

Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
AUDITOR GENERAL



500 GRISWOLD STREET
STE. 842 GUARDIAN BLDG
DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

June 29, 2017

FINAL REPORT TRANSMITTAL LETTER

Wayne County Commission:

Enclosed is our 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, 2016. Our report is dated June 8, 2017; DAP No. 2017-57-904. The report was accepted by the Committee on Audit at its meeting held on June 21, 2017 and formally received by the Wayne County Commission on June 29, 2017.

We are pleased to inform you that officials from the Wayne County 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.

Sincerely,

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

REPORT DISTRIBUTION

Department of Management & Budget

Tony Saunders, Chief Financial Officer

Mathieu Dube, Deputy Chief Financial Officer

Yogesh Gusani, Director of Financial Reporting

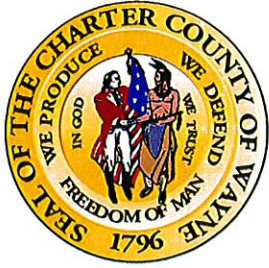
Terry L. Hasse – Director, Grants Compliance and Contract Management

Ashley V. Johnson, Assistant Division Director of Grants and Contracts

Wayne County Building Authority

Eileen Dehart, Chairperson

Wayne County Executive



WAYNE COUNTY OFFICE OF LEGISLATIVE AUDITOR GENERAL

County of Wayne, Michigan
Office of Legislative Auditor General

Financial Assessment – Limited Review Report

Wayne County Building Authority
Fiscal Year Ended September 30, 2016
Financial Statements

DAP NO. 2017-57-904

June 8, 2017

Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
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June 8, 2017

DAP No. 2017-57-904

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, 2016.

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, 2016. 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, 2016.

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, 2016 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 Commissioner, 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, 2016. 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.
- The financial statements of the Building Authority have been included in the county's Comprehensive Annual Financial Report (CAFR) as a non-major governmental fund.

The auditors did not issue a separate SAS 114 letter or an A-133 (Single Audit) for the Building Authority. The Auditor's Report to the Audit Committee (SAS 114) indicated no deficiencies or material weakness for the Wayne County Building Authority.

Financial Results /Operations

- The Authority's financial operations are accounted for in three (3) types of governmental funds:
 1. General Operating Fund: This fund accounts for all financial resources and expenditures except those accounted for and reported in another fund.

2. 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.
3. 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.

**Governmental Funds
(In Thousands)**

Description	FY 2016	FY 2015	Increase /(Decrease)	Primary Reasons
Revenues	\$35,219	\$31,791	\$3,428	This increase is primarily due to prior year cost recoveries from vendors.
Fund Balance	\$66,479	\$63,345	\$3,134	This increase is primarily due to an increase in the Capital Projects Fund.

**See Wayne Co. Bldg Authority Audited Financial Statements, FYE 9/30/2016, pg. 13*

- The Building Authority's net position decreased by \$344,944. This change essentially reflects a breakeven between revenues and expenses.
- As of September 30, 2016, the Authority's total governmental Fund Balance, was \$66.5 million, an increase of \$3.3 million from 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 (\$8.3 million) or capital improvement expenses (\$58.1 million).

Potential Risk Exposures

- At the end of the 2016 fiscal year, the Authority had bonded debt outstanding of \$216.8 million (a decrease of \$10.8 million from the prior year). The decrease is due to principal and interest payments on the outstanding bonds. 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

Consolidated Jail Project

As of the issuance date of the audited financial statements for the Wayne County Building authority, fiscal year ended September 30, 2016, the county is considering two (2) options to completing the consolidated jail project. 1) To finish the project through construction contracts with Walsh Construction, procured by the county; or, 2) accept a public-private joint venture proposal from Rock Ventures.

If the county chooses the first option (i.e., to finish the project itself), it will be at the original Gratiot Avenue site where the jail facility construction was started several years ago and then suspended. If the county chooses the second option (i.e., the offer from Rock Ventures), the jail facility will be built on county-owned property near I-75 and Warren Road, and would involve the exchange of the Gratiot Avenue site and other county properties in exchange for the developer constructing the building.

Both options, along with any others that might arise, come with pros and cons that are being evaluated by the county. In the end, the county's priority is reaching a course of action that makes the greatest fiscal sense for the citizens of Wayne County. It is anticipated that the decision point will be in the summer or fall of 2017.

With regards to the prior jail facility construction activity, the county has reached settlement with all of the previous contractors.

Repeat of Prior Years' (FYs 2015 and 2014) Observations

- Certain Wayne County officials perform administrative functions for the Authority such as accounting and bookkeeping. The county should be reimbursed for the cost of providing those services from revenue that is not jail bond related.
- Wayne County should enter into a formal agreement or policy with the Authority to provide reimbursement for the cost of services rendered by the county.

Management and Budget reached out to Corporation Counsel for assistance with drafting an Intergovernmental Agreement (IGA) between the Building Authority and the county's Corporation Counsel responded as follows:

- Corporation Counsel is of the opinion that an intergovernmental agreement with the Building Authority would not be necessary. The county has a Contract of Lease (COL) with the Building Authority and agrees to pay all of the Building Authority's operating expenses. (OAG note: the current Contract of Lease specifically addresses only the Consolidated Jail Project.)
- To the extent that the Building Authority has revenue from a third party source that is not jail bond proceeds, or is to be used towards operating expenses as dictated by the COL, then a policy would be appropriate.

Through follow-up with the county's Deputy CFO, it was noted that the county would incur additional costs for performing the additional work required in capturing costs, billing, collecting, and allocating costs from the authority to the county. The net result for the Authority is nothing (revenue would equate the expense) and for the county it would increase the cost of providing services to the Authority which is inefficient and ineffective.

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, 2016 are forwarded to the Wayne County Commission for receiving and filing.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Marcella Cora", written in a cursive style.

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

Cc: Tony Saunders, Chief Financial Officer
Mathieu Dube, Deputy Chief Financial Officer
Yogesh Gusani, Director of Financial Reporting
Terry L. Hasse, Director, Grants Compliance and Contract Management
Ashley V. Johnson, Assistant Division Director of Grants and Contracts
Eileen Dehart, Chairperson, Wayne County Building Authority

Attachment

**Wayne County Building Authority
Financial Statements
Fiscal Year Ended September 30, 2016**

CHARTER COUNTY OF WAYNE,
MICHIGAN

BUILDING AUTHORITY

Year Ended
September 30,
2016

Financial
Statements

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

March 22, 2017

To the Wayne County Commission, Wayne County
Building Authority Board and the Wayne County Executive
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, 2016, 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.

Independent 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 each major fund of the Charter County of Wayne, Michigan Building Authority as of September 30, 2016, 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.

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 Johnson 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, 2016. 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.

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, deferred outflows of resources and liabilities, with the difference between the three 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. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities by \$10.3 million and \$10.6 million at September 30, 2016 and 2015, respectively.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Management's Discussion and Analysis (Unaudited)

	Net Position	
	2016	2015
Assets		
Leases receivable	\$ 139,997,044	\$ 153,882,727
Other assets	93,726,983	94,171,340
Total assets	<u>233,724,027</u>	<u>248,054,067</u>
Deferred outflows of resources	<u>944,476</u>	<u>1,364,318</u>
Liabilities		
Long-term liabilities	217,124,627	227,951,479
Other liabilities	7,248,152	10,826,238
Total liabilities	<u>224,372,779</u>	<u>238,777,717</u>
Net position		
Restricted for capital projects and debt service	66,401,008	63,234,390
Unrestricted deficit	(56,105,284)	(52,593,722)
Total net position	<u>\$ 10,295,724</u>	<u>\$ 10,640,668</u>

A portion of the Authority's net position (\$66.4 million) is restricted for capital projects and debt service. Unrestricted net position has a deficit balance of \$56.1 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	
	2016	2015
Revenues		
Program revenue -		
Charges for services - rental income	\$ 17,388,106	\$ 21,307,064
General revenue -		
Interest income and other revenue	332,478	234,946
Prior year cost recoveries from vendors	3,407,461	-
Total revenues	21,128,045	21,542,010
Expenses		
Program expenses:		
Contractual services and other expenses	970,065	572,590
Interest and amortization expense	20,502,924	21,104,701
Total expenses	21,472,989	21,677,291
Change in net position	(344,944)	(135,281)
Net position, beginning of year	10,640,668	10,775,949
Net position, end of year	\$ 10,295,724	\$ 10,640,668

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.

As of the end of the current fiscal year, the Authority's combined governmental funds reported ending fund balances of \$66.5 million, an increase of \$3.1 million from 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 (\$8.3 million) or capital improvements (\$58.1 million).

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Management's Discussion and Analysis (Unaudited)

The statement of revenues, expenditures and changes in fund balances fluctuated between fiscal year 2016 and 2015 as a result of the following:

- The Authority recorded prior year cost recoveries from vendors revenue of approximately \$3.4 million in fiscal 2016 as a result of the settlement of a lawsuit with the Jail Project's program manager.

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. The Authority received recoveries from vendors in 2016 related to a lawsuit with the Jail Project's program manager that was settled.

Debt Administration

At the end of the current fiscal year, the Authority had bonded debt outstanding of \$216.8 million (before bond discount and premium) backed by the full faith and credit of the County, as follows:

	Governmental Activities	
	2016	2015
General obligation bonds (backed by the County)	\$ 216,770,000	\$ 227,465,000
Bond discount	-	(7,253)
Bond premium	354,627	493,732
Total bonds payable, net	\$ 217,124,627	\$ 227,951,479

Overall, debt decreased by \$10.8 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 6 of this report.

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, 14th Floor, Detroit, Michigan 48226.

BASIC FINANCIAL STATEMENTS

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Statement of Net Position

September 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in pooled cash and investments	\$ 5,612,337
Accounts receivable	144,290
Due from other governments	2,632,572
Accrued interest receivable	6,791,689
Leases receivable:	
Due within one year	7,305,000
Due in more than one year	132,692,044
Restricted assets:	
Equity in pooled cash and investments	57,213,596
Other cash and investments	1,332,499
Asset held for sale (converted from capital asset)	<u>20,000,000</u>
Total assets	<u>233,724,027</u>
Deferred outflows of resources	
Deferred charge on refunding	<u>944,476</u>
Liabilities	
Accounts and contracts payable	15,723
Accrued interest payable	6,791,689
Other liabilities	440,740
Long-term liabilities:	
Due within one year	7,165,895
Due in more than one year	<u>209,958,732</u>
Total liabilities	<u>224,372,779</u>
Net position	
Restricted for capital projects and debt service	66,401,008
Unrestricted (deficit)	<u>(56,105,284)</u>
Total net position	<u><u>\$ 10,295,724</u></u>

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Statement of Activities For the Year Ended September 30, 2016

	<u>Governmental Activities</u>
Revenues	
Program revenue -	
Charges for services - rental income	\$ 17,388,106
General revenue:	
Interest income and other revenue	332,478
Prior year cost recoveries from vendors	<u>3,407,461</u>
Total revenues	<u>21,128,045</u>
Program expenses	
Contractual services and other expenses	970,065
Interest and amortization expense	<u>20,502,924</u>
Total program expenses	<u>21,472,989</u>
Change in net position	(344,944)
Net position, beginning of year	<u>10,640,668</u>
Net position, end of year	<u><u>\$ 10,295,724</u></u>

See accompanying notes to the basic financial statements.

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

Balance Sheet
September 30, 2016

	General Operating Fund	Debt Service Fund	Capital Projects Fund	Total
Assets				
Equity in pooled cash and investments	\$ 93,546	\$ 5,518,791	\$ -	\$ 5,612,337
Restricted assets:				
Equity in pooled cash and investments	-	-	57,213,596	57,213,596
Other cash and investments	1,332,399	-	100	1,332,499
Accounts receivable	-	144,290	-	144,290
Due from other governments	-	2,632,572	-	2,632,572
Total assets	<u>\$ 1,425,945</u>	<u>\$ 8,295,653</u>	<u>\$ 57,213,696</u>	<u>\$ 66,935,294</u>
Liabilities				
Accounts payable	\$ 15,723	\$ -	\$ -	\$ 15,723
Other liabilities	-	-	440,740	440,740
Total liabilities	<u>15,723</u>	<u>-</u>	<u>440,740</u>	<u>456,463</u>
Fund balances				
Restricted for capital improvements	1,332,399	-	56,772,956	58,105,355
Restricted for debt service	-	8,295,653	-	8,295,653
Unassigned	77,823	-	-	77,823
Total fund balances	<u>1,410,222</u>	<u>8,295,653</u>	<u>56,772,956</u>	<u>66,478,831</u>
Total liabilities and fund balances	<u>\$ 1,425,945</u>	<u>\$ 8,295,653</u>	<u>\$ 57,213,696</u>	<u>\$ 66,935,294</u>

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, 2016

Fund balances - total governmental funds	\$ 66,478,831
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Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Capital lease and related accrued interest receivables (due from other funds of the County) are not current financial resources and therefore are not reported in the funds	146,788,733
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Assets converted from capital assets to held for sale in governmental activities are not financial resources and therefore is not reported in the governmental funds	20,000,000
--	------------

Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds	
Bonds payable	(216,770,000)
Bond premium	(354,627)
Accrued interest payable	(6,791,689)
Loss on refunding	944,476

Net position of governmental activities	<u>\$ 10,295,724</u>
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See accompanying notes to the basic financial statements.

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

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended September 30, 2016

	General Operating Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues				
Building rents	\$ 1,395,656	\$ 30,083,179	\$ -	\$ 31,478,835
Interest income	68	4,731	327,679	332,478
Other revenue -				
Prior year cost recoveries from vendors	-	-	3,407,461	3,407,461
Total revenues	<u>1,395,724</u>	<u>30,087,910</u>	<u>3,735,140</u>	<u>35,218,774</u>
Expenditures				
Contractual services	264,251	-	-	264,251
Community and economic development	161,356	-	-	161,356
Capital outlay	-	-	544,458	544,458
Debt service:				
Principal	-	10,695,000	-	10,695,000
Interest	-	20,419,980	-	20,419,980
Total expenditures	<u>425,607</u>	<u>31,114,980</u>	<u>544,458</u>	<u>32,085,045</u>
Revenues over (under) expenditures	<u>970,117</u>	<u>(1,027,070)</u>	<u>3,190,682</u>	<u>3,133,729</u>
Other financing sources (uses)				
Transfers in	-	957,976	-	957,976
Transfers out	(957,976)	-	-	(957,976)
Total other financing sources (uses)	<u>(957,976)</u>	<u>957,976</u>	<u>-</u>	<u>-</u>
Net change in fund balances	12,141	(69,094)	3,190,682	3,133,729
Fund balances, beginning of year	<u>1,398,081</u>	<u>8,364,747</u>	<u>53,582,274</u>	<u>63,345,102</u>
Fund balances, end of year	<u>\$ 1,410,222</u>	<u>\$ 8,295,653</u>	<u>\$ 56,772,956</u>	<u>\$ 66,478,831</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
For the Year Ended September 30, 2016**

Net change in fund balances - total governmental funds	\$ 3,133,729
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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 is reported in the current year upon project completion and collections are recorded as reductions of leases receivable.	(14,090,729)
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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.	10,695,000
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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	205,046
Amortization of loss on refunding	(419,842)
Amortization of bond discounts	(7,253)
Amortization of bond premiums	139,105
	<hr/>

Change in net position of governmental activities	<u><u>\$ (344,944)</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, 14th 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 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 and Net Position or Equity

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.

Assets Held for Sale (Converted from Capital Assets) - This relates to the Authority's jail facility project that is discussed in greater detail in Note 8.

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 projects progress and interest is recognized as it is earned.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

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.

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 internal balances in the 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.

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.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

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 \$1.3 million in separately held demand deposit accounts, was \$62.8 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. 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, 2016, the Authority had restricted assets of \$1.3 million for operating and maintenance and \$57.2 million for construction and debt service.

4. 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 current portion of leases receivable balance of \$7.3 million is equal to the principal due on the bonds payable in the next fiscal year.

Following is a summary of the components of the Authority's net investment in direct financing leases at September 30, 2016:

Total minimum lease payments to be received	\$ 397,666,876
Unearned income	(180,896,876)
Adjustments:	
Unexpended bond proceeds	(56,772,956)
Asset held for sale	<u>(20,000,000)</u>
Net leases receivable	<u>\$ 139,997,044</u>
Statement of net position classification:	
Current portion of leases receivable	\$ 7,305,000
Long-term portion of leases receivable	<u>132,692,044</u>
Total	<u>\$ 139,997,044</u>

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

Minimum lease payments receivable as of September 30, 2016 are equal to the outstanding principal and net interest payments on long-term debt and are summarized as follows by bond issue:

	Series 2007B Bonds	Series 2010 Bonds	Series 2011F Revenue Bonds	Total
2017	\$ 3,554,688	\$ 14,780,611	\$ 949,175	\$ 19,284,474
2018	3,555,250	14,741,946	950,375	19,247,571
2019	3,541,375	14,726,478	968,875	19,236,728
2020	-	14,709,453	1,000,875	15,710,328
2021	-	14,690,335	1,033,675	15,724,010
2022-2026	-	73,119,185	5,229,690	78,348,875
2027-2031	-	72,377,038	4,872,190	77,249,228
2032-2036	-	71,436,637	5,698,451	77,135,088
2037-2041	-	70,211,516	5,375,383	75,586,899
2042	-	-	143,675	143,675
Total payments	<u>\$ 10,651,313</u>	<u>\$ 360,793,199</u>	<u>\$ 26,222,364</u>	<u>\$ 397,666,876</u>

5. INTERFUND TRANSFERS AND BALANCES

During the year, the general operating fund transferred \$957,976 to the debt service fund for repayment of principal and interest.

6. DEBT AND OTHER OBLIGATIONS

The details of the Authority's long-term obligations at September 30, 2016 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	\$ 3,685,000	\$ -	\$ (3,685,000)	\$ -	\$ -
Series 2007B, 4.25% to 5.75%, due serially to December 2018	12,905,000	-	(3,000,000)	9,905,000	3,150,000
Series 2010 (Jail), 6.22% to 10.0%, due serially to December 2040	196,335,000	-	(3,790,000)	192,545,000	3,935,000
Series 2011F, 3.0% to 5.25%, due serially to October 2041	14,540,000	-	(220,000)	14,320,000	220,000
	227,465,000	-	(10,695,000)	216,770,000	7,305,000
Bond discounts	(7,253)	-	7,253	-	-
Bond premiums	493,732	-	(139,105)	354,627	(139,105)
Total bonds payable, net	<u>\$ 227,951,479</u>	<u>\$ -</u>	<u>\$ (10,826,852)</u>	<u>\$ 217,124,627</u>	<u>\$ 7,165,895</u>

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

The annual requirements to pay principal and interest on the debt outstanding as of September 30, 2016 are as follows:

	Principal	Interest	Interest Subsidy	Total
2017	\$ 7,305,000	\$ 19,799,402	\$ (7,819,928)	\$ 19,284,474
2018	7,620,000	19,307,862	(7,680,291)	19,247,571
2019	8,015,000	18,739,450	(7,517,722)	19,236,728
2020	4,825,000	18,232,150	(7,346,822)	15,710,328
2021	5,100,000	17,791,213	(7,167,203)	15,724,010
2022-2026	29,700,000	81,454,802	(32,805,927)	78,348,875
2027-2031	37,980,000	65,714,190	(26,444,962)	77,249,228
2032-2036	50,475,000	44,528,201	(17,868,113)	77,135,088
2037-2041	65,610,000	16,636,633	(6,659,734)	75,586,899
2042	140,000	3,675	-	143,675
	<u>\$ 216,770,000</u>	<u>\$ 302,207,578</u>	<u>\$ (121,310,702)</u>	<u>\$ 397,666,876</u>

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.

Wayne County Building Authority - Consolidated Jail Project

As of the issuance date of this report, the County is considering two options (although it is open to other viable options, as well) to complete the consolidated jail project: (1) to finish the project itself through construction contractors procured by the County, or (2) accept a public-private joint venture proposal from Rock Ventures LLC (a third party corporation owned by developer Dan Gilbert).

If the County chooses the first option (i.e., to finish the project itself), it will be at the original Gratiot Avenue site where the jail facility construction was started several years ago and then suspended. If the County chooses the second option (i.e., the offer from Rock Ventures), the jail facility will be built on county-owned property near I-75 and Warren Road, and would involve the exchange of the Gratiot Avenue site and other County properties in exchange for the developer constructing the building.

CHARTER COUNTY OF WAYNE, MICHIGAN BUILDING AUTHORITY

Notes to the Basic Financial Statements

Both options, along with any others that might arise, come with pros and cons that are being evaluated by the County. In the end, the County's priority is reach a course of action that makes the greatest fiscal sense for the citizens of Wayne County. It is anticipated that the decision point will be in the summer or fall of 2017.

With regards to the prior jail facility construction activity, the County has reached settlement with all of the previous contractors.

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.

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