

Washtenaw County Building Authority

Year Ended
December 31,
2012

Financial
Statements

WASHTENAW COUNTY BUILDING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

March 26, 2013

To the Commissioners of the
Washtenaw County Building Authority Board
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Washtenaw County Building Authority, a component unit of Washtenaw County*, as of and for the year ended December 31, 2012, which collectively comprise the basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Washtenaw County Building Authority as of December 31, 2012, and the respective changes in its financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the 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.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

WASHTENAW COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

The Washtenaw County Building Authority is a blended component unit of Washtenaw County, Michigan and was established pursuant to Act 31, Public Acts of Michigan, as amended. The Building Authority presents this discussion and analysis of its financial performance as an overview of its financial activities for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

Using this Annual Report

The discussion and analysis is intended to serve as an introduction to the Washtenaw County Building Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) authority-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

- The *statement of net position* presents information on all of the Building Authority's assets, deferred outflows, liabilities and deferred inflows, with the net of these 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 Building Authority is improving or deteriorating.
- The *statement of activities* presents information showing how the Building Authority's net position changed during the most recent fiscal year.
- The *fund financial statements* show how services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Building Authority's operations in more detail than the authority-wide statements by providing information about the Washtenaw County Building Authority's significant funds.
- The *notes to the basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The net position of the Washtenaw County Building Authority is summarized for the purpose of determining the overall fiscal position. As shown below, the Building Authority's assets and deferred outflows of resources exceeded liabilities by \$19,782 at the end of the fiscal year. It should be noted that the resources needed to repay the debt must be provided by the leases receivable.

WASHTENAW COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

A comparative analysis of the data is presented below:

	Washtenaw County Building Authority's Net Position	
	2012	2011
Assets:		
Current and other assets	\$ -	\$ 1
Leases receivable	2,890,000	4,135,000
Total assets	2,890,000	4,135,001
Deferred outflows of resources -		
Deferred charge on refunding	46,220	92,440
Total assets and deferred outflows of resources	2,936,220	4,227,441
Liabilities:		
Long-term liabilities	2,878,751	4,135,003
Other liabilities	37,687	50,437
Total liabilities	2,916,438	4,185,440
Net position - unrestricted	\$ 19,782	\$ 42,001

When comparing the current fiscal year to the previous, net position decreased by \$22,219. The majority of the decrease is due to the following:

- Amortization of bond discount, premium and deferred loss.
- Adjustment of interest expense for the accrual of interest payable.

	Washtenaw County Building Authority's Changes in Net Position	
	2012	2011
Total revenues	\$ 151,762	\$ 183,415
Total expenses	173,981	208,146
Decrease in net position	(22,219)	(24,731)
Net position, beginning of year, as restated	42,001	66,732
Net position, end of year	\$ 19,782	\$ 42,001

WASHTENAW COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

Leases Receivable

The Authority had \$2,890,000 in leases receivable at the end of the fiscal year. The Authority has two lease agreements with Washtenaw County for buildings acquired or constructed by the Authority. These agreements generally terminate with the retirement of the related bond issues. Leases receivable are reported at an amount equal to the lesser of the actual bond-financed construction costs incurred to date or the outstanding bond principal. Annual lease payments under these agreements are equal to the related bond principal and interest due each year. At lease termination, title to the leased property will pass to the County.

	Washtenaw County Building Authority's Leases Receivable	
	2012	2011
Space Plan IA/Refunding	\$ 1,115,000	\$ 2,210,000
Head Start Building	<u>1,775,000</u>	<u>1,925,000</u>
Total	<u>\$ 2,890,000</u>	<u>\$ 4,135,000</u>

Additional information on the Authority's leases receivables can be found in the notes to the financial statements.

Long-term Debt

At the end of the current year, the Authority had total bonded debt outstanding of \$2,890,000. General obligation bonds were issued to provide funds for the construction and acquisition of major capital facilities. The original amount of general obligation bonds issued in prior years was \$11,705,000. No new general obligation bonds were issued during the current year. General obligation bonds are direct obligations and pledge the full faith and credit of Washtenaw County government. These bonds generally are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year.

	Washtenaw County Building Authority's Outstanding Debt	
	2012	2011
Space Plan IA/Refunding	\$ 1,115,000	\$ 2,210,000
Head Start Building	<u>1,775,000</u>	<u>1,925,000</u>
Total	<u>\$ 2,890,000</u>	<u>\$ 4,135,000</u>

Additional information on the Authority's long-term debt can be found in detail in the accompanying notes of this report.

WASHTENAW COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

Economic Factors and Next Year's Budget

It should be noted that this financial discussion and analysis relates to the financial status of Building Authority debt service funds. The activity of the County's other debt service and capital projects are presented in the Washtenaw County Comprehensive Annual Financial Report (CAFR).

Building Authority debt service and construction expenditures, if any, are governed by the laws of the State of Michigan and bond indenture covenants. These laws and covenants determine how bond proceeds are spent and how and when debt retirement payments are made. During 2012, total debt service expenditures were \$1,396,763. The expenditures were incurred to make the 2012 debt principal and interest payments. It is anticipated that there will be no construction expenditures during 2013. The 2013 debt service expenditures will be slightly lower than 2012 expenditures.

Contacting the Washtenaw County Building Authority

This financial report is designed to provide a general overview of the Washtenaw County Building Authority finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Washtenaw County Building Authority, 220 North Main Street, Ann Arbor, MI 48107.

BASIC FINANCIAL STATEMENTS

WASHTENAW COUNTY BUILDING AUTHORITY

Statement of Net Position

December 31, 2012

	Governmental Activities
Assets	
Leases receivable - County	\$ 2,890,000
Deferred outflows of resources	
Deferred charge on refunding	<u>46,220</u>
Total assets and deferred outflows of resources	<u>2,936,220</u>
Liabilities	
Accrued interest payable	37,687
Long-term liabilities:	
Due within one year	1,265,000
Due in more than one year	<u>1,613,751</u>
Total liabilities	<u>2,916,438</u>
Net position	
Unrestricted	<u>\$ 19,782</u>

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

WASHTENAW COUNTY BUILDING AUTHORITY

Statement of Activities

For the Year Ended December 31, 2012

Functions / Programs	Expenses	Program Revenues	Net (Expense) Revenue
		Operating Grants and Contributions	
Governmental activities			
General government	\$ -	\$ 151,762	\$ 151,762
Interest on long-term debt	173,981	-	(173,981)
Total	<u>\$ 173,981</u>	<u>\$ 151,762</u>	(22,219)
Net position			
Beginning of year, as restated			<u>42,001</u>
End of year			<u>\$ 19,782</u>

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

WASHTENAW COUNTY BUILDING AUTHORITY

Balance Sheet - Governmental Funds

December 31, 2012

	Debt Service Funds		Total Governmental Funds
	Space Plan Phase IA Refunding	Head Start	
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Fund balances			
Committed for debt service	\$ -	\$ -	\$ -

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

WASHTENAW COUNTY BUILDING AUTHORITY

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2012

Fund balances - total governmental funds	\$ -
Adjustments	
Leases receivable are not <i>current financial resources</i> and therefore are not reported in the governmental funds	2,890,000
Bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	(2,890,000)
Discounts and premiums on bonds are reported as other financing sources or uses in the governmental funds, whereas they are capitalized and amortized for net position (netted against bonds payable):	
Discounts	25,000
Premiums	(13,751)
Deferred charges for bond refunding losses are not recognized in the governmental funds, whereas they are capitalized and amortized for net position	46,220
Accrued interest payable on bonds is not recorded by governmental funds	<u>(37,687)</u>
Net position of governmental activities	<u>\$ 19,782</u>

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

WASHTENAW COUNTY BUILDING AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2012

	Debt Service Funds		Total Governmental Funds
	Space Plan Phase IA Refunding	Head Start	
Expenditures			
Debt service:			
Principal	\$ 1,095,000	\$ 150,000	\$ 1,245,000
Interest and fiscal charges	69,313	82,450	151,763
	<hr/>	<hr/>	<hr/>
Total expenditures	1,164,313	232,450	1,396,763
Other financing sources			
Transfers from Washtenaw County	1,164,312	232,450	1,396,762
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(1)	-	(1)
Fund balances, beginning of year	1	-	1
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ -	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

WASHTENAW COUNTY BUILDING AUTHORITY

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2012

Net changes in fund balances - total governmental funds	\$	(1)
Adjustments		
Amounts received for the payment of certain bond principal and interest is recorded in the funds as other financing sources. For the statement of activities, the other financing sources are eliminated with that portion of the receipts that pertain to bond interest being recognized as intergovernmental revenues:		
Intergovernmental revenues		151,762
Transfers from Washtenaw County		(1,396,762)
Repayment of bond and note principal is an expenditure in the funds, but the repayment reduces long-term liabilities for <i>net position</i>		1,245,000
Accrued interest expense on bonds and the amortization of bond issuance costs and discounts are not recorded by governmental funds but are reported under interest and fiscal charges for purposed of <i>net position</i> :		
Accrued interest expense		12,750
Amortization of discount on bonds		(2,500)
Amortization of premium on bonds		13,752
Amortization of deferred refunding loss		(46,220)
Change in net position of governmental activities	<u>\$</u>	<u>(22,219)</u>

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

WASHTENAW COUNTY BUILDING AUTHORITY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Washtenaw County Building Authority (the “Authority”) was established pursuant to Act 31, Public Acts of Michigan, as amended. The Authority has entered into various lease agreements with Washtenaw County (the “County”) and certain third party governments covering buildings constructed by the Authority (see Note 2).

Reporting Entity - These financial statements represent the financial position and the results of operations of a blended component unit of the County and are an integral part of that reporting entity.

Authority-wide and Fund Financial Statements - The authority-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The authority-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 government 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 Authority reports the following major governmental funds:

Debt service funds:

- Space Plan Phase IA Refunding
- Head Start

Debt service funds account for the accumulation of resources for, and the payment of, interest and principal on bonded debt.

As a general rule the effect of interfund activity has been eliminated from the authority-wide financial statements.

Long-term Obligations - In the authority-wide financial statements, long-term debt is reported as a liability. Bond discounts, premiums, and refunding losses are deferred and amortized over the life of the applicable bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount and premium.

WASHTENAW COUNTY BUILDING AUTHORITY

Notes To Financial Statements

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

Fund Balance - Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Directors. A formal resolution of the Board of Directors is required to establish, modify or rescind a fund balance commitment. Assigned fund balance is reported for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification used for a general fund.

When the Authority incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Authority's policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance, if any.

2. LEASES RECEIVABLE

The Authority has entered into various lease agreements with the County for buildings acquired or constructed by the Authority. These agreements generally terminate with the retirement of the related bond issues. Leases receivable are reported at an amount equal to the lesser of the actual bond-financed construction costs incurred to date or the outstanding bond principal. Annual lease payments under these agreements are equal to the related bond principal and interest due each year. At termination of a lease, title to the leased property is passed to the County.

The Authority's leases are classified as sales leases. As a result, leases receivable are recognized in the accompanying statement of net position, whereas capital assets are not.

All lease agreements provide for the lessee to use, operate and maintain the property, at its own expense, subject to the terms and conditions of the agreements.

The current and noncurrent portions of leases receivable as of December 31, 2012 are as follows:

	County
Due within one year	\$ 1,265,000
Due in more than one year	<u>1,625,000</u>
	<u>\$ 2,890,000</u>

WASHTENAW COUNTY BUILDING AUTHORITY

Notes To Financial Statements

3. LONG-TERM DEBT

The Authority issues general obligation bonds to provide funds for the construction and acquisition of major capital facilities. The original amount of general obligation bonds issued in prior years was \$11,705,000. No new general obligation bonds were issued during the year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities:		
Space Plan IA Refunding	3.25%	\$ 1,115,000
Head Start Building	3.80-4.75%	<u>1,775,000</u>
		<u>\$ 2,890,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year	Principal	Interest
2013	\$ 1,265,000	\$ 113,062
2014	150,000	71,125
2015	150,000	65,125
2016	175,000	59,125
2017	175,000	51,906
2018-2022	<u>975,000</u>	<u>140,844</u>
	<u>\$ 2,890,000</u>	<u>\$ 501,187</u>

Long-term liability activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 4,135,000	\$ -	\$ (1,245,000)	\$ 2,890,000	\$ 1,265,000
Deferred amounts for:					
Issuance discounts	(27,500)	-	2,500	(25,000)	-
Issuance premiums	27,503	-	(13,752)	13,751	-
	<u>\$ 4,135,003</u>	<u>\$ -</u>	<u>\$ (1,256,252)</u>	<u>\$ 2,878,751</u>	<u>\$ 1,265,000</u>

WASHTENAW COUNTY BUILDING AUTHORITY

■ Notes To Financial Statements

4. RESTATEMENTS

The Authority adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the beginning net position of the governmental activities was decreased by \$47,954 to eliminate unamortized bond issuance costs, which no longer meet the definition of an asset and are now required to be recognized as an expense in the period incurred.

