

Office of Legislative
Auditor General

Marcella Cora CPA, CIA, CICA, CGMA
AUDITOR GENERAL

May 22, 2015



500 GRISWOLD STREET
STE. 848; GUARDIAN BLDG.
DETROIT, MICHIGAN 48226

Telephone: (313) 224-8354
Fax: (313) 224-7974

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 audited financial statements for the fiscal year ended September 30, 2014. Our report is dated May 6, 2015; DAP No. 2015-57-902. The contents of this report did not change from the draft report previously issued. The report was accepted by the Audit Committee May 13, 2015, and formally received by the Wayne County Commission on May 21, 2015.

We are pleased to inform you that officials from the Department of Management & Budget provided their complete and full cooperation during our review. 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 at: <http://www.waynecounty.com/commission/743.htm>.

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

REPORT DISTRIBUTION

Department of Management & Budget

Tony Saunders, Interim Chief Financial Officer
Terry L. Hasse – Director, Grants Compliance and Contracts Management

Wayne County Building Authority

Eileen DeHart, Chairperson

Wayne County Executive



Office of Legislative
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Fax: (313) 224-7974

May 6, 2015

DAP No. 2015-57-902

Honorable Raymond E. Basham, Chairman
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
fiscal year ended September 30, 2014.

Dear Chairman Basham:

The Office of Legislative Auditor General (OAG) received (see Attachment) the Wayne County Building Authority's (Authority) financial statements for the fiscal year ended September 30, 2014. 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, 2014.

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's audited financial statements for the fiscal year ended September 30, 2014 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. The Authority's administrative functions are 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 Generally Accepted Accounting Principles (GAAP) of the United States of America.

External Auditors Reports and Letters

- Rehmann Robson, LLC, the independent external auditor, stated that the financial statements presented fairly, in all material respects, the financial position of the Wayne County Building Authority as of September 30, 2014. This type of 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. 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 payment of principal and interest on bonds.
 3. Capital Projects Fund: This fund is used to account for the acquisition and/or construction of major capital facilities, which includes the new Wayne County Consolidated Jail Complex, the Warren Valley Golf Course obligations, and other major renovations of existing facilities.

**Governmental Funds
(In Thousands)**

Description	FY 2014	FY 2013	Increase /(Decrease)	Primary Reasons
Revenues	\$22,506	\$20,633	\$1,873	Increase primarily due to interest income.
Fund Balance	\$63,135	\$78,439	(\$15,304)	Decrease primarily the result of expenses exceeding revenues and due to debt service.

- Total principal and interest expense remained consistent with the prior year at \$27.5 million.
- The Authority has been making interest only payments on the jail facility bonds during the construction period. The jail bonds are due serially through 2040, with the first principal payment to be paid in December 2015.
- Community and economic development expenditures increased by \$9.8 million from the prior year primarily due to costs associated with final settlements for construction manager contracts and other jail site maintenance being recorded as an expense in the current fiscal year.
- As of September 30, 2014, the majority of the Authority's Fund Balance, or \$62.9 million, was restricted to pay debt service (\$8.4 million) or capital improvement expenses (\$54.5 million.) The unassigned fund balance available for spending in the next fiscal year totaled \$196,000.

Internal Controls/Compliance

The Auditor's Report to the Audit Committee (SAS 114) indicated no deficiencies or material weakness for the Wayne County Building Authority.

Potential Risk Exposures

- At the end of the 2014 fiscal year, the Authority had bonded debt outstanding of \$237.5 million. These outstanding bonds are paid by the Authority solely from rental payments received from the county. The county has pledged its full faith and credit for the outstanding bond obligations of the Authority.

- **Commitments and Contingencies**

A Memorandum of Understanding (MOU) was signed on December 5, 2013 between Wayne County, the Wayne County Building Authority and Rock Ventures, LLC for the proposed development and disposition of the Justice Properties, including the partially constructed jail parcel, Frank Murphy Hall of Justice, the Juvenile Detention Facility and the two downtown jails for \$50 million; \$20 million for the jail parcel and \$30 million in the aggregate for the balance of the Justice Property.

The execution of a purchase agreement was contingent on the County obtaining an acceptable development and use agreement regarding the development of the State of Michigan's vacant correctional facility located on Mound Road in Detroit, Michigan.

As of the date of the issuance of the auditor's report, both parties have fully performed the terms of the MOU. In the fall of 2014, the Wayne County Commission passed a resolution that the County would not proceed with any further negotiations with the State of Michigan regarding development at the Mound Correctional Facility.

If the County enters into any binding agreement for the sale of the Justice Property with a third party prior to December 31, 2015, the County must reimburse Rock Ventures for actual costs up to \$500,000 for any due diligence they may have conducted on the Justice Property.

Repeat of Prior Year (FY 2013) Observation

- Wayne County should enter into a formal intergovernmental agreement with the Authority to provide certain administrative services at cost.
- During FY 2013, Management & Budget provided administrative services amounting to \$77,297 to the Authority, of which services relating to the DHS buildings were reimbursed in the amount of \$14,000 for fiscal year 2013. The remaining services amounting to \$63,433 provided to the Authority did not have an identified funding source.
- Management and Budget should complete the policy addressing services provided to all component units and the reimbursement to the county for those services. The policy should also establish the criteria for determining when an intergovernmental agreement is necessary.

Management Response

- Management and Budget is in agreement with the Auditor General's recommendation to enter into a formal intergovernmental agreement, but must first develop a policy that addresses services provided to all component units and the reimbursement to the County for those services. This policy will also address criteria that will determine when an intergovernmental agreement is necessary. Management & Budget provided services during FY 2014 amounting to \$54,737 to the Authority. It is important to note that of this amount, services relating to the DHS buildings were reimbursed in the amount of \$14,675 for fiscal year 2014. The remaining services amounting to \$40,062 provided to the Authority do not have an identified funding source to reimburse the County.

Conclusion

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, 2014 is forwarded to the Wayne County Commission for receiving and filing.

Respectfully submitted,

A handwritten signature in cursive script that reads "Marcella Cora".

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

Cc: Tony Saunders, Interim Chief Financial Officer
Terry L. Hasse, Director, Grants Compliance and Contract Management
Eileen Dehart, Chairperson Wayne County Building Authority

Attachment

**Wayne County Building Authority
Financial Statements
Fiscal Year Ended September 30, 2014**

CHARTER COUNTY OF WAYNE,
MICHIGAN

BUILDING AUTHORITY

Year Ended
September 30,
2014

Financial
Statements

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

April 27, 2015

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the **Charter County of Wayne, Michigan Building Authority** (the "Authority"), a component unit of the Charter County of Wayne, Michigan, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Charter County of Wayne, Michigan Building Authority as of September 30, 2014, and the respective changes in its financial position thereof for the year then ended, in conformity 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 management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Rehmann Lobarr LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Management's Discussion and Analysis (Unaudited)

As management of the Wayne County Building Authority (the Authority), a blended 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, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section. Unless otherwise noted, amounts are expressed in thousands.

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.

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 position* presents information on all of the Authority's assets, liabilities and deferred inflows and deferred outflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *statement of activities* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position 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).

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.

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.

As noted earlier, net position may serve over time as a useful indicator of financial position. For the Authority, net position increased by \$110.9 million at September 30, 2014, due to the recognition of the net lease receivable from the County relative to the jail facility bonds.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Management's Discussion and Analysis (Unaudited)

	Net Position (in thousands)	
	2014	2013
Assets		
Current and other assets	\$ 107,053	\$ 115,794
Leases receivable	153,935	37,470
Total assets	260,988	153,264
Deferred outflows of resources	1,784	-
Liabilities		
Long-term liabilities	238,085	17,356
Other liabilities	13,913	236,009
Total liabilities	251,998	253,365
Net position		
Restricted for capital projects and debt service	62,939	1,091
Unrestricted deficit	(52,165)	(101,192)
Total net position	\$ 10,774	\$ (100,101)

A portion of the Authority's net position (\$1 million) is its net investment in capital projects. Unrestricted net position has a deficit balance of \$116.8 million and is not available to meet ongoing obligations of the Authority.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Management's Discussion and Analysis (Unaudited)

	Change in Net Position (in thousands)	
	2014	2013
Revenues		
Program revenue -		
Charges for services - rental income	\$ 128,814	\$ 2,787
General revenue:		
Interest income	14,014	9,096
Other	14	15
Total revenues	<u>142,842</u>	<u>11,898</u>
Expenses		
Program expenses:		
Contractual services	210	334
Other charges	10,130	976
Interest and amortization	21,627	24,138
Total expenses	<u>31,967</u>	<u>25,448</u>
Change in net position before special item	110,875	(13,550)
Special item	-	(88,087)
Change in net position	110,875	(101,637)
Net position, beginning of year, as restated	(100,101)	1,536
Net position, end of year	<u>\$ 10,774</u>	<u>\$ (100,101)</u>

The Building Authority's net position is increased by \$110.9 million. The increase is primarily attributed to recognizing the net lease receivable from the County for the jail facility.

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, unassigned 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.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Management's Discussion and Analysis (Unaudited)

As of the end of the current fiscal year, the Authority's combined governmental funds reported ending fund balances of \$63.1 million, a decrease of \$15.3 million in comparison with the prior year. A significant portion of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed to pay debt service (\$8.4 million) or capital improvement expenses (\$54.5 million).

The statement of revenues, expenditures and changes in fund balances fluctuated between fiscal year 2014 and 2013 as a result of the following:

- Principal and interest expense remained consistent with the prior year. The Authority has been making interest only payments on the jail facility bonds during the construction period.
- Capital outlay decreased by \$43 million as costs associated with final settlements for construction manager contracts and other jail site maintenance could not be capitalized in fiscal year 2014.
- The community and economic development expenditures increased by \$9.8 million from the prior year. This is primarily due to costs associated with final settlements for construction manager contracts and other jail site maintenance being recorded as an expense in the current fiscal year.

Revenues represent rental payments from County departments that benefited from renovations made with bond proceeds, as well as rental payments from the State of Michigan. Annually, these revenues will equal the debt services expenditures. However, during the current year, expenditures are greater than the revenues primarily due to the jail related expenditures.

Debt Administration

At the end of the current fiscal year, the Authority had bonded debt outstanding of \$237.5 million (before bond discount and premium) backed by the full faith and credit of the Charter County of Wayne, Michigan.

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

	Governmental Activities	
	2014	2013
General obligation bonds (backed by the County)	\$ 237,470	\$ 243,500
Bond discount	(18)	(29)
Bond premium	633	772
Total bonds payable, net	\$ 238,085	\$ 244,243

Overall, debt decreased by \$6.0 million during the current fiscal year, due to principal and interest payments on the outstanding bonds. Additional information on the Authority's long-term debt can be found in Note 5 of this report.

**CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY**

**Management's Discussion and Analysis
(Unaudited)**

Request for Information

This financial report is designed to provide a general overview of the Wayne County Building 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

Statement of Net Position September 30, 2014 (in thousands)

	Governmental Activities
Assets	
Equity in pooled cash and investments	\$ 5,790
Due from other governments	2,781
Accrued interest receivable	7,189
Restricted assets:	
Equity in pooled cash and investments	60,229
Other cash and investments	1,059
Leases receivable:	
Due within one year	10,005
Due in more than one year	153,935
Asset converted from capital asset held for sale	20,000
Total assets	260,988
Deferred outflows of resources	
Deferred charge on refunding	1,784
Liabilities	
Accounts and contracts payable	24
Accrued interest payable	7,189
Other liabilities	6,700
Long-term liabilities:	
Due within one year	10,005
Due in more than one year	228,080
Total liabilities	251,998
Net position	
Restricted for capital projects and debt service	62,939
Unrestricted deficit	(52,165)
Total net position	\$ 10,774

See accompanying notes to the basic financial statements.

**CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY**

Statement of Activities
For the Year Ended September 30, 2014
(in thousands)

	Governmental Activities
Expenses	
Contractual services	\$ 210
Interest and amortization expense	21,627
Other expenses	<u>10,130</u>
Total expenses	31,967
Program revenues	
Charges for services - rental income	<u>128,814</u>
Net (expense) revenue	<u>96,847</u>
General revenues	
Interest income	14,014
Other revenue	<u>14</u>
Total general revenue	<u>14,028</u>
Change in net position	110,875
Net position (deficit) at October 1, 2013, as restated	<u>(100,101)</u>
Net position at September 30, 2014	<u><u>\$ 10,774</u></u>

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Balance Sheet - Governmental Funds

September 30, 2014

(in thousands)

	General Operating Fund	Debt Service Fund	Capital Projects Fund	Total
Assets				
Equity in pooled cash and investments	\$ 123	\$ 5,667	\$ -	\$ 5,790
Restricted assets:				
Equity in pooled cash and investments	-	-	60,229	60,229
Other cash and investments	1,059	-	-	1,059
Due from other governments	98	40,153	-	40,251
Total assets	\$ 1,280	\$ 45,820	\$ 60,229	\$ 107,329
Liabilities				
Accounts payable	\$ 24	\$ -	\$ -	\$ 24
Other liabilities	1	-	6,699	6,700
Total liabilities	25	-	6,699	6,724
Deferred inflows of resources				
Unavailable lease revenue	-	37,470	-	37,470
Fund balances				
Restricted for capital improvements	1,059	-	53,530	54,589
Restricted for debt service	-	8,350	-	8,350
Unassigned	196	-	-	196
Total fund balances	1,255	8,350	53,530	63,135
Total liabilities and fund balances	\$ 1,280	\$ 45,820	\$ 60,229	\$ 107,329

See accompanying notes to the basic financial statements.

**CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY**

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2014**

Fund balances - total governmental funds	\$ 63,135
Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:	
Capital lease and related accrued interest receivables are not current financial resources and therefore are not reported in the governmental funds	171,129
Assets converted from capital assets held for sale in governmental activities are not financial resources and therefore is not reported in the governmental funds	20,000
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund	
Bond issuance costs	2,048
Less accumulated amortization	(2,048)
Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental fund	
Bonds payable	(237,470)
Bond discount	18
Bond premium	(633)
Accrued interest payable	(7,189)
Deferred charge on refunding	1,784
Net position of governmental activities	<u><u>\$ 10,774</u></u>

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended September 30, 2014
(in thousands)

	General Operating Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues				
Building rents	\$ 1,180	\$ 7,297	\$ -	\$ 8,477
Interest income	-	13,747	267	14,014
Other	15	-	-	15
Total revenues	<u>1,195</u>	<u>21,044</u>	<u>267</u>	<u>22,506</u>
Expenditures				
Contractual services	210	-	-	210
Community and economic development	64	46	9,949	10,059
Capital outlay	-	-	71	71
Debt service:				
Principal	-	6,030	-	6,030
Interest	-	21,440	-	21,440
Total expenditures	<u>274</u>	<u>27,516</u>	<u>10,020</u>	<u>37,810</u>
Revenues over (under) expenditures	<u>921</u>	<u>(6,472)</u>	<u>(9,753)</u>	<u>(15,304)</u>
Other financing sources (uses)				
Transfers in	-	6,184	-	6,184
Transfers out	(878)	-	(5,306)	(6,184)
Total other financing sources (uses)	<u>(878)</u>	<u>6,184</u>	<u>(5,306)</u>	<u>-</u>
Net change in fund balances	43	(288)	(15,059)	(15,304)
Fund balances at October 1, 2013	<u>1,212</u>	<u>8,638</u>	<u>68,589</u>	<u>78,439</u>
Fund balances at September 30, 2014	<u><u>\$ 1,255</u></u>	<u><u>\$ 8,350</u></u>	<u><u>\$ 53,530</u></u>	<u><u>\$ 63,135</u></u>

See accompanying notes to the basic financial statements.

**CHARTER COUNTY OF WAYNE, MICHIGAN
BUILDING AUTHORITY**

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
(in thousands)**

Net change in fund balances - total governmental funds	\$ (15,304)
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Amounts reported for governmental activities in the Statement of Activities are different because:

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 the current year upon project completion and principal collected reduces the lease receivable.	120,337
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces bonds payable in the Statement of Net Position.	6,030
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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 payable	103
Amortization of loss on refunding	(419)
Amortization of bond discounts	139
Amortization of bond premiums	(11)
	<u>122</u>

Change in net position of governmental activities	<u><u>\$ 110,875</u></u>
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See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, Michigan 48226.

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 Position 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 ninety days of the end of the current fiscal year. Interest, rents, and charges for services are 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.

CHARTER COUNTY OF WAYNE, MICHIGAN

BUILDING AUTHORITY

Notes to the Basic Financial Statements

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 government-wide financial information is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial information is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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 accounted for and reported in another fund.
- *Debt Service Fund* - This fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest.
- *Capital Projects Fund* - This fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position 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 as construction progresses and interest is recognized as it is earned.

Bond Premiums and Bond Discounts - In the government-wide financial statements, bond premiums and bond discounts 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 and discounts.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

In the fund financial statements, governmental fund types recognize bond discounts and premiums 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.

Deferred Charge on Refunding - A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. This is reported in the Statement of Net Position as a separate element called deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Fund Balance/Net Position -

In the fund financial statements, governmental funds report the following components of fund balance:

- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for use of a specific purpose.
- **Unassigned:** Residual amounts remaining in the General Operating fund and negative amounts in other governmental funds.

The government-wide financial statements utilize a net position presentation. Net position is typically categorized for the Authority as restricted and unrestricted. Net position is restricted when externally imposed by creditors, grantors, contributors, laws or regulations or constitutional provisions.

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 Statement of Net Position.
- 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. Gains or losses on investments sold or exchanged are recognized when the transactions are completed, which approximates their settlement dates.

CHARTER COUNTY OF WAYNE, MICHIGAN

BUILDING AUTHORITY

Notes to the Basic Financial Statements

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

At year-end, the carrying amount of the Authority's pooled cash and investments, which were deposited entirely in the County Treasurer's internal cash management pool except for \$1.1 million in separately held demand deposit accounts, was \$66.0 million. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categories are presented in the County's basic financial statements.

3. LEASES RECEIVABLE

The Authority's leasing operations consist of leasing of facilities for use by the County, State or any of its agencies under direct financing arrangements expiring in various years through 2042. Amounts due from other governments consist of long-term receivables for future rents that will be used to pay debt service. The long-term receivable balance of \$31.1 million is equal to the principal due on the 1996A, 2007B and 2011F series bonds.

Following is a summary of the components of the Authority's net investment in direct financing leases at September 30, 2014 (in thousands):

Total minimum lease payments to be received	\$ 433,636
Portion attributable to future interest earnings	(196,166)
Adjustments	<u>(73,530)</u>
Net leases receivable	<u>\$ 163,940</u>
Statement of Net Position classification:	
Current portion of leases receivable	\$ 10,005
Long-term portion of leases receivable	<u>153,935</u>
Total	<u>\$ 163,940</u>

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

Minimum lease payments receivable as of September 30, 2014 (in thousands) are as follows:

	Series 2007B Bonds	Series 1996A Bonds	Series 2010 Bonds	Series 2011F Revenue Bonds	Total
2015	\$ 3,404	\$ 3,877	\$ 14,215	\$ 878	\$ 22,374
2016	3,547	3,878	14,206	958	22,589
2017	3,555	-	14,201	949	18,705
2018	3,555	-	14,173	950	18,678
2019	3,541	-	14,169	969	18,679
2020-2024	-	-	70,758	5,166	75,924
2025-2029	-	-	70,536	5,150	75,686
2030-2034	-	-	70,246	5,219	75,465
2035-2039	-	-	69,884	5,813	75,697
2040-2042	-	-	27,834	2,005	29,839
Total payments	17,602	7,755	380,222	28,057	433,636
Less interest	(1,992)	(570)	(180,222)	(13,382)	(196,166)
Less adjustments	-	-	(73,530)	-	(73,530)
Present value of minimum lease payments, net	\$ 15,610	\$ 7,185	\$ 126,470	\$ 14,675	\$ 163,940

The above adjustments are for unexpended bond proceeds of \$53.5 million and the estimated value of capital assets held for sale of \$20.0 million.

4. INTERFUND TRANSFERS AND BALANCES

During the year, the Capital Projects and General Operating funds transferred \$5.3 and \$0.9 million, respectively, to the Debt Service Fund for repayment of principal and interest.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

5. DEBT AND OTHER OBLIGATIONS

The details of the Authority's long-term obligations at September 30, 2014 (in thousands) is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable					
Series 1996A, 4.0% to 6.5%, due serially to June 2016	\$ 10,505	\$ -	\$ (3,320)	\$ 7,185	\$ 3,500
Series 2007B, 4.25% to 5.75%, due serially to June 2016	18,190	-	(2,580)	15,610	2,705
Series 2010 (Jail), 6.22% to 10.0%, due serially to December 2040	200,000	-	-	200,000	3,665
Series 2011F, 3.0% to 5.25%, due serially to October 2041	14,805	-	(130)	14,675	135
	243,500	-	(6,030)	237,470	10,005
Bond discounts	(29)	-	11	(18)	-
Bond premiums	772	-	(139)	633	-
Total bonds payable, net	\$ 244,243	\$ -	\$ (6,158)	\$ 238,085	\$ 10,005

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.

In December 2010, the Building Authority issued \$200 million Series 2010 bonds to finance construction of a new Wayne County consolidated jail complex. The Authority has designated the bonds as "recovery zone economic development bonds" under section 1400U-2 of the Internal Revenue Code and to elect under Code Section 54AA(g) to receive a direct pay interest credit from the United States Treasury equal to 45 percent of the state interest paid on the bonds as provided in Code Section 6431. The bonds are due serially through 2040, at interest rates ranging from 6.2 to 10.0 percent, with first principal to be paid in December 2015. The County has pledged its full faith and credit for these bonds, subject to certain limitations.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

In October 2011, the Building Authority issued \$14.96 million series 2011 F revenue bonds through the Michigan Finance Authority (MFA) Local Government Loan Program. The bonds were issued for the purpose of financing the purchase by the Authority of municipal obligations issued by certain political subdivisions of the State of Michigan. The serial bonds are separately secured from the bonds of other types and are payable solely from the rent revenues on the municipal obligations. The bonds are due serially through 2042.

The annual requirements to pay principal and interest (in thousands) on the debt outstanding as of September 30, 2014 are as follows:

	Principal	Interest	Total
2015	\$ 10,005	\$ 21,115	\$ 31,120
2016	10,695	20,546	31,241
2017	7,305	19,944	27,249
2018	7,620	19,496	27,116
2019	8,015	18,938	26,953
2020-2024	26,850	87,658	114,508
2025-2029	34,470	74,193	108,663
2030-2034	44,925	55,812	100,737
2035-2039	59,355	31,442	90,797
2040-2042	28,230	4,131	32,361
	<u>\$ 237,470</u>	<u>\$ 353,275</u>	<u>\$ 590,745</u>

6. RESTRICTED ASSETS

In accordance with the terms of certain bond issuances, the Authority restricts assets that are pledged for operating, maintenance, repairs and replacement and construction. As of September 30, 2014, the Authority restricted \$1.1 million for operating and maintenance and \$60.2 million for construction.

7. RISK MANAGEMENT

The County, including the Authority, is self-insured for general liability and other similar claims. Other claims consist of property damage and minor auto damage claims. 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.

8. 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. Except for the information below, see the County's CAFR for further discussion of commitments and contingencies.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

Wayne County Building Authority - Consolidated Jail Project

A Memorandum of Understanding (MOU) was signed on December 5, 2013 between Wayne County, the Wayne County Building Authority and Rock Ventures, LLC for the proposed development and disposition of the Justice Property, including the partially constructed jail parcel, Frank Murphy Hall of Justice, the Juvenile Detention Facility and the two downtown jails for \$50 million; \$20 million for the jail parcel and \$30 million in the aggregate for the balance of the Justice Property. The provisions of the MOU were non-binding and allowed for the parties to have a period of 180 days to assess the viability and desirability of proceeding with the transactions contemplated by the MOU. The execution of the purchase agreement was contingent on the County obtaining an acceptable development and use agreement regarding the development of the State of Michigan's vacant correctional facility located on Mound Road in Detroit, Michigan.

As of the date of issuance of this report, both parties have fully performed the terms of the MOU. Rock Ventures has completed its due diligence and the County has neither solicited nor negotiated with a third party for the development of the Justice Property. The County was in negotiations with the State of Michigan regarding development at the Mound Correctional Facility. In the fall of 2014, the Wayne County Commission passed a resolution that the County would not proceed with any further negotiations with the State of Michigan regarding development at the Mound Correctional Facility.

If the County enters into any binding agreement for the sale of the Justice Property prior to December 31, 2015, the County must reimburse Rock Ventures for actual costs up to \$500,000 for any due diligence they may have conducted on the Justice Property.

9. BUDGET MATTERS

The Building Authority has not adopted a budget for the General Operating Fund. Therefore, no budgetary comparison schedule is presented as required supplementary information.

10. RESTATEMENT OF BEGINNING NET POSITION

During the year, the County adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources. It also limits the use of the term "deferred" in financial statement presentation. This implementation resulted in bond issuance costs being recognized as expense in the period incurred.

Prior to this change in accounting principle, the total amount of unamortized bond issuance costs as of September 30, 2013 was \$2.2 million. The write-off of bond issuance costs reduced the net position as though these costs had been expensed as financing fees in the year incurred. As a result of this implementation, the Authority's beginning net position was reduced by \$2.04 million.

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