

Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
AUDITOR GENERAL



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TELEPHONE: (313) 224-8354

September 19, 2023

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our copy of the Office of Legislative Auditor General's Financial Assessment – Limited Review report for the Wayne County - Detroit Community Development Entity (CDE), Inc. Financial Statements for the fiscal years ended August 31, 2022. Our report is dated July 21, 2023; DAP No. 2023-57-906. The report was accepted by the Committee on Audit at its meeting held on September 13, 2023, and formally received by the Wayne County Commission on September 19, 2023.

We are pleased to inform you that officials from the Wayne County Detroit CDE provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at:

<https://www.waynecounty.com/elected/commission/oag/legislative-auditor.aspx>

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

REPORT DISTRIBUTION

Wayne County Executive Office

Hassan Sheikh, Interim Director, Department of Economic Development

Department of Management & Budget

Yogesh Gusani, Deputy Chief Financial Officer

Shauntika Bullard, Director, Grants and Contract Management

Wanda Taylor, Division Director – Economic Development Finance

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 – Detroit Community
Development Entity (CDE) Inc.
Year Ended August 31, 2022
Financial Statements**

DAP NO. 2023-57-906

July 21, 2023

Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
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500 GRISWOLD STREET
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DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

July 21, 2023

DAP No. 2023-57-906

Honorable Raymond E. Basham, Chairman
Committee on Audit
Wayne County Commission
County of Wayne, Michigan
500 Griswold Ave., Suite 727
Detroit, MI 48226

Subject: Office of Legislative Auditor General's Financial Assessment – Limited Review Report for the Wayne County - Detroit Community Development Entity (CDE), Inc. Financial Statements for the fiscal years ended August 31, 2022

Dear Chairman Basham:

The Office of Legislative Auditor General (OAG) received the Wayne County – Detroit Community Development Entity (CDE) Inc. financial statements for the fiscal year ended August 31, 2022. We elected to conduct a limited review of the financial report for the year then ended.

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 CDE's financial statements and independent auditor's report for the fiscal year ended August 31, 2022, included, but was not necessarily limited to, a thorough and complete review of the documents; limited inquiries of CDE and county officials; and analytical review procedures. Below we have summarized some key items from the financial statements and other reports for consideration by the committee and commission members:

BACKGROUND

- Wayne County - Detroit CDE, Inc. (the "Company") was formed on August 25, 2003 under the laws of the State of Michigan. The Company is a discretely presented component unit of the County, and its financial statements are included in the County's Annual Comprehensive Financial Report because the County is in control of the selection and approval of the Company's board of directors.

- The articles of incorporation and the bylaws were amended on November 17, 2005 in order to reorganize as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The Company filed Internal Revenue Service (IRS) Form 1023, Application for Recognition of Exemption, in order to change its taxable corporation status to that of a nonprofit organization exempt from taxation.
- The Company is a qualified community development entity (CDE) that holds New Markets Tax Credit (NMTC) allocation authority to be used for investment in qualified active low-income community businesses. As of August 31, 2022, the Company has been granted allocations totaling \$77,000,000 of NMTC authority from the U.S. Treasury's Community Development Financial Institutions Fund. Prior to fiscal year 2021, the Company had allocated the entire \$77,000,000 to subsidiaries.
- The Company's principal business objective is to receive, administer, and distribute funds for religious, charitable, educational, and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code, including the following:
 - To revitalize low-income communities.
 - To create community, economic, and service programs that will assist in the redevelopment of low-income neighborhoods and communities.
 - To attract private and/or public investors that will rebuild neighborhoods and create jobs to benefit low-income communities and/or low-income individuals.
 - To facilitate and distribute investment capital to benefit low-income communities and/or low-income individuals.
 - To lessen the burdens of governments by creating programs and supporting projects designed to stimulate economic growth and job creation.
 - To develop an advisory board to oversee and maintain the plans of action of the Company. The advisory board will consist of residents of low-income communities, representatives of organizations servicing these low-income communities, and other members of these communities.
- On March 24, 2020, the Company entered into an agreement with a bank to create the Wayne County Small Business Microloan Program (the "Program"), a loan fund for microloans to certain small businesses in Wayne County, Michigan to be used for essential business purposes. Under the terms of the agreement and subsequent amendments, the Company contributed \$3,000,000 into the Program. On April 2, 2020, the Company entered into an agreement with the County whereby the County loaned \$2,000,000 to the Company, for use in the Program. Under the terms of the agreement, the County funds paid to the Company, less attributed loan losses incurred, shall be reimbursed to the County upon termination of the Program. The Program is being administered by the bank, which includes loan origination, servicing the loan, application of payments, tracking and reporting loan performance, and modifying and adjusting loans as necessary. Loans under the program were originated until July 31, 2020. As of July 31, 2020, a total of \$3,699,500 was used for qualified loans. The remaining balance of \$1,300,500 of the initial \$5,000,000 funding was not used and was returned to the Company.

EXTERNAL AUDITOR’S REPORTS AND LETTERS

- The Company received an “Unmodified Opinion” on the audited financial statements for the year ended August 31, 2022, from Alan C. Young & Associates, P.C., the external auditor for the County. An Unmodified Opinion is issued when the external auditor concludes that the financial statements, taken as a whole, are presented fairly, in all material respects, the financial position of the entity in accordance with Generally Accepted Accounting Principles (GAAP).
- The auditor’s noted under “Other Matters” that management omitted management’s discussion and analysis and budgetary comparison schedule that GAAP require be presented to supplement the financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting in an appropriate operational, economic, or historical context. However, the auditor’s opinion on the basic financial statements is not affected by this missing information.

FINANCIAL RESULTS/OPERATIONS – GOVERNMENTAL ACTIVITIES

Description	FY 2022	FY 2021	Increase (Decrease)	Primary Reasons
Total Assets	\$4,652,152	\$4,766,254	(\$114,102)	Due to a decrease in loan fund receivables in connection with the County's Small Business Microloan Program.
Total Liabilities	\$2,013,223	\$2,018,495	(\$5,272)	Due entirely to a decrease in accrued liabilities.
Total Net Position (Unrestricted)	\$2,638,929	\$2,747,759	(\$108,830)	Due to a decrease in loan fund receivables in connection with the County's Small Business Microloan Program.

- The **total assets** of the Corporation (comprised of almost entirely cash bank deposits) decreased during the year ended August 31, 2022, from 2021, by \$114,102 or 2.4%. This was primarily due to a decrease in loan fund receivables in connection with the County’s Small Business Microloan Program.
- The **total liabilities** of the Corporation (comprised of almost entirely a \$2,000,000 loan from the County in 2020) slightly decreased during the year ended August 31, 2022, from 2021, by \$5,272 or 0.3%. This was entirely due to a decrease in accrued liabilities.

- The **total net position (unrestricted)** of the Corporation decreased during the year ended August 31, 2022, from 2021, by \$108,830 or 4.0%. This was primarily due to a decrease in loan fund receivables in connection with the County's Small Business Microloan Program.
- There were no reported **operating revenues** for the two years ending August 31, 2022 and 2021. Prior to fiscal year 2021, the Company had already allocated its entire \$77,000,000 NMTC authority to the Subsidiaries. During the fiscal year 2020, the last subsidiary allocatees were unwound and the Company received the payments associated with the unwinds. This explains why there were no reported operating revenues for the past two years. The principal operating revenue of proprietary funds are fees for services provided to the Subsidiary Allocatees. As there are no more Subsidiary Allocatees, no fees were charged and therefore there was no related revenue reported during 2022.
- **Total operating expenses** for the year ended August 31, 2022 were approximately \$37,000 comprised of mostly professional fees. This is a decrease of approximately \$51,000 or 58%. The decrease is primarily related to lower accounting and MNTC compliance fees, and professional fees.
- The following nonoperating revenues and expenses resulted from the Small Business Microloan Program:
 - **Nonoperating revenue**, in the form of loss reserves, declined from \$724,159 for the year ended August 31, 2021 to \$153,050 for the year ended August 31, 2022; a decrease of \$571,109 or 79%.
 - **Nonoperating expenses**, in the form of loan write-offs, declined from \$402,820 for the year ended August 31, 2021 to \$225,861 for the year ended August 31, 2022; a decrease of \$176,959 or 44%.
- **Net receipts related to the Small Business Microloan Program** comprised the Corporation's cash flows from investing activities -- which declined from \$2,326,644 for the year ended August 31, 2021 to \$478,768 for the year ended August 31, 2022; a decrease of \$1,847,876 or 79%.

CONCLUSION and RECOMMENDATION

Based on our limited review, nothing came to our attention that caused us to believe the financial report, including audited financial statements of the Wayne County-Detroit Community Development Entity, Inc. are not presented in conformity with generally accepted accounting principles.

It is our recommendation that the OAG's Financial Assessment – Limited Review Report of the Wayne County- Detroit Community Development Entity, Inc.'s financial statements for the fiscal

years ended August 31, 2022, is forwarded to the Wayne County Commission for receipt and filing.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Marcella Cora".

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

Cc: Hassan Sheikh, Director, Wayne County Economic Development Department
John Wallace, Chief Financial Officer
Robert Widigan, Chief Deputy Financial Officer
Yogesh Gusani, Deputy Chief Financial Officer, M&B
Shauntika Bullard, Director, Grants and Contract Management, M&B
Wanda Taylor, Division Director – Economic Development Finance, M&B

Attachment

**Wayne County – Detroit Community Development Entity (CDE), Inc.
Financial Statements
Fiscal Year Ended August 31, 2022**

WAYNE COUNTY - DETROIT CDE, INC.
(A DISCRETELY PRESENTED COMPONENT UNIT OF CHARTER
COUNTY OF WAYNE, MICHIGAN)

FINANCIAL STATEMENTS

AUGUST 31, 2022

WAYNE COUNTY - DETROIT CDE, INC.

Contents

	<u>Page No.</u>
Independent Auditor's Report.....	1
Statement of Net Position	4
Statement of Revenue, Expenses, and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Detroit, MI 48202

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Wayne County - Detroit CDE, Inc
Detroit, Michigan

Opinions

We have audited the accompanying financial statements of Wayne County - Detroit CDE, Inc. (the Company) a component unit of the Charter County of Wayne, Michigan, as of and for the year ended August 31, 2022 and the related notes to the financial statements, which collectively comprise Wayne County - Detroit CDE, Inc.'s basic financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Company as of August 31, 2022, and the changes in financial position and cash flow there of for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

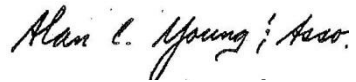
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Independent Auditor's Report
(Continued)

Other Matters

Management has omitted management's discussion and analysis and budgetary comparison schedule 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, 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. Our opinion on the basic financial statements is not affected by this missing information.



Detroit, Michigan
March 15, 2023

WAYNE COUNTY - DETROIT CDE, INC.

Statement of Net Position August 31, 2022

ASSETS

Current Assets

Cash & Cash Equivalents (Note 3)	\$ 4,608,116
Prepaid Expenses	1,025
Loan Fund Receivable - Net of allowance of \$11,084 (Note 5)	33,250
Due from Bank - Microloan (Note 5)	<u>9,761</u>
Total Assets	<u>\$ 4,652,152</u>

LIABILITIES

Current Liabilities

Accrued Liabilities	\$ 1,923
Due to Affiliates (Note 4)	<u>2,011,300</u>
Total Liabilities	<u>2,013,223</u>

NET POSITION

Unrestricted	<u>2,638,929</u>
Total Net Position	<u>2,638,929</u>
Total Liabilities and Net Position	<u>\$ 4,652,152</u>

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

WAYNE COUNTY - DETROIT CDE, INC.

Statement of Revenue, Expenses, and Changes in Net Position Year Ended August 31, 2022

Operating Revenue

Interest Income - Microloan	\$ -
Total Operating Revenue	-

Operating Expenses

Accounting & NMTC Compliance Fees	2,000
Professional Fees	27,500
Miscellaneous	7,672
Total Operating Expenses	37,172

Operating Net Loss	(37,172)
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Nonoperating Revenue (Expense)

Interest Income	1,153
Loss Reserve on Small Business Microloan Program	153,050
Loan Write-offs on Small Business Microloan Program	(225,861)
Total Nonoperating Revenue (Expense)	(71,658)

Net Decrease in Net Position	(108,830)
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Net Position - Beginning of Year	2,747,759
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Net Position - End of Year	\$ 2,638,929
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The accompanying notes are an integral part of these financial statements.

WAYNE COUNTY - DETROIT CDE, INC.

Statement of Cash Flows Years Ended August 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts	\$ -
Payment to Vendors	(42,444)
Net Cash Used in Operating Activities	(42,444)

CASH FLOWS FROM INVESTING ACTIVITIES

Net Receipts Related to Small Business Microloan Program	478,768
Interest on Cash and Deposits	1,153
Net Cash Provided by Investing Activities	479,921

Net Increase in Cash	437,477
Cash and Cash Equivalents - Beginning of Year	4,170,639
Cash and Cash Equivalents - End of Year	\$ 4,608,116

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating Loss	\$ (37,172)
Adjustments to reconcile operating income to net cash from operating activities -	
Changes in Assets and Liabilities:	
Accrued Liabilities	(5,272)
Total Adjustments	(5,272)
Net Cash Used in Operating Activities	\$ (42,444)

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

1) REPORTING ENTITY

Wayne County - Detroit CDE, Inc. (the "Company"), located in Wayne County, Michigan, was formed on August 25, 2003 under the laws of the State of Michigan as a taxable Subchapter C corporation. The Company is a discretely presented component unit of the Charter County of Wayne, Michigan (the "County"), and its financial statements are included in the County's Comprehensive Annual Financial Report because the County is in control of the selection and approval of the Company's board of directors. The articles of incorporation and the bylaws were amended on November 17, 2005 in order to reorganize as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code of 1986. The Company filed Internal Revenue Service (IRS) Form 1023, Application for Recognition of Exemption, in order to change its taxable corporation status to that of a nonprofit organization exempt from taxation. This election is retroactive to the Company's formation.

The Company is a qualified community development entity (CDE) that holds New Markets Tax Credit (NMTC) allocation authority to be used for investment in qualified active low-income community businesses (QALICB) pursuant to Section 45D of the Internal Revenue Code. As of August 31, 2022, the Company has been granted allocations totaling \$77,000,000 of NMTC authority from the U.S. Treasury's Community Development Financial Institutions Fund (the "CDFI Fund"). In general, under Section 45D of the Internal Revenue Code, a qualified investor in a CDE can receive the NMTCs to be used to reduce federal taxes otherwise due in each year of a seven-year period.

The Company's principal business objective is to receive, administer, and distribute funds for religious, charitable, educational, and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, including the following:

- To revitalize low-income communities
- To create community, economic, and service programs that will assist in the redevelopment of low-income neighborhoods and communities
- To attract private and/or public investors that will rebuild neighborhoods and create jobs to benefit low-income communities and/or low-income individuals
- To facilitate and distribute investment capital to benefit low-income communities and/or low-income individuals
- To lessen the burdens of governments by creating programs and supporting projects designed to stimulate economic growth and job creation
- To develop an advisory board to oversee and maintain the plans of action of the Company. The advisory board will consist of residents of low-income communities, representatives of organizations servicing these low-income communities, and other members of these communities.

Prior to fiscal year 2021, the Company had already allocated its entire \$77,000,000 NMTC authority to the Subsidiaries. During the fiscal year 2020, the last subsidiary allocatees were unwound and the Company received the payments associated with the unwinds.

WAYNE COUNTY - DETROIT CDE, INC.

Notes to Financial Statements (Continued)
August 31, 2022

1) REPORTING ENTITY (Continued)

The Company was the managing member of these Subsidiary Allocatees. An allocation agreement places restrictions on a CDE's operations, including, but not limited to, a specific geographical area of the low-income communities a CDE must serve. The Company has been approved to serve low-income communities accountable to Wayne County, Michigan.

As a CDE, the Company is continually required to demonstrate to the COFI Fund that its primary mission is serving or providing investment capital for low-income communities or low-income persons and that it is accountable to residents of the low-income communities it serves.

As a CDE, the Company is required to comply with various rules and regulations of the COFI Fund and Section 450 of the Internal Revenue Code. Failure to comply with these or other requirements could result in the loss of future NMTCs. The seven-year compliance period for all subsidiary allocatees has ended in 2020.

The Company shall continue to be in full force indefinitely unless terminated pursuant to the articles of incorporation or law.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company 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 (GASB).

The following is a summary of the significant accounting policies used by the Company:

Report Presentation

This report includes the fund-based statements of the Company. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities. As a component unit of the Charter County of Wayne, the Company's financial statements are prepared in accordance with the provisions of the Governmental Accounting Standards Board statement number 34.

Fund Accounting

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the Company). The accounts of the Company are reported as an enterprise fund.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Basis of Accounting*

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents

For the purposes of the statements of financial net position and the statements of cash flows, the Company considers cash on hand and demand deposits with maturities of 90 days or less to be cash equivalents.

Loan Fund Receivables

The Company reports a receivable due from the loan fund held with a bank, representing the total amount of outstanding loans due to the Company in connection with a loan program, as disclosed in Note 5. The receivable is reported net of an allowance for loss reserves, which is calculated and estimated by management.

The need for an allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

As of August 31, 2022, management has recorded an allowance for loan losses of \$11,084.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of proprietary funds is fees for services provided to the Subsidiary Allocatees. Operating expenses for these funds include the accounting and compliance fee expense, audit and tax fee expenses, and management fee expense. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

WAYNE COUNTY - DETROIT CDE, INC.

Notes to Financial Statements (Continued)
August 31, 2022

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds Operating Classification (Continued)

As there are no more Subsidiary Allocatees, no fees were charged and therefore there was no related revenue reported during 2022.

Income Taxes

The Company is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). As such, no provision for income taxes has been included in the financial statements.

The FASB Accounting Standards Codification Topic, Accounting for Uncertainty in Income Taxes, addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. There were no unrecognized tax benefits identified or recorded as liabilities for the fiscal year 2022. The Company's tax returns for prior three years remain subject to examination by the Internal Revenue Service.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, 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 these estimates.

3) CUSTODIAL CREDIT RISK OF BANK DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Company's deposits may not be returned to it. The Company does not have a deposit policy for custodial credit risk. At year end, the Company had \$4,608,140 in total bank deposits. \$4,078,084 was uninsured and uncollateralized while \$530,056 was insured under FDIC coverage.

The Company believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Company evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

WAYNE COUNTY - DETROIT CDE, INC.

Notes to Financial Statements (Continued)
August 31, 2022

4) RELATED PARTY TRANSACTIONS

The following is a description of transactions between the Company and related parties:

Due to Affiliates

During 2018 the Company received an overpayment on the note receivable from Economic Development Corporation of the Charter County of Wayne totaling \$11,300. The balance has been reported in due to affiliates on the statement of net position and remains outstanding as of August 31, 2022.

During 2020, the County loaned funds to the Company to increase the funds in the Small Business Microloan Program (see Note 5). Repayments from the Program will be used to repay the funds loaned by the County. The Company reported a balance of \$2,000,000 payable to the County at August 31, 2022.

5) SMALL BUSINESS MICROLOAN PROGRAM

On March 24, 2020, the Company entered into an agreement with a bank to create the Wayne County Small Business Microloan Program (the "Program"), a loan fund for microloans to certain small businesses in Wayne County, Michigan to be used for essential business purposes. Under the terms of the agreement and subsequent amendments dated April 2, 2020 and July 6, 2020, the Company contributed \$3,000,000 into the program for the initial creation of Fund 1 of the Program. On April 2, 2020, the Company entered into an agreement with the County whereby the County loaned \$2,000,000 to the Company, for use in the Program and the creation of Fund 2 of the Program. Under the terms of the agreement, the County funds paid to the Company, less attributed loan losses incurred, shall be reimbursed to the County upon termination of the Program.

Under the terms of the agreement, the Program is being administered by the bank, which includes loan origination, servicing the loan, application of payments, tracking and reporting loan performance, and modifying and adjusting loans as necessary. Loss obligations related to the loans are attributed to the initial contributions of the Company and the County into Funds 1 and 2.

Loans made out of the Program range between \$5,000 and \$50,000, based upon the number of employees of the borrowing small business. Loans are for a term of 12 months or as extended at the sole discretion of the bank, bearing interest at a fixed annual rate between 0 and 2 percent, established for each loan based on the credit risk presented by the particular borrower. Payments of interest, and a servicing fee of 0.25 percent of all principal payments, are retained by the bank. The agreement between the Company and the bank is to terminate when all loans made under the Program have been paid in full or the bank has exhausted all actions against borrowers for any unpaid outstanding loans. Under the agreement and subsequent amendments, loans under the program were originated until July 31, 2020. As of July 31, 2020, a total of \$3,699,500 was used for qualified loans out of Funds 1 and 2. The remaining balance of \$1,300,500 of the initial \$5,000,000 funding was not used and returned to the Company.

WAYNE COUNTY - DETROIT CDE, INC.

Notes to Financial Statements (Continued)
August 31, 2022

5) SMALL BUSINESS MICROLOAN PROGRAM (Continued)

At August 31, 2022, the Company reported a receivable of \$44,334 due from the loan fund held with the bank, representing the total amount of outstanding loans due to the Company from the Program, and a loss reserve of \$11,084 related to the receivable. Additionally, the Company reported \$9,761 in amounts owed to the Company by the bank in connection with the program.

6) SUBSEQUENT EVENTS

The Company has evaluated events through March 15, 2023, the date that the accompanying financial statements were available to be issued. No significant subsequent event was noted that required adjustment or disclosure in the financial statements.