

Genesee County Land Bank Authority
Flint, Michigan
(a component unit of Genesee County, Michigan)

Financial Report
September 30, 2014

Genesee County Land Bank Authority

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Independent Auditor's Report

To the Board of Directors
Genesee County Land Bank Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Genesee County Land Bank Authority (the "Authority") and GCLB-Berridge Place, Inc. and Subsidiaries, together a component unit of Genesee County, Michigan, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Genesee County Land Bank 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of GCLB-Berridge Place, Inc. and Subsidiaries, which represents all of the information presented in the discretely presented component unit column. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for GCLB-Berridge Place, Inc. and Subsidiaries, is based solely on the report of the other auditors. 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. The GCLB-Berridge Place, Inc. and Subsidiaries statements were not audited under *Government Auditing Standards*.

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 entity'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 entity'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.

To the Board of Directors
Genesee County Land Bank Authority

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Genesee County Land Bank Authority as of September 30, 2014 and the changes in its financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified 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, 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 supplemental 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 February 19, 2015 on our consideration of the Genesee County Land Bank Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Genesee County Land Bank Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

February 19, 2015

Genesee County Land Bank Authority

Management's Discussion and Analysis

As management of the Genesee County Land Bank Authority (the "Authority"), we offer readers of the Genesee County Land Bank Authority's financial statements this narrative overview and analysis of the financial activities of the Genesee County Land Bank Authority for the fiscal year ended September 30, 2014. The Authority holds and owns in its name any property acquired by it or conveyed to it by the State, a foreclosing governmental unit, a local unit of government, an intergovernmental entity created under the laws of the State of Michigan, or any public or private person, including, but not limited to, tax-reverted property and property with or without clear title. The Genesee County Land Bank Authority may hold, control, manage, maintain, operate, repair, lease as lessor, secure, prevent the waste or deterioration of, demolish, and take all other actions necessary to preserve the value of the property it holds or owns.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended September 30, 2014:

- The Genesee County Land Bank Authority is a public corporation organized pursuant to the Michigan Land Bank Fast Track Act, 2003 PA 258, MCL 124.751 - 124.774, and an intergovernmental agreement entered into between the Michigan Land Bank Fast Track Authority and the Treasurer of the County of Genesee, Michigan, dated December 7, 2004.
- Upon incorporation of the Genesee County Land Bank Authority, all tangible and intangible real and personal assets of the Genesee County Land Reutilization Council, Inc. were transferred to the Genesee County Land Bank Authority by quitclaim deed and by bill of sale, transfer, and assignment executed on behalf of Genesee County when the Authority was set up.
- The Genesee County Land Bank Authority relies on several main revenue sources to fund its core operations. The first are funds provided by Genesee County through the contracted services and grant revenue from federal, state, and local sources. The second is the sale of property held by the Genesee County Land Bank Authority.
- During the year, the Genesee County Land Bank Authority was awarded \$20 million in Hardest Hit Funds (HHF) to demolish, green, and maintain more than 1,000 vacant and blighted properties in public ownership. Also during the year, the Authority was awarded Michigan Blight Elimination Grant (MBEG) funds to demolish blighted structures in the Genesee County area.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of revenue, expenses, and changes in net position provide information about the activities of the Genesee County Land Bank Authority through its major Enterprise Fund.

Genesee County Land Bank Authority

Management's Discussion and Analysis (Continued)

Enterprise Fund

The following tables show, in a condensed format, the current year's net position and changes in net position, compared to the prior year:

	Enterprise Fund			Percent Change
	2013	2014	Change	
Other assets	\$ 14,932,752	\$ 21,626,846	\$ 6,694,094	45%
Capital assets	2,573,485	2,481,665	(91,820)	-4%
Total assets	17,506,237	24,108,511	6,602,274	38%
Current liabilities	792,707	6,941,298	6,148,591	776%
Long-term liabilities	2,204,797	3,562,542	1,357,745	62%
Total liabilities	2,997,504	10,503,840	7,506,336	250%
Net position:				
Net investment in capital assets	689,602	761,665	72,063	10%
Restricted	290,366	-	(290,366)	-100%
Unrestricted	13,528,765	12,843,006	(685,759)	-5%
Total net position	<u>\$14,508,733</u>	<u>\$ 13,604,671</u>	<u>\$ (904,062)</u>	-6%

	Enterprise Fund			Percent Change
	2013	2014	Change	
Operating revenue	\$ 9,751,027	\$ 19,463,265	\$ 9,712,238	100%
Operating expenses, other than depreciation	7,973,802	18,869,739	10,895,937	137%
Depreciation and amortization	203,550	225,639	22,089	11%
Operating income	1,573,675	367,887	(1,205,788)	-77%
Investment income	717	1,029	312	44%
Genesee County contract	670,000	502,500	(167,500)	-25%
City of Flint contract	339,711	300,000	(39,711)	100%
Nonoperating expenses	(105,909)	(100,602)	5,307	-5%
Loss on sale of capital assets	-	(20,033)	(20,033)	
Change in value of investment in 607 East Second Avenue, LLC	(146,000)	-	146,000	-100%
Investment in GCLB-Berridge Place, Inc. and Subsidiaries	1,954,843	(1,954,843)	(3,909,686)	-200%
Change in Net Position	<u>\$ 4,287,037</u>	<u>\$ (904,062)</u>	<u>\$ (5,191,099)</u>	-121%

Genesee County Land Bank Authority

Management's Discussion and Analysis (Continued)

The net position of the Enterprise Fund decreased 6.2 percent from a year ago, decreasing from \$14,508,733 to \$13,604,671.

The Authority's inventory balances decreased compared to last year. The decrease was due to a decrease in the inventory related to the NSP2 and NSP1/3 grant programs that ended in the current year. Any inventory was sold or purchased by the Land Bank and is now recorded as a fixed asset.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, decreased by \$685,759 or 5.1 percent. The current level of unrestricted net position stands at \$12,843,006, or about 67 percent of expenses.

Both HHF and MBEG funds are reimbursement-based grants and, as of the end of the year, the Authority had a significant increase in receivables due from other governmental units, accounts payable, revenue, and expenses.

Enterprise Fund operating expenses increased by \$10,895,937, mainly due to increases in grant funds for demolition and rehabilitation of residential property through the Hardest Hit program from MSHDA. Correspondingly, operating revenues increased by \$9,712,238 as a result of the increased grant funding.

A significant change in the value of investments held by the Authority was noted during the year. The decrease in value related to the investment in GCLB-Berridge Place, Inc. and Subsidiaries. In the past year, there was an impairment loss of the building that is owned and operated by Berridge. The impairment loss impacted the Authority's ability recover the initial cost of investing in GCLB-Berridge Place, Inc. and Subsidiaries; as such, the investment was written down. The change in value for the year was a \$1,954,843 loss.

The Genesee County Land Bank Fund

Our analysis of the Genesee County Land Bank Authority's Enterprise Fund begins on page 6. The Genesee County Land Bank Authority Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities.

The Genesee County Land Bank Authority's Enterprise Fund reflects the monies received through the sale of tax-foreclosed properties as well as government funds received through a contract for services with the Genesee County Treasurer's Office. These two sources make up a significant portion of the operating funds for core activities within the Genesee County Land Bank Authority.

Genesee County Land Bank Authority

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

A significant portion of capital assets derives from building and building improvements.

	Enterprise Fund			Percent
	2013	2014	Change	Change
Land	\$ 20,369	\$ 20,369	\$ -	0%
Assets being depreciated - Net of accumulated depreciation	2,553,116	2,461,296	(91,820)	-4%
Total	<u>\$ 2,573,485</u>	<u>\$ 2,481,665</u>	<u>\$ (91,820)</u>	-4%

The capital assets for the Enterprise Fund increased by \$716,386, due mainly to the addition of rehabilitated houses through the neighborhood stabilization program for the purpose of renting.

Economic Factors and Next Year's Budgets and Rates

- The Genesee County Land Bank Authority relies on revenue streams provided through grant revenue, contracts with Genesee County/City of Flint, and sales of property held by the Genesee County Land Bank Authority.
- The Genesee County Land Bank Authority expects to see funding from Genesee County fluctuate from year to year. Appropriate adjustments are expected to be made to services to reflect these changes.
- Revenue from property sales is expected to continue at a comparative rate to the current fiscal year, but noticeable market conditions have shifted traditional sales to more seller-financed sales. This warrants watching cash flows more closely as operating cash reserves are spread over future fiscal years.
- Federal program revenues have bolstered the Genesee County Land Bank Authority's activity and have shifted some services in support of these programs.
- Inflationary trends in the region will affect future expenditures.

Contacting the Genesee County Land Bank Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Genesee County Land Bank Authority's finances and to show the Genesee County Land Bank Authority's accountability for the money it receives. If you have questions about this report or need additional information, please address them to the Genesee County Land Bank at 452 S. Saginaw St., 2nd Floor, Flint, MI 48502.

Genesee County Land Bank Authority

Proprietary Funds Statement of Net Position September 30, 2014

	Enterprise Funds	Component Unit GCLB-Berridge Place, Inc and Subsidiaries (December 31, 2013)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,699,296	\$ 4,899
Receivables - Net of allowance for uncollectibles:		
Land contract receivable - Due within one year	831,511	-
Receivables from sales to customers on account	310	-
Other receivables	593,459	736
Due from other governmental units	9,157,072	-
Due from Genesee County	318,812	-
Inventory	704,667	-
Prepaid expenses and other assets	-	2,490
Tenant security deposit	-	13,916
Total current assets	<u>13,305,127</u>	<u>22,041</u>
Noncurrent assets:		
Advance to component unit (Note 4)	1,491,143	-
Land contract receivable - Greater than one year	4,891,576	-
Investment in 607 East Second Avenue, LLC (Note 1)	1,939,000	-
Capital assets (Note 3):		
Assets not subject to depreciation	20,369	63,939
Assets subject to depreciation	2,461,296	896,061
Other assets - Intangible assets - Net	-	60
Total noncurrent assets	<u>10,803,384</u>	<u>960,060</u>
Total assets	<u>24,108,511</u>	<u>982,101</u>
Liabilities		
Current liabilities:		
Accounts payable	6,382,256	19,920
Refundable deposits	20,384	14,006
Accrued liabilities and other	132,087	-
Unearned revenue	406,571	-
Compensated absences (Note 5)	36,097	-
Current portion of long-term debt	152,148	1,073,397
Total current liabilities	<u>7,129,543</u>	<u>1,107,323</u>
Noncurrent liabilities:		
Advance from primary government	-	1,349,920
Long-term debt (Note 5)	3,374,297	-
Total noncurrent liabilities	<u>3,374,297</u>	<u>1,349,920</u>
Total liabilities	<u>10,503,840</u>	<u>2,457,243</u>
Net Position		
Net investment in capital assets	761,665	(113,397)
Unrestricted	12,843,006	(1,361,745)
Total net position	<u>\$ 13,604,671</u>	<u>\$ (1,475,142)</u>

Genesee County Land Bank Authority

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended September 30, 2014

	Enterprise Fund	Component Unit
	Genesee County Land Bank Authority	GCLB-Berridge Place, Inc and Subsidiaries (December 31, 2013)
Operating Revenue		
Sale of properties	\$ 3,481,871	\$ -
Rentals	188,572	179,802
Interest and penalties charges	504,626	-
Reimbursements	81,577	-
Grants - Federal	10,907,398	-
Grants - State	3,541,723	-
Program income	31,935	-
Grants - Other	725,563	-
	19,463,265	179,802
Operating Expenses		
Cost of properties sold	264,082	-
Demolition and abatement	13,737,913	-
Development	499,544	-
Salaries and fringe benefits	2,350,841	-
County provided services	211,802	-
Professional services, legal, and contractual services	1,064,983	35,323
Repairs and maintenance	367,664	8,415
Insurance	57,167	8,211
Utilities and telephone	107,941	32,345
Administrative professional services	133,307	-
Other miscellaneous expenses	74,495	39,393
Depreciation	225,639	234,780
	19,095,378	358,467
Total operating expenses		
	367,887	(178,665)
Operating Income (Loss)		
	367,887	(178,665)
Nonoperating Revenue (Expenses)		
Interest income	1,029	-
Interest expense	(100,602)	(101,310)
Loss on sale of assets	(20,033)	-
Change in value of investments (607 East Second Ave, LLC and GCLB-Berridge Place, Inc. and Subsidiaries)	(1,954,843)	-
City of Flint contract	300,000	-
Genesee County contract	502,500	-
	(1,271,949)	(101,310)
Total nonoperating expenses		
	(904,062)	(279,975)
Loss - Before contributions and extraordinary items		
	(904,062)	(279,975)
Capital Contributions - Capital contribution from members	-	525,506
Impairment Loss	-	(3,675,516)
Change in Net Position	(904,062)	(3,429,985)
Net Position - Beginning of year	14,508,733	1,954,843
Net Position - End of year	\$ 13,604,671	\$ (1,475,142)

The Notes to Financial Statements are an
Integral Part of this Statement.

Genesee County Land Bank Authority

Proprietary Funds Statement of Cash Flows Year Ended September 30, 2014

	Enterprise Fund	Component Unit
	Genesee County	GCLB-Berridge Place,
	Land Bank Authority	Inc and Subsidiaries
		(December 31, 2013)
Cash Flows from Operating Activities		
Receipts from customers	\$ 4,304,700	\$ 185,123
Operating grants and contributions	5,899,238	-
Payments to vendors	(9,691,709)	(134,002)
Payments to employees	(2,317,486)	(548)
	(1,805,257)	50,573
Net cash (used in) provided by operating activities		
Cash Flows from Noncapital Financing Activities		
City of Flint and Genesee County contracts	802,500	-
Repayments from component unit for loans made	113,280	-
Repayment of advances from primary government	-	(94,764)
	915,780	(94,764)
Net cash provided by (used in) noncapital financing activities		
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(62,571)	-
Principal and interest paid on capital debt	(539,069)	(503,834)
Proceeds from line of credit	1,500,000	-
	898,360	(503,834)
Net cash provided by (used in) capital and related financing activities		
Cash Flows from Investing Activities		
Interest received on investments	1,029	-
Capital contributions from members	-	525,506
	1,029	525,506
Net cash provided by investing activities		
Net Increase (Decrease) in Cash and Cash Equivalents		
	9,912	(22,519)
Cash and Cash Equivalents - Beginning of year		
	1,689,384	27,418
Cash and Cash Equivalents - End of year		
	\$ 1,699,296	\$ 4,899
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ 367,887	\$ (178,665)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	225,639	234,780
Changes in assets and liabilities:		
Receivables	(273,112)	5,321
Due from others	(8,852,274)	-
Inventories	280,800	-
Prepaid and other assets	-	(1,865)
Accounts payable	6,404,183	(8,450)
Accrued and other liabilities	41,620	(548)
	(1,805,257)	50,573
Net cash (used in) provided by operating activities		
Significant Noncash Financing Activities		
Loss on investment in GCLB-Berridge Place, Inc. and Subsidiaries	\$ (1,954,843)	\$ -
NSP homes capitalized during the year	872,266	-
Impairment loss on asset	-	3,675,516

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Genesee County Land Bank Authority (the "Authority"):

Reporting Entity

The Genesee County Land Bank Authority is a public body corporate organized pursuant to the Michigan Land Bank Fast Track PA 258 and an intergovernmental agreement entered into between the Michigan Land Bank Fast Track Authority and the Treasurer of the County of Genesee, Michigan. The Authority was legally established on December 7, 2004 and began operations on that date. The Authority is comprised of seven members, as follows: Treasurer of Genesee County; one resident of the City of Flint, appointed by the County board; one resident of Genesee County not a resident of the City of Flint, appointed by the County board; and four residents of Genesee County, irrespective of municipality of residence, appointed by the County board.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus* for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these basic financial statements will be included in the Comprehensive Annual Financial Report (CAFR) of Genesee County as a discretely presented component unit of Genesee County.

The accompanying financial statements present the Authority and its component units, entities for which the Authority is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Authority's operations.

Discretely Presented Component Units

GCLB-Berridge Place, Inc. and Subsidiaries is a discretely presented component unit which is comprised of the following entities:

GCLB-Berridge Place, Inc. (Berridge Entities) was created to buy, own, operate, and sell the historically designated property formerly known as the Berridge Hotel located in Flint, Michigan. GCLB-Berridge Place, Inc. is wholly owned by the Genesee County Land Bank Authority. GCLB-Berridge Place, Inc. issues separate financial statements. Complete financial reports can be obtained at their administrative offices at 452 South Saginaw Street, Suite 200, Flint, Michigan 48502.

To carry out its purpose, GCLB-Berridge Place, Inc. created a subsidiary, Berridge Place Manager, LLC (of which GCLB-Berridge Place, Inc. owns 99.9 percent), which created Berridge Place, LLC (owns .1 percent). Berridge Place, LLC is the owner and lessor of the historically rehabbed property known as the Berridge Hotel.

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

Accounting and Reporting Principles

The Authority follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Fund Accounting

The Authority accounts for its various activities in a single proprietary fund which is the Authority's primary operating fund.

Basis of Accounting

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Authority's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Authority's proprietary funds relates to charges to customers for residential rental and sales of property as well as funds provided by the Genesee County Brownfield Authority and federal and local source grants since the purpose of those funds is to assist the Genesee County Land Bank Authority with carrying out specific project activities. Operating expenses for proprietary funds include the cost of property rental and sales, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Specific Balances and Transactions

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are stated at fair value. Investments in equity securities that do not have readily determined values and for which there is no ability to influence the operating and financial policies of the entity (i.e., investment in 607 East Second Avenue, LLC) are accounted for at cost and evaluated for decreases in value deemed to be other than temporary.

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

Investment in 607 East Second Avenue, LLC - The Authority's 1 percent ownership interest in 607 East Second Avenue, LLC is accounted for in the statement of net position as an equity investment. 607 East Second Avenue, LLC was created to account for the redevelopment of the old Durant Hotel. The total projected cost of the development was approximately \$35,590,000, with a total contribution of \$18,380,819 from the Authority. The Authority's capital contribution sources were from grants, Brownfield TIF bonds, and the sale of state historic and state Brownfield tax credits. The Authority, in previous years, has recorded a loss on impairment of the fair value of its investment below cost in the amount of \$16,441,819 to bring the investment balance to \$1,939,000.

Inventories and Prepaid Items - Inventories are valued at the lower of cost or market, as foreclosed properties are initially offered to the Authority by the County to purchase prior to going to auction at the amount of the taxes due for each parcel. The properties are inventoried at the amount of the taxes paid for the properties plus any cost incurred to rehabilitate a particular property, which do not exceed market value. In general, most parcels that are donated to the Authority and foreclosed properties not sold at auction, which automatically revert to the Authority, are valued at \$1 as they have minimal value. The treatment for prepaid items is that certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and rental properties, are reported in the business-type activities column in the financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$2,500 for property, plant, and equipment, and \$1,000 for improvements to rental properties with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Authority does not currently have any infrastructure assets such as roads, bridges, and similar items.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Capital Asset Class	Lives
Buildings and building improvements	5 - 50 years
Vehicles	5 years
Maintenance equipment	5 - 20 years
Office equipment	5 - 10 years

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred.

Unearned Revenue - In the proprietary funds, resources received before they are earned are recorded as a liability until the services have been performed or the goods have been transferred and are earned. At year end, the Authority had unearned revenue of \$406,571 that related to land contract and homes sales where title transfer to the properties had not yet commenced.

Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Compensated Absences (Vacation and Sick Leave) - The Authority grants employees annual (vacation) leave based on length of service and part- or full-time status. Employees may carryover up to five unused annual leave days to the next calendar year. Annual leave is fully vested when earned. Upon termination, employees are paid accumulated annual leave at current salary rates. It is the Authority's policy to permit employees to accumulate earned but unused sick and personal leave benefits at a rate of 56 hours per year for full-time employees and pro-rated based on average hours worked for part-time status employees. While the policy allows the accumulation of the sick/personal hours without limit, no payment for any unused accumulated hours will be paid upon termination. As a result, there is no liability for unpaid accumulated sick and personal leave. All vacation pay is accrued when incurred in the proprietary fund financial statements

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated Citizens Bank for the deposit of its funds. The investment policy adopted by the board mirrors that of Genesee County and, in accordance with Public Act 196 of 1997, has authorized investment in U.S. Treasury, agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, and reverse repurchase agreements. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$1,514,430 of bank deposits (checking accounts) that were uninsured and uncollateralized.

Concentration of Credit Risk - The Authority places no limit on the amount it may invest in any one issuer.

Component Unit - Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Berridge Entities do not have a deposit policy for custodial credit risk. At year end, Berridge Entities had \$0 of bank deposits (checking accounts) that were uninsured and uncollateralized.

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note 3 - Capital Assets

Capital asset activity of the Authority's business-type activities was as follows:

Business-type Activities	Balance	Additions	Disposals	Balance
	October 1, 2013			September 30, 2014
Capital assets not being depreciated -				
Land	\$ 20,369	\$ -	\$ -	\$ 20,369
Capital assets being depreciated:				
Buildings and improvements	3,195,310	96,294	(97,466)	3,194,138
Office equipment	107,934	3,821	-	111,755
Vehicles	161,047	22,739	-	183,786
Machinery and equipment	166,024	30,998	-	197,022
Subtotal	3,630,315	153,852	(97,466)	3,686,701
Accumulated depreciation:				
Buildings and improvements	718,969	176,064	(77,433)	817,600
Office equipment	99,792	4,510	-	104,302
Vehicles	140,251	18,441	-	158,692
Machinery and equipment	118,187	26,624	-	144,811
Subtotal	1,077,199	225,639	(77,433)	1,225,405
Net capital assets being depreciated	2,553,116	(71,787)	(20,033)	2,461,296
Net capital assets	\$ 2,573,485	\$ (71,787)	\$ (20,033)	\$ 2,481,665
Component Unit	Balance	Additions	Disposals	Balance
	October 1, 2013			September 30, 2014
Capital assets not being depreciated -				
Land	\$ 63,939	\$ -	\$ -	\$ 63,939
Capital assets being depreciated:				
Buildings and improvements	5,606,619	-	(4,724,603)	882,016
Office equipment	89,305	-	(75,260)	14,045
Subtotal	5,695,924	-	(4,799,863)	896,061
Accumulated depreciation:				
Buildings and improvements	850,132	-	(850,132)	-
Office equipment	51,563	-	(51,563)	-
Subtotal	901,695	-	(901,695)	-
Net capital assets being depreciated	4,794,229	-	(3,898,168)	896,061
Net capital assets	\$ 4,858,168	\$ -	\$ (3,898,168)	\$ 960,000

The amount for vehicles above includes \$59,449 as of September 30, 2014 for assets acquired under capital lease arrangements. Accumulated amortization of the leased assets at September 30, 2014 was \$59,449.

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note 4 - Advances

The composition of advances is as follows:

Genesee County Land Bank Authority - Advance to Berridge	\$ 1,491,143
GCLB-Berridge Place - Advance from GCLB	<u>(1,349,920)</u>
Total	<u>\$ 141,223</u>

A timing difference for recording changes in advances exists, as the two funds' presented year ends do not coincide.

The balance owing to the Land Bank Authority Fund from the GCLB-Berridge Place, LLC Fund resulted from a loan made for the construction of the Berridge building, developer fees payable to the Land Bank Authority Fund, and operational expenses paid by the Land Bank Authority Fund on behalf of GCLB-Berridge Place, LLC. Amounts will be paid in the future as cash flows allow or ultimately out of proceeds from any sale of the building. The variance in the balances from each entity is based on a timing difference due to the fiscal year 2013 financial statements being used for GCLB-Berridge Place, LLC for current year presentation.

Berridge Place building	\$ 24,495
Developer fees	870,705
Operating/Interest	<u>454,720</u>
Total	<u>\$ 1,349,920</u>

Note 5 - Long-term Debt

The Authority issues bonds to provide for the acquisition of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Authority. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligations:					
Promissory note - Genesee County DTR	\$ 408,593	\$ -	\$ 102,148	\$ 306,445	\$ 102,148
Land Bank Center	1,765,000	-	45,000	1,720,000	50,000
Berridge Place project	280,000	-	280,000	-	-
Line of Credit - FirstMerit Bank, N.A.	-	1,500,000	-	1,500,000	-
Total bonds payable	<u>2,453,593</u>	<u>1,500,000</u>	<u>427,148</u>	<u>3,526,445</u>	<u>152,148</u>
Other long-term obligations - Accumulated compensated absences	<u>31,204</u>	<u>65,493</u>	<u>60,600</u>	<u>36,097</u>	<u>36,097</u>
Total business-type activities	<u>\$ 2,484,797</u>	<u>\$ 1,565,493</u>	<u>\$ 487,748</u>	<u>\$ 3,562,542</u>	<u>\$ 188,245</u>

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note 5 - Long-term Debt (Continued)

Total interest expense for the year was \$119,211. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending September 30	Business-type Activities		
	Principal	Interest	Total
2015	\$ 152,148	\$ 100,932	\$ 253,080
2016	152,148	96,874	249,022
2017	157,148	92,802	249,950
2018	55,000	88,598	143,598
2019	60,000	85,628	145,628
2020-2024	350,000	375,377	725,377
2025-2029	475,000	262,240	737,240
2030-2034	625,000	110,422	735,422
Total	<u>\$ 2,026,444</u>	<u>\$ 1,212,873</u>	<u>\$ 3,239,317</u>

The long-term debt for GCLB-Berridge Place, LLC is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
LISC note payable	\$ 1,221,766	\$ -	\$ 148,369	\$ 1,073,397	\$ 1,073,397

Annual debt service requirements to maturity for the above note obligation is as follows:

Year Ending September 30	Principal	Interest	Total
2015	\$ 1,073,397	\$ 90,983	\$ 1,164,910

On September 10, 2010, the Genesee County Land Bank Authority entered into an agreement with Genesee County to repay for properties previously transferred to the Authority. A seven-year note payable, bearing 1 percent interest, was set up for \$975,038. The Authority will make quarterly payments with the last payment being due September 30, 2017. As of the year ended September 30, 2014, the balance of this promissary note was \$306,445.

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note 5 - Long-term Debt (Continued)

On April 1, 2007, Genesee County transferred the improvements of the Land Bank Center (formerly the Hughes & Hatcher Building) to the Authority in exchange for a note payable to the County with an original amount of \$1,995,000, maturing October 1, 2024, not subject to redemption prior to maturity, bearing interest rates ranging between 4.75 percent and 5.7 percent. The note requires the Authority to pay the debt service requirements of the bonds used to improve the building located at 452 S. Saginaw St., Flint, MI 48502.

On June 26, 2008, the Genesee County Land Bank Authority issued bonds in the amount of \$1,195,000, maturing January 31, 2014, not subject to redemption prior to maturity, bearing an interest rate of 5.39 percent, for the purpose of providing funds for the Berridge Place Project. The funds were loaned (advances to/from other funds) to the Berridge Place Enterprise Fund. The bonds are supported by the limited tax, full faith, and credit of the Authority. The bonds were paid from project revenues received from PNC Bank (formerly known as National City Bank, N.A.) and National City Community Development Corporation, based upon certain Michigan State historic tax credits and federal historic tax credits.

GCLB-Berridge Place, LLC has an original mortgage note in the amount of \$1,389,500, with a balance payable of \$1,073,397 as of December 31, 2013. The loan is evidenced by a mortgage agreement. The loan bears interest of 7.5 percent per annum and is payable in monthly installments of principal and interest of \$9,717, with a balloon payment due November 2014. The loan is collateralized by the property of GCLB-Berridge Place, LLC. In conjunction with this mortgage note payable, GCLB-Berridge Place, LLC has agreed to certain affirmative and negative covenants.

On February 18, 2014, Genesee County Land Bank Authority issued bonds to FirstMerit Bank, N.A. in order to obtain a line of credit not to exceed \$3,000,000. Interest on the note is payable at the rate of .50 percent per annum plus LIBOR. The line of credit principal amount is due and payable on February 1, 2016. The maximum rate of interest on the note shall not exceed 8.00 percent per annum. As of September 30, 2014, the Authority had drawn \$1,500,000 on the line of credit.

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Genesee County Land Bank Authority

Notes to Financial Statements September 30, 2014

Note 7 - Defined Contribution Pension Plan

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan. The Authority is a member of the Michigan Municipal Employees' Retirement System defined contribution plan. The plan is administered by the International City Management Association Retirement Corporation (ICMARC). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the plan and through its adoption, the Authority contributes 10 percent of employees' gross earnings and each employee contributes 5 percent of his or her salary. Participants are vested after three years of service and are entitled to 100 percent of the vested contributions including earnings thereon. The plan is a money purchase plan qualified under Section 401 of the Internal Revenue Code.

The Authority's total payroll during the current year was \$1,834,348. The current year contribution was calculated based on covered payroll of \$1,001,430, resulting in an employer contribution of \$100,143 and employee contributions of \$50,072.