

DETROIT/WAYNE COUNTY PORT AUTHORITY

FINANCIAL STATEMENTS
(With Required Supplementary Information)

September 30, 2014 and 2013



**GEORGE JOHNSON
& COMPANY**

Certified Public Accountants and Consultants

DETROIT/WAYNE COUNTY PORT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

April 15, 2015

To the Board of Directors
Detroit/Wayne County Port Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Detroit/Wayne County Port Authority (the "Authority") as of, and for the years ended, September 30, 2014 and 2013, as well as 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

The Authority's 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 from 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 the auditor's 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 Authority'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 Authority'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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinions

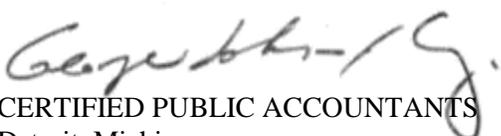
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2014 and 2013, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and budgetary comparison on pages 28 through 29 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, which 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 April 15, 2015, 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.


CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2014 and 2013

This section of the annual report of the Detroit/Wayne County Port Authority (the “Authority”) presents management’s discussion and analysis of the Authority’s financial performance during the fiscal years that ended on September 30, 2014 and 2013. Please read it in conjunction with the Authority’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Operational funding increased by 39 percent for the fiscal year ending September 30, 2014 due to increases in funding from Wayne County (the “County”) and the State of Michigan (the “State”). Grant revenue decreased due to the closing of several U.S. Department of Homeland Security (“DHS”) Port Security Grant Program sub-awardees finishing their projects; however, the U.S. Environmental Protection Agency (“EPA”) Revolving Loan Fund dollars dispersed have sufficiently increased over the past year to make up for the Port Security Grant Program decline.

Key successes for the Authority for the fiscal year ending September 30, 2014 include the following:

- The Authority’s operational funding was restored in 2014, with the County providing \$250,000, compared to \$100,000 in the previous year. In accordance with statute, the State’s match increased by \$103,000. Moreover, the Authority was included in the City of Detroit’s (the “City”) three-year budget at a level of \$250,000 a year.
- The Authority continued to serve as a fiduciary agent for the DHS Port Security Grant Program for the fiscal year ending September 30, 2014, distributed to the Port of Detroit (the “Port”) by the DHS. The Port received and disbursed over \$300,000 in funding during the year ended September 30, 2014 and seeks to implement more projects in 2015.
- The Authority was awarded \$1,000,000 by the EPA to set up a Revolving Loan Fund to assist with brownfield cleanup in the County. Cardinal Health, in conjunction with Henry Ford Hospital, was awarded \$915,000 in the form of a loan to go towards the construction of a state-of-the-art medical supply warehouse. To date, \$901,000 has been used.
- The Authority’s public dock generated \$21,750 in income for the year ending September 30, 2014; this reduction was due to not having any cruise ships during the year. Despite the reduction in visits, the Infinity/Ovation have increased their docking visits in 2014 and look to increase their visits even more in 2015.
- The Port building events have received approximately \$140,000 in event rental income for 2014, more than double the previous year. For 2015, the Waterview Lofts expect an increase in event income.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2014 and 2013

FINANCIAL HIGHLIGHTS (CONTINUED)

- In October 2013, the Authority, in partnership with the City and the County, was awarded a \$600,000 EPA brownfield assessment grant. These funds are already being awarded to access environmental cleanup costs in the City and across the County.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains two types of financial statements. The statements of net position and statements of activities (which are presented on pages 9 and 10) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and changes in fund balances for governmental funds (which are presented on pages 11 and 13) are considered fund financial statements. A further discussion of each type of statement follows.

Government-Wide Financial Statements

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net position include all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the Authority's net position and how they have changed. Net position represents the difference between the Authority's total of assets and deferred outflows of resources and its total of liabilities and deferred inflows of resources, and they represent one way to measure the Authority's financial health, or position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's funds, not the Authority as a whole. Funds are accounting devices that the Authority uses to keep track of specific sources of funding and spending for particular purposes.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2014 and 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (continued)

Most of the Authority’s activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed, short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance the Authority’s programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 12 and 14 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 15, explain some of the information in the financial statements and provide more detailed data. A comparison of the Authority’s general fund revenue and expenditures to its budget is provided on page 28.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects the condensed statements of net position as of September 30, 2014, 2013, and 2012:

Table 1
Statements of Net Position
September 30, 2014, 2013, and 2012
(in thousands of dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Cash	\$ 340.2	\$ 255.9	\$ 554.0
Accounts receivable	109.8	78.7	34.6
Capital assets	23,445.7	24,047.6	23,665.9
Other assets	11.2	7.8	8.9
Total Assets	<u>\$ 23,906.9</u>	<u>\$ 24,390.0</u>	<u>\$ 24,263.4</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2014 and 2013

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 1
Statements of Net Position (continued)
September 30, 2014, 2013, and 2012
(in thousands of dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Liabilities:			
Long-term liabilities	\$ 2,062.4	\$ 2,025.1	\$ 2,037.7
Other liabilities	401.9	334.5	538.6
Total Liabilities	<u>2,464.3</u>	<u>2,359.6</u>	<u>2,576.3</u>
Net Position:			
Net investment in capital assets	21,180.6	21,885.4	21,499.1
Unrestricted	262.0	145.0	188.0
Total Net Position	<u>\$ 21,442.6</u>	<u>\$ 22,030.4</u>	<u>\$ 21,687.1</u>

Accounts receivable balances are reviewed for collectability and are written off as necessary. As of September 30, 2014, 2013, and 2012, no allowance was considered necessary. Accounts receivable collections are typically made within 30 days.

Table 2 reflects the condensed statements of activities for the years ended September 30, 2014, 2013, and 2012:

Table 2
Statements of Activities
For the Years Ended September 30, 2014, 2013, and 2012
(in thousands of dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue:			
Program revenue:			
Contracts and grants	\$ 2,201.0	\$ 3,721.1	\$ 1,647.1
Noncash contributions	-0-	53.6	9.1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2014 and 2013

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)**Table 2****Statements of Activities (continued)****For the Years Ended September 30, 2014, 2013, and 2012***(in thousands of dollars)*

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue (continued):			
General revenue:			
Administrative revenue	\$ -0-	\$ 128.0	\$ 192.0
Other revenue	195.0	148.2	107.5
	<u>2,396.0</u>	<u>4,050.9</u>	<u>1,955.7</u>
Expenses:			
Import and export promotional programs	<u>2,983.8</u>	<u>3,707.6</u>	<u>2,598.9</u>
	(587.8)	343.3	(643.2)
Net Position, Beginning of Year	<u>22,030.4</u>	<u>21,687.1</u>	<u>22,330.3</u>
Net Position, End of Year	<u>\$ 21,442.6</u>	<u>\$ 22,030.4</u>	<u>\$ 21,687.1</u>

Grant revenue decreased to approximately \$303,000 in 2014 due to the DHS Port Security Grant Program for 2008-2011 closing. The EPA Revolving Loan Fund was the largest program managed during the year, with over \$860,000 in revenue. The majority of grant revenue was passed through to Port constituents.

ECONOMIC FACTORS

2014 was a challenging year, with many changes for the Authority. The year started with the Authority's budget being restored, after the County's and the State's cuts diminished the Authority's overall budget. In January 2014, the Authority hired a new Deputy Director and Security Director. In April 2014, Mayor Duggan replaced the City's appointees on the Authority's Board of Directors, including the Chair. The Authority's Executive Director was replaced in the third quarter, and the Security Director position was vacated and not refilled. The Authority's newly-hired Deputy Director and newly-elected Chair managed the Authority's operation for the majority of the summer.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2014 and 2013

ECONOMIC FACTORS (CONTINUED)

The new Executive Director was hired in late July 2014. Despite the hiring of a new Executive Director, previously booked cruise ship dockings were cancelled, resulting in no cruise ship visits for the year. The Authority's small staff managed to continue seeking grant opportunities and managing all projects that were ongoing.

The Authority's public dock and terminal building was full of activity during the year ended September 30, 2014. Building event rentals increased 114 percent from the previous year, with sales totaling approximately \$139,000 in 2014, compared to approximately \$65,000 in 2013. Dockings were down for the second year in a row. The decrease in dockings is primarily a factor of no cruise ship visits during 2014. The new Executive Director has hired a consultant to work on passenger service operations in an effort to increase cruise ship activity and dock visits.

In 2014, the Authority continues to manage the EPA's Revolving Loan Fund for brownfield site investigation work and cleanups. Kirco Development is the recipient of the funds, which they are using to develop a distribution center for Cardinal Health System, a subsidiary of Henry Ford Hospital. Over \$860,000 was distributed this year, for a total of \$901,000.

The Authority's operating budget was greatly restored this year. Operational funding for 2014 was approximately \$924,000, up 39 percent from approximately \$664,000 in the previous year. The Authority was included in the City's three-year budgets at \$250,000 a year.

Revenue from the Authority's Concession Agreement with the Ambassador Port Company was down 23 percent to approximately \$105,000 in 2014, from approximately \$137,000 in 2013. Revenue climbed over the last three years. However, 2014 revenue is the lowest since 2011, in part due to the harsh winter months of 2014, resulting in two quarters of lagging revenue. 2014 added approximately \$28,000 to existing debt. The overall note payable balance is approximately \$87,000 higher than the original balance issued in 2005. Several reasons can be cited for the increase in the note payable balance. The Authority's management is looking at finding a solution to solve the note amortization issue.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Executive Director's office of the Detroit/Wayne County Port Authority at 130 East Atwater, Detroit, Michigan 48226.

DETROIT/WAYNE COUNTY PORT AUTHORITY

STATEMENTS OF NET POSITION

September 30, 2014 and 2013

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Assets:		
Cash	\$ 340,228	\$ 255,934
Accounts receivable (no allowance considered necessary)	109,804	78,659
Prepaid expenses	11,221	7,808
Capital assets (Note C):		
Nondepreciable capital assets	3,976,940	3,976,940
Depreciable capital assets, net	<u>19,468,696</u>	<u>20,070,671</u>
Total Assets	<u>23,906,889</u>	<u>24,390,012</u>
Liabilities:		
Accounts payable	183,235	173,007
Accrued expenses	16,016	24,425
Long-term liabilities (Note D):		
Due or expected to be paid within one year	202,683	137,120
Due or expected to be paid in more than one year	<u>2,062,357</u>	<u>2,025,067</u>
Total Liabilities	<u>2,464,291</u>	<u>2,359,619</u>
Net Position:		
Net investment in capital assets	21,180,596	21,885,424
Unrestricted	<u>262,002</u>	<u>144,969</u>
Total Net Position	<u>\$ 21,442,598</u>	<u>\$ 22,030,393</u>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2014 and 2013

	Governmental Activities	
	2014	2013
Expenses:		
Import and export promotional programs:		
Salaries, wages, and employee benefits	\$ 526,274	\$ 571,448
Contractual and professional services	209,283	192,819
Facility operations and maintenance	110,149	65,075
Office expenses	127,261	138,559
Site reclamation and redevelopment	1,136,652	1,878,476
Travel and automotive expenses	16,480	21,720
Conferences, dues, and subscriptions	15,289	19,068
Marketing and promotion	33,355	33,806
Interest expense	132,529	132,010
Depreciation (Note C)	676,564	654,633
	2,983,836	3,707,614
Program Revenue:		
Contracts and grants (Note F)	2,200,988	3,721,105
Noncash contributions	-0-	53,550
	2,200,988	3,774,655
Net Program Revenue (Expense)	(782,848)	67,041
General Revenue:		
Administrative revenue (Note G)	-0-	128,000
Miscellaneous income	195,053	148,213
	195,053	276,213
Net Increase (Decrease) in Net Position	(587,795)	343,254
Net Position, Beginning of Year	22,030,393	21,687,139
Net Position, End of Year	\$ 21,442,598	\$ 22,030,393

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

September 30, 2014 and 2013

	General Fund	
	2014	2013
ASSETS		
Cash	\$ 340,228	\$ 255,934
Accounts receivable (no allowance considered necessary)	109,804	78,659
Prepaid expenditures	11,221	7,808
Total Assets	\$ 461,253	\$ 342,401
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 183,235	\$ 173,007
Accrued expenses	15,093	20,123
Total Liabilities	198,328	193,130
Fund Balances:		
Nonspendable	11,221	7,808
Unassigned	251,704	141,463
Total Fund Balances	262,925	149,271
Total Liabilities and Fund Balances	\$ 461,253	\$ 342,401

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO STATEMENTS OF NET POSITION

September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Total Fund Balances, Governmental Funds	\$ 262,925	\$ 149,271
<p>Amounts reported for governmental activities in the statements of net position differ from amounts reported in the governmental funds balance sheets due to the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:</p>		
Nondepreciable capital assets	3,976,940	3,976,940
Depreciable capital assets:		
Cost	21,766,132	21,691,543
Less: Accumulated depreciation	(2,297,436)	(1,620,872)
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:</p>		
Loans payable	(2,265,040)	(2,162,187)
Accrued vacation pay	(923)	(4,302)
	<u> </u>	<u> </u>
Total Net Position, Governmental Activities	<u><u>\$ 21,442,598</u></u>	<u><u>\$ 22,030,393</u></u>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS**

For the Years Ended September 30, 2014 and 2013

	General Fund	
	2014	2013
Revenue:		
Contracts and grants (Note F)	\$ 2,200,988	\$ 3,721,105
Noncash contributions	-0-	53,550
Administrative revenue (Note G)	-0-	128,000
Miscellaneous income	195,053	148,213
Total Revenue	2,396,041	4,050,868
Expenditures:		
Current:		
Salaries, wages, and employee benefits	529,653	611,842
Contractual and professional services	209,283	192,819
Facility operations and maintenance	110,149	65,075
Office expenses	127,261	138,559
Site reclamation and redevelopment	1,136,652	1,878,476
Travel and automotive expenses	16,480	21,720
Conferences, dues, and subscriptions	15,289	19,068
Marketing and promotion	33,355	33,806
Interest expense	132,529	132,010
Debt service (Note D)	2,426	31,006
Capital outlay (Note C)	74,589	1,036,377
Total Expenditures	2,387,666	4,160,758
Excess (Deficiency) of Revenue over Expenditures	8,375	(109,890)
Other Financing Sources:		
Issuance of loan proceeds (Note C)	75,000	-0-
Other additions to loans payable (Note C)	30,279	26,463
Net Increase (Decrease) in Fund Balances	113,654	(83,427)
Fund Balances, Beginning of Year	149,271	232,698
Fund Balances, End of Year	\$ 262,925	\$ 149,271

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Net Increase (Decrease) in Fund Balances, Governmental Funds	\$ 113,654	\$ (83,427)
<p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:</p>		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statements of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. During the years presented, these amounts are as follows:</p>		
Capital outlay	74,589	1,036,377
Less: Depreciation expense	(676,564)	(654,633)
<p>Certain expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. During the years presented, these amounts are as follows:</p>		
Accrued vacation pay, beginning of year	4,302	44,696
Less: Accrued vacation pay, end of year	(923)	(4,302)
<p>Proceeds issued on, and other additions to, long-term debt are reported as a financing source, and repayment of, and other reductions of, long-term debt are reported as an expenditure in governmental funds, but the additions and reductions increase and decrease, respectively, long-term liabilities in the statements of net position. During the years presented, these amounts are as follows:</p>		
Issuance of loan proceeds	(75,000)	-0-
Other additions to loans payable	(30,279)	(26,463)
Reductions to loans payable	2,426	31,006
	<u>2,426</u>	<u>31,006</u>
Net Increase (Decrease) in Net Position, Governmental Activities	<u>\$ (587,795)</u>	<u>\$ 343,254</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2014 and 2013

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

The Detroit/Wayne County Port Authority (the “Authority”) was created by the Port Authority Act of 1978. The legislation enables the Authority to enter into contracts for the acquisition, improvement, enlargement, or extension of port facilities. The mission of the Authority is to plan, develop, and foster economic and recreational growth, through environmental stewardship, in promoting Detroit and southeast Michigan as an import and export freight transportation and distribution hub for the United States, Canada, and the world marketplace.

For financial reporting purposes, the Authority is not a component unit of any other governmental entity. There are no fiduciary funds or component units included in the accompanying financial statements.

Basis of Presentation

The financial statements of the Authority consist of government-wide financial statements, which include the statements of net position and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and fund balances for governmental funds.

Government-Wide Financial Statements

The government-wide financial statements report information about all of the Authority’s assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenue, and expenses. Deferred outflows of resources represent the consumption of net assets by the Authority that is applicable to a future reporting period, while deferred inflows of resources represent the acquisition of net assets by the Authority that is applicable to a future reporting period, and net position is the residual of all other elements presented in the statements of net position.

Fund Financial Statements

For purposes of the fund financial statements, the accounts of the Authority are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenue, and expenditures. The various funds are summarized by type in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements (continued)

The following fund is used by the Authority:

General Fund

The general fund is the general operating fund of the Authority. It is used to account for all financial resources other than those required to be accounted for in another fund.

The Authority's fund balances are classified as follows, based on the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable

These fund balances consist of amounts that are not in a spendable form (such as inventory or prepaid expenditures) or that are required to be maintained intact.

Restricted

These fund balances consist of amounts that are constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed

These fund balances consist of amounts that are constrained to specific purposes by the Authority itself, using its highest level of decision-making authority, which is the Board of Directors. To be reported as committed, such amounts cannot be used for any other purpose unless the Board of Directors takes action to remove or change the constraint. The Board of Directors typically establishes (and modifies or rescinds) fund balance commitments by passage of a resolution, or through adoption and amendment of the budget.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements (continued)

Assigned

These fund balances consist of amounts that the Authority intends to use for a specific purpose. Such intent can be expressed by the governing body, which is the Board of Directors, or by an official or body to which the Board of Directors delegates the authority. Assigned fund balances are typically established through funding agreements or adoption or amendment of the budget.

Unassigned

These fund balances consist of amounts that are available for any purpose. Only the general fund has a positive unassigned fund balance.

Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned and expenses are recorded when incurred. Contracts and grants provided to support program activities, as well as project development and administration fees, are classified as program revenue. Administrative, investment, event, and other income not directly associated with program services provided are classified as general revenue.

Fund Financial Statements

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (continued)

Fund Financial Statements (continued)

Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

Expenditures that are incurred for purposes for which both restricted and unrestricted fund balances are available are applied first to available restricted fund balances, then to unrestricted fund balances. Expenditures that are incurred for purposes for which committed, assigned, and unassigned fund balances are available are applied first to available committed fund balances, then to available assigned fund balances, and finally to unassigned fund balances.

Tax-Exempt Status

No provision has been established for income taxes since the Authority is exempt from income taxes under Internal Revenue Code section 501(c)(4).

Capital Assets

Capital assets are recorded at historical cost. The Authority capitalizes all expenditures for buildings, building improvements, and land improvements in excess of \$5,000, as well as all expenditures for furniture, fixtures, and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Expenditures for maintenance and repairs are charged to expense. Renewals or betterments which extend the life or increase the value of the properties are capitalized and depreciated over the remaining useful lives of the related assets.

Pollution Remediation Obligations

Pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in activities such as site assessments and cleanups. Upon the occurrence of one of five specified events, the Authority estimates the components of expected pollution remediation outlays to determine whether outlays for these components should be accrued as a liability in the government-wide financial statements at current value or, under certain circumstances, whether these outlays should be capitalized in the government-wide financial statements. No pollution remediation obligations have been recorded as of September 30, 2014 and 2013 because none of the five specified events have occurred.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

During the years ended September 30, 2014 and 2013, the Authority made purchases from one vendor and two vendors, respectively, of \$815,269 and \$4,037,094, respectively, or approximately 45 percent and 55 percent, respectively, of total purchases. The total amounts due to these vendors were \$-0- and \$91,278 as of September 30, 2014 and 2013, respectively.

Compensated Absences

Vacation time is accrued in the government-wide financial statements as earned. Employees are allowed to carry over a maximum of five days. Upon termination, employees are entitled to their unused accumulated vacation time.

Sick time is accrued in the government-wide financial statements as earned. Employees are allowed to carry over all sick time. Upon termination, employees forfeit their unused accumulated sick time.

In the fund financial statements, only the matured liability for compensated absences is recorded. The total liability for vacation pay is reported in the government-wide financial statements.

NOTE B - CASH DEPOSITS

State of Michigan statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to the Authority. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2014 and 2013, the Authority's carrying amount of deposits and bank balances are as follows:

	<u>2014</u>	<u>2013</u>
Carrying amount of deposits	\$ 340,228	\$ 255,934
Total bank balances	<u>\$ 361,877</u>	<u>\$ 264,314</u>

All of the Authority's bank balances are covered by federal depository insurance as of September 30, 2014 and 2013.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE C - CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended September 30, 2014 and 2013 is as follows:

	<u>Land</u>
Balance, October 1, 2012	\$ 3,976,940
Balance, September 30, 2013	3,976,940
Balance, September 30, 2014	\$ 3,976,940

Depreciable capital asset activity for the years ended September 30, 2014 and 2013 is as follows:

	<u>Building and Improvements</u>	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Cost:				
Balance, October 1, 2012	\$ 20,390,685	\$ 40,135	\$ 224,346	\$ 20,655,166
Acquisitions	1,053,732			1,053,732
Less: Dispositions	(17,355)			(17,355)
Balance, September 30, 2013	21,427,062	40,135	224,346	21,691,543
Acquisitions	76,870	2,423		79,293
Less: Dispositions	(1,446)	(3,258)		(4,704)
Balance, September 30, 2014	\$ 21,502,486	\$ 39,300	\$ 224,346	\$ 21,766,132
Accumulated Depreciation:				
Balance, October 1, 2012	\$ 911,662	\$ 13,331	\$ 41,246	\$ 966,239
Depreciation expense	614,730	7,433	32,470	654,633
Balance, September 30, 2013	1,526,392	20,764	73,716	1,620,872
Depreciation expense	636,402	7,693	32,469	676,564
Balance, September 30, 2014	\$ 2,162,794	\$ 28,457	\$ 106,185	\$ 2,297,436
Net Depreciable Capital Assets:				
Balance, September 30, 2013	\$ 19,900,670	\$ 19,371	\$ 150,630	\$ 20,070,671
Balance, September 30, 2014	\$ 19,339,692	\$ 10,843	\$ 118,161	\$ 19,468,696

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE D - LONG-TERM LIABILITIES

Long-term liabilities as of September 30, 2014 and 2013 consist of the following:

Ambassador Port Company

The Authority entered into a Master Concession Agreement with the Ambassador Port Company (“Ambassador”), which gives Ambassador the right to operate the Authority’s port facilities. In connection with the Master Concession Agreement, the Authority borrowed \$2,103,000 from Ambassador. The related note agreement includes a provision for the possible advance of future amounts by Ambassador for the purpose of paying certain operating and expansion costs of the facilities associated with the Master Concession Agreement. The note bears interest at a rate defined in the Master Concession Agreement as 300 basis points over the yield to maturity of five-year United States Treasury notes, as published in a respected financial journal. According to the agreement, the interest rate should not be less than six percent; the rate that has been charged as of September 30, 2014 and 2013 was six percent. Repayment of the note is based on revenue received by the Authority under relevant sections of the Master Concession Agreement.

Continental Catering

The Authority entered into a loan agreement with Continental Catering (“Continental”) on November 11, 2013 in relation to a reimbursement note for a build-out of the facilities utilized for special events at the Authority. The loan was for \$75,000 at seven percent interest per annum, with a maturity date of November 11, 2015. All accrued interest and outstanding principal are due and payable at maturity.

Long-term liability activity for the years ended September 30, 2014 and 2013 is as follows:

	<u>Ambassador</u>	<u>Continental</u>	<u>Total</u>
Balance, October 1, 2012	\$ 2,166,730	\$ -0-	\$ 2,166,730
Additions	26,463		26,463
Less: Repayments	(31,006)		(31,006)
Balance, September 30, 2013	2,162,187	-0-	2,162,187
Additions	30,279	75,000	105,279
Less: Repayments	(2,426)		(2,426)
Balance, September 30, 2014	\$ 2,190,040	\$ 75,000	\$ 2,265,040

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE D - LONG-TERM LIABILITIES (CONTINUED)

	<u>Ambassador</u>	<u>Continental</u>	<u>Total</u>
Amounts Due Within One Year:			
September 30, 2013	\$ 137,120	\$ -0-	\$ 137,120
September 30, 2014	<u>\$ 145,677</u>	<u>\$ 57,006</u>	<u>\$ 202,683</u>

Maturities of long-term liabilities are estimated to be as follows as of September 30, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the Years Ending September 30:			
2015	\$ 202,683	\$ 105,817	\$ 308,500
2016	172,763	95,347	268,110
2017	164,428	85,572	250,000
2018	174,690	75,310	250,000
2019	185,592	64,408	250,000
2020-2022	<u>1,364,884</u>	<u>101,507</u>	<u>1,466,391</u>
	<u>\$ 2,265,040</u>	<u>\$ 527,961</u>	<u>\$ 2,793,001</u>

The estimated maturities in the preceding schedule are based on the assumption that the effective interest rate each year on the Ambassador note payable will be six percent, which is equal to the effective interest rate as of September 30, 2014, and that the revenue received by the Authority under the relevant sections of the Master Concession Agreement will be \$250,000 each year. Due to the nature of these assumptions and the uncertainties inherent in setting them, it is at least reasonably possible that changes in the near term to these assumptions would be material to the preceding schedule.

NOTE E - LEASES

The Authority leases office equipment under operating leases that expire at various dates through 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE E - LEASES (CONTINUED)

The following is a schedule by year of future minimum lease payments under these leases as of September 30, 2014:

For the Year Ending September 30:	
2015	\$ 5,097
2016	5,097
2017	<u>1,206</u>
	<u>\$ 11,400</u>

Rental expense under operating leases for the years ended September 30, 2014 and 2013 was \$5,097 and \$4,159, respectively.

NOTE F - CONTRACTS AND GRANTS

The Authority has entered into contracts with the following governmental entities from which it receives operating funds:

State of Michigan

The Authority's contract with the Michigan Department of Transportation is renewed annually unless a notice to terminate is requested by either party. The amount of funding for future years under the contract will be determined annually.

County of Wayne

The Authority receives a line-item appropriation in the budget of the County of Wayne. The amount of funding for future years under the appropriation will be determined annually.

City of Detroit

The Authority's contract with the City of Detroit is renewed annually unless a notice to terminate is requested by either party. The amount of funding for future years under the contract will be determined annually.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE F - CONTRACTS AND GRANTS (CONTINUED)

The Authority has also obtained the following grants:

Port Security Grants

The Authority received a series of reimbursement grant from the U.S. Department of Homeland Security for the purpose of investing in projects that mitigate gaps in security, while advancing economic development goals of the region by encouraging local companies and businesses to provide solutions. The Authority provides status reports on a quarterly basis.

Environmental Protection Agency Revolving Loan Fund Grant

The Authority received a \$1,000,000 grant from the U.S. Environmental Protection Agency (“EPA”) Revolving Loan Fund for environmental site investigations and clean-ups within Wayne County. The Authority issued the funds in 2014 and has applied for an additional \$500,000 in funding from the EPA.

National Oceanic and Atmospheric Administration Grant

The Authority was awarded a \$150,000 Marine Debris Removal grant by the National Oceanic and Atmospheric Association (“NOAA”), specifically through the Great Lakes Restoration Initiative. The funding allowed the Authority to remove approximately 18 abandoned recreational vessels from the Rouge River in order to facilitate recreational opportunities and improve the adjacent neighborhood. The NOAA grant closed in 2012.

Reimbursable costs incurred under the above grants have been recorded as grant revenue in the accompanying financial statements.

Ambassador Port Revenue

The Authority entered into a Master Concession Agreement with Ambassador. The Authority’s main purpose for entering into this agreement is to cause a dormant port facility to resume operations. The parties agreed that the Authority is to be compensated for out-of-pocket and administrative costs that the Authority incurs. According to the Master Concession Agreement, Ambassador is to pay the Authority 2.5 percent of gross receipts received in each quarter, less all outstanding interest that accrued during that quarter, any default interest due, and any interest accrued during prior quarters that was added to the principal amount of the promissory note. These payments from Ambassador are recorded as contract revenue.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE F - CONTRACTS AND GRANTS (CONTINUED)

Total contract and grant revenue is summarized as follows:

	<u>2014</u>	<u>2013</u>
State of Michigan	\$ 446,043	\$ 342,880
County of Wayne	250,000	100,000
City of Detroit	228,192	220,923
Port security grants	302,629	2,863,879
EPA Revolving Loan Fund grant	869,594	51,675
NOAA grant	-0-	5,195
Ambassador port revenue	104,530	136,553
	<u><u>\$ 2,200,988</u></u>	<u><u>\$ 3,721,105</u></u>

Certain reclassifications have been made to the above schedule for the year ended September 30, 2013 to conform to classifications used for the year ended September 30, 2014.

NOTE G - ADMINISTRATIVE REVENUE

The Authority provided administrative services for Greater Detroit Foreign Trade Zone, Inc. (“GDFTZ”) through June 1, 2013. Total fees were \$128,000 for the year ended September 30, 2013. No amounts were receivable from GDFTZ as of September 30, 2013.

NOTE H - RISK MANAGEMENT

Given the normal activities of the Authority and the relatively low rate of claims and lawsuits experienced in the Authority’s past history, the risk involved in the Authority’s operations is minimal and, in management’s opinion, is sufficiently covered by insurance policies.

NOTE I - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State of Michigan (“State”) law for the general fund. All annual appropriations lapse at the end of the fiscal year.

Expenditures in excess of amounts budgeted are a violation of State law. State law permits governmental entities to amend their budgets during the year.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE I - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

During the year ended September 30, 2014, the Authority incurred expenditures in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Contractual and professional services	\$ 202,000	\$ 209,283	\$ (7,283)
Office expenses	74,421	127,261	(52,840)
Site reclamation and redevelopment	-0-	1,136,652	(1,136,652)
Travel and automotive expenses	16,000	16,480	(480)
Conferences, dues, and subscriptions	10,000	15,289	(5,289)
Interest expense	-0-	132,529	(132,529)

Revenue was sufficient to cover the excess expenditures. The budget is for administrative items only; it is not the Authority's policy to budget for grant expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

DETROIT/WAYNE COUNTY PORT AUTHORITY

SCHEDULES OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)

For the Years Ended September 30, 2014 and 2013

	2014			2013			
	Original Budget (see page 29)	Final Budget	Actual	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget
Revenue:							
Contracts and grants	\$ 469,461	\$ 939,121	\$ 2,200,988	\$ 1,261,867	\$ 914,096	\$ 3,721,105	\$ 3,057,302
Noncash contributions				-0-		53,550	53,550
Administrative revenue	75,250	150,458	195,053	-0-	192,000	128,000	16,000
Miscellaneous income				44,595	126,000	148,213	(104,603)
Total Revenue	544,711	1,089,579	2,396,041	1,306,462	1,232,096	4,050,868	3,022,249
Expenditures:							
Current:							
Salaries, wages, and employee benefits	281,500	563,000	529,653	33,347	720,000	611,842	(41,091)
Contractual and professional services	101,000	202,000	209,283	(7,283)	202,250	175,203	(17,616)
Facility operations and maintenance	85,500	171,000	110,149	60,851	171,473	65,075	62,363
Office expenses	37,211	74,421	127,261	(52,840)	64,373	138,559	(48,622)
Site reclamation and redevelopment			1,136,652	(1,136,652)		1,878,476	(1,878,476)
Travel and automotive expenses	8,000	16,000	16,480	(480)	25,000	21,720	5,672
Conferences, dues, and subscriptions	5,000	10,000	15,289	(5,289)	9,000	19,068	(9,665)
Marketing and promotion	26,500	53,000	33,355	19,645	40,000	33,806	(5,311)
Interest expense			132,529	(132,529)		132,010	(132,010)
Debt service			2,426	(2,426)		31,006	(31,006)
Capital outlay			74,589	(74,589)		1,036,377	(1,036,377)
Total Expenditures	544,711	1,089,421	2,387,666	(1,298,245)	1,232,096	4,160,758	(3,132,139)
Excess (Deficiency) of Revenue over Expenditures	-0-	158	8,375	8,217	-0-	(109,890)	(109,890)
Other Financing Sources:							
Issuance of loan proceeds			75,000	75,000		26,463	-0-
Other additions to loans payable			30,279	30,279			26,463
Net Increase (Decrease) in Fund Balance	\$ -0-	\$ 158	\$ 113,654	\$ 113,496	\$ -0-	\$ (83,427)	\$ (83,427)

See note to schedules of revenue and expenditures - budget and actual (general fund).

**NOTE TO SCHEDULES OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)**

For the Years Ended September 30, 2014 and 2013

NOTE A - BUDGETS AND BUDGETARY ACCOUNTING

The Detroit/Wayne County Port Authority (the “Authority”) establishes an administrative budget that is reflected in the financial statements for the general fund. The budget is presented on the modified accrual basis of accounting and does not include grants.

Budgeted amounts are as presented to and approved by the Authority’s Board of Directors. No amendments to the budget were made during the year. Appropriations are authorized by the Authority’s management. Unexpended appropriations lapse at the end of the fiscal year.

The original budget presented in the accompanying schedule for the year ended September 30, 2014 covered a period of six months, through March 31, 2014. All other budgets presented in the accompanying schedules covered a period of 12 months.