

***Southwest Michigan Building Authority  
Kalamazoo County, Michigan***

**FINANCIAL STATEMENTS**

*Years ended December 31, 2020 and 2019*

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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, 2020 and 2019, 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, 2020 and 2019, 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, 2021

## 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, 2020 and 2019. Please read it in conjunction with the Authority's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Authority's total net position increased by \$170,758 in 2020 and increased by \$247,588 in 2019.
- Total net position was reported in the amount of \$711,362 at December 31, 2020 (\$540,604 at December 31, 2019), with unrestricted net position of \$677,089 at December 31, 2020 (\$533,413 at December 31, 2019).

**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 2020 by \$711,362 compared to \$540,604 at the end of fiscal year 2019 and \$293,016 at the end of fiscal year 2018. The Authority's investment in capital assets, a component of the total net position, amounts to \$34,273 at the end of fiscal year 2020, compared to balances of \$7,191 and \$15,584 for the end of fiscal years 2019 and 2018, 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed financial information  
Net position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 686,868	\$ 555,124	\$ 362,910
Capital assets	<u>34,273</u>	<u>7,191</u>	<u>15,584</u>
Total assets	<u>721,141</u>	<u>562,315</u>	<u>378,494</u>
Current liabilities	<u>9,779</u>	<u>21,711</u>	<u>85,478</u>
Net assets:			
Investment in capital assets	<u>34,273</u>	<u>7,191</u>	<u>15,584</u>
Unrestricted	<u>677,089</u>	<u>533,413</u>	<u>277,432</u>
Total net position	<u>\$ 711,362</u>	<u>\$ 540,604</u>	<u>\$ 293,016</u>

**Changes in net position**

The Authority's total revenues of \$633,365 in 2020 were \$56,931 lower than total revenues in 2019 (\$690,296). 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 2020 expenses of \$462,607 were \$19,899 higher than 2019 expenses (\$442,708). Revenues decreased due to COVID-19. Expenses increased primarily due to an increase site plan reviews completed in 2020.

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.

Condensed financial information  
Changes in net position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 629,859	\$ 689,391	\$ 517,494
Nonoperating revenues:			
Interest	<u>3,506</u>	<u>905</u>	<u>945</u>
Total revenues	<u>633,365</u>	<u>690,296</u>	<u>518,439</u>
Operating expenses	<u>462,607</u>	<u>442,708</u>	<u>527,379</u>
Extraordinary item	<u>-</u>	<u>-</u>	<u>69,366</u>
Change in net position	<u>\$ 170,758</u>	<u>\$ 247,588</u>	<u>\$ (78,306)</u>
Net position at end of year	<u>\$ 711,362</u>	<u>\$ 540,604</u>	<u>\$ 293,016</u>

The total cost of the Authority's operations amounted to \$462,607 during the period ended December 31, 2020. The Authority's most significant expenses were personnel costs (30 percent) and contractual inspection services (25 percent).

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 (36 percent) and contractual inspection services (24 percent).

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital assets**

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Equipment	\$ 3,010	\$ 5,590	\$ 8,170
Vehicles	31,263	1,601	2,400
Software	<u>-</u>	<u>-</u>	<u>5,014</u>
 Totals	 <u>\$ 34,273</u>	 <u>\$ 7,191</u>	 <u>\$ 15,584</u>

The Authority acquired a new truck and accessories for \$32,421 during 2020.

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.

**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, 2020 and 2019*

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 671,963	\$ 541,465
Prepaid items	<u>14,905</u>	<u>13,659</u>
Total current assets	686,868	555,124
Noncurrent assets - capital assets, net of accumulated depreciation	<u>34,273</u>	<u>7,191</u>
Total assets	<u>721,141</u>	<u>562,315</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	7,881	14,880
Accrued payroll	<u>1,898</u>	<u>6,831</u>
Total liabilities	<u>9,779</u>	<u>21,711</u>
<b>NET POSITION</b>		
Investment in capital assets	34,273	7,191
Unrestricted	<u>677,089</u>	<u>533,413</u>
Total net position	<u>\$ 711,362</u>	<u>\$ 540,604</u>

*See notes to financial statements*

**Southwest Michigan Building Authority****STATEMENT OF ACTIVITIES**

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES</b>		
Permits:		
Building	\$ 339,592	\$ 427,304
Electrical	101,764	78,352
Mechanical	92,442	96,727
Plumbing	62,051	77,557
Plan review fees	31,704	9,036
Other	<u>2,306</u>	<u>415</u>
Total operating revenues	<u>629,859</u>	<u>689,391</u>
<b>OPERATING EXPENSES</b>		
Personnel costs	139,324	158,701
Employee benefits	72,482	77,808
Contracted inspections:		
Building	7,400	3,960
Electrical	40,495	36,225
Mechanical	34,090	32,445
Plumbing	34,250	31,680
Site plan reviews	45,307	600
Professional services	13,125	26,161
Computer support and operations	24,757	20,098
Operating supplies	3,519	3,161
Resource materials	2,207	2,687
Maintenance and utilities	2,306	2,491
Insurance	7,518	7,314
Telephone	5,764	5,132
Vehicle expense	4,095	5,420
Rent expense	20,250	20,000
Miscellaneous	1,380	432
Depreciation	<u>4,338</u>	<u>8,393</u>
Total operating expenses	<u>462,607</u>	<u>442,708</u>
<b>OPERATING INCOME (LOSS)</b>	167,252	246,683
<b>NONOPERATING REVENUES</b>		
Interest	<u>3,506</u>	<u>905</u>
<b>CHANGE IN NET POSITION</b>	170,758	247,588
<b>NET POSITION - BEGINNING</b>	<u>540,604</u>	<u>293,016</u>
<b>NET POSITION - ENDING</b>	<u>\$ 711,362</u>	<u>\$ 540,604</u>

See notes to financial statements

**Southwest Michigan Building Authority**

**STATEMENT OF CASH FLOWS**

*Years ended December 31, 2020 and 2019*

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and members	\$ 629,859	\$ 689,391
Payments to vendors and suppliers	(327,190)	(339,734)
Payments to employees	(144,257)	(160,902)
Net cash provided by operating activities	158,412	188,755
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of fixed assets	1,001	-
Acquisition of fixed assets	(32,421)	-
Net cash used by capital and related financing activities	(31,420)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	3,506	905
<b>NET INCREASE IN CASH</b>	130,498	189,660
<b>CASH - BEGINNING</b>	541,465	351,805
<b>CASH - ENDING</b>	<u>\$ 671,963</u>	<u>\$ 541,465</u>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities:</b>		
Operating income (loss)	\$ 167,252	\$ 246,683
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	4,338	8,393
(Increase) decrease in prepaid expenses	(1,246)	(2,554)
Increase (decrease) in:		
Accounts payable	(6,999)	(61,566)
Accrued payroll	(4,933)	(2,201)
Net cash provided by (used in) operating activities	<u>\$ 158,412</u>	<u>\$ 188,755</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, 2020 and 2019, the Authority had deposits with carrying amounts of \$671,963 and \$541,465, 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, 2020 \$263,525 of the Authority's bank balances of \$666,314 was exposed to custodial credit risk because it was uninsured and uncollateralized. 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.

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2020, 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	32,421	(4,000)	32,421
Software	15,040	-	-	15,040
Subtotal	<u>31,940</u>	<u>32,421</u>	<u>(4,000)</u>	<u>60,361</u>
Less accumulated depreciation for:				
Equipment	(7,310)	(2,580)	-	(9,890)
Vehicles	(2,399)	(1,758)	2,999	(1,158)
Software	(15,040)	-	-	(15,040)
Subtotal	<u>(24,749)</u>	<u>(4,338)</u>	<u>2,999</u>	<u>(26,088)</u>
Total capital assets being depreciated, net	<u>\$ 7,191</u>	<u>\$ 28,083</u>	<u>\$ (1,001)</u>	<u>\$ 34,273</u>

**NOTE 3 - CAPITAL ASSETS (Continued)**

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	<u>31,940</u>	<u>-</u>	<u>-</u>	<u>31,940</u>
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	<u>(16,356)</u>	<u>(8,393)</u>	<u>-</u>	<u>(24,749)</u>
Total capital assets being depreciated, net	<u>\$ 15,584</u>	<u>\$ (8,393)</u>	<u>\$ -</u>	<u>\$ 7,191</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.

**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, 2020, the Authority paid the Charter Township of Oshtemo \$20,250 and \$2,235, respectively, for rent and attorney services. 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.

**NOTE 7 – UNCERTAINTIES**

The COVID-19 outbreak in the United States has caused business disruptions through mandated and voluntary closings of many businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Authority expects this matter to potentially impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

**NOTE 8 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 25, 2021, the date on which the financial statements were available to be issued.