# VILLAGE OF LEXINGTON BUILDING AUTHORITY

**Lexington, Michigan**

76-7502

**Annual Financial Statements**

**and**

**Auditors' Report**

**June 30, 2004**

RECEIVED
DEPT. OF TREASURY
OCT 13 2004
LOCAL AUDIT & FINANCE DIV.

YEO & YEO

Michigan Department of Treasury
496 (2-04)

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

| Local Government Type | Local Government Name | County |
|---|---|---|
| ☐City ☐ Township ☐ Village ☒ Other | Village of Lexington Building Authority | Sanilac |

| Audit Date | Opinion Date | Date Accountant Report Submitted to Sate: |
|---|---|---|
| 6/30/04 | 8/18/04 | 9/30/04 |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

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DEPT. OF TREASURY
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LOCAL AUDIT & FINANCE DIV.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|---|---|---|
| The letter of comments and recommendations. | ☐ | ☐ | ☒ |
| Reports on individual federal financial assistance programs (program audits). | ☐ | ☐ | ☒ |
| Single Audit Reports (ASLGU). | ☐ | ☐ | ☒ |

| Certified Public Accountant (Firm Name) | | | |
|---|---|---|---|
| Yeo & Yeo, P.C. | | | |
| Street Address | City | State | ZIP |
| 3149 Main Street #4; P.O. Box 218 | Marlette | MI | 48726 |
| Accountant Signature | | | |
| Robert L. Gentner | | | |

# TABLE OF CONTENTS


| Section | | Page |
|---|---|---|
| 1 | **Members of the Building Authority Board** | 1 - 1 |
| 2 | **Independent Auditors' Report** | 2 - 1 |
| 3 | **Basic Financial Statements** | |
| | Government-wide Financial Statements | |
| | Statement of Net Assets | 3 - 1 |
| | Statement of Activities | 3 - 2 |
| | Statement of Net Assets and Governmental Funds Balance Sheet | 3 - 3 |
| | Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances | 3 - 4 |
| | Notes to Financial Statements | 3 - 5 |
| 4 | **Required Supplemental Information** | |
| | Budgetary Comparison Schedule – General Fund | 4 - 1 |
| 5 | **Other Supplemental Information** | |
| | Statement of Operating Expenses Compared to Budget – General Fund | 5 - 1 |
| 6 | **Supplemental Letter** | 6 - 1 |

# Village of Lexington Building Authority
## Lexington, Michigan
## Members of Building Authority Board
## June 30, 2004

BUILDING AUTHORITY BOARD

| | |
|---|---|
| VIRGINIA McNABB | SECRETARY |
| KIRK SHOULTS | TREASURER |

YEO & YEO

3149 Main Street, Suite Plaza #4
Marlette, MI 48453
Phone (989) 635-7518
Fax (989) 635-3226

# Independent Auditors' Report

Members of Village of Lexington Building Authority
Lexington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Village of Lexington Building Authority as of and for the year ended June 30, 2004, which collectively comprise the Village of Lexington Building Authority basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lexington Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Lexington Building Authority at June 30, 2004, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Building Authority has implemented a new reporting model as required by the provision of the Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments,* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Note Disclosures,* as of July 1, 2003.

The budgetary comparison information identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Building Authority has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements

Yeo & Yeo, P.C.

Marlette, Michigan
August 18, 2004

# BASIC FINANCIAL STATEMENTS

# Village of Lexington Building Authority
## Statement of Net Assets
## June 30, 2004

| | |
|---|---|
| **Assets** | |
| Cash | $ 86,234 |
| Net investment in direct financing lease | |
| Expected to be received within one year | 8,000 |
| Expected to be received after one year | 172,000 |
| Total assets | $ 266,234 |
| **Liabilities and Fund Balance** | |
| Liabilities | |
| General obligation bonds payable | |
| Due within one year | $ 8,000 |
| Due after one year | 172,000 |
| Total liabilities | 180,000 |
| Net assets | |
| Restricted for debt service | 475 |
| Unrestricted | 85,759 |
| Total net assets | 86,234 |
| Total liabilities and net assets | $ 266,234 |

See accompanying notes to financial statement



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# Village of Lexington Building Authority
## Statement of Activities
## Year Ended June 30, 2004

| | |
|---|---|
| Expenses | |
| Operations | $ 27,585 |
| Interest | 9,350 |
| Total program expenses | 36,935 |
| Program revenues | |
| Charges for services | 43,152 |
| Net program income | 6,217 |
| General revenues | |
| Investment earnings | 635 |
| Increase in net assets | 6,852 |
| Net assets-beginning of the year | 79,382 |
| Net assets-end of the year | $ 86,234 |

See accompanying notes to financial statements



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# Village of Lexington Building Authority
## Statement of Net Assets and Governmental Funds Balance Sheet
## Year Ended June 30, 2004

| | General Fund | Debt Service Fund | Total | (Note 6) Adjustments | Statement of Net Assets |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash | $ 85,759 | $ 475 | $ 86,234 | $ - | $ 86,234 |
| Net investment in direct financing lease | | | | | |
| Expected to be received within one year | 8,000 | - | 8,000 | - | 8,000 |
| Expected to be received after one year | 172,000 | - | 172,000 | - | 172,000 |
| Total assets | $ 265,759 | $ 475 | $ 266,234 | $ - | $ 266,234 |
| Liabilities and Fund Balance | | | | | |
| Liabilities | | | | | |
| General obligation bonds payable | | | | | |
| Due within one year | $ - | $ - | $ - | $ 8,000 | 8,000 |
| Due after one year | - | - | - | 172,000 | 172,000 |
| Total liabilities | - | - | - | 180,000 | 180,000 |
| Fund balances/Net assets | | | | | |
| Reserved for financing lease | 180,000 | - | 180,000 | (180,000) | - |
| Reserved for debt service | - | 475 | 475 | (475) | - |
| Reserved for maintenance of building | 57,290 | - | 57,290 | (57,290) | - |
| Unreserved | 28,469 | - | 28,469 | (28,469) | - |
| Total liabilities and fund balances | 265,759 | 475 | 266,234 | (266,234) | - |
| Total liabilities and net assets | $ 265,759 | $ 475 | $ 266,234 | (86,234) | 180,000 |
| Net assets | | | | | |
| Restricted for debt service | | | | 475 | 475 |
| Unrestricted | | | | 85,759 | 85,759 |
| | | | | $ 86,234 | $ 86,234 |

See accompanying notes to financial statements



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# Village of Lexington Building Authority
## Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances
## Year Ended June 30, 2004

| | General | Debt Service Fund | Total | (Note 7) Adjustments | Statement of Activities |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Interest earned - investments | $ 635 | $ - | $ 635 | $ - | $ 635 |
| Reimbursements | 26,627 | 16,525 | 43,152 | | 43,152 |
| Total revenues | 27,262 | 16,525 | 43,787 | - | 43,787 |
| Expenditures/expenses | | | | | |
| Operating expenses | 27,585 | - | 27,585 | - | 27,585 |
| Debt service | | | | | |
| Principal retirement | - | 7,000 | 7,000 | (7,000) | - |
| Interest | - | 9,350 | 9,350 | - | 9,350 |
| Total expenditures | 27,585 | 16,350 | 43,935 | (7,000) | 36,935 |
| Excess (deficiency) of revenues over expenditures | (323) | 175 | (148) | 7,000 | 6,852 |
| Fund balances/net assets - beginning of the year | 266,082 | 300 | 266,382 | (187,000) | 79,382 |
| Fund balances/net assets - end of the year | $ 265,759 | $ 475 | $ 266,234 | $ (180,000) | $ 86,234 |

See accompanying notes to financial statements



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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Lexington Building Authority was created during 1979 to facilitate the financing, construction and operation of a municipal building in the Village for the use of both the Village and Township of Lexington.

The accounting policies of the Village of Lexington Building Authority conform to accounting principles to generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

### Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Building Authority is the primary government, which has oversight responsibility and control over all activities. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Building Authority and does not include any other component within its basic financial statements.

### Government-Wide Statements

The statement of net assets and the statement of activities display information about the Building Authority. These statements include the financial activities of the overall government. All of the Building Authority's activities are classified as governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues, reimbursements from the Village of Lexington to and Township of Lexington. Revenues that are not classified as program revenues are presented as general revenues.

### Fund Financial Statements

The fund financial statements provide information about the Building Authority's funds. The Building Authority only has governmental funds. The emphasis of fund financial statements is on major governmental funds with all remaining governmental funds aggregated and reported as nonmajor funds.

The Building Authority reports the General Fund as a major governmental fund. It is the general operating fund of the Building Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

### Measurement Focus, Basis of Accounting

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental Fund Financial Statements. All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when the related fund liability is incurred.

### Assets, Liabilities and Equity

Deposits and Investments - Cash includes cash on hand, demand deposits and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### Accounting Change

Effective July 1, 2003, the Building Authority implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34. Changes to the financial statements as a result of GASB No. 34 are as follows:

Government-wide financial statements prepared using full accrual accounting for all of the Building Authority's activities have been provided.

The governmental activities column includes long-term obligations totaling $180,000 which were previously reported in the General Long-term Debt Account Group.

## NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund. All annual appropriations lapse at year end.

The Building Authority follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Building Authority's Treasurer submits to the Board a proposed budget by June 30th of each year.
2. The budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budgeted amounts are as originally adopted.

## NOTE 3 - DEPOSITS

The deposits of the Building Authority were reflected in the accounts of financial institutions at $86,234, all of which is covered by federal depository insurance. Deposits are recorded in the financial statements as cash in the amount of $86,234.

## NOTE 4 - NET INVESTMENT IN DIRECT FINANCING LEASES

The lease with the Village of Lexington Building Authority entered into concerning the Lexington Municipal Building qualifies as a direct financing lease. Under a direct financing lease fixed assets are recorded on the books of the lessee and a corresponding long-term liability is reflected in their accounting records.

The lease receivable is reduced annually by lease payments received.

| | |
|---|---|
| Total minimum lease payments receivable | $ 265,400 |
| Less: unearned finance charges | (85,400) |
| Net lease receivable | $ 180,000 |

General obligation bonds in the amount of $285,000 with interest at five percent (5%) per annum were issued under the provision of Act No. 31, Public Acts of Michigan, 1948 as amended. Financing of the Building Authority, to include debt retirement and operational expenses will consist of the Village of Lexington contributing eighty percent (80%) and the Township of Lexington twenty percent (20%). Upon the retirement of the construction bonds which financed the facility, or at the time title is

transferred to the Village, the Village will convey a tenancy in common to the Township reflecting a twenty percent (20%) interest to the Township.

## NOTE 5 - LONG-TERM DEBT

The following is a summary of the 1980 general obligation bond transactions of the Building Authority for the year ended June 30, 2004.

| | |
|---|---|
| Bonds payable at July 1, 2003 | $ 187,000 |
| Bonds retired | (7,000) |
| Bonds payable at June 30, 2004 | $ 180,000 |

The annual requirements to pay principal and interest at five percent (5%) on the obligations outstanding at June 30, 2004 are as follows:

| Years | Principal | Interest | Total |
|---|---|---|---|
| 2005 | 8,000 | 9,000 | 17,000 |
| 2006 | 8,000 | 8,600 | 16,600 |
| 2007 | 8,000 | 8,200 | 16,200 |
| 2008 | 9,000 | 7,800 | 16,800 |
| 2009 | 9,000 | 7,350 | 16,350 |
| 2010-2014 | 54,000 | 29,350 | 83,350 |
| 2015-2019 | 69,000 | 14,350 | 83,350 |
| 2020-2021 | 15,000 | 750 | 15,750 |
| | $ 180,000 | $ 85,400 | $ 265,400 |

The Building Authority has the option to redeem bonds maturing in the years 2005 to 2020, inclusive, in the manner, at the times and at the prices specified on the face of the bonds.

There are a number of limitations and restrictions contained in the various bond indentures. The Building Authority is in compliance with all significant limitations and restrictions.

## NOTE 6 – RECONCILIATION TO THE STATEMENT OF NET ASSETS

Long-term liabilities applicable to the Building Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term are reported in the statement of net assets. The balance of general obligations bonds payable at June 30, 2004 was $180,000.

## NOTE 7 – RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Repayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current resources have been used. For the Building Authority as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result as an expenditure in the statement of net activities. Repayments of long-term debt for the year totaled $7,000.

# REQUIRED SUPPLEMENTAL INFORMATION

# Village of Lexington Building Authority
## Required Supplemental Information
## Budgetary Comparison Schedule - General Fund
## All Governmental Funds
## Year Ended June 30, 2004

| | Budgeted Amounts | | | Over (Under) |
|---|---|---|---|---|
| | Original | Final | Actual | Budget |
| Revenues | | | | |
| Interest earned - investments | $ 480 | $ 480 | $ 635 | $ 155 |
| Reimbursements | 33,627 | 33,627 | 26,627 | (7,000) |
| Total revenues | 34,107 | 34,107 | 27,262 | (6,845) |
| Expenditures | | | | |
| Operating expenses | 33,625 | 34,035 | 27,585 | (6,450) |
| Excess (deficiency) of revenues over expenditures | 482 | 72 | (323) | (395) |
| Fund balance, July 1, 2003 | 266,082 | 266,082 | 266,082 | - |
| Fund balance, June 30, 2004 | $ 266,564 | $ 266,154 | $ 265,759 | $ (395) |

# Village of Lexington Building Authority
## Other Supplemental Information
## General Fund
## Schedule of Operating Expenses Compared to Budget
## Year Ended June 30, 2004

| | Budget | Actual | Over (Under) Budget |
|---|---|---|---|
| Building repairs and maintenance | $ 3,800 | $ 2,074 | $ (1,726) |
| Office supplies and postage | 500 | - | (500) |
| Audit and legal expense | 1,300 | 1,300 | - |
| Insurance | 1,475 | 1,091 | (384) |
| Utilities | 11,160 | 13,047 | 1,887 |
| Miscellaneous | 400 | 29 | (371) |
| Janitorial salary | 7,200 | 7,200 | - |
| Operating and janitorial supplies | 1,000 | 701 | (299) |
| Security system monitoring | 600 | 543 | (57) |
| Capital outlay | 5,000 | - | (5,000) |
| Clerical expense | 1,600 | 1,600 | - |
| | $ 34,035 | $ 27,585 | $ (6,450) |

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Village of Lexington Building Authority
Lexington, Michigan

We have completed our audit of the Village of Lexington Building Authority for the year. Our audit dated August 18, 2004 contained within was made in accordance with auditing standards generally accepted in the United States of America and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The system of internal control of the Village of Lexington Building Authority is adequate.

The accounting records are adequate.

The physical control over assets is adequate.

The financial records included in the audit are in agreement with accounting records of the Authority. No material or unusual adjustments were required.

All cash in banks at June 30, 2004 is deposited in institutions insured by the federal government.

The following insurance is in force at June 30, 2004:

| Type of Coverage | Policy Number | Amount of Coverage | Policy Expiration Date |
|---|---|---|---|
| Property | MML001043313 | $ 6,866,625 | 3/26/2005 |
| Liability | MML001043316 | 2,000,000 | 3/26/2005 |

No unsatisfactory conditions came to our attention during the year under audit.

There was no amount due from the Village of Lexington as of June 30, 2004.

There was no amount due from the Township of Lexington as of June 30, 2004.

The Village of Lexington Building Authority is exempt from federal income tax.

We would like to thank your personnel for their assistance during the audit. Should you have any questions regarding the above or if we can be of further assistance to you, please contact our office at your convenience.

Yeo & Yeo, P.C.

Marlette, Michigan
August 18, 2004