

Monroe County  
Municipal Building  
Authority



Year Ended  
December 31,  
2011

Basic Financial  
Statements

# MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

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**INDEPENDENT AUDITORS' REPORT**

June 18, 2012

To the Commissioners of the  
Monroe County Municipal Building Authority Board  
Monroe, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Monroe County Municipal Building Authority, a component unit of Monroe County Municipal*, 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 Monroe County Municipal 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 Monroe County Municipal 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 5 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

# MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

## Management's Discussion and Analysis

The Monroe County Municipal Building Authority is a blended component unit of Monroe 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

This discussion and analysis is intended to serve as an introduction to the Monroe County Municipal 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 Monroe County Municipal Building Authority's significant funds.

### Financial Analysis

The net assets of the Monroe County Municipal 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 \$207,818 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.

A comparative analysis of the data is presented on the next page.

# MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

## Management's Discussion and Analysis

**Table 1. Monroe County Building Authority's Net Assets**

	2011	2010
Current and other assets	\$ 270,252	\$ 521,247
Leases receivable	10,998,354	11,749,551
<b>Total assets</b>	<b>11,268,606</b>	<b>12,270,798</b>
Long-term liabilities	10,962,541	11,700,704
Other liabilities	98,247	124,940
<b>Total liabilities</b>	<b>11,060,788</b>	<b>11,825,644</b>
Net assets:		
Restricted for debt service	207,818	440,858
Restricted for construction	-	4,296
<b>Total net assets</b>	<b>\$ 207,818</b>	<b>\$ 445,154</b>

When comparing the current fiscal year to the previous fiscal year, net assets have decreased by \$237,336 (See Table 2 below). The majority of the decrease is due to the following:

- Amortization of bond discount, premium, and 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. Monroe County Building Authority's Changes in Net Assets**

	2011	2010
Total revenues	\$ 184,247	\$ 162,155
Total expenses	(421,583)	(465,711)
Decrease in net assets	(237,336)	(303,556)
Net assets:		
Beginning of year	445,154	748,710
End of year	<b>\$ 207,818</b>	<b>\$ 445,154</b>

### Leases Receivable

The Monroe County Municipal Building Authority had \$10,998,354 in leases receivable at the end of the fiscal year (See Table 3). The Building Authority has entered into various lease agreements with Monroe 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 from the Building Authority to the County.

# MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

## Management's Discussion and Analysis

**Table 3. Monroe County Building Authority's Leases Receivables**

	2011	2010
Leases receivable	<u>\$10,998,354</u>	<u>\$11,749,551</u>

Additional information on the Monroe County Municipal Building Authority's leases receivables can be found in the notes to the financial statements on page 12.

### Long-term Debt

At the end of the current fiscal year, the Monroe County Municipal Building Authority had total bonded debt outstanding of \$11,080,000 (Table 4). General obligation bonds are direct obligations and pledge the full faith and credit of Monroe County government. These bonds generally are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year.

**Table 4. Monroe County Building Authority's Outstanding Debt**

	2011	2010
2007 building authority	\$ 7,450,000	\$ 7,760,000
2010 refunding building authority	<u>3,630,000</u>	<u>4,070,000</u>
<b>Total</b>	<u><b>\$11,080,000</b></u>	<u><b>\$11,830,000</b></u>

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

### Economic Factors

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

Monroe County Municipal 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, total transfers, construction and debt service expenditures were \$421,583.

### Contacting the Monroe County Municipal Building Authority

This financial report is designed to provide a general overview of the Monroe County Municipal 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 Monroe County Municipal Building Authority, 125 East Second Street, Monroe, Michigan 48161.

## BASIC FINANCIAL STATEMENTS

**MONROE COUNTY MUNICIPAL BUILDING AUTHORITY**

**Statement of Net Assets and Governmental  
Funds Balance Sheet**  
December 31, 2011

	Debt Service Funds		Capital Projects Fund	Total Governmental Funds	Adjustments	Statement of Net Assets
	County Facilities	Library/ Fair/ Mental Health	Library/ Fair/ Mental Health			
<b>Assets</b>						
Cash and cash equivalents	\$ 21,982	\$ 52,826	\$ -	\$ 74,808	\$ -	\$ 74,808
Investments	133,010	-	-	133,010	-	133,010
Leases receivable	-	-	-	-	10,998,354	10,998,354
Other assets	-	-	-	-	62,434	62,434
<b>Total assets</b>	<b>\$ 154,992</b>	<b>\$ 52,826</b>	<b>\$ -</b>	<b>\$ 207,818</b>	<b>11,060,788</b>	<b>11,268,606</b>
<b>Liabilities</b>						
Accrued interest payable	\$ -	\$ -	\$ -	\$ -	98,247	98,247
Long-term liabilities:						
Due within one year	-	-	-	-	790,000	790,000
Due in more than one year	-	-	-	-	10,172,541	10,172,541
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,060,788</b>	<b>11,060,788</b>
<b>Fund balances</b>						
Restricted for debt service	154,992	52,826	-	207,818	(207,818)	-
<b>Total liabilities and fund balances</b>	<b>\$ 154,992</b>	<b>\$ 52,826</b>	<b>\$ -</b>	<b>\$ 207,818</b>		
<b>Net assets</b>						
Restricted for debt service					\$ 207,818	\$ 207,818

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

**MONROE COUNTY MUNICIPAL BUILDING AUTHORITY**

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

	Debt Service Funds		Capital Projects Fund	Total Governmental Funds	Adjustments	Statement of Activities
	County Facilities	Library/ Fair/ Mental Health	Library/ Fair/ Mental Health			
<b>Revenues</b>						
Interest and rental income	\$ 518	\$ 623,999	\$ -	\$ 624,517	\$ (440,270)	\$ 184,247
<b>Expenditures / expenses</b>						
Capital improvements and acquisitions	-	-	4,296	4,296	-	4,296
Debt service:						
Principal	440,000	310,000	-	750,000	(750,000)	-
Interest and fiscal charges	103,082	314,325	-	417,407	(120)	417,287
<b>Total expenditures / expenses</b>	<b>543,082</b>	<b>624,325</b>	<b>4,296</b>	<b>1,171,703</b>	<b>(750,120)</b>	<b>421,583</b>
Revenues over (under) expenditures	(542,564)	(326)	(4,296)	(547,186)	309,850	(237,336)
<b>Other financing sources</b>						
Transfers from Monroe County	309,850	-	-	309,850	(309,850)	-
Net change in fund balances	(232,714)	(326)	(4,296)	(237,336)	237,336	-
Change in net assets	-	-	-	-	(237,336)	(237,336)
<b>Fund balances / net assets</b>						
Beginning of year	387,706	53,152	4,296	445,154	-	445,154
End of year	\$ 154,992	\$ 52,826	\$ -	\$ 207,818	\$ -	\$ 207,818

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

## NOTES TO FINANCIAL STATEMENTS

# MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Monroe County Municipal Building Authority (the "Authority") was established on February 13, 1972 pursuant to Public Act 31 of 1948. The Authority is governed by a five-member board appointed by the Monroe County Board of Commissioners for six-year terms. The purpose of the Authority is to finance and construct the County's public buildings. The Authority enters into various lease agreements with Monroe County (the "County") covering buildings constructed by the Authority (see Note 3).

**Reporting Entity** - These financial statements present 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 Funds 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:

County Municipal Facilities	(2010 refunding bond issue)
Library/Fair/Mental Health	(2007 bond issue)

Capital projects funds-

Library/Fair/Mental Health

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

**Capital projects funds** account for the use of resources, primarily bond proceeds, in constructing or acquiring capital assets, including buildings.

# MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

## Notes to Financial Statements

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

*Cash and Cash Equivalents* - The Authority's cash and cash equivalents consist of demand deposits and certificates of deposit with original maturities of three months or less from the date of acquisition. State statutes authorize local governments to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations.

*Investments* - Investments consist of money market accounts, which are stated at fair value.

*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, if any, 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, if any. Bond issuance costs, if any, are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts, premiums and issuance costs, if any, 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 Equity* - 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 Commissioners. A formal resolution of the Board of Commissioners 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. DEPOSITS AND INVESTMENTS

*Custodial Credit Risk - Deposits.* Deposits are exposed to custodial credit risk if they are not covered by depository insurance. At year-end, the carrying amount of the Authority's deposits was \$74,808 and the corresponding bank balance was \$74,808. As of year-end, the entire amount of the bank balance was covered by depository insurance.

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority had no investments that require credit risk ratings at year end.

# MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

## Notes to Financial Statements

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Authority’s investment policy requires diversification by security type and institution, but does not place a fixed percentage limit for any one issuer. All investments held at year end are reported above.

*Interest Rate Risk.* Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. The Authority’s investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### 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 (plus accrued interest). 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 generally accepted accounting principles, 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. 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.

### 4. LONG-TERM DEBT

	Interest Rate	Year of Maturity	Outstanding Principal
<b>General obligation limited tax bonds</b>			
2007 building authority	4.00-4.25%	2027	\$ 7,450,000
2010 refunding building authority	2.00-3.00%	2018	<u>3,630,000</u>
<b>Total</b>			<u><u>\$ 11,080,000</u></u>

Annual debt service requirements to maturity for the Authority’s debt are as follows:

Year Ending December 31,	Principal	Interest
2012	\$ 790,000	\$ 381,838
2013	825,000	359,037
2014	855,000	335,287
2015	890,000	310,537
2016	965,000	283,400
2017-2021	3,320,000	999,500
2022-2026	2,800,000	443,064
2027	<u>635,000</u>	<u>13,494</u>
<b>Total</b>	<u><u>\$ 11,080,000</u></u>	<u><u>\$ 3,126,157</u></u>

# MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

## Notes to Financial Statements

*Changes in Long-Term Debt.* 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	\$ 11,830,000	\$ -	\$ 750,000	11,080,000	\$ 790,000
Deferred amounts for:					
Issuance discounts	(65,349)	-	(3,844)	(61,505)	-
Issuance premiums	15,536	-	1,942	13,594	-
Loss on refunding	(79,483)	-	(9,935)	(69,548)	-
	<u>\$ 11,700,704</u>	<u>\$ -</u>	<u>\$ 738,163</u>	<u>\$ 10,962,541</u>	<u>\$ 790,000</u>

### 5. ADJUSTMENTS

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

Fund balances	\$ 207,818
<b>Adjustments:</b>	
Leases receivable are not current financial resources and therefore are not reported in the governmental funds.	10,998,354
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(11,080,000)
Unamortized deferred loss on refunding	69,548
Unamortized premium on refunding bonds	(13,594)
Unamortized discount on bonds	61,505
Unamortized bond issuance costs	62,434
Accrued interest on bonds	(98,247)
<b>Net assets</b>	<u>\$ 207,818</u>

# MONROE COUNTY MUNICIPAL 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 authority-wide statement of activities, which reconciles the net change in fund balances to the change in net assets:

Net change in fund balances	\$ (237,336)
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**Adjustments:**

Amounts received for the payment of certain bond principal and is recorded in the funds as other financing sources. For the statement interest of activities, the other financing sources are eliminated with that portion of the receipts that pertain to bond interest being recognized as rental revenues.

Rental revenues	(440,270)
Transfers from Monroe County	(309,850)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	750,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the funds.

Accrued interest on bonds	11,957
Amortization of discount on bonds	(3,844)
Amortization of the premium	1,942
Amortization of loss on refunding of bonds	(9,935)
	<u>(9,935)</u>

Change in net assets	<u>\$ (237,336)</u>
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## 6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. During the year ended December 31, 2011, the Authority participated under the County's membership in the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool serving various local governments in Michigan. Further information regarding the County's participation in MMRMA is presented in the County's comprehensive annual financial report.

