

Berrien County
Brownfield
Redevelopment
Authority

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



Year Ended
December 31, 2013

Financial
Statements

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

June 30, 2014

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

Report on the Financial Statements

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, 2013, 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 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 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Berrien County Brownfield Redevelopment Authority as of December 31, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 14, 2014 on our consideration of the County of Berrien'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 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* 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

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's discussion and analysis of its financial performance, as an overview of financial activities for the fiscal year ended December 31, 2013. 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 position and governmental fund balance sheet*, the *statement of activities and governmental fund revenues, expenditures and changes in fund balance*, the *statement of revenues, expenditures and changes in fund balance - budget and actual general fund*, and the *notes to the basic financial statements*.

The *statement of net position and governmental fund balance sheet* presents information on all of the Authority's assets, deferred outflows, liabilities, and deferred inflows, with the residual reported as fund balance and net position. Over time, increase or decreases in fund balance and net position 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 balance* presents information showing how the Authority's fund balance and net position changed during the most recent year.

The *statement of revenues, 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 position of the Authority are summarized for the purpose of determining the overall fiscal position. In the case of the Authority, assets exceeded liabilities by \$717,562 at the end of the fiscal year. At the end of the fiscal year, \$178,193 of the Authority's net position was considered to be restricted, while \$539,369 was unrestricted, which is available for spending at the government's discretion.

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Management's Discussion and Analysis

	Net Position	
	2013	2012
Current and other assets	\$ 3,547,823	\$ 3,601,360
Long-term liabilities outstanding	1,651,045	1,808,476
Other liabilities	1,179,216	1,181,085
Total liabilities	2,830,261	2,989,561
Deferred inflows of resources	-	86,829
Net position		
Restricted for debt service	178,193	211,525
Unrestricted	539,369	313,445
Total net position	\$ 717,562	\$ 524,970

When comparing the current fiscal year to the previous fiscal year, net position increased by \$192,592 or 36.7 percent. A key factor in this increase was due to the Authority receiving taxes that were owed from previous years of approximately \$293,000.

	Change in Net Position	
	2013	2012
Revenues		
Program revenues		
Charges for services	\$ 7,500	\$ 7,500
Operating grants and contributions	81,642	195,332
General revenues		
Property taxes	624,683	331,363
Interest revenue	205	-
Total revenues	714,030	534,195
Expenses		
Health and welfare	485,284	679,627
Interest and fiscal charges	36,154	-
Total expenses	521,438	679,627
Change in net position	192,592	(145,432)
Net position:		
Beginning of year	524,970	670,402
End of year	\$ 717,562	\$ 524,970

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Management's Discussion and Analysis

Budgetary Highlights

The general fund budgeted for a \$4,458 increase in fund balance; however, there was an actual increase in fund balance of \$50,229. Significant budgetary variances are as follows:

- Tax revenue was higher than budgeted by \$132,922 as a result of receiving taxes owed from prior years.
- Health and welfare expenditures were \$513,968 lower than budgeted due to the County budgeting \$500,000 to pay back part of the \$1,150,000 advance, however, no payment was made during 2013.

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 \$1,651,045. 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	
	2013	2012
Loans payable	<u>\$ 1,651,045</u>	<u>\$ 1,808,476</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 Position and Governmental Fund

Balance Sheet
December 31, 2013

	Governmental Fund	Adjustments	Statement of Net Position
Assets			
Cash and investments	\$ 1,378,256	\$ -	\$ 1,378,256
Due from other governments	118,685	-	118,685
Notes receivable, net	2,050,882	-	2,050,882
Total assets	\$ 3,547,823	-	3,547,823
Liabilities			
Accounts payable	\$ 10,032	-	10,032
Accrued interest payable	-	19,184	19,184
Advance from other component unit	1,150,000	-	1,150,000
Long-term liabilities:			
Due in less than one year	-	160,172	160,172
Due in more than one year	-	1,490,873	1,490,873
Total liabilities	1,160,032	1,670,229	2,830,261
Deferred inflow of resources			
Unavailable revenue - notes receivable	49,837	(49,837)	-
Fund balance			
Nonspendable	2,001,045	(2,001,045)	-
Restricted	336,909	(336,909)	-
Total fund balance	2,337,954	(2,337,954)	-
Total liabilities, deferred inflow of resources and fund balance	\$ 3,547,823		
Net position			
Restricted for debt service		178,193	178,193
Unrestricted		539,369	539,369
Total net position		\$ 717,562	\$ 717,562

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

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Statement of Activities and Governmental Fund

Revenues, Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2013

	Governmental Fund	Adjustments	Statement of Activities
Expenditures / expenses			
Health and welfare	\$ 487,155	\$ (1,871)	\$ 485,284
Debt service:			
Principal	157,431	(157,431)	-
Interest and fiscal charges	36,154	-	36,154
Total expenditures / expenses	<u>680,740</u>	<u>(159,302)</u>	<u>521,438</u>
Program revenues			
Charges for services	7,500	-	7,500
Operating grants and contributions	81,642	-	81,642
Total program revenues	<u>89,142</u>	<u>-</u>	<u>89,142</u>
Net expense	<u>(591,598)</u>	<u>159,302</u>	<u>(432,296)</u>
General revenues			
Taxes	641,622	(16,939)	624,683
Interest revenue	205	-	205
Total general revenues	<u>641,827</u>	<u>(16,939)</u>	<u>624,888</u>
Change in fund balance / net position	50,229	142,363	192,592
Fund balance / net position, beginning of year	<u>2,287,725</u>	<u>(1,762,755)</u>	<u>524,970</u>
Fund balance / net position, end of year	<u>\$ 2,337,954</u>	<u>\$ (1,620,392)</u>	<u>\$ 717,562</u>

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

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 378,700	\$ 508,700	\$ 641,622	\$ 132,922
Charges for services	13,500	12,750	7,500	(5,250)
Operating grants and contributions	113,250	138,940	81,642	(57,298)
Interest revenue	1,000	1,000	205	(795)
Total revenues	506,450	661,390	730,969	69,579
Expenditures				
Health and welfare	783,000	999,277	487,155	(512,122)
Debt service				
Principal	191,650	166,878	157,431	(9,447)
Interest and fiscal charges	38,000	38,000	36,154	(1,846)
Total expenditures / expenses	1,012,650	1,204,155	680,740	(523,415)
Change in fund balances	(506,200)	(542,765)	50,229	592,994
Fund balances				
Beginning of year	2,287,725	2,287,725	2,287,725	-
End of year	\$ 1,781,525	\$ 1,744,960	\$ 2,337,954	\$ 592,994

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. 61, *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 Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance. 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 \$1,378,256. 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.

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.

3. DUE FROM OTHER GOVERNMENTS

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

4. NOTES RECEIVABLE

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, 2013). Notes receivable are reported at an amount equal to the outstanding principal. As of December 31, 2013, the Authority was in the process of selling the collateral related to the outstanding notes receivable balance of \$501,042 and has recorded an allowance of \$151,042 to reduce the receivable to the estimated fair value of the collateral.

The Authority also entered into a TIF Reimbursement with a Township for reimbursement of eligible expenses of \$189,795 at a rate of 0%. As of December 31, 2013, \$49,837 of the principal payment was outstanding. Of the balance, \$30,000 is expected to be collected within one year. The entire balance of the loan is considered to be unavailable.

The Authority also entered into an agreement with Harbor Shores Development Inc., in the amount of \$1,999,608 to pay debt service requirements on a loan from the Department of Environmental Quality and the United State Environmental Protection Agency to assist with the cleanup and redevelopment of certain properties within the Harbor Shores Redevelopment project. As of December 31, 2013, the principal balance outstanding amounts to \$1,651,045.

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.

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Notes To Financial Statements

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	\$91,350-\$108,915	0.00% - 2.00%	\$ 833,397
2007 Michigan Cleanup Initiative Loan	2022	\$82,178-\$100,174	0.00% - 2.00%	817,648
Total general obligation bonds				\$ 1,651,045

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

Year Ended December 31,	Principal	Interest	Total
2014	\$ 160,172	\$ 18,021	\$ 178,193
2015	163,375	16,218	179,593
2016	166,642	26,550	193,192
2017	169,975	23,217	193,192
2018	173,374	19,817	193,191
2019-2022	817,507	40,334	857,841
	<u>\$ 1,651,045</u>	<u>\$ 144,157</u>	<u>\$ 1,795,202</u>

During the year ended December 31, 2013, the County did not make any draws against the Cleanup Revolving Fund Loan. The total amount authorized and drawn under this issue is \$1,000,000.

The following is a summary of changes in long-term obligation transactions for the year ended December 31, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 1,808,476	\$ -	\$ 157,431	\$ 1,651,045	\$ 160,172

BERRIEN COUNTY BROWNFIELD REDEVELOPMENT AUTHORITY

Notes To Financial Statements

7. ADJUSTMENTS

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

Fund balance	\$ 2,337,954
Adjustments:	
Bonds payable are not due and payable in the current period and therefore not reported in the governmental fund	(1,651,045)
Interest payable is not due and payable in the current period, and therefore not reported in the governmental fund	(19,184)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the fund	<u>49,837</u>
Net position	<u><u>\$ 717,562</u></u>

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

Net change in fund balance	\$ 50,229
Change in accrued interest on bonds payable	1,871
Revenues in the statement of activities that do not provide <i>current</i> financial resources are not reported as revenue in the fund, but rather are deferred to the following fiscal year	(16,939)
Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	<u>157,431</u>
Change in net position	<u><u>\$ 192,592</u></u>

