

Lenawee County
Building Authority



Year Ended
December 31,
2018

Financial
Statements

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LENAWEE COUNTY BUILDING AUTHORITY

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Independent Auditors' Report

June 26, 2019

Board Members of the
Lenawee County Building Authority
Adrian, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the *Lenawee County Building Authority* (the "Authority"), a component unit of the County of Lenawee, Michigan, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, the business-type activities and each major fund of the Lenawee County Building Authority as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Robson LLC". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LENAWEE COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

The Lenawee County Building Authority (the "Authority") is a blended component unit of Lenawee County, Michigan and was established pursuant to Act 31, Public Acts of Michigan, as amended. The Authority presents this management's discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

· Total net position	\$ 4,656,888
· Change in total net position	(42,183)
· Fund balances, governmental funds	52,429
· Change in fund balances, governmental funds	(193,079)
· Long-term debt outstanding	3,216,968
· Change in long-term debt	(617,073)

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, similar to a private-sector business.

The statement of net position presents information on all of the Authority's assets, deferred outflows of resources, 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 Authority is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected account receivable and outstanding bonds payable).

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

LENAWEE COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the jail debt service and jail capital projects funds, which are considered to be major funds.

Proprietary funds. The Authority maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Authority uses an enterprise fund to account for its construction, operation, maintenance, and financing of the human services building.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the human services building fund, which is considered to be a major fund of the Authority.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis

The net position of the Authority is summarized for the purpose of determining the overall fiscal position. As shown in table below, the Authority's assets and deferred outflows of resources exceeded liabilities by \$4,656,888 at the end of the fiscal year.

LENAWEE COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

A comparative analysis of the data is presented below:

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 183,936	\$ 566,477	\$ 1,165,016	\$ 1,166,821	\$ 1,348,952	\$ 1,733,298
Capital assets, net	-	-	6,755,894	7,035,507	6,755,894	7,035,507
Total assets	183,936	566,477	7,920,910	8,202,328	8,104,846	8,768,805
Deferred outflows of resources						
Deferred pension amounts	-	-	105,724	10,488	105,724	10,488
Liabilities						
Other liabilities	3,877	36,477	332,837	209,348	336,714	245,825
Long-term debt	-	530,000	3,216,968	3,304,041	3,216,968	3,834,041
Total liabilities	3,877	566,477	3,549,805	3,513,389	3,553,682	4,079,866
Deferred inflows of resources						
Deferred pension amounts	-	-	-	356	-	356
Net position						
Net investment in capital assets	-	-	3,538,926	3,731,466	3,538,926	3,731,466
Unrestricted	180,059	-	937,903	967,605	1,117,962	967,605
Total net position	\$ 180,059	\$ -	\$ 4,476,829	\$ 4,699,071	\$ 4,656,888	\$ 4,699,071

LENAWEE COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

When comparing the current fiscal year to the previous fiscal year, net position has decreased by \$42,183 (0.9 percent). The decrease in net position is due to the increase in personnel costs as a result of the increase in the net pension liability in the current year.

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 187,589	\$ 74,398	\$ 1,153,702	\$ 1,211,348	\$ 1,341,291	\$ 1,285,746
Operating grants and contributions	-	-	30,644	76,590	30,644	76,590
General revenues - Unrestricted investment earnings	-	-	5,150	2,763	5,150	2,763
Total revenues	187,589	74,398	1,189,496	1,290,701	1,377,085	1,365,099
Expenses						
Human services building operations	-	-	1,615,367	1,182,063	1,615,367	1,182,063
Interest on bonds	7,530	74,398	-	-	7,530	74,398
Total expenses	7,530	74,398	1,615,367	1,182,063	1,622,897	1,256,461
Change in net position, before transfers	180,059	-	(425,871)	108,638	(245,812)	108,638
Transfers	-	-	203,629	(5,000)	203,629	(5,000)
Change in net position	180,059	-	(222,242)	103,638	(42,183)	103,638
Net position, beginning of year	-	-	4,699,071	4,595,433	4,699,071	4,595,433
Net position, end of year	\$ 180,059	\$ -	\$ 4,476,829	\$ 4,699,071	\$ 4,656,888	\$ 4,699,071

LENAWEE COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

Capital assets

The Authority's investment in capital assets for its business-type activities as of December 31, 2018, amounted to \$6,755,894 (net of accumulated depreciation). This investment in capital assets includes land as well as buildings and improvements. The total decrease in the Authority's investment in capital assets for the current fiscal year was \$279,613, which was entirely the result of current year depreciation.

	Business-type Activities	
	2018	2017
Land	\$ 75,000	\$ 75,000
Buildings and improvements (net of accumulated depreciation)	6,680,894	6,960,507
Total	\$ 6,755,894	\$ 7,035,507

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

Long-term Debt

At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$3,216,968 (see table below). General obligation bonds are direct obligations and pledge the full faith and credit of Lenawee County government. These bonds generally are issued as 15-20 year serial bonds with varying amounts of principal maturing each year.

Installment Debt					
Governmental Activities		Business-type Activities		Total	
2018	2017	2018	2017	2018	2017

Bonds payable (net of discounts and premiums)	\$	-	\$ 530,000	\$ 3,216,968	\$ 3,304,041	\$ 3,216,968	\$ 3,834,041
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Additional information on the Authority's long-term debt can be found in the notes to the financial statements.

Contacting the Lenawee County Building Authority

This financial report is designed to provide a general overview of the Lenawee 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 Lenawee County Building Authority, 301 North Main Street, Adrian, Michigan 49221.

BASIC FINANCIAL STATEMENTS

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LENAWEE COUNTY BUILDING AUTHORITY

Statement of Net Position

December 31, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 18,600	\$ 1,165,016	\$ 1,183,616
Receivables, net	165,336	-	165,336
Capital assets not being depreciated	-	75,000	75,000
Capital assets being depreciated, net	-	6,680,894	6,680,894
Total assets	183,936	7,920,910	8,104,846
Deferred outflows of resources			
Deferred pension amounts	-	105,724	105,724
Liabilities			
Accounts payable and accrued expenses	20	35,581	35,601
Unearned revenue	3,857	-	3,857
Long-term debt:			
Due within one year	-	209,747	209,747
Due in more than one year	-	3,007,221	3,007,221
Net pension liability (due in more than one year)	-	297,256	297,256
Total liabilities	3,877	3,549,805	3,553,682
Net position			
Net investment in capital assets	-	3,538,926	3,538,926
Unrestricted	180,059	937,903	1,117,962
Total net position	\$ 180,059	\$ 4,476,829	\$ 4,656,888

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

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Activities

For the Year Ended December 31, 2018

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Interest on bonds	\$ 7,530	\$ 187,589	\$ -	\$ 180,059
Business-type activities				
Human services building operations	<u>1,615,367</u>	<u>1,153,702</u>	<u>30,644</u>	<u>(431,021)</u>
Total	<u>\$ 1,622,897</u>	<u>\$ 1,341,291</u>	<u>\$ 30,644</u>	<u>\$ (250,962)</u>

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LENAWEE COUNTY BUILDING AUTHORITY

Statement of Activities

For the Year Ended December 31, 2018

	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net (expense) revenue	\$ 180,059	\$ (431,021)	\$ (250,962)
General revenues and transfers:			
Unrestricted investment earnings	-	5,150	5,150
Transfers from other funds of the County	-	227,595	227,595
Transfers to other funds of the County	-	(23,966)	(23,966)
Total general revenues and transfers	-	208,779	208,779
Change in net position	180,059	(222,242)	(42,183)
Net position, beginning of year	-	4,699,071	4,699,071
Net position, end of year	<u>\$ 180,059</u>	<u>\$ 4,476,829</u>	<u>\$ 4,656,888</u>

concluded.

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

LENAWEE COUNTY BUILDING AUTHORITY

Balance Sheet

Governmental Funds

December 31, 2018

	Debt Service- Jail	Capital Projects- Jail	Total Governmental Funds
Assets			
Cash and investments	\$ 10,310	\$ 8,290	\$ 18,600
Accounts receivable, net	133,891	-	133,891
Due from other governments	31,445	-	31,445
Total assets	\$ 175,646	\$ 8,290	\$ 183,936
Liabilities			
Accounts and contracts payable	\$ 20	\$ -	\$ 20
Unearned revenue	3,857	-	3,857
Total liabilities	3,877	-	3,877
Deferred inflows of resources			
Unavailable revenue - accounts receivable	127,630	-	127,630
Fund balances			
Restricted for capital projects	-	8,290	8,290
Committed for debt service	44,139	-	44,139
Total fund balances	44,139	8,290	52,429
Total liabilities, deferred inflows of resources and fund balances	\$ 175,646	\$ 8,290	\$ 183,936

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

LENAWEE COUNTY BUILDING AUTHORITY

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2018

Fund balances - total governmental funds	\$	52,429
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Amounts reported for *governmental activities* in the statement of net position
are different because:

The focus of governmental funds is on short-term financing. Some assets will not be available to pay for current expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.

Deferred accounts receivable		<u>127,630</u>
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Net position of governmental activities	\$	<u><u>180,059</u></u>
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The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2018

	Debt Service- Jail	Capital Projects- Jail	Total Governmental Funds
Revenues			
Charges for services	\$ 376,851	\$ -	\$ 376,851
Investment earnings	468	31	499
Total revenues	<u>377,319</u>	<u>31</u>	<u>377,350</u>
Expenditures			
Debt service:			
Principal	530,000	-	530,000
Interest and fiscal charges	40,429	-	40,429
Total expenditures	<u>570,429</u>	<u>-</u>	<u>570,429</u>
Net change in fund balances	(193,110)	31	(193,079)
Fund balances, beginning of year	<u>237,249</u>	<u>8,259</u>	<u>245,508</u>
Fund balances, end of year	<u>\$ 44,139</u>	<u>\$ 8,290</u>	<u>\$ 52,429</u>

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

LENAWEE 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, 2018

Net change in fund balances - total governmental funds	\$ (193,079)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report revenue raised to support the construction and financing of leased facilities and the related capital outlays as revenue and expenditures. However, in the statement of activities, these receipts and disbursements are recorded as adjustments to the net investment in direct financing leases.	
Net adjustment to the investment in direct financing leases	(165,458)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	
Change in deferred long-term receivable	(24,303)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term debt in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.	
Principal payments on bonds payable	530,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrued interest payable on bonds	<u>32,899</u>
Change in net position of governmental activities	<u>\$ 180,059</u>

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

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Net Position

Proprietary Fund
December 31, 2018

Human Services Building

Assets

Current assets -

Cash and investments

\$ 1,165,016

Noncurrent assets:

Capital assets not being depreciated

75,000

Capital assets being depreciated, net

6,680,894

Total noncurrent assets

6,755,894

Total assets

7,920,910

Deferred outflows of resources

Deferred pension amounts

105,724

Liabilities

Current liabilities:

Accounts payable

11,483

Accrued wages and benefits

8,456

Accrued interest payable

15,642

Current portion of bonds payable

209,747

Total current liabilities

245,328

Noncurrent liabilities:

Bonds payable, net of current portion

3,007,221

Net pension liability

297,256

Total noncurrent liabilities

3,304,477

Total liabilities

3,549,805

Net position

Net investment in capital assets

3,538,926

Unrestricted

937,903

Total net position

\$ 4,476,829

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

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Fund

For the Year Ended December 31, 2018

	Human Services Building
Operating revenues	
Rental income	\$ 1,148,028
Vending and other income	5,674
Total operating revenues	<u>1,153,702</u>
Operating expenses	
Personal services costs	469,151
Supplies and other operating expenses	197,231
Other contractual services	420,008
Depreciation expense	279,613
Total operating expenses	<u>1,366,003</u>
Operating loss	<u>(212,301)</u>
Nonoperating revenues (expenses)	
Intergovernmental revenue	30,644
Investment earnings	5,150
Interest expense	(249,364)
Total nonoperating expenses	<u>(213,570)</u>
Loss before transfers	(425,871)
Transfers from other funds of Lenawee County	227,595
Transfers to other funds of Lenawee County	<u>(23,966)</u>
Change in net position	(222,242)
Net position, beginning of year	<u>4,699,071</u>
Net position, end of year	<u><u>\$ 4,476,829</u></u>

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

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Cash Flows

Proprietary Fund

For the Year Ended December 31, 2018

	Human Services Building
Cash flows from operating activities	
Cash received from users	\$ 1,161,425
Other operating receipts	5,674
Cash paid to employees and suppliers	<u>(1,041,236)</u>
Net cash provided by operating activities	<u>125,863</u>
Cash flows from noncapital financing activities	
Transfers from other funds of Lenawee County	227,595
Transfers to other funds of Lenawee County	<u>(23,966)</u>
Net cash provided by noncapital financing activities	<u>203,629</u>
Cash flows from capital and related financing activities	
Principal payments on long-term debt	(3,325,000)
Interest payments on long-term debt	(215,018)
Premium on issuance of long-term debt	56,968
Proceeds from issuance of long-term debt	<u>3,160,000</u>
Net cash used in capital and related financing activities	<u>(323,050)</u>
Cash flows provided by investing activities	
Interest earnings on investments	<u>5,150</u>
Change in cash and investments	11,592
Cash and investments, beginning of year	<u>1,153,424</u>
Cash and investments, end of year	<u>\$ 1,165,016</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (212,301)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	279,613
Change in:	
Accounts and interest receivable	13,397
Accounts payable	(790)
Accrued wages and benefits	1,735
Net pension liability	139,801
Deferred outflows related to the net pension liability	(95,236)
Deferred inflows related to the net pension liability	<u>(356)</u>
Net cash provided by operating activities	<u>\$ 125,863</u>

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

NOTES TO FINANCIAL STATEMENTS

LENAWEE COUNTY BUILDING AUTHORITY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lenawee County Building Authority (the "Authority") was created in October 1987, pursuant to the provisions of Act 31, extra session of 1948, of the Public Acts of Michigan. The Authority has no stockholders, and all monies received are designated for the costs of designing, constructing, equipping and operating a new Human Services Building and other facilities as needed, to be used by certain County Departments, State Agencies, and Federal Departments, in accordance with the agreement between the incorporating Lenawee County, Michigan (the "County"), the Authority, and its bondholders.

The Authority is a blended component unit of Lenawee County, Michigan. The Authority is considered to be a blended component unit of the County because the County appoints the majority of the Authority Board members and has the ability to significantly influence operations, and the Authority provides services almost exclusively for the benefit of the County.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LENAWEE COUNTY BUILDING AUTHORITY

Notes to Financial Statements

Governmental fund financial statements are 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charges for services and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The Authority reports the following major governmental funds:

The *jail debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt issued for the construction of the jail.

The *jail capital projects fund* accounts for the construction of the new jail.

The Authority reports the following major proprietary funds:

The *human services building fund* accounts for the construction, operation, maintenance, and financing of the human services building.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are rental charges to building tenants. Operating expenses for enterprise funds include the cost of building maintenance, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

LENAWEE COUNTY BUILDING AUTHORITY

Notes to Financial Statements

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less.

Investments are stated at fair value.

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

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 represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The Authority reports deferred outflows of resources related to the net pension liability.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

Deferred inflows of resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometime report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

LENAWEE COUNTY BUILDING AUTHORITY

Notes to Financial Statements

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 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 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 or for deficit fund balances.

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

At December 31, 2018, the Authority's cash and investments consisted of the following:

Deposits	
Checking and savings accounts	\$ 18,600
Equity in pooled checking account	<u>859,424</u>
Total deposits	878,024
Investment	
Michigan CLASS Government Investment Pool	<u>305,592</u>
	<u><u>\$ 1,183,616</u></u>

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's investment does not have a stated maturity date.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk. As of December 31, 2018, the Authority, through the County Treasurer, has investments that consist of \$305,592 in the Michigan CLASS government investment pool. This investment is rated AAA on the Standard and Poor's rating scale.

LENAWEE COUNTY BUILDING AUTHORITY

Notes to Financial Statements

Custodial Credit Risk - Deposits. The Authority maintains \$878,024 in checking and savings accounts at banks which are under custody of the County Treasurer. It is not practical to determine the insured portion of these balances as they are included in pooled and other cash accounts of the County.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the County does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

Fair Value. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. These levels are determined by the Authority's investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary.

The investments in the Michigan CLASS government investment pool are not categorized as they are measured at net asset value per share or its equivalent.

3. RECEIVABLES

Receivables are comprised of the following:

	Governmental Activities
Accounts receivable	\$ 6,261
Accounts receivable - jail	14,750,821
Due from other governments	31,445
Subtotal	<u>14,788,527</u>
Less: allowance for doubtful accounts	<u>(14,623,191)</u>
	<u>\$ 165,336</u>

The Authority maintains subsidiary records for accounts receivable from inmates for room and board and other fees and makes some effort to collect. However, due to the nature of the receivable, an allowance for the majority of the balance is required as collections are not considered to be likely.

LENAWEE COUNTY BUILDING AUTHORITY

Notes to Financial Statements

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type Activities				
Capital assets, not being depreciated -				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets, being depreciated -				
Buildings and improvements	12,095,987	-	-	12,095,987
Less accumulated depreciation for -				
Buildings and improvements	5,135,480	279,613	-	5,415,093
Total capital assets being depreciated, net	<u>6,960,507</u>	<u>(279,613)</u>	<u>-</u>	<u>6,680,894</u>
Business-type activities capital assets, net	<u><u>\$ 7,035,507</u></u>	<u><u>\$ (279,613)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,755,894</u></u>

5. PAYABLES

Accounts payable and accrued expenses in the governmental activities are as follows:

Trade accounts payable	<u><u>\$ 20</u></u>
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Accounts payable and accrued expenses in the business-type activities are as follows:

Trade accounts payable	\$ 11,483
Accrued wages and benefits	8,456
Accrued interest payable	<u>15,642</u>
	<u><u>\$ 35,581</u></u>

LENAWEE COUNTY BUILDING AUTHORITY

Notes to Financial Statements

6. LONG-TERM DEBT

The Authority issues limited tax general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation ("G.O.") bonds have been issued for governmental and business-type activities. Long-term debt activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
G.O. Bonds of \$6,030,000 due in varying annual installments of \$325,000 to \$530,000 at interest rates of 2.1% to 3.9%, through 2018	\$ 530,000	\$ -	\$ (530,000)	\$ -	\$ -
Business-type Activities					
Federally taxable recovery zone economic development bonds of \$3,900,000, due in varying installments of \$125,000 to \$305,000 plus interest rates of 1.6% to 6.65%, through 2030	\$ 2,920,000	\$ -	\$ (2,920,000)	\$ -	\$ -
G.O. Bonds of \$550,000, due in varying installments of \$20,000 to \$40,000 plus interest rates of 2.25% to 5.0%, through 2030	405,000	-	(405,000)	-	-
G.O. Refunding Bonds of \$3,160,000, due in varying installments of \$205,000 to \$325,000 plus an interest rate of 3.00%, through 2030	-	3,160,000	-	3,160,000	205,000
Total installment debt	3,325,000	3,160,000	(3,325,000)	3,160,000	205,000
Bond discount	(20,959)	-	20,959	-	-
Bond premium	-	56,968	-	56,968	4,747
Total business-type activities	\$ 3,304,041	\$ 3,216,968	\$ (3,304,041)	\$ 3,216,968	\$ 209,747

LENAWEE COUNTY BUILDING AUTHORITY

Notes to Financial Statements

Annual debt service requirements to maturity for the general obligation bonds as of December 31, 2018, are as follows:

Year Ended December 31,	Business-type Activities	
	Principal	Interest
2019	\$ 205,000	\$ 91,725
2020	215,000	85,425
2021	220,000	78,900
2022	235,000	72,075
2023	240,000	64,950
2024-2028	1,400,000	205,650
2029-2030	645,000	19,425
	<u>\$ 3,160,000</u>	<u>\$ 618,150</u>

Refunded Debt

During fiscal year 2018, the Authority issued \$3,160,000 of refunding bonds to advance refund \$2,760,000 of the 2010A federally taxable recovery zone economic development bonds and \$380,000 of the 2010B general obligation bonds to provide resources to purchase U.S. government securities that were placed in an irrevocable trust to generate resources for all future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities. The refunding resulted in a net savings of \$170,403.

7. NET INVESTMENT IN CAPITAL ASSETS

As of December 31, 2018, net investment in capital assets was comprised of the following:

	Business-type Activities
Invested in capital assets:	
Capital assets not being depreciated	\$ 75,000
Capital assets being depreciated, net	6,680,894
Less related debt -	
Bonds payable	<u>(3,216,968)</u>
Total net investment in capital assets	<u>\$ 3,538,926</u>

8. DEFINED BENEFIT PENSION PLAN OF THE COUNTY

The Authority participates in the County's defined benefit pension plan. As it is not practical to separately disclose the plan information applicable to the Authority, disclosures for the plan are included in the separately issued financial statements of Lenawee County.



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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

June 26, 2019

Board Members of the
Lenawee County Building Authority
Adrian, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the ***Lenawee County Building Authority*** (the "Authority"), *a component unit of the County of Lenawee, Michigan*, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Johnson LLC