

Southwest Michigan Building Authority
Kalamazoo County, Michigan

FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Members of the Board of
Southwest Michigan Building Authority

We have audited the accompanying financial statements which consist of a single enterprise fund, of Southwest Michigan Building Authority as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statement 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 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 Township'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 Southwest Michigan Building Authority, as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years ended in accordance 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 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.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan
June 25, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Southwest Michigan Building Authority's (the Authority) operations over the two recent fiscal years and its financial condition on December 31, 2019 and 2018. Please read it in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's total net position increased by \$247,588 in 2019 and decreased by \$78,306 in 2018.
- Total net position was reported in the amount of \$540,604 at December 31, 2019 (\$293,016 at December 31, 2018), with unrestricted net position of \$533,413 at December 31, 2019 (\$277,432 at December 31, 2018).

Overview of the financial statements

The Statement of Net Position reports all of the Authority's assets and liabilities, along with the difference between the two, which is identified as the net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the Authority's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position.

The Statement of Activities shows how the Authority's net position changed during the fiscal year. All changes in net position are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). This statement should help the reader to answer the question: Is the Authority better or worse off as a result of this year's activities?

The Statement of Cash Flows presents the Authority's cash receipts and disbursements during the fiscal year, classified by principal sources and uses.

Funds

The accounts of the Authority are organized within a single fund, its Operating Fund. This fund accounts for the expenses involved in providing inspection services to customers within the member townships who are charged fees to recover the costs of operation. This fund uses accrual accounting, which is the same method used by private-sector businesses.

The notes to the basic financial statements provide additional information that is necessary to understand the data reported in the financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Net position

Net position may serve, over time, as a useful indicator of the Authority's financial position. In the Authority's case, assets exceeded liabilities at the end of fiscal year 2019 by \$540,604 compared to \$293,016 at the end of fiscal year 2018 and \$371,322 at the end of fiscal year 2017. The Authority's investment in capital assets, a component of the total net position, amounts to \$7,191 at the end of fiscal year 2019, compared to balances of \$15,584 and \$23,977 for the end of fiscal years 2018 and 2017, respectively. The Authority uses these capital assets to provide essential services to its customers; consequently, these assets are not available to be liquidated for future spending needs.

Amounts included in the tables below represent annual balances for 2019 and 2018, while 2017 balances were derived from a 15-month period.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*Condensed financial information
Net position*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 555,124	\$ 362,910	\$ 366,039
Capital assets	<u>7,191</u>	<u>15,584</u>	<u>23,977</u>
Total assets	<u>562,315</u>	<u>378,494</u>	<u>390,016</u>
Current liabilities	<u>21,711</u>	<u>85,478</u>	<u>18,694</u>
Net assets:			
Investment in capital assets	7,191	15,584	23,977
Unrestricted	<u>533,413</u>	<u>277,432</u>	<u>347,345</u>
Total net position	<u>\$ 540,604</u>	<u>\$ 293,016</u>	<u>\$ 371,322</u>

Changes in net position

The Authority's total revenues of \$690,296 in 2019 were \$171,857 higher than total revenues in 2018 (\$518,439). The Authority's operating revenues come from its customers for building and trade inspections, and plan review fees. These charges comprise 99 percent of the Authority's revenues. Total 2019 expenses of \$442,708 were \$84,671 lower than 2018 expenses (\$527,379). Revenues increased due to greater demand for inspection services in 2019 compared to 2018. Expenses decreased primarily due to a decrease in professional services. Net position also decreased in 2018 due to a one-time litigation settlement, which is identified as an extraordinary item in the table below.

The Authority's total revenues of \$518,549 in 2018 were \$352,101 less than total revenues in 2017 (\$870,540). The Authority's operating revenues come from its customers for building and trade inspections, and plan review fees. These charges comprise 99 percent of the Authority's revenues. Total 2018 expenses of \$527,379 were \$28,161 higher than the total 2017 expenses (\$499,218). Revenues decreased due to a \$140,782 contribution in 2017 to fund operations. Expenses increased primarily due to an increase in professional services. Net position also decreased due to a one-time litigation settlement, which is identified as an extraordinary item in the table below.

*Condensed financial information
Changes in net position*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 689,391	\$ 517,494	\$ 729,381
Nonoperating revenues:			
Member contributions	-	-	140,782
Interest	<u>905</u>	<u>945</u>	<u>377</u>
Total revenues	690,296	518,439	870,540
Operating expenses	442,708	527,379	499,218
Extraordinary item	<u>-</u>	<u>69,366</u>	<u>-</u>
Change in net position	<u>\$ 247,588</u>	<u>\$ (78,306)</u>	<u>\$ 371,322</u>
Net position at end of year	<u>\$ 540,604</u>	<u>\$ 293,016</u>	<u>\$ 371,322</u>

The total cost of the Authority's operations amounted to \$442,708 during the period ended December 31, 2019. The Authority's most significant expenses were personnel costs (53 percent) and contractual inspection services (24 percent).

The total cost of the Authority's operations amounted to \$527,379 during the period ended December 31, 2018. The Authority's most significant expenses were personnel costs (52 percent), contractual inspection services (20 percent) and professional services (10 percent).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The Authority's investment in capital assets was as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Equipment	\$ 5,590	\$ 8,170	\$ 10,750
Vehicles	1,601	2,400	3,200
Software	<u>-</u>	<u>5,014</u>	<u>10,027</u>
 Totals	 <u>\$ 7,191</u>	 <u>\$ 15,584</u>	 <u>\$ 23,977</u>

The Authority acquired no capital assets during 2019.

More detailed information about the Authority's capital assets is presented in Note 3 of the notes to the financial statements.

Debt

The Authority had no debt at the beginning or end of the period.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Authority continues to develop uniform processes and information to implement the combination of inspections activities within its member townships and to actively recruit new municipal members. COVID-19 has created uncertainties that are likely to negatively impact our operations and financial condition. While it is difficult to estimate the financial impact of COVID-19, we expect certain revenues to decline.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Southwest Michigan Building Authority
 7275 West Main Street
 Kalamazoo, MI 49009

BASIC FINANCIAL STATEMENTS

Southwest Michigan Building Authority

STATEMENT OF NET POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash	\$ 541,465	\$ 351,805
Prepaid items	<u>13,659</u>	<u>11,105</u>
Total current assets	555,124	362,910
Noncurrent assets - capital assets, net of accumulated depreciation	<u>7,191</u>	<u>15,584</u>
Total assets	<u>562,315</u>	<u>378,494</u>
LIABILITIES		
Current liabilities:		
Accounts payable	14,880	76,446
Accrued payroll	<u>6,831</u>	<u>9,032</u>
Total liabilities	<u>21,711</u>	<u>85,478</u>
NET POSITION		
Investment in capital assets	7,191	15,584
Unrestricted	<u>533,413</u>	<u>277,432</u>
Total net position	<u>\$ 540,604</u>	<u>\$ 293,016</u>

See notes to financial statements

Southwest Michigan Building Authority

STATEMENT OF ACTIVITIES

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Permits:		
Building	\$ 436,755	\$ 270,530
Electrical	78,352	106,654
Mechanical	96,727	87,438
Plumbing	<u>77,557</u>	<u>52,872</u>
Total operating revenues	<u>689,391</u>	<u>517,494</u>
OPERATING EXPENSES		
Personnel costs	158,701	206,391
Employee benefits	77,808	69,497
Contracted inspections:		
Building	4,560	-
Electrical	36,225	43,875
Mechanical	32,445	31,860
Plumbing	31,680	32,265
Professional services	26,161	51,609
Computer support and operations	20,098	22,352
Operating supplies	3,161	5,506
Resource materials	2,687	8,226
Maintenance and utilities	2,491	7,221
Insurance	7,314	6,437
Telephone	5,132	5,701
Vehicle expense	5,420	7,431
Rent expense	20,000	20,000
Miscellaneous	432	615
Depreciation	<u>8,393</u>	<u>8,393</u>
Total operating expenses	<u>442,708</u>	<u>527,379</u>
OPERATING INCOME (LOSS)	246,683	(9,885)
NONOPERATING REVENUES		
Interest	<u>905</u>	<u>945</u>
EXTRAORDINARY ITEM		
Settlement agreement	<u>-</u>	<u>69,366</u>
CHANGE IN NET POSITION	247,588	(78,306)
NET POSITION - BEGINNING	<u>293,016</u>	<u>371,322</u>
NET POSITION - ENDING	<u>\$ 540,604</u>	<u>\$ 293,016</u>

See notes to financial statements

Southwest Michigan Building Authority**STATEMENT OF CASH FLOWS**

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and members	\$ 689,391	\$ 517,494
Payments to vendors and suppliers	(339,734)	(327,688)
Payments to employees	<u>(160,902)</u>	<u>(198,001)</u>
Net cash provided by (used in) operating activities	188,755	(8,195)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	905	945
NET INCREASE (DECREASE) IN CASH	189,660	(7,250)
CASH - BEGINNING	<u>351,805</u>	<u>359,055</u>
CASH - ENDING	<u>\$ 541,465</u>	<u>\$ 351,805</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 246,683	\$ (9,885)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	8,393	8,393
(Increase) in:		
Prepaid expenses	(2,554)	(4,121)
(Decrease) in:		
Accounts payable	(61,566)	(1,597)
Accrued payroll	<u>(2,201)</u>	<u>(985)</u>
Net cash provided by operating activities	<u>\$ 188,755</u>	<u>\$ (8,195)</u>

See notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Southwest Michigan Building Authority (the Authority) conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity:

As required by generally accepted accounting principles, these financial statements present the Authority (located in Kalamazoo County); management has determined that there are no other entities for which the Authority is financially accountable.

These financial statements include all the operations of the Authority, a municipal joint venture. The Authority was created under the provisions of Public Act 7 of 1967 (Ex. Sess.), as amended, through an agreement entered into by the Charter Townships of Oshtemo and Cooper. The purpose of the Authority is to administer and enforce the Michigan State Construction Code within its member townships.

Basis of accounting:

The Authority uses the accrual basis of accounting to account for its operations. Revenues are recognized when permits are issued, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating revenues and expenses:

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, liabilities, and net position:

Cash - Cash is considered to be demand deposits, time deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Capital assets - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial, individual cost of more than \$2,500 and 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Equipment	5 - 10 years
Vehicles	5 - 7 years
Software	3 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, liabilities, and net position (continued):

Net position - Net position represents the difference between assets and liabilities. The Authority currently reports two categories of net position, as follows: (1) *Investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets; and (2) *Unrestricted net position* consists of all other net position that does not meet the definition of the above component and is available for general use by the Authority.

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 revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH

State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Authority's deposits are in accordance with statutory authority. As of December 31, 2019 and 2018, the Authority had deposits with carrying amounts of \$541,465 and \$351,805, respectively.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Authority will not be able to recover its deposits. The Authority's investment policy does not specifically address custodial credit risk for deposits. At December 31, 2019 \$134,052 of the Authority's bank balances of \$534,052 was exposed to custodial credit risk because it was uninsured and uncollateralized. At December 31, 2018 \$105,724 of the Authority's bank balances of \$355,725 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets being depreciated:				
Equipment	\$ 12,900	\$ -	\$ -	\$ 12,900
Vehicles	4,000	-	-	4,000
Software	15,040	-	-	15,040
Subtotal	31,940	-	-	31,940
Less accumulated depreciation for:				
Equipment	(4,730)	(2,580)	-	(7,310)
Vehicles	(1,600)	(799)	-	(2,399)
Software	(10,026)	(5,014)	-	(15,040)
Subtotal	(16,356)	(8,393)	-	(24,749)
Total capital assets being depreciated, net	<u>\$ 15,584</u>	<u>\$ (8,393)</u>	<u>\$ -</u>	<u>\$ 7,191</u>

NOTE 3 - CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2018, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets being depreciated:				
Equipment	\$ 12,900	\$ -	\$ -	\$ 12,900
Vehicles	4,000	-	-	4,000
Software	15,040	-	-	15,040
Subtotal	<u>31,940</u>	<u>-</u>	<u>-</u>	<u>31,940</u>
Less accumulated depreciation for:				
Equipment	(2,150)	(2,580)	-	(4,730)
Vehicles	(800)	(800)	-	(1,600)
Software	(5,013)	(5,013)	-	(10,026)
Subtotal	<u>(7,963)</u>	<u>(8,393)</u>	<u>-</u>	<u>(16,356)</u>
Total capital assets being depreciated, net	<u>\$ 23,977</u>	<u>\$ (8,393)</u>	<u>\$ -</u>	<u>\$ 15,584</u>

NOTE 4 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers’ compensation), and medical benefits provided to employees. The Authority has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. During the prior fiscal year, settlements exceeded insurance coverage by \$69,366.

NOTE 5 – DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The assets of the plan were held in trust (custodial account or annuity contract), as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Authority’s financial statements.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Authority rents office space and pays for attorney services from the Charter Township of Oshtemo, which is a member unit. During the period ended December 31 2019, the Authority paid the Charter Township of Oshtemo \$20,000 and \$11,977, respectively, for rent and attorney services. During the period ended December 31 2018, the Authority paid the Charter Township of Oshtemo \$20,000 and \$16,785, respectively, for rent and attorney services.

NOTE 7 - EXTRAORDINARY ITEM

The Authority settled a lawsuit in 2019 for \$69,366 which was recognized as a liability and expenditure during fiscal year 2018.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 25, 2020, the date on which the financial statements were available to be issued. As a result of COVID-19, which occurred subsequent to the end of the fiscal year, economic uncertainties have arisen which are likely to negatively impact the Authority. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the financial impact on the Authority. Therefore, the Authority expects this matter to negatively impact its operations and financial condition. However, the related financial impact and duration cannot be reasonably estimated at this time.