

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



Year Ended
December 31,
2011

Financial
Statements

BERRIEN COUNTY BUILDING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

June 29, 2012

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Berrien County Building Authority* (the "Authority"), a 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 management of the Berrien County Building Authority. 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 each major fund of the Berrien County Building 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 5 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 cursive script that reads "Lehmann Hobson". The signature is written in black ink and is positioned to the right of the main text block.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BERRIEN COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

The Berrien County Building Authority (the "Authority") is a blended component unit of the County of Berrien, Michigan, and was established pursuant to Act 31, Public Acts of Michigan, as amended. The Authority presents this management's discussion and analysis of its financial performance, as an overview of financial activities for the fiscal year ended December 31, 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*, 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 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 balances and net assets changed during the most recent 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 equaled liabilities at the end of the most recent fiscal year.

	Net Assets	
	2011	2010
Current and other assets	<u>\$ 6,613,083</u>	<u>\$ 6,970,171</u>
Long-term liabilities outstanding	4,320,000	6,875,000
Other liabilities	2,293,083	95,171
Total liabilities	<u>6,613,083</u>	<u>6,970,171</u>
Total net assets	<u>\$ -</u>	<u>\$ -</u>

BERRIEN COUNTY BUILDING AUTHORITY

Management's Discussion and Analysis

When comparing the current fiscal year to the previous fiscal year, net assets was unchanged.

	Change in Net Assets	
	2011	2010
Revenues		
Intergovernmental	\$ 353,886	\$ 336,971
Interest revenue	715	209
Total revenues	<u>354,601</u>	<u>337,180</u>
Expenses		
Interest and fiscal charges	337,101	337,180
Bond issuance costs	17,500	-
Total expenses	<u>354,601</u>	<u>337,180</u>
Change in net assets	-	-
Net assets:		
Beginning of year	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>

Capital Assets and Debt Administration

Capital assets. The Authority does not hold any capital assets. The Authority did invest in assets on behalf of the general government which are included in the County's financial statements.

Long-term debt. At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$4,320,000. General obligation bonds are direct obligations and pledge the full faith and credit of the County of Berrien government. These bonds generally are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year.

	Outstanding Debt	
	2011	2010
General obligation bonds	<u>\$ 4,320,000</u>	<u>\$ 6,875,000</u>

Additional information on the Authority's long-term debt can be found in detail in the accompanying notes of this report in note 5.

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 Building Authority, 701 Main Street, Saint Joseph, Michigan 49085-1316.

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BASIC FINANCIAL STATEMENTS

BERRIEN COUNTY BUILDING AUTHORITY

Statement of Net Assets and Governmental Funds Balance Sheet

December 31, 2011

	Debt Service Fund	Capital Projects	Total Governmental Funds	Adjustments	Statement of Net Assets
Assets					
Cash and cash equivalents	\$ 500	\$ 3,228	\$ 3,728	\$ -	\$ 3,728
Leases receivable	6,609,355	-	6,609,355	-	6,609,355
Total assets	\$ 6,609,855	\$ 3,228	\$ 6,613,083	-	6,613,083
Liabilities					
Advances from other funds	\$ 2,249,000	\$ -	\$ 2,249,000	-	2,249,000
Accrued interest payable	-	-	-	44,083	44,083
Deferred revenue	6,609,355	-	6,609,355	(6,609,355)	-
Long-term liabilities:					
Due in one year	-	-	-	1,060,000	1,060,000
Due in more than one year	-	-	-	3,260,000	3,260,000
Total liabilities	8,858,355	-	8,858,355	(2,245,272)	6,613,083
Fund balances					
Unassigned (deficit)	(2,248,500)	3,228	(2,245,272)	2,245,272	-
Total liabilities and fund balance	\$ 6,609,855	\$ 3,228	\$ 6,613,083		
Net assets					
Unrestricted				\$ -	\$ -

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

BERRIEN COUNTY BUILDING AUTHORITY

Statement of Activities and Governmental Funds

Revenue, Expenditures and Changes in Fund Balances

For the Year Ended December 31, 2011

	Debt Service Fund	Capital Projects Fund	Total Governmental Funds	Adjustments	Statement of Activities
Revenue					
Intergovernmental	\$ 610,013	\$ -	\$ 610,013	\$ (256,127)	\$ 353,886
Interest revenue	-	715	715	-	715
Total revenue	<u>610,013</u>	<u>715</u>	<u>610,728</u>	<u>(256,127)</u>	<u>354,601</u>
Expenditures / expenses					
Public works	-	38,337	38,337	(38,337)	-
Debt service:					
Principal	4,450,000	-	4,450,000	(4,450,000)	-
Interest and fiscal charges	286,013	-	286,013	51,088	337,101
Bond issuance costs	17,500	-	17,500	-	17,500
Total expenditures / expenses	<u>4,753,513</u>	<u>38,337</u>	<u>4,791,850</u>	<u>(4,437,249)</u>	<u>354,601</u>
Revenues over (under) expenditures	(4,143,500)	(37,622)	(4,181,122)	4,181,122	-
Other financing sources					
Proceeds from issuance of long-term debt	1,895,000	-	1,895,000	(1,895,000)	-
Change in fund balances / net assets	<u>(2,248,500)</u>	<u>(37,622)</u>	<u>(2,286,122)</u>	<u>2,286,122</u>	<u>-</u>
Fund balances / net assets					
Beginning of year	-	40,850	40,850	(40,850)	-
End of year	<u>\$ (2,248,500)</u>	<u>\$ 3,228</u>	<u>\$ (2,245,272)</u>	<u>\$ 2,245,272</u>	<u>\$ -</u>

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

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NOTES TO FINANCIAL STATEMENTS

BERRIEN COUNTY BUILDING AUTHORITY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Berrien County Building Authority (the "Authority") was incorporated under the authority of Act 31, Public Act of Michigan, as amended. The purpose of the Authority is to acquire, furnish, renovate, construct and maintain buildings and other facilities for the use of the County.

Reporting Entity

These financial statements represent the financial position and the changes in financial position of a blended component unit of the County of Berrien (the "County") and are 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 Funds Revenue, 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.

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

The Authority reports the following major governmental funds:

The *debt service fund* accounts for the accumulation of resources for, and the payment of, interest and principal on bonded debt.

The *capital projects fund* accounts for the use of financial resources segregated for the construction/renovation of major capital facilities.

BERRIEN COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of demand deposits and certificates of deposit with original maturities of three months or less from the date of acquisition. State statutes authorize local governments to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations.

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts, premiums, issuance costs and refunding losses, if any, are deferred and amortized over the life of the applicable bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount, premium and deferred loss, if any. Bond issuance costs, if any, are reported as deferred charges.

2. FUND DEFICIT

At year end, the Authority had a deficit of \$2,248,500 in its debt service fund.

3. CASH AND INVESTMENTS

At year end, the carrying amount of the Building Authority's deposits was \$3,728. Cash categorizations are included in the County's basic financial statements to give an indication of the level of risk assumed by the County at year-end. It is not feasible to allocate the level of risk to the various component units of the County.

4. LEASES RECEIVABLE

The Authority has entered into various lease agreements with the County for buildings acquired or constructed by the Authority. These agreements generally terminate with the retirement of the related bond issues. Leases receivable are reported at an amount equal to the lesser of the actual bond-financed construction costs incurred to date or the outstanding bond principal (plus accrued interest). Annual lease payments under these agreements are equal to the related bond principal and interest due each year. At termination of a lease, title to the leased property is passed to the County.

All lease agreements provide for the lessee to use, operate and maintain the property, at its own expense, subject to the terms and conditions of the agreements.

5. LONG-TERM OBLIGATIONS

The Authority has issued general obligation bonds to finance the construction or purchase of facilities. Such bonds are to be repaid from rental payments by the County. The Authority has pledged its full faith and credit for payment on the general obligation bonds.

Current Refunding. During 2011, the Authority issued \$1,895,000 of limited tax general obligation refunding bonds and used other available resources to refund \$4,225,000 of general obligation bonds. The refunding resulted in savings of \$307,713 and an economic gain of \$250,895.

BERRIEN COUNTY BUILDING AUTHORITY

Notes To Financial Statements

The Authority has the following bond issues outstanding:

Bonds	Due	Annual Installments	Interest Rate	Amount
2007 Berrien County Building Authority	2020	\$175,000-\$300,000	3.25% - 4.10%	\$ 2,425,000
2011 Berrien County Building Authority Refunding	2014	\$245,000-\$835,000	2.00%	<u>1,895,000</u>
Total general obligation bonds				<u><u>\$ 4,320,000</u></u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended December 31,	Principal	Interest	Total
2012	\$ 1,060,000	\$ 132,250	\$ 1,192,250
2013	1,065,000	107,673	1,172,673
2014	495,000	82,376	577,376
2015	250,000	68,100	318,100
2016	275,000	58,600	333,600
2017-2020	<u>1,175,000</u>	<u>121,100</u>	<u>1,296,100</u>
	<u>\$ 4,320,000</u>	<u>\$ 570,099</u>	<u>\$ 4,890,099</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	\$ 6,875,000	\$ 1,895,000	\$ (4,450,000)	\$ 4,320,000	\$ 1,060,000

BERRIEN COUNTY BUILDING AUTHORITY

Notes To Financial Statements

6. 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	\$ (2,245,272)
Adjustments:	
Leases receivable are not <i>current financial resources</i> and therefore are deferred in the governmental funds	6,609,355
Bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	(4,320,000)
Accrued interest in bonds payable	<u>(44,083)</u>
Net assets	<u><u>\$ -</u></u>

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	\$ (2,286,122)
Adjustments:	
Amounts received for payment of certain bond principal and interest are recorded in the funds as revenue. For the statement of activities, a portion of this revenue is eliminated and treated as a reduction of the lease receivable.	(256,127)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities for net assets	(1,895,000)
Repayment of bond and note principal is an expenditure in the funds, but the repayment reduces long-term liabilities for net assets	4,450,000
Change in accrued interest on bonds payable	(51,088)
Payments for the acquisition/construction of capital facilities are reported as expenditures in the funds, but are treated as an increase of the lease receivable for the government-wide statements	<u>38,337</u>
Change in net assets	<u><u>\$ -</u></u>



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