

Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
AUDITOR GENERAL



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TELEPHONE: (313) 224-8354

July 12, 2019

FINAL REPORT TRANSMITTAL LETTER

Honorable 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, 2018. Our report is dated May 29, 2019; DAP No. 2019-57-905. The report was accepted by the Committee on Audit at its meeting held on June 26, 2019 and formally received by the Wayne County Commission on July 9, 2019.

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. Copies of all Office of Legislative Auditor General's reports can be found on our website at: <https://www.waynecounty.com/elected/commission/oag/legislative-auditor.aspx>.

Sincerely,

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

REPORT DISTRIBUTION

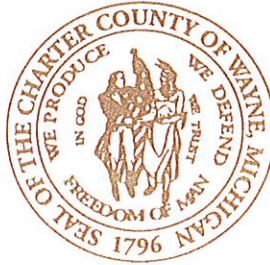
Department of Management & Budget
Mathieu Dube, Interim Chief Financial Officer
Yogesh Gusani, Director of Financial Reporting
Shauntika Bullard, Director, Grants Compliance and Contract Management

Wayne County Building Authority
Eileen Dehart, Chairperson

Wayne County Executive

Office of Legislative
Auditor General

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TELEPHONE: (313) 224-8354

May 29, 2019

DAP No. 2019-57-905

Honorable Raymond E. Basham, Chairman
Committee on Audit
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, 2018.

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, 2018. 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, 2018.

Our limited review is substantially less in scope than an examination or audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) or Generally Accepted Auditing Standards (GAAS), 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, 2018 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 Commission, 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

- Plante & Moran, PLLC, 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, 2018. 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 2018	FY 2017	Increase /(Decrease)	Primary Reasons
Revenues	\$28,541	\$27,672	\$869	This increase is primarily the result of the revenue exceeding expenditures.
Fund Balance	\$18,430	\$65,674	(\$47,244)	Primarily due the transfer of the Gratiot Jail construction and Gratiot sale proceeds to the new Criminal Justice Complex (CJC) construction fund (\$69.1M) which is offset by the sales proceeds of the Gratiot jail site (\$21.4M).

**See Wayne Co. Bldg Authority Audited Financial Statements, FYE 9/30/2018, pg. 6*

- The Building Authority's net position decreased by \$532,179. This change essentially reflects a breakeven between revenues and expenses.
- As of September 30, 2018, the authority's total governmental fund balance was \$18.4 million, a decrease of \$47.2 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 (\$8.2 million) or capital improvement expenses (\$9.2 million).

Budgetary Information

- The Building Authority did not prepare a budget for the years ended September 30, 2018 or 2017. The annual budgets should be adopted on a basis consistent with generally accepted accounting principles and state law for General Fund and all special revenue funds. State law requires the Authority to have its budget in place by October 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year.

Potential Risk Exposures

- At the end of the 2018 fiscal year, the Authority had bonded debt outstanding of \$201.3 million (a decrease of \$7.9 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.

Sale of Property

In May 2018, the Wayne County Building Authority entered into an agreement with Rock Economic Development Group to sell the Gratiot Avenue Unfinished Jail property for \$21.4 million. The sale transaction resulted in sales proceeds revenue of \$21.4 million, a \$1.4 million gain on disposal. The proceeds were transferred to the County during fiscal year 2018 in order to offset the cost of the new consolidated Criminal Justice Center.

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 OAG's Financial Assessment – Limited Review Report on the Wayne County Building Authority's financial statements for fiscal year ended September 30, 2018 be forwarded to the Wayne County Commission for receiving and filing

Respectfully submitted,



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

Cc: Mathieu Dube, Interim Chief Financial Officer
Yogesh Gusani, Director of Financial Reporting
Shauntika Bullard, Assistant 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, 2018**

Charter County of Wayne, Michigan Building Authority

(a blended component unit of the Charter County of Wayne, Michigan)

Financial Report
September 30, 2018

Charter County of Wayne, Michigan Building Authority

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Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter County of Wayne, Michigan (the "County") as of and for the year ended September 30, 2018, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 22, 2019, which contained unmodified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to March 22, 2019.

In Relation to Opinion on Accompanying Financial Statements

The financial statements of the Charter County of Wayne, Michigan Building Authority (the "Authority"), a component unit of the County, for the year ended September 30, 2018 are presented for the purpose of additional analysis and are not a required part of the County's basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the County's basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the County's basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the County's basic financial statements as a whole.

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Charter County of Wayne, Michigan as of and for the year ended September 30, 2017 (not presented herein) and issued our report thereon dated March 27, 2018, which contained unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. The financial information for the Building Authority for the year ended September 30, 2017 is presented for purposes of additional analysis and is not a required part of the County's 2017 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 financial statements. The financial information for the Building Authority for the year ended September 30, 2017 has been subjected to the auditing procedures applied in the audit of the County's 2017 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial information for the Building Authority for 2017 is fairly stated in all material respects in relation to the County's basic financial statements as a whole for the year ended September 30, 2017.

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

Other Matter

Management has omitted management's discussion and analysis and the budgetary comparison schedule for the General Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Plante & Morse, PLLC

March 22, 2019

Charter County of Wayne, Michigan Building Authority

Statement of Net Position

September 30, 2018

	Governmental Activities	
	2018	2017 (for comparative purposes only)
Assets		
Equity in pooled cash and investments (Note 4)	\$ 5,633,386	\$ 5,666,956
Receivables:		
Accrued interest receivable	6,450,712	6,592,560
Accounts receivable	85,238	25,765
Due from other governments	2,552,731	2,575,229
Prepaid expenses	-	360,188
Leases receivable - Due within one year (Note 6)	7,475,000	7,620,000
Restricted assets: (Note 5)		
Equity in pooled cash and investments	9,173,557	56,153,628
Other cash and investments	995,820	918,416
Capital assets - Construction in progress (Note 10)	-	20,000,000
Leases receivable - Due in more than one year (Note 6)	185,429,672	126,452,350
Total assets	217,796,116	226,365,092
Deferred Outflows of Resources - Deferred charge on refunding	104,794	524,635
Liabilities		
Accounts payable	8,068	8,246
Accrued interest payable	6,450,712	6,592,560
Other liabilities	2,699	18,205
Noncurrent liabilities: (Note 8)		
Due within one year	7,475,000	7,620,000
Due in more than one year	193,906,416	202,060,522
Total liabilities	207,842,895	216,299,533
Net Position		
Restricted:		
Capital projects and debt service	8,987,581	9,595,511
Program activities	995,820	918,416
Unrestricted	74,614	76,267
Total net position	\$ 10,058,015	\$ 10,590,194

Charter County of Wayne, Michigan Building Authority

Statement of Activities

Year Ended September 30, 2018

		Net Revenue (Expense) and Changes in Net Position		
		Program Revenue	Total	
Expenses	Charges for Services	2018	2017 (for comparative purposes only)	
Functions/Programs				
Primary government -				
Governmental activities:				
Community and economic development	\$ 457,253	\$ 86,620,547	\$ 86,163,294	\$ 19,783,749
Transfers to other governmental units	69,057,764	-	(69,057,764)	-
Interest on long-term debt	19,809,088	-	(19,809,088)	(19,883,509)
Total primary government	<u><u>\$ 89,324,105</u></u>	<u><u>\$ 86,620,547</u></u>	(2,703,558)	(99,760)
General revenue:				
Gain on sale of capital assets		1,400,000	-	
Unrestricted investment income		771,379	394,230	
Total general revenue		<u>2,171,379</u>	<u>394,230</u>	
Change in Net Position		(532,179)	294,470	
Net Position - Beginning of year		<u>10,590,194</u>	<u>10,295,724</u>	
Net Position - End of year		<u><u>\$ 10,058,015</u></u>	<u><u>\$ 10,590,194</u></u>	

Charter County of Wayne, Michigan Building Authority

Balance Sheet

September 30, 2018

	General Operating Fund	Debt Service Fund	Capital Projects Fund	2018	2017 (for comparative purposes only)
Assets					
Equity in pooled cash and investments (Note 4)	\$ 82,774	\$ 5,547,840	\$ 2,772	\$ 5,633,386	\$ 5,666,956
Receivables	-	2,637,969	-	2,637,969	2,600,994
Prepaid expenses	-	-	-	-	360,188
Restricted assets: (Note 5)					
Equity in pooled cash and investments	-	-	9,173,557	9,173,557	56,153,628
Other cash and investments	995,820	-	-	995,820	918,416
Total assets	<u>\$ 1,078,594</u>	<u>\$ 8,185,809</u>	<u>\$ 9,176,329</u>	<u>\$ 18,440,732</u>	<u>\$ 65,700,182</u>
Liabilities					
Accounts payable	\$ 8,068	\$ -	\$ -	\$ 8,068	\$ 8,246
Other liabilities	92	-	2,607	2,699	18,205
Total liabilities	8,160	-	2,607	10,767	26,451
Fund Balances					
Nonspendable	-	-	-	-	360,188
Restricted:					
Debt service	-	8,185,809	-	8,185,809	8,183,337
Capital projects	-	-	9,173,722	9,173,722	56,135,523
Program activities	995,820	-	-	995,820	918,416
Unassigned	74,614	-	-	74,614	76,267
Total fund balances	<u>1,070,434</u>	<u>8,185,809</u>	<u>9,173,722</u>	<u>18,429,965</u>	<u>65,673,731</u>
Total liabilities and fund balances	<u>\$ 1,078,594</u>	<u>\$ 8,185,809</u>	<u>\$ 9,176,329</u>	<u>\$ 18,440,732</u>	<u>\$ 65,700,182</u>

Charter County of Wayne, Michigan Building Authority

Reconciliation of the Balance Sheet to the Statement of Net Position

September 30, 2018

	<u>2018</u>	<u>2017 (for comparative purposes only)</u>
Fund Balances Reported in Governmental Funds	\$ 18,429,965	\$ 65,673,731
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds	-	20,000,000
Capital leases and related accrued interest receivable (due from other funds of the County) are not current financial resources, and, therefore, are not reported in the funds	199,355,384	140,664,910
Bonds payable, deferred charge on refunding, and accrued bond premium are not due and payable in the current period and are not reported in the funds	(201,276,622)	(209,155,887)
Accrued interest is not due and payable in the current period and is not reported in the funds	(6,450,712)	(6,592,560)
Net Position of Governmental Activities	<u>\$ 10,058,015</u>	<u>\$ 10,590,194</u>

Charter County of Wayne, Michigan Building Authority

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended September 30, 2018

	General Operating Fund	Debt Service Fund	Capital Projects Fund	2018	2017 (for comparative purposes only)
Revenue					
Building rents	\$ 1,255,140	\$ 7,646,215	\$ -	\$ 8,901,355	\$ 8,992,673
Other revenue:					
Transfers from other governmental units	-	18,868,719	-	18,868,719	18,285,230
Interest income	12,056	12,925	746,398	771,379	394,230
Total revenue	1,267,196	26,527,859	746,398	28,541,453	27,672,133
Expenditures					
Community and economic development	246,819	-	50,435	297,254	1,370,331
Transfers to other governmental units	-	-	69,057,764	69,057,764	-
Debt service:					
Principal	-	8,160,000	-	8,160,000	7,305,000
Interest	-	19,670,201	-	19,670,201	19,801,902
Total expenditures	246,819	27,830,201	69,108,199	97,185,219	28,477,233
Excess of Revenue Over (Under) Expenditures	1,020,377	(1,302,342)	(68,361,801)	(68,643,766)	(805,100)
Other Financing Sources (Uses)					
Transfers in	-	944,626	-	944,626	1,309,363
Transfers out	(944,626)	-	-	(944,626)	(1,309,363)
Sale of capital assets	-	-	21,400,000	21,400,000	-
Total other financing (uses) sources	(944,626)	944,626	21,400,000	21,400,000	-
Net Change in Fund Balances	75,751	(357,716)	(46,961,801)	(47,243,766)	(805,100)
Fund Balances - Beginning of year	994,683	8,543,525	56,135,523	65,673,731	66,478,831
Fund Balances - End of year	<u>\$ 1,070,434</u>	<u>\$ 8,185,809</u>	<u>\$ 9,173,722</u>	<u>\$ 18,429,965</u>	<u>\$ 65,673,731</u>

Charter County of Wayne, Michigan Building Authority

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended September 30, 2018

	<u>2018</u>	<u>2017 (for comparative purposes only)</u>
Net Change in Fund Balance Reported in Governmental Funds	\$ (47,243,766)	\$ (805,100)
Amounts reported for governmental activities in the statement of activities are different because:		
Net book value of capital assets disposed of	(20,000,000)	-
Governmental funds report building rental (principal and accrued interest) received as revenue in the year collected. However, in the statement of activities, revenue is reported in the current year upon project completion, and collections are recorded as reduction of leases receivable	58,690,474	(6,123,823)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	8,160,000	7,305,000
Interest expense is recognized in the government-wide statements as it accrues	141,848	199,129
Amortization of bond premium and discount is recognized in the government-wide statements	139,106	139,105
Amortization of loss on refunding is recognized in the government-wide statements	(419,841)	(419,841)
Change in Net Position of Governmental Activities	<u>\$ (532,179)</u>	<u>\$ 294,470</u>

Charter County of Wayne, Michigan Building Authority

Notes to Financial Statements

September 30, 2018

Note 1 - Nature of Business

The Charter County of Wayne, Michigan 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 revenue 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.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The Authority follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Authority:

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Unrestricted intergovernmental receipts and other items not properly included among program revenue are reported instead as general revenue.

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 2 - Significant Accounting Policies (Continued)

Fund Accounting

The Authority accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the Authority to show the particular expenditures for which specific revenue is used. The Authority's funds are all governmental funds.

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds.

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- The capital projects 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.

Interfund Activity

During the course of operations, the Authority has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. The Authority did not have interfund loans outstanding at September 30, 2018 or 2017.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Basis of Accounting

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

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due. Proceeds from long-term debt are reported as other financing sources. Administrative overhead charges are included in direct expenses.

Note 2 - Significant Accounting Policies (Continued)

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Authority considers amounts collected within 60 days of year end to be available for recognition. 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.

Specific Balances and Transactions

Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and 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 premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as an "other financing sources" and bond discounts as "other financing uses." The debt service fund is generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The Authority reports deferred outflows related to a 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.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The Authority did not have deferred inflows at September 30, 2018 or 2017.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The Authority will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Note 2 - Significant Accounting Policies (Continued)

Fund Balance Flow Assumptions

The Authority will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The Authority itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Authority's highest level of decision-making authority. The Wayne County commission, Wayne County building authority board, and the Wayne County executive are the highest level of decision-making authority for the Authority that can, prior to the end of the fiscal year, commit fund balance. Once the commitment has been approved, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Authority has, by resolution, authorized the finance director to assign fund balance. The Wayne County commission, Wayne County building authority board, and the Wayne County executive may also assign fund balance as they do when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

Note 2 - Significant Accounting Policies (Continued)

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.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets should be adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds. State law requires the Authority to have its budget in place by October 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits governmental entities to amend their budgets during the year.

The Authority did not prepare a budget for the years ended September 30, 2018 or 2017.

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has cash included as part of Wayne County, Michigan's pooled cash (investment pool). In addition, the Authority has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in accordance with state statutory authority, as listed above.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. 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, was approximately \$16,000,000 and \$63,000,000 for 2018 and 2017, respectively. Approximately \$996,000 and \$919,000 in 2018 and 2017, respectively, of those funds were separately held demand deposit accounts. 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. The FDIC coverage for the Authority is not independently ascertainable.

Charter County of Wayne, Michigan Building Authority

Notes to Financial Statements

September 30, 2018

Note 5 - 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, 2018 and 2017, the Authority had restricted assets of approximately \$1,000,000 and \$900,000, respectively, for operating and maintenance and approximately \$9,200,000 and \$56,200,000, respectively, for construction.

Note 6 - Leases Receivable

Operating Leases

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 is equal to the principal due on the bonds payable in the next fiscal year.

The following is a summary of the components of the Authority's net investment in direct financing leases at September 30, 2018 and 2017:

	2018	2017
Total minimum lease payments to be received	\$ 357,785,764	\$ 378,357,655
Unearned income	(156,480,764)	(168,892,655)
Adjustments:		
Unexpended bond proceeds	(8,400,328)	(55,392,650)
Capital assets - Construction in progress	-	(20,000,000)
Net leases receivable	<u>\$ 192,904,672</u>	<u>\$ 134,072,350</u>
	2018	2017
Statement of net position classification:		
Current portion of leases receivable	\$ 7,475,000	\$ 7,620,000
Long-term portion of leases receivable	185,429,672	126,452,350
Total	<u>\$ 192,904,672</u>	<u>\$ 134,072,350</u>

Minimum lease payments receivable as of September 30, 2018 are equal to the outstanding principal and net interest payments on long-term debt and are summarized as follows by bond issue:

Years Ending	Series 2007B	Series 2010 Bonds	Series 2011F Revenue Bonds	Total
2019	\$ 2,987,875	\$ 14,669,953	\$ 968,875	\$ 18,626,703
2020	-	14,654,213	1,000,875	15,655,088
2021	-	14,636,446	1,033,675	15,670,121
2022	-	14,616,117	1,039,238	15,655,355
2023	-	14,597,557	1,040,738	15,638,295
2024-2028	-	72,620,541	5,246,190	77,866,731
2029-2033	-	71,856,849	5,042,227	76,899,076
2034-2038	-	70,879,398	5,775,014	76,654,412
2039-2042	-	41,944,001	3,175,982	45,119,983
Total	<u>\$ 2,987,875</u>	<u>\$ 330,475,075</u>	<u>\$ 24,322,814</u>	<u>\$ 357,785,764</u>

Charter County of Wayne, Michigan Building Authority

Notes to Financial Statements

September 30, 2018

Note 7 - Interfund Receivables, Payables, and Transfers

The general operating fund transferred \$944,626 and \$1,309,363 for September 30, 2018 and 2017, respectively, to the debt service fund for repayment of principal and interest.

Note 8 - Long-term Debt

Long-term debt activity for the year ended September 30, 2018 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
Series 2007B, 4.25 to 5.75 percent due serially to December 2018	\$ 6,755,000	\$ -	\$ (3,840,000)	\$ 2,915,000	\$ 2,915,000
Series 2010 (Jail), 6.22 to 10.0 percent, due serially to December 2040	188,610,000	-	(4,090,000)	184,520,000	4,300,000
Series 2011F, 3.0 to 5.25 percent, due serially to October 2041	14,100,000	-	(230,000)	13,870,000	260,000
Total principal outstanding	209,465,000	-	(8,160,000)	201,305,000	7,475,000
Unamortized bond premiums	215,522	-	(139,106)	76,416	-
Total governmental activities long-term debt	<u>\$ 209,680,522</u>	<u>\$ -</u>	<u>\$ (8,299,106)</u>	<u>\$ 201,381,416</u>	<u>\$ 7,475,000</u>

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending September 30	Governmental Activities			
	Principal	Interest	Interest Subsidy	Total
2019	\$ 7,475,000	\$ 18,725,950	\$ (7,574,247)	\$ 18,626,703
2020	4,825,000	18,232,150	(7,402,062)	15,655,088
2021	5,100,000	17,791,213	(7,221,092)	15,670,121
2022	5,360,000	17,326,301	(7,030,946)	15,655,355
2023	5,635,000	16,834,432	(6,831,137)	15,638,295
2024-2028	32,840,000	75,769,796	(30,743,065)	77,866,731
2029-2033	42,425,000	57,935,977	(23,461,901)	76,899,076
2034-2038	56,235,000	34,263,764	(13,844,352)	76,654,412
2039-2043	41,410,000	6,207,232	(2,497,249)	45,119,983
Total	<u>\$ 201,305,000</u>	<u>\$ 263,086,815</u>	<u>\$ (106,606,051)</u>	<u>\$ 357,785,764</u>

Recovery Zone Economic Development Bonds

In December 2010, the Building Authority issued \$200 million Series 2010 bonds to finance construction of a new Wayne County, Michigan consolidated jail complex. The Authority has designated the bonds as "recovery zone economic development bonds" under section 1400U-2 of the 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 6.22 to 10.0 percent. The County has pledged its full faith and credit for these bonds, subject to certain limitations. Interest credits received are reported in transfers from other governmental units.

September 30, 2018

Note 8 - Long-term Debt (Continued)

Defeased Long-term Debt

On August 18, 2018, the County redeemed \$540,000 of the Michigan Finance Authority (MFA) issued Revenue Bonds Series 2007B Building Authority refunding bonds at par plus accrued interest thereon to the redemption date. The 2007B bonds were subsequently called and paid in full in December 2018.

Note 9 - 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.

Note 10 - Commitments

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, is not expected to be material. Except for the information below, see the County's CAFR for further discussion of commitments and contingencies.

Note 11 - Sale of Property

In May 2018, the Wayne County Building Authority (WCBA) entered into an agreement with Rock Economic Development Group to sell the Gratiot Avenue Unfinished Jail property for \$21.4 million. The sale transaction resulted in sales proceeds revenue of \$21.4 million, a \$1.4 million gain on disposal. The proceeds were transferred to the County during fiscal year 2018 in order to offset the cost of the new consolidated Criminal Justice Center.