

Berrien County
Brownfield
Redevelopment
Authority

(a Component Unit of the
County of Berrien, Michigan)



Year Ended
December 31,
2011

Financial
Statements

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

June 29, 2012

Honorable Members of the
Berrien County Brownfield Redevelopment Authority Board
St. Joseph, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the *Berrien County Brownfield Redevelopment Authority* (the "Authority"), a *discretely presented component unit of the County of Berrien, Michigan*, as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Berrien County Brownfield Redevelopment Authority as of December 31, 2011, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012, on our consideration of the County of Berrien, Michigan's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

A handwritten signature in black ink that reads "Lehmann Lobson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Management's Discussion and Analysis

The Berrien County Brownfield Redevelopment Authority (the "Authority") is a discretely presented component unit of the County of Berrien, Michigan, and was established on January 13, 2000, pursuant to Public Act 381 of 1996. The Authority presents this management discussion and analysis of its financial performance, as an overview of financial activities for the fiscal year ended December 31, 2011. The Authority encourages readers to consider the information presented here in conjunction with the accompanying basic financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. The basic financial statements are comprised of the *statement of net assets and governmental fund balance sheet*, *the statement of activities and governmental fund revenue, expenditures and changes in fund balances*, *the statement of revenue, expenditures and changes in fund balance - budget and actual general fund*, and *the notes to the basic financial statements*.

The *statement of net assets and governmental funds balance sheet* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as fund balance and net assets. Over time, increase or decreases in fund balance and net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities and governmental fund revenues, expenditures and changes in fund balances* presents information showing how the Authority's fund balance and net assets changed during the most recent year.

The *statement of revenue, expenditures and changes in fund balance - budget and actual general fund* presents information comparing the original and final budgeted revenues and expenditures to the actual revenues and expenditures that occurred during the year.

The *notes to the basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The net assets of the Authority are summarized for the purpose of determining the overall fiscal position. In the case of the Authority, assets exceeded liabilities by \$670,402 at the end of the fiscal year. All of the net assets of the Authority are considered unrestricted net assets, which are available for spending at the government's discretion.

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Management's Discussion and Analysis

	Net Assets	
	2011	2010
Current and other assets	\$ 3,876,825	\$ 3,573,692
Long-term liabilities outstanding	1,999,608	1,999,608
Other liabilities	1,206,815	1,184,768
Total liabilities	3,206,423	3,184,376
Total net assets, unrestricted	\$ 670,402	\$ 389,316

When comparing the current fiscal year to the previous fiscal year, net assets have increased by \$281,086 (72.2 percent). A key factor in this increase was tax increment financing contributions net of distributions of \$294,597.

	Change in Net Assets	
	2011	2010
Revenues		
Program revenue		
Charges for services	\$ 7,500	\$ 6,000
Operating grants and contributions	620,453	456,963
General revenue		
Property taxes	547,823	147,273
Total revenues	1,175,776	610,236
Expenses		
Health and welfare	894,690	453,446
Change in net assets	281,086	156,790
Net assets:		
Beginning of year	389,316	232,526
End of year	\$ 670,402	\$ 389,316

Budgetary Highlights

The General Fund budgeted for no change; however, there was an actual increase in fund balance of \$352,170. Significant budgetary variances are as follows:

- Higher than budgeted grant revenue offset by lower expenditures.
- Lower than budgeted interest revenue of \$1,855 created by poorer than anticipated interest rates.
- Higher than budgeted taxes from tax increment financing activities of \$323,012.
- Expenditures favorable budgetary variance of \$30,897.

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital assets. The Authority does not hold any capital assets nor did it invest in capital assets during the fiscal year.

Long-term debt. At the end of the current fiscal year, the Authority had total outstanding long-term debt of \$1,999,608. The debt is in the form of loans payable to the State of Michigan for State and Federal loans related to the Harbor Shores site remediation. Repayment of these loans is to be made from tax increment financing revenue along with payments from Harbor Shores for an outstanding note receivable.

	Outstanding Debt	
	2011	2010
Loans payable	<u>\$ 1,999,608</u>	<u>\$ 1,999,608</u>

Additional information on the Authority's long-term debt can be found in detail in the accompanying notes of this report in note 6.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Berrien County Brownfield Redevelopment Authority, 701 Main Street, Saint Joseph, Michigan 49085-1316.

BASIC FINANCIAL STATEMENTS

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Statement of Net Assets and Governmental Fund

Balance Sheet

December 31, 2011

	Governmental Fund	Adjustments	Statement of Net Assets
Assets			
Cash and investments	\$ 1,270,113	\$ -	\$ 1,270,113
Due from other governments	2,155,066	-	2,155,066
Notes receivable	451,646	-	451,646
Total assets	\$ 3,876,825	-	3,876,825
Liabilities			
Accounts payable	\$ 16,705	-	16,705
Accrued interest payable	-	1,667	1,667
Advance from other component unit	1,150,000	-	1,150,000
Deferred/unearned revenue	140,089	(101,646)	38,443
Long-term liabilities:			
Due in less than one year	-	191,465	191,465
Due in more than one year	-	1,808,143	1,808,143
Total liabilities	1,306,794	1,899,629	3,206,423
Fund balances			
Unassigned	2,570,031	(2,570,031)	-
Total liabilities and fund balance	\$ 3,876,825		
Net assets			
Unrestricted		\$ 670,402	\$ 670,402

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

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Statement of Activities and Governmental Funds

Revenue, Expenditures and Changes in Fund Balances

For the Year Ended December 31, 2011

	Governmental Fund	Adjustments	Statement of Activities
Expenditures / expenses			
Health and welfare	\$ 893,023	\$ 1,667	\$ 894,690
Program revenue			
Charges for services	7,500	-	7,500
Operating grants and contributions	620,453	-	620,453
Total program revenue	627,953	-	627,953
Net (expense) revenue	265,070	1,667	266,737
General revenue			
Taxes	617,240	(69,417)	547,823
Change in fund balances / net assets	352,170	(71,084)	281,086
Fund balances / net assets, beginning of year	2,217,861	(1,828,545)	389,316
Fund balances / net assets, end of year	\$ 2,570,031	\$ (1,899,629)	\$ 670,402

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

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Statement of Revenue, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2011

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenue				
Taxes	\$ 271,000	\$ 294,228	\$ 617,240	\$ 323,012
Charges for services	7,500	7,500	7,500	-
Operating grants and contributions	1,006,918	1,006,918	620,453	(386,465)
Total revenue	1,285,418	1,308,646	1,245,193	(63,453)
Expenditures				
Health and welfare	1,285,418	1,308,646	893,023	(415,623)
Change in fund balances	-	-	352,170	352,170
Fund balances				
Beginning of year	2,217,861	2,217,861	2,217,861	-
End of year	<u>\$ 2,217,861</u>	<u>\$ 2,217,861</u>	<u>\$ 2,570,031</u>	<u>\$ 352,170</u>

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

NOTES TO FINANCIAL STATEMENTS

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These financial statements present the activities of the Berrien County Brownfield Redevelopment Authority (the "Authority"). The Authority was established on January 13, 2000, pursuant to Public Act 381 of 1996. The primary purpose of the Authority is to revitalize environmentally contaminated properties in Berrien County. The Authority's activities are primarily funded through grants.

The Authority is a component unit of Berrien County, Michigan (the "County") because the County appoints the Authority's Board of Directors, it has the ability to significantly influence the Authority's operations, and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the County's financial statements and is an integral part of that reporting entity.

Government-Wide and Fund Financial Statements

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports a single major governmental fund, which is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund, if any.

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Notes To Financial Statements

2. POOLED CASH AND INVESTMENTS

At year-end, the carrying amount of the Authority's pooled cash and investments, which were deposited entirely in the County's internal cash management pool, was \$1,270,113. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the County's basic financial statements.

3. DUE FROM OTHER GOVERNMENTS

Amounts reported as due from other governments represent state and federal receivables from the Harbor Shores Infrastructure Project.

4. NOTES RECEIVABLE/DEFERRED REVENUE

The Authority has entered into an agreement to advance funds to a local business in the amount of \$925,000 at the prime rate plus 1% (effective rate of 4.25% at December 31, 2011). Notes receivable are reported at an amount equal to the outstanding principal. As of December 31, 2011, the County was in the process of foreclosure on the collateral related to the notes receivable outstanding balance of \$501,042 and setup an allowance of \$151,042 to reduce the receivable to the estimated fair value of the collateral.

The Authority also entered into an agreement with a local village for reimbursement to the Authority for the purchase of land in the amount of \$189,785 at a rate of 0%. As of December 31, 2011, \$101,646 of the principal payment was outstanding. Of this balance, \$30,000 is expected to be collected within one year. The entire balance of this loan is deferred as future payments are not considered to be available.

At year-end, the County had deferred revenue of \$101,646 related to the amount outstanding for notes receivable, which is considered to be unavailable, and \$38,443 of unearned grant revenue.

5. ADVANCES FROM OTHER COMPONENT UNIT

The amount reported as advances from other component unit represents a \$1,150,000 loan from the Berrien County Economic Development Corporation. This loan is interest free and has no specified repayment terms.

6. LONG-TERM DEBT

The Authority has issued long-term debt to finance the rehabilitation of contaminated land parcels. Such bonds are to be repaid from a property tax capture once the project is complete.

The Authority has the following bond issues outstanding:

Bonds	Due	Annual	Interest Rate	Amount
2007 DEQ Cleanup Revolving Fund Loan	2021	\$91,291-\$109,101	0.00% - 2.00%	\$ 999,608
2007 Michigan Cleanup Initiative Loan	2022	\$82,178-\$100,174	0.00% - 2.00%	1,000,000
Total general obligation bonds				\$ 1,999,608

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Notes To Financial Statements

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ended	Principal	Interest	Total
2012	\$ 191,465	\$ 19,992	\$ 211,457
2013	175,295	36,163	211,458
2014	178,801	32,657	211,458
2015	182,376	29,081	211,457
2016	186,024	25,434	211,458
2017-2021	987,438	69,850	1,057,288
2022-2023	98,209	1,964	100,173
	<u>\$ 1,999,608</u>	<u>\$ 215,141</u>	<u>\$ 2,214,749</u>

The following is a summary of changes in long term obligation transactions for the year ended December 31, 2011:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 1,999,608	\$ -	\$ -	\$ 1,999,608	\$ 191,465

7. ADJUSTMENTS

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

Fund balances	\$ 2,570,031
Adjustments:	
Notes receivable do not represent <i>current financial resources</i> and therefore are deferred in the governmental funds	101,646
Bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	(1,999,608)
Interest payable is not due and payable in current period, and and therefore not reported in the governmental funds	<u>(1,667)</u>
Net assets	<u>\$ 670,402</u>

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

■ Notes To Financial Statements

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

Net change in fund balances	\$	352,170
Change in accrued interest on bonds payable		(1,667)
Property tax revenue does not provide <i>current financial resources</i> and are not reported as revenue in the funds, but rather are deferred to the following fiscal year		<u>(69,417)</u>
Change in net assets	\$	<u><u>281,086</u></u>

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