

LANSING REGIONAL SMARTZONE

Years Ended
June 30, 2019
and 2018

Financial
Statements

LANSING REGIONAL SMARTZONE

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Fund Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Internal Control and Compliance	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17

INDEPENDENT AUDITORS' REPORT

December 16, 2019

Members of the Local Development
Finance Authority Board
Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the *Lansing Regional SmartZone* (the "SmartZone") as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the SmartZone's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lansing Regional SmartZone as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 16, 2019 on our consideration of the Lansing Regional SmartZone's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 SmartZone's internal control over financial reporting and compliance.

Rehmann Robson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

LANSING REGIONAL SMARTZONE

Management's Discussion and Analysis

These financial statements are the responsibility of the Lansing Regional SmartZone's (the "SmartZone") management. We offer readers this narrative overview and analysis for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Ending net position at June 30, 2019 \$ 216,221
- Change in total net position for the year ended June 30, 2019 77,875

Overview of the Financial Statements

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

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

Financial Analysis

The SmartZone's net position increased \$77,875 over the course of the fiscal year 2019 to a total of \$216,221. Explanations for those changes are provided below.

	Net Position		
	2019	2018	2017
Assets			
Current and other assets	\$ 216,682	\$ 138,844	\$ 115,541
Liabilities			
Other liabilities	461	498	1,500
Net position			
Unrestricted	<u>\$ 216,221</u>	<u>\$ 138,346</u>	<u>\$ 114,041</u>

The significant increase in the SmartZone's net position from fiscal year 2018 to 2019 was attributable to a substantial increase in property tax capture due to an increase in taxable value.

LANSING REGIONAL SMARTZONE

Management's Discussion and Analysis

The following condensed financial information was derived from the statement of revenues, expenses and changes in fund net position and reflects how the SmartZone's net position changed during the fiscal year:

	Change in Net Position		
	2019	2018	2017
Operating revenues	\$ 109,025	\$ 57,568	\$ 40,704
Operating expenses	31,150	33,263	76,458
Operating income (loss)	77,875	24,305	(35,754)
Net nonoperating revenues (expenses)	-	-	(1,033,285)
Change in net position	77,875	24,305	(1,069,039)
Net position, beginning of year	138,346	114,041	1,183,080
Net position, end of year	<u>\$ 216,221</u>	<u>\$ 138,346</u>	<u>\$ 114,041</u>

Year ended June 30, 2017:

- Decrease in net position caused by the transfer of the operations of the Technology Innovation Center (TIC) to a third-party entity, including all capital assets, and rights and obligations represented by leases and subleases associated with the TIC.

Year ended June 30, 2018:

- Increase in net position caused by a decrease in expenses as the SmartZone paid out sponsorships related to the transfer of operations to the TIC in the prior year, and did not have the same requirements in the current year. In addition, revenues increased as an increase in taxable value resulted in a larger property tax capture in fiscal year 2018.

Year ended June 30, 2019:

- Increase in net position due to an increase in revenues as an increase in taxable value resulted in a larger property tax capture in fiscal year 2019.

Economic Condition and Outlook

Effective July 1, 2016, the SmartZone, pursuant to the SmartZone & Technology Innovation Center Transfer Agreement, signed June 28, 2016, transferred operations related to the Technology Innovation Center (TIC) to University Corporate Research Park I (UCRPI), a Michigan non-profit corporation.

With the transfer of operations of the TIC to UCRPI, the SmartZone has shifted its focus to exploring programs and resources that can further enhance the quality of entrepreneurship and innovation within the region. Cost control measures have allowed the SmartZone to streamline its budget while increasing services and programs needed.

Management continues to develop strategic plans for the future of SmartZone.

LANSING REGIONAL SMARTZONE

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the SmartZone's finances for all those with an interest in the SmartZone's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, may be addressed to the Vice President of Finance, Lansing Economic Area Partnership, Inc., 1000 S. Washington Avenue, Suite 201, Lansing, Michigan, 48910.

BASIC FINANCIAL STATEMENTS

LANSING REGIONAL SMARTZONE

Statements of Net Position

June 30

	2019	2018
Assets		
Current assets:		
Cash	\$ 216,682	\$ 138,844
Liabilities		
Current liabilities:		
Accounts payable	<u>461</u>	<u>498</u>
Net position		
Unrestricted	<u>\$ 216,221</u>	<u>\$ 138,346</u>

The accompanying notes are an integral part of these basic financial statements.

LANSING REGIONAL SMARTZONE

Statements of Revenues, Expenses and Changes in Fund Net Position For the Years Ended June 30

	2019	2018
Operating revenues		
Property tax capture	\$ 109,025	\$ 57,568
Operating expenses		
Business incubator	19,608	22,000
Contractual services	9,124	8,820
Insurance	2,418	2,443
Total operating expenses	31,150	33,263
Change in net position	77,875	24,305
Net position, beginning of year	138,346	114,041
Net position, end of year	\$ 216,221	\$ 138,346

The accompanying notes are an integral part of these basic financial statements.

LANSING REGIONAL SMARTZONE

Statements of Cash Flows

For the Years Ended June 30

	2019	2018
Cash flows from operating activities		
Receipts from captured taxes	\$ 109,025	\$ 57,568
Payments to vendors	<u>(31,187)</u>	<u>(34,265)</u>
Net change in cash	77,838	23,303
Cash, beginning of year	<u>138,844</u>	<u>115,541</u>
Cash, end of year	<u><u>\$ 216,682</u></u>	<u><u>\$ 138,844</u></u>
Reconciliation of change in net position to net cash provided by operating activities		
Change in net position	\$ 77,875	\$ 24,305
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Change in operating liabilities that used cash:		
Accounts payable	<u>(37)</u>	<u>(1,002)</u>
Net cash provided by operating activities	<u><u>\$ 77,838</u></u>	<u><u>\$ 23,303</u></u>

The accompanying notes are an integral part of these basic financial statements.

NOTES TO FINANCIAL STATEMENTS

LANSING REGIONAL SMARTZONE

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lansing Regional SmartZone (the “SmartZone”) conform to generally accepted accounting principles as applied to business-type activities. The following is a summary of the significant policies.

A SmartZone is a local development financing authority that provides a distinct geographical location where technology-based firms, entrepreneurs and researchers locate in close proximity to all the community assets that assist in their endeavors.

Reporting Entity

The SmartZone was created on May 3, 2005 and is authorized under P.A. 281 of 1986. However, FY 2015 was the first year of the SmartZone’s financial operations. The SmartZone is governed by the nine-member board consisting of three members from the City of East Lansing, three members from the City of Lansing, one member from Ingham County and two members from Michigan State University. All members are appointed by their respective councils/boards.

The SmartZone is funded by tax increment financing revenue from the City of East Lansing LDFA (the “LDFA”). Tax increment financing revenue equates to property tax revenues generated by increases in assessed property values above the base values set when the tax increment financing plan is enacted.

The SmartZone, University Corporate Research Park I (UCPRI) and the East Lansing Downtown Development Authority (ELDDA) are parties to a sponsorship agreement whereby the SmartZone and ELDDA agree to provide certain funding to the UCRPI for the operation of the Technology Innovation Center (TIC), a business incubator located within the ELDDA. The SmartZone’s annual obligation under this agreement is limited to \$20,000.

Basis of Presentation

All operations of the SmartZone are accounted for in a single enterprise fund (a type of proprietary fund). Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

LANSING REGIONAL SMARTZONE

Notes to Financial Statements

Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents consist of demand deposits in banks. For the purposes of the statement of cash flows, the SmartZone considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Investments

State statutes allow the SmartZone to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- 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.
- Bankers' acceptances of United States banks.
- 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.
- 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.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

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.

LANSING REGIONAL SMARTZONE

Notes to Financial Statements

2. DEPOSITS

Following is a reconciliation of deposit balances for the SmartZone as of June 30:

	2019	2018
Statement of Net Position		
Cash	<u>\$ 216,682</u>	<u>\$ 138,844</u>
Deposits		
Checking / savings accounts	<u>\$ 216,682</u>	<u>\$ 138,844</u>

Deposit Risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the SmartZone’s deposits may not be returned. State law does not require and the SmartZone does not have a policy for deposit custodial credit risk. As of June 30, 2019 and 2018, the SmartZone did not have any deposits exposed to custodial credit risk because they were uninsured and uncollateralized.

3. RISK MANAGEMENT

The SmartZone is exposed to various risks of loss related to property loss and related torts. The SmartZone has purchased commercial insurance for all claims related to the previously stated risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three years.



INTERNAL CONTROL AND COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

December 16, 2019

Members of the Local Development
Finance Authority Board
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 *Lansing Regional SmartZone* (the "SmartZone"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the SmartZone's basic financial statements, and have issued our report thereon dated December 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SmartZone's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SmartZone's internal control. Accordingly, we do not express an opinion on the effectiveness of the SmartZone's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SmartZone's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SmartZone's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Lobson LLC