

Washtenaw County Building Authority

Year Ended
December 31,
2011

Basic Financial
Statements

WASHTENAW COUNTY BUILDING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

April 18, 2012

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, 2011, which collectively comprise the basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Washtenaw County Building Authority. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 assurance.



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 management discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended December 31, 2011. 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 basic financial statements are comprised of the *statement of net assets and governmental funds balance sheet*, the *statement of activities and governmental fund revenues, expenditures and changes in fund balances* and the *notes to the basic financial statements*.

- The *statement of net assets and governmental funds balance sheet* presents information on all of the Building Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Building Authority is improving or deteriorating.
- The *statement of activities and governmental fund revenues, expenditures and changes in fund balances* presents information showing how the Building Authority's net assets changed during the most recent fiscal year.
- 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.

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 government-wide statements by providing information about the Washtenaw County Building Authority's significant funds.

Financial Analysis

The net assets of the Washtenaw County Building Authority are summarized for the purpose of determining the overall fiscal position. As shown in Table 1 below, the Building Authority's assets exceeded liabilities by \$89,955 at the end of the fiscal year. This is primarily due to long-term liabilities being reported net of discounts, premiums, and deferred losses, whereas leases receivable are reported at the outstanding debt principal amount 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:

Table 1. Washtenaw County Building Authority's Net Assets		
	2011	2010
Current and other assets	\$ 47,955	\$ 60,920
Leases receivable	4,135,000	5,185,000
Total assets	4,182,955	5,245,920
Long-term liabilities	4,042,563	5,057,595
Other liabilities	50,437	61,146
Total liabilities	4,093,000	5,118,741
Net assets:		
Restricted for debt service	-	473
Unrestricted	89,955	126,706
Total net assets	\$ 89,955	\$ 127,179

When comparing the current fiscal year to the previous fiscal year, net assets have decreased by \$37,224 (See Table 2 below). The majority of the decrease is due to the following:

- Amortization of bond discount, premium, issuance costs, and deferred loss.
- Adjustment of interest expense to ensure that interest payable agrees with the actual amount of bond interest per the debt schedule that is due at the end of the fiscal year.

Table 2. Washtenaw County Building Authority's Changes in Net Assets		
	2011	2010
Total revenues	\$ 183,415	\$ 197,909
Total expenses	220,639	256,076
Decrease in net assets	(37,224)	(58,167)
Net assets, beginning of year	127,179	185,346
Net assets, end of year	\$ 89,955	\$ 127,179

WASHTENAW COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

Leases Receivable

The Washtenaw County Building Authority had \$4,135,000 in leases receivable at the end of the fiscal year (See Table 3). The Building Authority has two lease agreements with Washtenaw County for buildings acquired or constructed by the Building 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.

Table 3. Washtenaw County Building Authority's Leases Receivable		
	2011	2010
Space Plan IA/Refunding	\$ 2,210,000	\$ 3,135,000
Head Start Building	1,925,000	2,050,000
Total	<u>\$ 4,135,000</u>	<u>\$ 5,185,000</u>

Additional information on the Washtenaw County Building Authority's leases receivables can be found in the notes to the financial statements on page 11.

Long-term Debt

At the end of the current fiscal year, the Washtenaw County Building Authority had total bonded debt outstanding of \$4,135,000 (Table 4). 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 fiscal 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.

Table 4. Washtenaw County Building Authority's Outstanding Debt		
	2011	2010
Space Plan IA/Refunding	\$ 2,210,000	\$ 3,135,000
Head Start Building	1,925,000	2,050,000
Total	<u>\$ 4,135,000</u>	<u>\$ 5,185,000</u>

Additional information on the Washtenaw County Building Authority's long-term debt can be found in detail in the accompanying notes of this report on pages 12 and 13.

WASHTENAW COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

Economic Factors and Next Year's Budget

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

Washtenaw County Building Authority debt service and construction expenditures 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 2011, debt service expenditures were \$220,639 for interest and fiscal charges. It is anticipated that there will be no construction expenditures during 2012. The 2012 debt service expenditures will be slightly lower than 2011 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 Assets and Governmental Funds Balance Sheet
December 31, 2011

	Debt Service Funds				Statement of Net Assets
	Space Plan Phase IA Refunding	Head Start	Total Governmental Funds	Adjustments	Governmental Activities
Assets					
Cash and cash equivalents	\$ 1	\$ -	\$ 1	\$ -	\$ 1
Deferred charges	-	-	-	47,954	47,954
Leases receivable - County	-	-	-	4,135,000	4,135,000
Total assets	\$ 1	\$ -	\$ 1	4,182,954	4,182,955
Liabilities					
Accrued interest payable	\$ -	\$ -	\$ -	50,437	50,437
Long-term liabilities:					
Due within one year	-	-	-	1,245,000	1,245,000
Due in more than one year	-	-	-	2,797,563	2,797,563
Total liabilities	-	-	-	4,093,000	4,093,000
Fund balances					
Committed for debt service	1	-	1	(1)	-
Total liabilities and fund balances	\$ 1	\$ -	\$ 1		
Net assets					
Unrestricted				\$ 89,955	\$ 89,955

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

WASHTENAW COUNTY BUILDING AUTHORITY

Statement of Activities and Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended December 31, 2011

	Space Plan Phase IA Refunding	Head Start	Total Governmental Funds	Adjustments	Statement of Activities Governmental Activities
Revenues					
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ 183,413	\$ 183,413
Investment income (loss)	(21)	23	2	-	2
Total revenues	(21)	23	2	183,413	183,415
Expenditures / expenses					
Debt service:					
Principal	925,000	125,000	1,050,000	(1,050,000)	-
Interest and fiscal charges	97,062	86,825	183,887	36,752	220,639
Total expenditures / expenses	1,022,062	211,825	1,233,887	(1,013,248)	220,639
Revenues over (under) expenditures / expenses	(1,022,083)	(211,802)	(1,233,885)	1,196,661	(37,224)
Other financing sources					
Transfers from Washtenaw County	1,022,084	211,329	1,233,413	(1,233,413)	-
Revenues and other sources over (under) expenditures / expenses	1	(473)	(472)	472	-
Change in net assets	-	-	-	(37,224)	(37,224)
Fund balances / net assets					
Beginning of year	-	473	473	126,706	127,179
End of year	\$ 1	\$ -	\$ 1	\$ 89,954	\$ 89,955

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 3).

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 - As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined authority-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to authority-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. Major individual governmental funds are reported as separate columns in the aforementioned 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.

WASHTENAW COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Long-term Obligations - In the authority-wide financial statements, long-term debt is reported as a liability. Bond discounts, premiums, issuance costs 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, premium and deferred loss. Bond issuance costs are reported as deferred charges.

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. CASH AND POOLED INVESTMENTS

At year end, the carrying amount of the Authority's cash and cash equivalents, which were deposited entirely in the County Treasurer's internal cash management pool, was \$1. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the County's basic financial statements.

3. 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.

Under the accrual basis of accounting and the provisions of FASB (Financial Accounting Standards Board) ASC 840, *Leases*, the Authority's leases are classified as sales leases. As a result, leases receivable are recognized in the accompanying statement of net assets, whereas capital assets are not.

WASHTENAW COUNTY BUILDING AUTHORITY

Notes To Financial Statements

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, 2011 are as follows:

	County
Due within one year	\$ 1,245,000
Due in more than one year	<u>2,890,000</u>
	<u>\$ 4,135,000</u>

4. 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	3.00-3.25%	\$ 2,210,000
Head Start Building	3.60-4.75%	<u>1,925,000</u>
		<u>4,135,000</u>

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

Year	Principal	Interest
2012	\$ 1,245,000	\$ 151,313
2013	1,265,000	113,062
2014	150,000	71,125
2015	150,000	65,125
2016	175,000	59,125
2017-2021	925,000	182,063
2022	<u>225,000</u>	<u>10,687</u>
	<u>\$ 4,135,000</u>	<u>\$ 652,500</u>

WASHTENAW COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Long-term liability activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 5,185,000	\$ -	\$ (1,050,000)	\$ 4,135,000	\$ 1,245,000
Deferred amounts for:					
Issuance discounts	(30,000)	-	2,500	(27,500)	-
Issuance premiums	41,255	-	(13,752)	27,503	-
Refunding loss	(138,660)	-	46,220	(92,440)	-
	<u>\$ 5,057,595</u>	<u>\$ -</u>	<u>\$ (1,015,032)</u>	<u>\$ 4,042,563</u>	<u>\$ 1,245,000</u>

5. ADJUSTMENTS

Following is an explanation of the adjustments between the governmental funds balance sheet and the component-wide statement of net assets, which reconciles fund balances to net assets:

Fund balances	\$ 1
Adjustments:	
Leases receivable are not <i>current financial resources</i> and therefore are not reported in the governmental funds	4,135,000
Deferred charges for bond issuance costs are currently expended in the governmental funds, whereas they are capitalized and amortized for net assets	47,954
Bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	(4,135,000)
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 assets (netted against bonds payable):	
Discounts	27,500
Premiums	(27,503)
Deferred charges for bond refunding losses are not recognized in the governmental funds, whereas they are capitalized and amortized for net assets (netted against bonds payable)	92,440
Accrued interest payable on bonds is not recorded by governmental funds	(50,437)
Net assets	<u>\$ 89,955</u>

WASHTENAW COUNTY BUILDING AUTHORITY

■ Notes To Financial Statements

Following is an explanation of the adjustments between the governmental funds statement of revenues, expenditures and changes in fund balances and the component-wide statement of activities, which reconciles the net change in fund balances to the change in net assets:

Net changes in fund balances	\$ (472)
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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	183,413
Transfers from Washtenaw County	(1,233,413)

Repayment of bond and note principal is an expenditure in the funds, but the repayment reduces long-term liabilities for <i>net assets</i>	1,050,000
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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 purposes of *net assets*:

Accrued interest expense	10,709
Amortization of bond issuance costs	(12,493)
Amortization of discount on bonds	(2,500)
Amortization of premium on bonds	13,752
Amortization of deferred refunding loss	<u>(46,220)</u>

Change in net assets	<u>\$ (37,224)</u>
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