

Monroe County
Municipal Building
Authority



Year Ended
December 31,
2014

Financial
Statements

MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Financial Statements:	
Authority-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	11
Statement of Fund Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	13
Notes to Financial Statements	15



INDEPENDENT AUDITORS' REPORT

June 25, 2015

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*, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements, as listed in the table of contents.

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.

Independent 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 Monroe County Municipal Building Authority as of December 31, 2014, 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

Required Supplementary Information

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

Rehmann Loban LLC

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 Authority presents this management discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements.

Using this Annual Report

The discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's 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 Authority's assets, deferred outflows and liabilities, 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 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 Authority's operations in more detail than the authority-wide statements by providing information about the Authority's significant funds.
- The *notes to the 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 Authority is summarized for the purpose of determining the overall fiscal position. As shown below, the Authority's assets and deferred outflows exceeded liabilities by \$57,041 at the end of the fiscal year. This is primarily due to long-term liabilities being reported net of discounts and premiums 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

	Net Position	
	2014	2013
Assets		
Current and other assets	\$ 57,041	\$ 52,607
Leases receivable	8,731,736	9,458,062
Total assets	<u>8,788,777</u>	<u>9,510,669</u>
Deferred outflows of resources		
Deferred charge on refunding	371,430	49,678
Liabilities		
Long-term liabilities	8,992,534	9,420,893
Other liabilities	110,632	86,847
Total liabilities	<u>9,103,166</u>	<u>9,507,740</u>
Net position		
Restricted for debt service	<u>\$ 57,041</u>	<u>\$ 52,607</u>

When comparing the current fiscal year to the previous fiscal year, net position has increased by \$4,434. The majority of this increase is due to the following:

- Amortization of bond discount, premium 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.

	Changes in Net Position	
	2014	2013
Total revenues	\$ 466,445	\$ 288,950
Total expenses	(462,011)	(365,543)
Increase (decrease) in net position	4,434	(76,593)
Net position, beginning of year	52,607	129,200
Net position, end of year	<u>\$ 57,041</u>	<u>\$ 52,607</u>

MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

Management's Discussion and Analysis

Leases Receivable

The Authority had \$8,731,736 in leases receivable at the end of the fiscal year. The Authority has entered into various lease agreements with Monroe 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 from the Authority to Monroe County.

	Leases Receivable	
	2014	2013
Leases receivable	<u>\$ 8,731,736</u>	<u>\$ 9,458,062</u>

Additional information on the Monroe County Municipal Building Authority's leases receivables can be found in Note 3 to the financial statements.

Long-term Debt

At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$8,425,000. General obligation bonds are direct obligations and pledge the full faith and credit of the Monroe County government. These bonds generally are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year.

	Outstanding Debt	
	2014	2013
2007 building authority	\$ 765,000	\$ 6,785,000
2010 refunding building authority	2,180,000	2,680,000
2014 refunding building authority	<u>5,480,000</u>	<u>-</u>
Total	<u>\$ 8,425,000</u>	<u>\$ 9,465,000</u>

Additional information on the Authority's long-term debt can be found in detail in Note 4 to the financial statements.

Economic Factors

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

The Authority's 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 2014, total expenditures were \$462,011, all of which related to debt service.

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.

FINANCIAL STATEMENTS

MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

Statement of Net Position

Governmental Activities

December 31, 2014

Assets

Cash and cash equivalents	\$ 53,995
Accounts receivable	3,046
Leases receivable - County	<u>8,731,736</u>

Total assets 8,788,777

Deferred outflows of resources

Deferred charge on refunding	<u>371,430</u>
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Liabilities

Accrued interest payable	110,632
Long-term liabilities:	
Due within one year	890,000
Due in more than one year	<u>8,102,534</u>

Total liabilities 9,103,166

Net position

Restricted for debt service	<u>\$ 57,041</u>
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The accompanying notes are an integral part of these financial statements.

MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

Statement of Activities

For the Year Ended December 31, 2014

Functions / Programs	Expenses	Program Revenues	Net (Expense) Revenue
		Operating Grants and Contributions	
Governmental activities			
General government	\$ -	\$ 466,445	\$ 466,445
Interest on long-term debt	462,011	-	(462,011)
	<u>462,011</u>	<u>466,445</u>	
Total	<u>\$ 462,011</u>	<u>\$ 466,445</u>	4,434
Net position			
Beginning of year			<u>52,607</u>
End of year			<u>\$ 57,041</u>

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

MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

Balance Sheet Governmental Funds December 31, 2014

	Debt Service Funds		Total
	County Facilities	Library/ Fair/ Mental Health	
Assets			
Cash and cash equivalents	\$ 1,486	\$ 52,509	\$ 53,995
Accounts receivable	-	3,046	3,046
Total assets	<u>\$ 1,486</u>	<u>\$ 55,555</u>	<u>\$ 57,041</u>
Fund balances			
Restricted for debt service	<u>\$ 1,486</u>	<u>\$ 55,555</u>	<u>\$ 57,041</u>

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

MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2014

Fund balances - total governmental funds	\$	57,041
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:		
Leases receivable are not <i>current financial resources</i> and therefore are not reported in the governmental funds		8,731,736
Bonds payable are not due and payable in the current period and therefore not reported in the governmental funds		(9,034,739)
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		49,973
Premiums		(7,768)
Deferred charges for bond refunding losses are not recognized in the governmental funds, whereas they are capitalized and amortized for net position		371,430
Accrued interest payable on bonds is not recorded by governmental funds		<u>(110,632)</u>
Net position of governmental activities	\$	<u><u>57,041</u></u>

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

MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2014

	Debt Service Funds		Total
	County Facilities	Library/ Fair/ Mental Health	
Revenues			
Rental and interest income	\$ -	\$ 629,758	\$ 629,758
Expenditures			
Principal	500,000	355,000	855,000
Interest and fiscal charges	61,958	274,425	336,383
Bond issuance costs	-	90,006	90,006
Total expenditures	561,958	719,431	1,281,389
Revenues under expenditures	(561,958)	(89,673)	(651,631)
Other financing sources (uses)			
Proceeds of refunding bonds	-	5,480,000	5,480,000
Premium on refunding bonds	-	609,739	609,739
Payment to refunding bond escrow agent	-	(5,996,687)	(5,996,687)
Transfers from Monroe County	563,013	-	563,013
Total other financing uses	563,013	93,052	656,065
Net change in fund balances	1,055	3,379	4,434
Fund balances, beginning of year	431	52,176	52,607
Fund balances, end of year	\$ 1,486	\$ 55,555	\$ 57,041

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

MONROE COUNTY MUNICIPAL 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, 2014

Net changes in fund balances - total governmental funds	\$ 4,434
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
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	(163,313)
Transfers from Monroe County	(563,013)
Bonds proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Refunding bond proceeds	(5,480,000)
Payment to escrow agent	5,996,687
Premium on bonds	(609,739)
Principal payment on long-term liabilities	855,000
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 purposes of net position:	
Accrued interest expense	(23,785)
Amortization of discount on bonds	(3,844)
Amortization of premium on bonds	1,942
Amortization of deferred refunding loss	(9,935)
Change in net position of governmental activities	<u>\$ 4,434</u>

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 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 - 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:

County Municipal Facilities	(2010 refunding bond issue)
Library/Fair/Mental Health	(2007 bond and 2014 refunding bond issues)

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, 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.

MONROE COUNTY MUNICIPAL BUILDING AUTHORITY

Notes to Financial Statements

Deferred Outflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the authority-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

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 required 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 \$53,995 and the corresponding bank balance was \$53,995. 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 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.

4. LONG-TERM DEBT

	Interest Rate	Year of Maturity	Outstanding Principal
General obligation limited tax bonds			
2007 building authority	4.00-4.25%	2027	\$ 765,000
2010 refunding building authority	2.00-3.00%	2018	2,180,000
2014 refunding building authority	4.00%	2027	<u>5,480,000</u>
Total			<u>\$ 8,425,000</u>

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

Year Ending December 31,	Principal	Interest
2015	\$ 890,000	\$ 479,808
2016	925,000	502,600
2017	955,000	236,081
2018	990,000	203,525
2019	435,000	177,900
2020-2024	2,470,000	608,000
2025-2027	<u>1,760,000</u>	<u>107,400</u>
Total	<u>\$ 8,425,000</u>	<u>\$ 2,315,314</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, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 9,465,000	\$ 5,480,000	\$ 6,520,000	\$ 8,425,000	\$ 890,000
Deferred amounts for:					
Issuance discounts	(53,817)	-	(3,844)	(49,973)	-
Issuance premiums	9,710	609,739	1,942	617,507	-
	<u>\$ 9,420,893</u>	<u>\$ 6,089,739</u>	<u>\$ 6,518,098</u>	<u>\$ 8,992,534</u>	<u>\$ 890,000</u>

Current refunding. During fiscal year 2014, the Authority issued \$5,480,000 in refunding bonds to refund \$5,665,000 of building authority bonds (series 2007) in order to reduce future debt service requirements by \$392,479 which represents a net present value of \$344,808. At December 31, 2014, the balance of defeased bonds outstanding is \$5,665,000.

5. 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, 2014, 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.

