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Auditor General

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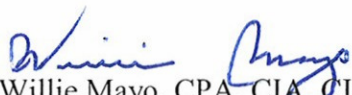
July 21, 2011

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Financial Assessment – Limited Review Report for the Wayne County Building Authority's financial statements for the fiscal year ended September 30, 2010. Our report is dated May 23, 2011; DAP No. 2011-57-904. The contents of this report did not change from the draft report previously issued. The draft report was accepted by the Audit Committee at its meeting held on Tuesday, June 28, 2011, and formally received by the Wayne County Commission on July 12, 2011.

We are pleased to inform you that officials from the Department of Management & Budget provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website: <http://www.waynecounty.com/commission/lagreports.htm>


Willie Mayo, CPA, CIA, CICA
Auditor General

REPORT DISTRIBUTION

Department of Management & Budget
Carla E. Sledge, Chief Financial Officer
Jenilyn Norman, Director of Financial Reporting
Terry L. Hasse, Director, Grants Compliance and Contracts Management

Wayne County Building Authority
Nathan Ford, Chairman, Board of Directors

Wayne County Executive



Office of Legislative
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May 23, 2011

DAP No. 2011-57-904

Honorable Ilona Varga, Chairwoman
Audit Committee
Wayne County Commission
County of Wayne, Michigan
500 Griswold, Suite 766
Detroit, MI 48226

Subject: Office of Legislative Auditor General's Financial Assessment – Limited Review
Report of the Wayne County Building Authority's financial statements for the
year ended September 30, 2010.

Dear Chairwoman Varga:

The Office of Legislative Auditor General (OAG) received the Wayne County Building Authority's (Authority) financial statements for the fiscal year ended September 30, 2010 (attached). Because we have performed more extensive financial reviews of the Wayne County Building Authority's financial statements in the past few years in accordance with professional attestation standards, and determined they were complete, thorough, and in accordance with generally accepted accounting principles, we elected to conduct a limited review of their financial statements for the fiscal year ended September 30, 2010.

Our limited review is substantially less in scope than an examination or audit in accordance with Generally Accepted Government Auditing Standards or Generally Accepted Auditing Standards, the objective of which is the expression of an opinion on the audited financial statements. Accordingly, we do not express such an opinion.

Our limited review of the Wayne County Building Authority audited financial statements, for the fiscal year ended September 30, 2010, included, but was not necessarily limited to: a thorough and complete review of the financial statements, limited inquiries of Department of Management & Budget officials and analytical review procedures. Below we have summarized some key



items from the financial statements for consideration by the Committee and Commission members:

Background

- The Authority was created in 1961 under provisions of the State of Michigan Public Act No. 31, Extra Session of 1948, as amended. The Authority was established to provide for the acquisition, furnishing, equipping, owning, improvement, enlarging, operation, and maintenance of buildings and building sites for lease to, and eventual ownership by, the county. This includes: recreational facilities, stadiums, parking lots, or other structures.
- A five-member board, whose members serve a five-year term, govern the Authority. The County Executive, subject to approval by the Wayne County Commissioners, appoints the board members. As of September 30, 2010, the board was comprised of one municipal official, three officials from the private sector, and one vacant position. The Authority is actually managed by officials in the Department of Management & Budget.
- The Authority is a blended component unit of the Charter County of Wayne, Michigan. Blended component units are legally separate entities from the county, but because they provide services exclusively for the benefit of the county; their financial operations are combined into the primary government operations for reporting purposes in the Comprehensive Annual Financial Report in accordance with accounting principles generally accepted in the United States of America.

External Auditors Reports and Letters

- The Wayne County Building Authority received an “unqualified opinion” on the financial statements from Plante & Moran, PLLC, the independent external auditor. An unqualified opinion is issued by an auditor when the financial statements presented are free of material misstatements and are represented fairly in accordance with the Generally Accepted Accounting Principles (GAAP). In other words, this means that the entity’s financial condition, position, and operations are fairly presented in the financial statements. It is the best type of opinion an entity may receive from an external auditor.

Financial Results /Operations

- The Authority’s financial operations are accounted for in three types of governmental funds:
 1. Special Revenue Fund: This fund is used to account for the operation and maintenance activities of the Authority and represents its General Operating Fund.
 2. Debt Services Fund: This fund is used to record financial resources and account for the debt associated with the county’s refunding bonds for the jails and its capital improvement bonds for various county facilities.

3. Capital Projects Fund: This fund is used to account for the funding and costs of the acquisition and/or construction of new facilities or for major renovations of existing facilities.

**Governmental Funds
(In Thousands)**

Description	FY 2010	FY 2009	Increase /(Decrease)	Primary Reasons
Revenues	\$14,334	\$13,358	\$976	Due to increase in debt service requirements.
Fund Balance	\$7,841	\$8,026	(\$185)	Increase in debt service payments/transfers for capital improvements.

Internal Controls/Compliance

The County's report on Federal Awards (A-133) and Auditor's Report to the Audit Committee (SAS 114) indicated no deficiencies or material weakness for the Wayne County Building Authority and no instances of non-compliance with laws, statutes, or award/grant agreements.

Potential Risk Exposures

- At the end of the 2010 fiscal year, the Authority had bonded debt outstanding of \$44.7 million. These outstanding bonds are paid by the Authority solely from rental payments from the county. The county has pledged its full faith and credit for the outstanding bond obligations of the Authority. As of September 30, 2010, all bond debt service payments were current.
- Cash resources of the Authority are pooled and invested by the county. According to the notes to the financial statements, the Authority's pooled cash and investments is subject to normal and unavoidable inherent risk associated with the county's cash and investments. The notes further indicate the county has adequate internal controls and policies and procedures to manage and mitigate these risks.

Upcoming Reporting Changes

According to Note 8 in the financial statements, beginning with the fiscal year ended September 30, 2011, the Authority will implement Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, issued by the Governmental Accounting Standards Board (GASB). The objective of this statement is to enhance financial reporting by providing clearer fund balance classifications for readers of the statements. Its implementation will not impact financial operations or activities of the Authority.

Conclusion and Recommendation

Based on our limited review, nothing came to our attention that caused us to believe the Wayne County Building Authority's audited financial statements are not presented in conformity with generally accepted accounting principles.

It is our recommendation that the Wayne County Building Authority's audited financial statements for fiscal year ended September 30, 2010 be forwarded to the Wayne County Commission for receiving and filing.

Respectfully submitted,


Willie Mayo, CPA, CIA, CICA
Auditor General

Cc: Carla E. Sledge, Chief Financial Officer
Jenilyn Norman, Director of Financial Reporting
Terry L. Hasse, Director, Grants Compliance and Contracts Management
Nathan Ford, Chairman, Board of Directors, Wayne County Building Authority

ATTACHMENT

**Financial Statements for Wayne County Building Authority
Fiscal Year Ended September 30, 2010**

**CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)**

Basic Financial Statements

September 30, 2010

(With Independent Auditors' Report Thereon)

CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)
September 30, 2010

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Independent Auditor's Report

To the Board of Commissioners
and the County Executive
Building Authority
Charter County of Wayne, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter County of Wayne, Michigan (the "County") as of and for the year ended September 30, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 31, 2011, which expressed unqualified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Those basic financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter County of Wayne, Michigan's basic financial statements. The accompanying financial statements of the Building Authority funds of the Charter County of Wayne, Michigan are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information presented has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Commissioners
and the County Executive
Building Authority
Charter County of Wayne, Michigan

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2011 on our consideration of the County'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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3-5 and the required supplementary information on pages 24-26 are not required parts of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Plante & Morse, PLLC

March 31, 2011

**CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

As management of the Building Authority (the Authority), a component unit of the Charter County of Wayne, Michigan, we offer readers of the Authority's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information including budgetary comparison schedules in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The *government-wide financial statements* provide a broad view of the Authority's operations in a manner similar to a private-sector business.

The *statement of net assets* presents all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected building rentals and amortization of deferred charges).

The government-wide financial statements can be found on pages 7 to 8 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other governmental units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements can be found on pages 9 to 12 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 to 23 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* in the form of fund level budgetary comparison information. Required supplementary information can be found on pages 24 to 26 of this report.

GOVERNMENT WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. In the case of the Authority, assets exceeded liabilities by \$10.9 million at September 30, 2010.

**Charter County of Wayne, Michigan
Building Authority
(A Component Unit of the Charter County of Wayne, Michigan)
Statement of Net Assets
As of September 30 (in thousands)**

	Governmental Activities	
	2010	2009
Current assets	\$ 13,699	\$ 8,985
Leases receivable	39,660	56,415
Other non-current assets	671	767
Total assets	<u>54,030</u>	<u>66,167</u>
Current liabilities	5,565	12,336
Non-current liabilities	37,559	42,351
Total liabilities	<u>43,124</u>	<u>54,687</u>
Net assets:		
Restricted for:		
Debt service	2,394	2,687
Capital projects	1,583	1,769
Unrestricted	6,929	7,024
Total net assets	<u>\$ 10,906</u>	<u>\$ 11,480</u>

A portion of the Authority's net assets (\$4.0 million, or 36 percent) are restricted for the repayment of debt or for capital improvements. The unrestricted net assets reflect the remaining amounts available for spending.

Charter County of Wayne, Michigan
 Building Authority
 (A Component Unit of the Charter County of Wayne, Michigan)
 Change in Net Assets
 For the Year Ended September 30 (in thousands)

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 2,455	\$ 3,032
General revenues:		
Interest income	10	24
Transfers	(100)	(49)
Total revenues	2,365	3,007
Program expenses:		
Other charges	93	1
Interest and amortization	2,846	3,419
Total program expense	2,939	3,420
Change in net assets	(574)	(413)
Net assets at October 1	11,480	11,893
Net assets at September 30	\$ 10,906	\$ 11,480

The Building Authority's net assets decreased \$574 thousand. This decrease is mainly due to: (1) the amortization of bond premiums and bond costs which are not recouped through charges for services revenue, and (2) a transfer of \$100 thousand of prior bond proceeds to the County's Buildings & Grounds Maintenance internal service fund to finance capital improvements.

FUND ANALYSIS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Authority's *fund level* reporting is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a governmental unit's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's combined governmental funds reported ending fund balances of \$7.8 million, a minimal decrease in comparison with the prior year. The entire fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service (\$6.3 million) or capital improvement expenses (\$1.6 million.) The balance sheet of governmental funds can be found on page 9 of this report.

The statement of revenues, expenditures, and changes in fund balances fluctuated between fiscal year 2010 and 2009 as a result of the following:

- Principal and interest expense increased by nearly \$1 million, due to an increase in required debt service payments.
- Revenues represent reimbursement from County departments that benefited from renovations made with bond proceeds. Annually, these revenues will equal the debt services expenditures. The increase in revenue is equivalent to the increase in debt service requirements.

Budgetary Highlights

During the year, there were no changes from the original budget to the final amended budget. There are no significant variances between the final amended budget and actual expenditures.

DEBT ADMINISTRATION

At the end of the current fiscal year, the Authority had bonded debt outstanding of \$44.75 million (before bond discount, premium and deferred loss on refunding), backed by the full faith and credit of the Charter County of Wayne, Michigan.

Overall, debt decreased by \$11.4 million (21.2 percent) during the current fiscal year, predominantly as a result of payments.

Long-Term Debt as of September 30 (in thousands)

	Governmental Activities	
	2010	2009
General obligation bonds (backed by the County)	\$ 44,745	\$ 56,415
Deferred loss on refunding	(3,464)	(3,883)
Bond discount	(62)	(73)
Bond premium	1,132	1,269
Total bonds payable, net	<u>\$ 42,351</u>	<u>\$ 53,728</u>

Additional information on the Authority's long-term debt can be found in Note 5 on page 21 to 22 of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Charter County of Wayne, Michigan, Department of Management and Budget, Financial Reporting Division, 500 Griswold Street, 20th Floor, Detroit, Michigan 48226.

CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)
Statement of Net Assets
As of September 30, 2010
(in thousands)

	<u>Governmental Activities</u>
Assets:	
Current assets:	
Equity in pooled cash and investments (note 2)	\$ 7,853
Accounts receivable	1
Accrued interest receivable	760
Current portion of leases receivable (note 3)	<u>5,085</u>
Total current assets	13,699
Non-current assets:	
Leases receivable - net of current portion (note 3)	39,660
Bond issuance costs, net (note 5)	<u>671</u>
Total non-current assets	<u>40,331</u>
Total assets	<u><u>\$ 54,030</u></u>
Liabilities:	
Current liabilities:	
Accounts and contracts payable	\$ 13
Accrued interest payable	760
Current portion of long-term obligations (note 5)	<u>4,792</u>
Total current liabilities	5,565
Non-current liabilities:	
Non-current portion of long-term obligations (note 5)	<u>37,559</u>
Total liabilities	<u>43,124</u>
Net Assets:	
Restricted:	
Debt service	2,394
Capital projects	1,583
Unrestricted	<u>6,929</u>
Total net assets	<u>10,906</u>
Total liabilities and net assets	<u><u>\$ 54,030</u></u>

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)
 Statement of Activities
 For the Year Ended September 30, 2010
 (in thousands)

	<u>Governmental Activities</u>
Program expenses:	
Other charges	\$ 93
Interest and amortization expense	<u>2,846</u>
Total program expenses	2,939
 Program revenue:	
Charges for services	<u>2,455</u>
Total program revenue	2,455
 Net program revenue	 <u>(484)</u>
 General revenue:	
Interest income	10
Transfers (note 4)	<u>(100)</u>
Total general revenue and transfers	<u>(90)</u>
 Change in net assets	 (574)
 Net assets at October 1, 2009	 <u>11,480</u>
 Net assets at September 30, 2010	 <u><u>\$ 10,906</u></u>

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)
Balance Sheet
Governmental Funds
As of September 30, 2010
(in thousands)

Assets	General Operating Fund	Debt Service Fund	Capital Projects Fund	Total
Equity in pooled cash and investments (note 2)	\$ -	6,257	1,596	\$ 7,853
Accounts receivable	-	1	-	1
Total assets	<u>\$ -</u>	<u>6,258</u>	<u>1,596</u>	<u>\$ 7,854</u>
Liabilities and Fund Balances				
Liabilities :				
Accounts payable	\$ -	-	13	\$ 13
Fund balances:				
Reserved for capital projects	-	-	1,583	1,583
Reserved for debt service	-	6,258	-	6,258
Total fund balances	<u>-</u>	<u>6,258</u>	<u>1,583</u>	<u>7,841</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>6,258</u>	<u>1,596</u>	<u>\$ 7,854</u>

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
As of September 30, 2010
(in thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund balances - total governmental funds		\$	7,841
Capital lease and related accrued interest receivables are not current financial resources and therefore are not reported in the governmental funds.			45,505
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund			
Bond issuance costs	\$	1,157	
Less accumulated amortization		(486)	671
Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental fund			
Governmental long term debt payable	\$	(44,745)	
Bond discount		62	
Bond premium		(1,132)	
Accrued interest payable		(760)	
Loss on refunding		3,464	(43,111)
Net assets of governmental activities		\$	<u>10,906</u>

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2010
(in thousands)

	General Operating Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Building rents	\$ -	14,324	-	\$ 14,324
Interest income	-	3	7	10
Total revenues	-	14,327	7	14,334
Expenditures:				
Other charges	-	-	93	93
Debt service:				
Principal	-	11,670	-	11,670
Interest	-	2,656	-	2,656
Total expenditures	-	14,326	93	14,419
Excess (deficiency) of revenues over (under) expenditures	-	1	(86)	(85)
Other Financing Sources (Uses):				
Transfers out	-	-	(100)	(100)
Net change in fund balances	-	1	(186)	(185)
Fund balances at October 1, 2009	-	6,257	1,769	8,026
Fund balances at September 30, 2010	\$ -	6,258	1,583	\$ 7,841

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2010
(in thousands)

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

Net change in fund balances - total governmental funds	\$	(185)
Governmental funds report building rental principal and accrued interest received as revenue in the year collected. However, in the Statement of Activities the revenue was reported in prior years upon project completion and principal collected reduces the lease receivable		(11,869)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces bonds payable in the Statement of Net Assets.		11,670
Expenses in the Statement of Activities that do not require the use of current financial resources are not reported in governmental funds:		
Change in accrued interest expense	\$	199
Amortization of current year loss on refunding		(419)
Amortization of current year bond discounts		(11)
Amortization of current year bond premiums		137
Amortization of current year bond issuance costs		(96)
		<u>(190)</u>
Change in net assets of governmental activities	<u>\$</u>	<u>(574)</u>

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)
Notes to the Basic Financial Statements
For the year ended September 30, 2010

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Wayne County Building Authority (the Authority), a blended component unit of the Charter County of Wayne, Michigan (the County), was created in 1961 under provisions of Act No. 31, Public Acts of Michigan, Extra Session of 1948, as amended. All revenues or other funds received by the Authority must be disbursed for specific purposes in accordance with agreements with the County and the holders of the Authority's bonds. The financial statements of the Authority reflect the operations associated with the acquisition, furnishing, equipping, owning, improvement, enlarging, operation, and maintenance of buildings and building sites for lease to, and eventual ownership by, the County. These financial statements represent the Authority and are not intended to present the financial position and results of operations of the County in conformity with accounting principles generally accepted in the United States of America. The financial statements of the Authority have been included in the County's comprehensive annual financial report and reported as special revenue, debt service and capital projects funds. These financial statements, along with the County's Comprehensive Annual Financial Report can be obtained by contacting the Department of Management and Budget at 500 Griswold, 20th Floor, Detroit, MI 48226.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

The government-wide Statements of Net Assets and Statement of Activities report the overall financial activity of the Authority. Governmental activities are financed through intergovernmental revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for the Authority's governmental activities. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when 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 sixty days of the end of the current fiscal year. Interest and rents, and charges for services are

CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY
(A Component Unit of the Charter County of Wayne, Michigan)
Notes to the Basic Financial Statements
For the year ended September 30, 2010

(1) Summary of Significant Accounting Policies, continued

susceptible to accrual. Other receipts become measurable and available when cash is received by the Authority and are recognized as revenue at that time. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt are recorded when payment is due. Proceeds of long-term debt are reported as other financing sources.

Administrative overhead charges are included in direct expenses.

The accounts of the Authority are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

The financial statements of the Authority include the following fund types:

Governmental Funds

- General Operating Fund – This fund accounts for all financial resources and expenditures except those required to be accounted for in another fund, and represents the Authority's General Operating Fund.
- Debt Service Fund – This fund is used to record the financial resources and payment of principal and interest on bonds.
- Capital Projects Fund – This fund is used to account for the acquisition and/or construction of major capital facilities.

C. Assets, Liabilities, and Net Assets or Equity

Building Rent Revenue – Lease payments are collected from the County to satisfy the rent obligations under all of the project leases. Lease transactions are accounted for as direct financing leases by the Authority whereby the present value of the future lease payments is recorded as a lease receivable using the interest rate implicit in the lease. Building rent revenue is recognized in the fund financial statements as the principal and interest are collected. In the government-wide financial statements, the entire principal portion of the lease is recognized as revenue upon completion of the project and interest is recognized as it is collected.

Bond Premiums, Bond Discounts, Loss on Refunding, and Issuance Costs - In the government-wide financial statements, bond premiums, bond discounts, loss on refunding, and bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums, discounts and loss on refunding.

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(1) Summary of Significant Accounting Policies, continued

In the fund financial statements, governmental fund types recognize bond discounts, premiums and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance Reserves and Designations - In addition to the reserve for debt service and capital projects, the Authority may reserve or designate fund balances to reflect resources segregated for future use and not available for appropriation or expenditure. As of September 30, 2010, there are no such reserves or designations.

Net Assets - The government-wide financial statements utilize a net asset presentation. Net assets are typically categorized as invested in capital assets (net of related debt), restricted and unrestricted. The Authority's restricted net assets consist of constraints placed on net asset use externally imposed by creditors through debt agreements, and unspent bond proceeds on capital projects. The remaining net assets represent unrestricted liquid assets.

Interfund Transactions - Interfund transactions include the following:

- a. Services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.
- b. Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.
- c. Transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

Cash and Investments - Cash resources of the Authority are pooled and invested. Interest on pooled investments is allocated among the respective funds based on average investment balances. Securities traded on national and international exchanges are valued at last reported sales price at current exchange rates, which represent fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at the prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair market value. Gains or losses on investments sold or exchanged are recognized when the transactions are completed, which approximates their settlement dates.

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(1) Summary of Significant Accounting Policies, continued

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

State statutes (Public Act 20 of 1943, as amended) place limitations on the nature of deposits and investments available to the County. Deposits include demand deposits, money markets, and certificates of deposits in federally insured banks, credit unions and savings and loan associations that have offices in the State of Michigan. Statutes authorize the County to invest in obligations of the U.S. Treasury or any agency or instrumentality of the United States, certain commercial paper, repurchase agreements, bankers' acceptances of United States banks, external investment pools (organized under Public Act 367 or 121), mutual funds composed of otherwise legal investments (except those with fluctuating per share value), and certain obligations of the State of Michigan or its political subdivisions.

The investment policy adopted by the County, in accordance with Public Act 20 of 1943, as amended authorizes investments in U.S. Treasuries, agencies, and instrumentalities, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings bank, or savings and loan association that is a member of the FDIC. The treasurer may invest in commercial paper (rated A2/P2 or above), repurchase agreements, and bankers' acceptances. Investment pools organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to 124.512, under the local government investment pool Act of 1985, PA 121, MCL 129.141 to 129.150 and investment pools organized under the surplus funds investment act, 1982 PA 367, MCL 129.111 to 129.118 are also permitted. Investments may also be made in mutual funds registered under the investment company Act of 1940 Title I of Chapter 686, 54 stat. 789, 15 U.S.C. 80A-1 to 80A-3 and 80A-4 to 80A-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation, which maintain a rating of AAA or better by a nationally recognized statistical rating agency or that maintain a net \$1.00 share value. The foremost objective of the investment policy is the safety of investment principal.

The County's cash and investments are subject to several types of risk, which are discussed in more detail below.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with State law, the County's investment policy limits investments of commercial paper to the two highest classifications established by not less than two standard rating services, and which mature not more than 270 days after the date of purchase. As of year-end, the credit quality ratings of investments (other than the U.S. government) are as follows for the primary government (non-fiduciary):

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(2) Cash and Investments, continued

Investment	Fair Value	Rating	Organization
Municipal bonds	\$ 8,500,000	SP-1+	S&P
Money market funds	873,022	Not Rated	PA 367 Fund
Money market funds	6,415,860	AAAm	S&P
Money market funds	6,247,058	AAAm-G	S&P
Money market funds	77,187	Aaa	367 Fund
Money market funds	19,235	AAA-V1	Fitch

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the government's deposits may not be recovered. The County's investment policy requires that deposits over the \$250,000 insured limit in a commercial bank shall not equal more than 25% of the combined capital and surplus of that bank, savings bank, or savings and loan association and that institution must meet minimum standards of at least one standard rating service. If deposits in a credit union exceed the insured limit, that institution must meet the minimum standards of at least one standard rating service. At year-end, the County portfolio had \$391,738,106 of bank deposits (primarily demand deposits and certificates of deposit) with a carrying value of \$365,292,641, that were largely uninsured and uncollateralized. Other primary government depository accounts (outside of the portfolio administered by the Wayne County Treasurer) had a total bank balance of \$690,053 and \$476,364 carrying value. The County believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the government evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with acceptable levels of estimated risk are used as depositories.

Custodial Credit Risk of Investments – Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either the counterparty, or the counterparty's trust department or agent, but not in the County's name.

The County's investment policy requires that bonds, securities, and obligations of the United States or an agency or instrumentality or the United States must be held in the name of the County treasurer, be purchased using the delivery versus payment procedure, and be held in third party safekeeping. Commercial paper should either be purchased directly from the issuing corporation, or be held in safekeeping by a third party institution. At year-end, none of the County's investments were subject to custodial credit risk due to one of the following:

- Investments were held by a third-party safe-keeper in the County's name,
- Investments were held by a trustee in the County's name,
- Investments were part of a mutual fund.

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(2) Cash and Investments, continued

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments with a single issuer. Through its investment policy, the County places limits on the amount the government may invest in any one issuer, along with the minimal capital strength of those issuers. There are also limits as to the use of specific types of instruments, along with limits upon use of a single institution. These limits are as follows:

Limits using capital strength test – Maximum investment is 25% of combined capital and surplus position of that financial institution.

Limits based upon use of specific instruments –

Investment Type	Limit
Bankers' acceptances	50%
Repurchase agreements	25
U.S. government	100
Commercial paper	60
Money market funds, mutual funds and investment pools	50
Certificates of deposit (bank)	50
Certificates of deposit (credit union)	10
Certificates of deposit (savings and loan associations)	10

County limits based on use of a single issuer –

Investment Type	Limit
Bankers' acceptances	25% of total portfolio
Repurchase agreement	10% of total portfolio
Certificates of deposit (bank)	33% of total portfolio
Certificates of deposit (S&L)	5% of total portfolio

At year-end, the County's investment portfolio did not exceed the limits based on use of specific instruments or use of a single issuer.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The County's investment policy addresses this risk by limiting the maturities on investments:

Fund/Fund Type	Maturity Maximum
General Fund, Operating Funds	One Year
Debt Service, Special Assessment, Nonexpendable Trust Funds	Five Years
Delinquent Tax Revolving Fund	Four Years
Funds subject to federal arbitrage restrictions	Varies

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(2) Cash and Investments, continued

The County's investment policy also dictates that for operating funds, investment maturities shall be scheduled to coincide with projected cash flow needs, according to the following general guidelines:

<u>Length of Maturity</u>	<u>Percent of Portfolio (minimums)</u>
Under 30 days	10%
Under 90 days	25%
Under 270 days	50%
Under one year	100%

Investments as of September 30, 2010 adhere to the guidelines concerning limits on maturities of investments.

At year-end, the average maturities of investments subject to interest rate risk are as follows:

	<u>Fair Value (in thousands)</u>	<u>Avg. Days to Maturity</u>
U.S. Treasuries	\$ 3,796	28
Municipal bonds	<u>8,522</u>	244
Investments subject to risk	\$ 12,318	
Cash/investments not subject to interest rate risk:		
Certificates of deposit and demand deposits	365,457	
Money market funds	<u>13,630</u>	
Total portfolio deposits and investments	\$ <u><u>391,405</u></u>	

Cash and investments in the pooled accounts are allocated to the respective County funds and accounts based on an internal ledger system maintained by the County Treasurer. At September 30, 2010, the Building Authority's pooled cash and investments totaled \$7.9 million, which is 2 percent of the portfolio. No pooled amounts are directly attributable to a specific bank account or investment.

(3) Leases Receivable

The Authority's leasing operations consist of leasing of facilities for use by the County or any of its agencies under direct financing arrangements expiring in various years through 2019.

Following is a summary of the components of the Authority's net investment in direct financing leases at September 30, 2010 (in thousands):

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(3) Leases Receivable, continued

Total minimum lease payments to be received	\$ 54,575
Less - unearned income	9,830
Net leases receivable	<u>\$ 44,745</u>
Statement of Net Assets classification:	
Current portion of leases receivable	\$ 5,085
Long-term portion of leases receivable	<u>39,660</u>
Total	<u>\$ 44,745</u>

Minimum lease payments to be received from the County as of September 30, 2010 (in thousands), is as follows:

	Series 2007B	Series 1996A	
	Bonds	Bonds	Total
2011	3,454	3,858	7,312
2012	3,444	3,864	7,308
2013	3,438	3,867	7,305
2014	3,422	3,871	7,293
2015	3,404	3,877	7,281
2016-2019	<u>14,198</u>	<u>3,878</u>	<u>18,076</u>
Total minimum lease payments	31,360	23,215	54,575
Less: Amount representing interest	<u>(6,095)</u>	<u>(3,735)</u>	<u>(9,830)</u>
Present value of the minimum lease payments	<u>\$ 25,265</u>	<u>19,480</u>	<u>\$ 44,745</u>

(4) Interfund Transfers and Balances

At September 30, 2010, there are no interfund balances. During the year, the Building Authority Capital Projects Fund transferred approximately \$100,000 to the County's Building & Ground Maintenance internal service fund for capital improvements.

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For the year ended September 30, 2010

(5) Debt and Other Obligations

The details of the Authority's long-term obligations at September 30, 2010 (in thousands), are as follow:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts due within one year
Bonds payable:					
Series 1996A, 4.00% to 6.50% due serially to June 2016	\$ 22,165	-	(2,685)	\$ 19,480	\$ 2,835
Series 2007B, 4.25% to 5.75% Ref94A, due serially to December 2018	34,250	-	(8,985)	25,265	2,250
Subtotal bonds payable	56,415	-	(11,670)	44,745	5,085
Bond discounts	(73)	-	11	(62)	(11)
Bond premiums	1,269	-	(137)	1,132	137
Deferred amount on refunding	(3,883)	-	419	(3,464)	(419)
Total bonds payable, net	\$ 53,728	-	(11,377)	\$ 42,351	\$ 4,792

In November 1996, the Authority issued \$45.0 million in Series 1996A debt with an average interest rate of 5.8 percent to finance construction of the Wayne County Juvenile Detention Facility, as well as other capital projects. These bonds are payable by the Authority solely from rental payments to be made by the County and from funds relating to this issue held by the Trustee. The County's obligation to make the rental payments is a limited tax general obligation supported by the full faith and credit of the County, subject to certain limitations.

In August 2007, the County issued \$50.4 million in bonds with a premium of \$1.6 million through the Michigan Municipal Bond Authority's Local Government Loan Program with an average interest rate of 5.0 percent to advance refund \$50.8 million of outstanding 1994 Building Authority Refunding Bonds, including the Warren Valley Golf Course obligations.

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(5) Debt and Other Obligations, continued

The annual requirements to pay principal and interest (in thousands) on the debt outstanding as of September 30, 2010 are as follows:

	Series 2007B Bonds			Series 1996A Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 2,250	1,204	\$ 3,454	\$ 2,835	1,023	\$ 3,858
2012	2,355	1,089	3,444	2,990	874	3,864
2013	2,470	968	3,438	3,150	717	3,867
2014	2,580	842	3,422	3,320	551	3,871
2015	2,705	699	3,404	3,500	377	3,877
2016-2019	<u>12,905</u>	<u>1,293</u>	<u>14,198</u>	<u>3,685</u>	<u>193</u>	<u>3,878</u>
Totals	<u>\$ 25,265</u>	<u>6,095</u>	<u>\$ 31,360</u>	<u>\$ 19,480</u>	<u>3,735</u>	<u>\$ 23,215</u>

	Total Bonds		
	Principal	Interest	Total
2011	\$ 5,085	2,227	\$ 7,312
2012	5,345	1,963	7,308
2013	5,620	1,685	7,305
2014	5,900	1,393	7,293
2015	6,205	1,076	7,281
2016-2019	<u>16,590</u>	<u>1,486</u>	<u>18,076</u>
Totals	<u>\$ 44,745</u>	<u>9,830</u>	<u>\$ 54,575</u>

At September 30, 2010, bond premiums and related accumulated depreciation were \$1.58 million and \$451,000 respectively. Bond discounts and related accumulated amortization were \$138,000 and \$76,000, respectively. At September 30, 2010, bond issuance costs and related accumulated amortization were \$1.2 million and \$486,000 respectively. At September 30, 2010, the loss on refunding and related accumulated amortization was \$4,828,173 and \$1,364,484, respectively.

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(6) Risk Management

The Authority is self-insured for general liability and other similar claims. Other claims consist of property damage and minor auto damage claims. They are considered general long-term liabilities and are recognized in the government-wide financial statements. The amount of claims liability is based on analyses performed and includes an estimate of incurred claims that have not yet been reported. The County purchases commercial insurance for claims in excess of self-insurance coverage and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

A reconciliation of the County's self-insured claims liability at September 30, 2010 (in thousands) follows:

Claims liability, September 30, 2008	\$ 70
Claims incurred during fiscal year 2009	228
Change in estimate for prior-period claims	-
Payments on claims	(228)
Claims liability, September 30, 2009	<u>70</u>
Claims incurred during fiscal year 2010	372
Change in estimate for prior-period claims	-
Payments on claims	(297)
Claims liability, September 30, 2010	<u><u>\$ 145</u></u>

(7) Commitments and Contingencies

The County is a defendant in a number of lawsuits and claims, and is involved in other disputes, which have resulted from providing services to citizens of the County. The ultimate effect of the unrecorded amount and resolution of these matters on the financial statements of the Authority's operations, in the opinion of the County, are not expected to be material.

(8) Upcoming Reporting Change

In March 2009, the Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes 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. Under this standard, the fund balance classifications of reserved, designated and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned and unassigned. The Building Authority will implement Statement No. 54 beginning with the fiscal year ended September 30, 2011.

CHARTER COUNTY OF WAYNE, MICHIGAN
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 Required Supplementary Information (Unaudited)
 Budgetary Comparison Schedule
 General Operating Fund
 For the Year Ended September 30, 2010
 (in thousands)

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues:				
Building rents	\$ -	-	-	\$ -
Interest income	-	-	-	-
Total revenues	-	-	-	-
Expenditures:				
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances at October 1, 2009	-	-	-	-
Fund balances at September 30, 2010	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>

See accompanying note to the required supplementary information.

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 Required Supplementary Information (Unaudited)
 Budgetary Comparison Schedule
 Debt Service Fund
 For the Year Ended September 30, 2010
 (in thousands)

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues:				
Building rents	\$ 14,327	14,327	14,324	\$ (3)
Interest income	-	-	3	3
Total revenues	14,327	14,327	14,327	-
Expenditures:				
Debt service:				
Principal	11,673	11,673	11,670	(3)
Interest	2,654	2,654	2,656	2
Total expenditures	14,327	14,327	14,326	(1)
Net change in fund balances	-	-	1	1
Fund balances at October 1, 2009	6,257	6,257	6,257	-
Fund balances at September 30, 2010	<u>\$ 6,257</u>	<u>6,257</u>	<u>6,258</u>	<u>\$ 1</u>

See accompanying note to the required supplementary information.

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Required Supplementary Information (Unaudited)
Note to the Required Supplementary Information
For the Year Ended September 30, 2010

(1) Budgets and Budgetary Accounting

Budgets shown in the financial statements for the General Operating and Debt Service funds were prepared on the modified accrual basis used to reflect actual results. Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

The County Executive prepared and submitted a proposed operating budget during June 2009 to the County Commission for the year beginning October 1, 2009. After public hearings to obtain taxpayers' comments, the County Commission legally enacted the budget through passage of an ordinance (annual appropriations ordinance). The legal level of budgetary control for the General Operating and Debt Service funds is at the fund level. Supplemental appropriations to the County's expenditure budget require the approval of the County Commission. Certain transfers within line items that do not affect aggregate expenditures may be made without Commission approval. Expenditures are required to remain within appropriated revenues.

There were no significant amendments to the budget for the year ended September 30, 2010.

For budgetary purposes at year end, encumbrances of the budgeted governmental funds, representing purchase orders, contracts and other commitments, lapse and must be re-appropriated in the following year. All unencumbered appropriations lapse at the end of the year.