

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



Year Ended
December 31, 2012

Financial
Statements

BERRIEN COUNTY BUILDING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

July 1, 2013

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

Report on the Financial Statements

We have audited the accompanying financial statements of 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, 2012, 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 the auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Berrien County Building Authority as of December 31, 2012, and the changes in financial position and its cash flows 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 July 1, 2013 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.



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, 2012. 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 balances*, and the *notes to the basic financial statements*.

The *statement of net position 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 position. Over time, increase or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities and governmental fund revenues, expenditures and changes in fund balances* presents information showing how the Authority's fund balances and net position 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 position 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 Position	
	2012	2011
Current and other assets	<u>\$ 1,067,067</u>	<u>\$ 6,613,083</u>
Long-term liabilities outstanding	1,060,000	4,320,000
Other liabilities	7,067	2,293,083
Total liabilities	<u>1,067,067</u>	<u>6,613,083</u>
Total net position	<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 position was unchanged.

	Change in Net Position	
	2012	2011
Revenues		
Intergovernmental	\$ 169,474	\$ 353,886
Interest revenue	38	715
Total revenues	<u>169,512</u>	<u>354,601</u>
Expenses		
Interest and fiscal charges	169,512	337,101
Bond issuance costs	-	17,500
Total expenses	<u>169,512</u>	<u>354,601</u>
Change in net position	-	-
Net position:		
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 \$1,060,000. 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	
	2012	2011
General obligation bonds	<u>\$ 1,060,000</u>	<u>\$ 4,320,000</u>

Additional information on the Authority's long-term debt can be found in detail in the accompanying notes of this report in Note 4.

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.

BASIC FINANCIAL STATEMENTS

BERRIEN COUNTY BUILDING AUTHORITY

Statement of Net Position and Governmental Funds Balance Sheet

December 31, 2012

	Debt Service Fund	Capital Projects Fund	Total Governmental Funds	Adjustments	Statement of Net Position
Assets					
Cash and cash equivalents	\$ 404	\$ 3,266	\$ 3,670	\$ -	\$ 3,670
Leases receivable	1,063,397	-	1,063,397	-	1,063,397
Total assets	\$ 1,063,801	\$ 3,266	\$ 1,067,067	-	1,067,067
Liabilities					
Accrued interest payable	\$ -	\$ -	\$ -	7,067	7,067
Long-term liabilities:					
Due in one year	-	-	-	815,000	815,000
Due in more than one year	-	-	-	245,000	245,000
Total liabilities	-	-	-	1,067,067	1,067,067
Deferred inflows of resources					
Unavailable revenue - leases receivable	1,063,397	-	1,063,397	(1,063,397)	-
Fund balances					
Unassigned	404	3,266	3,670	(3,670)	-
Total liabilities, deferred inflows of resources and fund balance	\$ 1,063,801	\$ 3,266	\$ 1,067,067		
Net position					
Unrestricted				\$ -	\$ -

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

BERRIEN COUNTY BUILDING AUTHORITY

Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2012

	Debt Service Fund	Capital Projects Fund	Total Governmental Funds	Adjustments	Statement of Activities
Revenues					
Intergovernmental	\$ 5,641,400	\$ -	\$ 5,641,400	\$ (5,471,926)	\$ 169,474
Interest revenue	-	38	38	-	38
Total revenues	5,641,400	38	5,641,438	(5,471,926)	169,512
Expenditures / expenses					
Debt service:					
Principal	3,260,000	-	3,260,000	(3,260,000)	-
Interest and fiscal charges	132,496	-	132,496	37,016	169,512
Total expenditures / expenses	3,392,496	-	3,392,496	(3,222,984)	169,512
Change in fund balances / net position	2,248,904	38	2,248,942	(2,248,942)	-
Fund balances / net position					
Beginning of year	(2,248,500)	3,228	(2,245,272)	2,245,272	-
End of year	\$ 404	\$ 3,266	\$ 3,670	\$ (3,670)	\$ -

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

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 Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds 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.

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 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 and premium, if any. Bond issuance costs, if any, are expensed as incurred.

Deferred inflows of Resources

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

2. CASH AND INVESTMENTS

At year end, the carrying amount of the Building Authority's deposits was \$3,670. 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.

3. 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.

4. 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.

BERRIEN COUNTY BUILDING AUTHORITY

Notes To Financial Statements

The Authority has the following bond issues outstanding:

Bonds	Due	Annual Installments	Interest Rate	Amount
2011 Berrien County Building Authority Refunding	2014	\$245,000 - \$835,000	2.00%	<u>\$ 1,060,000</u>

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

Year Ended December 31,	Principal	Interest	Total
2013	\$ 815,000	\$ 21,200	\$ 836,200
2014	<u>245,000</u>	<u>4,900</u>	<u>249,900</u>
	<u>\$ 1,060,000</u>	<u>\$ 26,100</u>	<u>\$ 1,086,100</u>

The following is a summary of changes in long term obligation transactions for the year ended December 31, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds	<u>\$ 4,320,000</u>	<u>\$ -</u>	<u>\$ (3,260,000)</u>	<u>\$ 1,060,000</u>	<u>\$ 815,000</u>

Current year principal payments on long-term debt included \$2,425,000 of bonds that were paid off during the fiscal year.

5. ADJUSTMENTS

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

Fund balances	\$ 3,670
Adjustments:	
Leases receivable are not <i>current financial resources</i> and therefore are deferred in the governmental funds	1,063,397
Bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	(1,060,000)
Accrued interest in bonds payable	<u>(7,067)</u>
Net position	<u>\$ -</u>

BERRIEN COUNTY BUILDING 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 position:

Net change in fund balances	\$ 2,248,942
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.	(5,471,926)
Repayment of bond and note principal is an expenditure in the funds, but the repayment reduces long-term liabilities for net position	3,260,000
Change in accrued interest on bonds payable	<u>(37,016)</u>
Change in net position	<u>\$ -</u>

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