authority's major funds for the fiscal year ended September 30, 2016, were the General Fund, Metro Fund, Use Tax Fund, and Debt Reimbursement Fund.

The General Fund pays for all of the Authority's governmental administrative services.

At the end of the fiscal year, the General Fund reported a fund balance of \$121,221, an increase of \$74,792 during the year. Of the total fund balance, 100 percent is considered unassigned and available for future expenditures.

At the end of the fiscal year, the Metro Fund reported a fund balance of \$135,750, a decrease of \$2,573,385 during the year due to distribution of funds on hand at the end of the prior year. Of the total fund balance, 100 percent is considered restricted for municipality fee sharing.

At the end of the fiscal year, the Use Tax Fund reported a fund balance of \$76,900,000 which is considered restricted for municipality fee sharing. During the year the Authority received \$96,100,000 from the State of Michigan to be disbursed to local units of government. The Authority was required to distribute \$19,200,000 during the year. The remaining \$76,900,000 was disbursed subsequent to year end along with an additional allocation of Local Community Stabilization Share tax revenue.

At the end of the fiscal year, the Debt Reimbursement Fund did not report any accumulated fund balance. During the year the Authority received and disbursed \$9,163,726 from the State of Michigan to local units of government.

### **Budgetary Highlights**

The Authority made no revisions to the General Fund's budget during the fiscal year. Actual revenues were the same as budgeted. The actual expenditures were \$55,492 less than expected. The actual revenues over expenditures resulted in a net increase in fund balance of \$74,792.

The Authority revised the Metro Fund's budget during the fiscal year, with an increase of \$4,824,800 in budgeted revenues and an increase of \$7,533,935 in budgeted expenditures to account for increases in assessments collected and distributed. Actual revenues were approximately \$5,272 less than anticipated. The actual expenses were \$141,022 less than expected. The actual revenues over expenditures resulted in a net decrease in fund balance of \$2,573,385.

The Authority made no revisions to the Use Tax Fund's budget during the fiscal year. Actual revenues were equal to budgeted revenues. The actual expenses were \$76,900,000 less than expected due to timing of the final distribution which occurred subsequent to year end along with an additional allocation of Local Community Stabilization Share tax revenue. The actual revenues over expenditures resulted in a fund balance of \$76,900,000.

The Authority made no revisions to the Debt Reimbursement Fund's budget during the fiscal year. Actual revenues and expenditures were both \$836,274 less than anticipated; however, the actual revenues and expenditures totaled the true loss calculated.

### **Economic Factors**

The Authority anticipates continued growth during fiscal year 2017 as it projects that Local Community Stabilization Share tax revenue will grow to \$380,900,000.

# **Local Community Stabilization Authority**

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## **Management's Discussion and Analysis**

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and others with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the LARA Administrator at (517) 335-5448.

## **BASIC FINANCIAL STATEMENTS**

Local Community Stabilization Authority

STATEMENT OF NET POSITION

September 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current	
Cash	\$ 77,068,842
Accounts receivable	474,703
Due from other governmental units	<u>90,201</u>
TOTAL ASSETS	77,633,746
LIABILITIES	
Current	
Accounts payable	<u>5,884</u>
NET POSITION	
Restricted for local unit disbursements	77,506,641
Unrestricted	<u>121,221</u>
TOTAL NET POSITION	<u><u>\$ 77,627,862</u></u>

See accompanying notes to financial statements.

Local Community Stabilization Authority

STATEMENT OF ACTIVITIES

Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities			
General government	\$ 28,588,934	\$ 105,563,726	\$ 76,974,792
Public works	<u>25,233,113</u>	<u>23,055,458</u>	<u>(2,177,655)</u>
Total	<u>\$ 53,822,047</u>	<u>\$ 128,619,184</u>	74,797,137
	General revenues		<u>-</u>
	Change in net position		74,797,137
	Net position, beginning of the year		<u>2,830,725</u>
	Net position, end of the year		<u>\$ 77,627,862</u>

See accompanying notes to financial statements.

Local Community Stabilization Authority

Governmental Funds

BALANCE SHEET

September 30, 2016

	General Fund	Metro Fund	Use Tax Fund
	<u>          </u>	<u>          </u>	<u>          </u>
ASSETS			
Cash	\$ 121,923	\$ 131,938	\$ 76,814,799
Accounts receivable	-	474,703	-
Due from other governmental units	-	-	90,201
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 121,923</u>	<u>\$ 606,641</u>	<u>\$ 76,905,000</u>
LIABILITIES			
Accounts payable	\$ 702	-	\$ 5,000
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	470,891	-
FUND BALANCES			
Restricted	-	135,750	76,900,000
Unassigned	121,221	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCES	<u>121,221</u>	<u>135,750</u>	<u>76,900,000</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 121,923</u>	<u>\$ 606,641</u>	<u>\$ 76,905,000</u>

See accompanying notes to financial statements.

Debt		
Reimbursement		Total
Fund		
\$ 182	\$ 77,068,842	
-	474,703	
-	90,201	
<u>\$ 182</u>	<u>\$ 77,633,746</u>	
\$ 182	\$ 5,884	
-	470,891	
-	77,035,750	
-	121,221	
<u>-0-</u>	<u>77,156,971</u>	
<u>\$ 182</u>	<u>\$ 77,633,746</u>	

Local Community Stabilization Authority

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

September 30, 2016

**Total fund balances - governmental funds** \$ 77,156,971

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

Certain receivables are not available to pay for current period expenditures and are therefore unavailable in the funds.

470,891

**Net position of governmental activities**

\$ 77,627,862

Local Community Stabilization Authority

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2016

	<u>General Fund</u>	<u>Metro Fund</u>	<u>Use Tax Fund</u>
REVENUES			
Intergovernmental	\$ 300,000	\$ -	\$ 96,100,000
Other			
Annual assessments	<u>-</u>	<u>22,659,728</u>	<u>-</u>
TOTAL REVENUES	300,000	22,659,728	96,100,000
EXPENDITURES			
Current			
General government	225,208	-	19,200,000
Public works	<u>-</u>	<u>25,233,113</u>	<u>-</u>
TOTAL EXPENDITURES	<u>225,208</u>	<u>25,233,113</u>	<u>19,200,000</u>
NET CHANGE IN FUND BALANCES	74,792	(2,573,385)	76,900,000
Fund balances, beginning of year	<u>46,429</u>	<u>2,709,135</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 121,221</u></u>	<u><u>\$ 135,750</u></u>	<u><u>\$ 76,900,000</u></u>

See accompanying notes to financial statements.

Debt Reimbursement Fund	Total
\$ 9,163,726	\$ 105,563,726
<u>-</u>	<u>22,659,728</u>
9,163,726	128,223,454
9,163,726	28,588,934
<u>-</u>	<u>25,233,113</u>
<u>9,163,726</u>	<u>53,822,047</u>
-0-	74,401,407
<u>-</u>	<u>2,755,564</u>
<u>\$ -0-</u>	<u>\$ 77,156,971</u>

Local Community Stabilization Authority

Governmental Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2016

**Net change in fund balances - total governmental funds** \$ 74,401,407

Amounts reported for the 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 unavailable revenue 395,730

**Change in net position of governmental activities** \$ 74,797,137

Local Community Stabilization Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Local Community Stabilization Authority (the "Authority") was established on October 1, 2014, as a metropolitan government for the metropolitan areas of the State of Michigan under section 27 of article VII of the Michigan Constitution of 1963 by the Local Community Stabilization Authority Act, 2014 PA 86, as amended, MCL 123.1341 *et seq* (the "LCSA Act"). The Authority levies the local community stabilization share tax under the Use Tax Act, 1937 PA 94, MCL 205.91 *et seq*, and distributes the revenue generated to local and intergovernmental units of government throughout Michigan under the LCSA Act for local purposes, including police safety, fire safety, and ambulance emergency services. The Authority also collects annual maintenance fees for use of public rights-of-ways from telecommunications providers, and distributes the fees to cities, villages, and townships throughout Michigan under the Metropolitan Extension Telecommunications Rights-of-Way Oversight (METRO) Act, 2002 PA 48, MCL 484.3101 *et seq*.

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the Local Community Stabilization Authority. The Authority has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Local Community Stabilization Authority contain all the funds controlled by the Authority Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the Authority as a whole.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are presented as general revenues. This includes interest and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

September 30, 2016

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The Authority uses separate funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental funds financial statements present the Authority's individual major funds in separate columns in the fund financial statements.

The Authority reports the following major governmental funds:

- a. The General Fund is used to account for all financial resources of the Authority except for those that are required to be accounted for in another fund.
- b. The Metro Fund is used to account for restricted activities related to Metropolitan Extension Telecommunication Rights-of-Way Oversight (METRO) Act.
- c. The Use Tax Fund is used to account for restricted activities related to the Local Community Stabilization Share portion of the State Use Tax.
- d. The Debt Reimbursement Fund is used to account for restricted activities related to distributions to local units of government required under the Local Community Stabilization Act.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded in the government-wide financial statements when resources are received by the Authority before it has legal claim to them, such as when program fees are received.

September 30, 2016

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Accounting - continued

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within sixty (60) days of the end of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

If/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.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown in the financial statements were prepared on a basis not significantly different than the basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The Authority employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Before the beginning of the fiscal year, the budget is legally adopted on a fund level through passage of a Council resolution. After the budget is adopted all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity must be approved by the Council.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Council does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at September 30 are carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Council during the year. Individual amendments were appropriately approved by the Council as required.

6. Cash

Cash consists of checking accounts.

7. Accounts Receivable

Accounts receivable consist of unpaid annual maintenance fees due from telecommunications providers outstanding at year-end.

8. Due From Other Governmental Units

Due from other governmental units consist of reimbursements due from local units of government for overpayments at year-end.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the balance sheet and the statement of net 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 fund balance/net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Local Community Stabilization Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the balance sheet and the statement of net position 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/net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

The Authority has one item which qualifies as a deferred inflow of resources. The governmental funds balance sheet reports unavailable revenues related to annual assessments collected subsequent to 60 days after year end. These amounts are deferred and recognized as revenues in the period that the amounts become available.

10. Restricted Net Position

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes.

**NOTE B: CASH**

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

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles and other obligations, which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2016, the carrying amount of the Authority's deposits was \$77,068,842 and the bank balance was \$78,106,798. As of September 30, 2016, the Authority's insured and uninsured deposits totaled \$250,000 and \$77,856,798 respectively.

Local Community Stabilization Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**NOTE B: CASH - CONTINUED**

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2016, the Authority did not have any investments that would be subject to rating.

Interest Rate Risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Council and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business in accordance with Council approved policy.

**NOTE C: DETAILS OF FUND BALANCE CLASSIFICATIONS**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Council).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the Council.

*Unassigned* - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Local Community Stabilization Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**NOTE C: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED**

Fund Balance Classification Policies and Procedures

The formal action that is required to be taken to establish a fund balance commitment is a resolution by the Authority Council, the highest level of decision making authority, of the Authority.

For assigned fund balance, the Authority has not approved a policy indicating who is authorized to assign amounts to a specific purpose. In the absence of such a policy, this authority is retained by the Authority.

For the classification of fund balances, the Authority considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the Authority considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**NOTE D: RISK MANAGEMENT**

The Authority carries commercial insurance for the risk of loss due to Directors and Officers related claims.

**REQUIRED SUPPLEMENTARY INFORMATION**

Local Community Stabilization Authority

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 300,000	\$ 300,000	\$ 300,000	\$ -0-
EXPENDITURES				
Current				
General government				
Contractual services	244,500	244,500	210,889	33,611
Purchasing	1,200	1,200	-	1,200
Insurance	10,000	10,000	2,540	7,460
Other	25,000	25,000	11,779	13,221
TOTAL EXPENDITURES	<u>280,700</u>	<u>280,700</u>	<u>225,208</u>	<u>55,492</u>
NET CHANGE IN FUND BALANCE	19,300	19,300	74,792	55,492
Fund balance, beginning of year	<u>46,429</u>	<u>46,429</u>	<u>46,429</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 65,729</u></u>	<u><u>\$ 65,729</u></u>	<u><u>\$ 121,221</u></u>	<u><u>\$ 55,492</u></u>

Local Community Stabilization Authority

Metro Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Other				
Annual assessments	\$ 17,840,200	\$ 22,665,000	\$ 22,659,728	\$ (5,272)
EXPENDITURES				
Current				
Public works				
Local unit disbursements	<u>17,840,200</u>	<u>25,374,135</u>	<u>25,233,113</u>	<u>141,022</u>
NET CHANGE IN FUND BALANCE	-0-	(2,709,135)	(2,573,385)	135,750
Fund balance, beginning of year	<u>2,709,135</u>	<u>2,709,135</u>	<u>2,709,135</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 2,709,135</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 135,750</u></u>	<u><u>\$ 135,750</u></u>

Local Community Stabilization Authority

Use Tax Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 96,100,000	\$ 96,100,000	\$ 96,100,000	\$ -0-
EXPENDITURES				
Current				
General government				
Local unit disbursements	<u>96,100,000</u>	<u>96,100,000</u>	<u>19,200,000</u>	<u>76,900,000</u>
NET CHANGE IN FUND BALANCE	-0-	-0-	76,900,000	76,900,000
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 76,900,000</u></u>	<u><u>\$ 76,900,000</u></u>

Local Community Stabilization Authority

Debt Reimbursement Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 10,000,000	\$ 10,000,000	\$ 9,163,726	\$ (836,274)
EXPENDITURES				
Current				
General government				
Local unit disbursements	10,000,000	10,000,000	9,163,726	836,274
NET CHANGE IN FUND BALANCE	-0-	-0-	-0-	-0-
Fund balance, beginning of year	-	-	-	-0-
Fund balance, end of year	\$ -0-	\$ -0-	\$ -0-	\$ -0-