
Salem-South Lyon District Library

**Financial Report
with Supplemental Information
June 30, 2019**

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-5
Basic Financial Statements	
Fund Financial Statements:	
Statement of Net Position/Governmental Funds Balance Sheet	6
Reconciliation of the Statement of Net Position to Governmental Funds Balance Sheet	7
Statement of Activities/Statement of Revenue, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	9
Notes to Financial Statements	10-16
Required Supplemental Information	17
Budgetary Comparison Schedule - General Fund	18
Note to Required Supplemental Information	19

Independent Auditor's Report

To the Board of Trustees
Salem-South Lyon District Library

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Salem-South Lyon District Library (the "Library") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise Salem-South Lyon District Library'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Salem-South Lyon District Library as of June 30, 2019 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Salem-South Lyon District Library

Other Matter

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedule 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.

Plante & Moran, PLLC

October 22, 2019

Salem-South Lyon District Library

Management's Discussion and Analysis

Our discussion and analysis of Salem-South Lyon District Library's (the "Library") financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the Library's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2019:

- Penal fine revenue totaled \$48,342, with a breakdown as follows: \$23,686 from Oakland County, Michigan; \$7,591 from Washtenaw County, Michigan; and \$17,065 from Livingston County, Michigan.
- Fine payments from customers declined by \$4,187 from last year to \$16,924.
- Gifts and grant income totaled \$61,590. This amount included solicitation letter donations of \$14,087 for the Library, gifts from the Friends of the Library totaling \$26,555, True Gift income of \$5,095, and grants of \$14,088.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell the reader how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Library's Net Position

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

	Governmental Activities			
	2018	2019	Change	Percent Change
Assets				
Current and other assets	\$ 1,180,861	\$ 1,000,162	\$ (180,699)	(15.3)
Capital assets	3,066,079	4,037,621	971,542	31.7
Total assets	4,246,940	5,037,783	790,843	18.6
Liabilities				
Current liabilities	98,462	55,986	(42,476)	(43.1)
Noncurrent liabilities	2,440	874,362	871,922	35,734.5
Total liabilities	100,902	930,348	829,446	822.0
Net Position				
Net investment in capital assets	3,066,079	3,187,621	121,542	4.0
Unrestricted	1,079,959	919,814	(160,145)	(14.8)
Total net position	<u>\$ 4,146,038</u>	<u>\$ 4,107,435</u>	<u>\$ (38,603)</u>	(0.9)

Salem-South Lyon District Library

Management's Discussion and Analysis (Continued)

Library's Changes in Net Position

	2018	2019	Change	Percent Change
Revenue				
Property taxes	\$ 1,084,567	\$ 1,124,435	\$ 39,868	3.7
Grant revenue	8,818	14,088	5,270	59.8
State aid	17,881	10,850	(7,031)	(39.3)
Charges for services	299,359	312,212	12,853	4.3
Fines and fees	73,663	68,454	(5,209)	(7.1)
Contributions	57,728	47,502	(10,226)	(17.7)
Investment earnings	4,693	23,173	18,480	393.8
Miscellaneous revenue	39,000	53,790	14,790	37.9
Total revenue	1,585,709	1,654,504	68,795	4.3
Expenses				
Personnel	902,182	908,099	5,917	0.7
Library services and materials	135,504	136,958	1,454	1.1
Facilities and equipment	101,795	132,507	30,712	30.2
Other operating expenditures	96,084	130,838	34,754	36.2
Depreciation	306,145	351,192	45,047	14.7
Debt service	-	33,057	33,057	-
Total expenses	1,541,710	1,692,651	150,941	9.8
Excess of Revenue Over (Under) Expenditures	43,999	(38,147)	(82,146)	(186.7)
Other Financing Uses	-	(456)	(456)	-
Net Change in Fund Balances	43,999	(38,603)	(82,602)	(187.7)
Net Position - Beginning of year	4,102,039	4,146,038	43,999	1.1
Net Position - End of year	\$ 4,146,038	\$ 4,107,435	\$ (38,603)	(0.9)

The governmental net position decreased by 1 percent from a year ago - decreasing from \$4,146,038 to \$4,107,435.

Salem-South Lyon District Library's total governmental revenue increased approximately \$69,000, or 4 percent. The increase is due to an increase in the Library's property tax revenue and an increase in interest income.

Expenses increased by approximately \$151,000 during the year, mainly due to an increase in debt payments on the new bonds.

Financial Analysis of Individual Funds

The Library maintains two funds, the General Fund and the Capital Projects Fund. The Capital Projects Fund previously accounted for capital-related projects at the Library; however, the Library decided to close this fund during the current year. Salem-South Lyon District Library's General Fund accounts for all other operations of the Library.

Salem-South Lyon District Library

Management's Discussion and Analysis (Continued)

One of the most significant expenditures of the Library is personnel salary and wages, which totaled \$900,004. This represents a decrease of \$2,351 from 2018. The other significant components are the costs of maintaining the Library's physical facilities, as well as the purchase of new books, periodicals, and other materials. The facilities and equipment expenditures totaled \$1,335,850, due to the expansion of the Library that was constructed in the current year. The purchase of downloadable materials for the community totaled \$52,778, and physical materials for the Library totaled \$110,627. Membership in The Library Network (TLN) and MCLS's Michigan Electronic Library Catalog (MeLCAT) expand customer access to 51,917,709 items, conveniently delivered to the Library. Library customers also enjoy access to the Library's 24/7 digital collections, including the following:

- MCLS' Overdrive, Kanopy, Hoopla, CloudLibrary, Tumblebooks, and Teen BookCloud catalogs for downloadable eBooks, audiobooks, music, and movies, offering over 884,000 items
- RB digital magazines for unlimited and simultaneous access to over 200 magazine titles
- eResources include Ancestry Library Edition, Consumer Reports Online, ReferenceUSA, Mango Language Courses, Foundation Center, Gale Legal Forms, Chilton Auto Repair, Morningstar, ValueLine, and Basic ESL.
- MeL eResources include Biography Reference Center, Britannica, Learning Express Library, academic eBooks, DemographicsNow, Opposing Viewpoints, NoveList, Small Business Reference Center, Small Engine Repair, Vocational Studies Premier and World Book.

Capital Assets and Debt Administration

At the end of 2019, the Library had \$4,000,000 invested in a broad range of capital assets, including the building, furniture, fixtures, computers, and the collection.

During the year, the Library issued a \$900,000 Capital Improvement Bond, Series 2018 to finance the Library's expansion project.

On June 2, 2019, the Library opened the \$1,200,000 expanded and renovated children's area to the community. Over 1,200 people attended the ribbon cutting for what started with a promise. In 2014, the community approved an additional 0.4950 20-year operating millage to enhance facilities and make timely improvements. Since then, the HVAC system was upgraded; the public restrooms were renovated; the front doors were replaced; and, in 2018-2019, the Library's children's area was expanded and renovated.

The 2,800-square-foot addition doubled the size of the current children's area, including space for additional collections, a designated "tween area" for middle school-aged children, quiet study and seating areas for children and their caregivers, an additional meeting room with egress to the beautiful outdoors and gardens, two restrooms, and a second front entryway for after-hours use of the meeting room. The existing children's area was updated and renovated to delineate a toddler area, work tables, computer stations, and comfortable seating for all ages. Most of the overhead fluorescent lighting throughout the Library was replaced with LED lighting.

We appreciate the support from our community. We view the Library as a connector and community hub, designed to carry out the Library's mission: to educate, enrich, and empower the community.

Economic Factors and Next Year's Budgets and Rates

The Library will continue to closely monitor expenditures and continue fundraising efforts as a means of improving the Library's net position.

Requests for Further Information

This financial report is intended to provide a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library.

Salem-South Lyon District Library

Statement of Net Position/Governmental Funds Balance Sheet

June 30, 2019

	Balance Sheet			Adjustments	Statement of Net Position
	General Fund	Capital Projects Fund	Total Governmental Funds		
Assets					
Cash and cash equivalents (Note 2)	\$ 1,000,099	\$ -	\$ 1,000,099	\$ -	\$ 1,000,099
Prepaid expenses and other assets	63	-	63	-	63
Capital assets: (Note 3)					
Assets not subject to depreciation	-	-	-	152,000	152,000
Assets subject to depreciation - Net	-	-	-	3,885,621	3,885,621
Total assets	\$ 1,000,162	\$ -	\$ 1,000,162	4,037,621	5,037,783
Liabilities					
Accounts payable	\$ 32,309	\$ -	\$ 32,309	-	32,309
Accrued liabilities and other:					
Accrued salaries and wages	14,361	-	14,361	-	14,361
Payroll taxes and withholdings	3,925	-	3,925	-	3,925
Accrued interest payable	2,614	-	2,614	-	2,614
Provision for property tax refunds	2,777	-	2,777	-	2,777
Noncurrent liabilities:					
Due within one year:					
Compensated absences	-	-	-	20,708	20,708
Current portion of long-term debt (Note 4)	-	-	-	50,000	50,000
Due in more than one year:					
Compensated absences	-	-	-	3,654	3,654
Long-term debt (Note 4)	-	-	-	800,000	800,000
Total liabilities	55,986	-	55,986	874,362	930,348
Equity					
Fund balance:					
Nonspendable - Prepays	63	-	63	(63)	-
Assigned (Note 7)	54,433	-	54,433	(54,433)	-
Unassigned	889,680	-	889,680	(889,680)	-
Total fund balance	944,176	-	944,176	(944,176)	-
Total liabilities and fund balance	\$ 1,000,162	\$ -	\$ 1,000,162		
Net position:					
Net investment in capital assets				3,187,621	3,187,621
Unrestricted				919,814	919,814
Total net position				\$ 4,107,435	\$ 4,107,435

Salem-South Lyon District Library

Reconciliation of the Statement of Net Position to Governmental Funds Balance Sheet

June 30, 2019

Fund Balances Reported in Governmental Funds	\$ 944,176
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	4,037,621
Bonds payable are not due and payable in the current period and are not reported in the funds	(850,000)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(24,362)
Net Position of Governmental Activities	<u>\$ 4,107,435</u>

Salem-South Lyon District Library

Statement of Activities/Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2019

	Statement of Revenue, Expenditures, and Changes in Fund Balances				
	General Fund	Capital Projects Fund	Total Governmental Funds	Adjustments	Statement of Activities
Revenue					
Property taxes	\$ 1,124,435	\$ -	\$ 1,124,435	\$ -	\$ 1,124,435
Charges for services	312,212	-	312,212	-	312,212
Fines and fees	68,454	-	68,454	-	68,454
Grant revenue	14,088	-	14,088	-	14,088
State aid	10,850	-	10,850	-	10,850
Miscellaneous revenue	44,570	-	44,570	9,220	53,790
Contributions	47,502	-	47,502	-	47,502
Investment earnings	23,173	-	23,173	-	23,173
Total revenue	1,645,284	-	1,645,284	9,220	1,654,504
Expenditures					
Personnel	900,004	-	900,004	8,095	908,099
Library services and materials	247,585	-	247,585	(110,627)	136,958
Facilities and equipment	1,207,771	128,079	1,335,850	(1,203,343)	132,507
Other operating expenditures	130,838	-	130,838	-	130,838
Depreciation	-	-	-	351,192	351,192
Debt service:					
Principal	50,000	-	50,000	(50,000)	-
Interest on long-term debt	33,057	-	33,057	-	33,057
Total expenditures	2,569,255	128,079	2,697,334	(1,004,683)	1,692,651
Excess of Expenditures Over Revenue	(923,971)	(128,079)	(1,052,050)	1,013,903	(38,147)
Other Financing Sources (Uses)					
New debt issued	900,000	-	900,000	(900,000)	-
Sale of capital assets	-	-	-	(456)	(456)
Total other financing sources (uses)	900,000	-	900,000	(900,456)	(456)
Net Change in Fund Balances	(23,971)	(128,079)	(152,050)	113,447	(38,603)
Fund Balances/Net Position - Beginning of year	968,147	128,079	1,096,226	3,049,812	4,146,038
Fund Balances/Net Position - End of year	\$ 944,176	\$ -	\$ 944,176	\$ 3,163,259	\$ 4,107,435

See notes to financial statements.

Salem-South Lyon District Library

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2019

Net Change in Fund Balances Reported in Governmental Funds	\$ (152,050)
Amounts reported for governmental activities in the statement of revenue, expenditures, and changes in fund balances are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Net book value of assets disposed of	(456)
Depreciation expense	(351,192)
Capital outlay	1,323,190
Issuing debt provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position	(900,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	50,000
Compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(8,095)
Change in Net Position of Governmental Activities	<u><u>\$ (38,603)</u></u>

Note 1 - Significant Accounting Policies

Reporting Entity

Salem-South Lyon District Library (the "Library") is governed by an elected seven-member board. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Accounting and Reporting Principles

The Library follows accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Library:

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The individual fund columns present their activities on the modified accrual basis of accounting, as discussed above, which demonstrates accountability for how the current resources have been spent. The government-wide columns are presented on the economic resources measurement focus and the full accrual basis of accounting in order to measure the cost of providing government services and the extent to which constituents have paid the full cost of government services.

On the full accrual basis of accounting, revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Accounting

The Library accounts for its various activities in the General Fund and Capital Projects Fund in order to demonstrate accountability for how we have spent certain resources; separate funds allow us to show the particular expenditures for which specific revenue was used. The Library reports the following funds as major governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide the Library's services. General Fund activities are financed by revenue from a general property tax millage, state aid, and other sources.
- The Capital Projects Fund has been used to account for the undertaking of significant capital projects at the Library. The Library determined to close out the Capital Projects Fund in the current year and record activity in the General Fund.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Note 1 - Significant Accounting Policies (Continued)

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Library considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state aid, state penal fines, property taxes, and interest associated with the current fiscal period.

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 are stated at fair value.

Inventories and Prepaid Items

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, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$1,000 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 acquisition value at the date of donation.

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

Asset Class	Depreciable Life - Years
Buildings and improvements	30
Equipment, furniture, and fixtures	5-7
Library collection	7-10

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the lives 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. In the fund financial statements, governmental fund types recognize bond issuances as "other financing sources," as well as bond premiums and discounts. The General Fund is used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The Library does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Library does not have any items that qualify for reporting in this category.

Note 1 - Significant Accounting Policies (Continued)

Net Position

Net position of the Library is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The Library will sometimes 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 government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

The Library will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of trustees is the highest level of decision-making authority for the Library that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes, but do not meet the criteria to be classified as committed. The Library has, by resolution, authorized the library director to assign fund balance. The board of trustees may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Note 1 - Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes receivable are shown net of allowance for uncollectible amounts, if deemed necessary. Taxes are levied on each July 1 and become an enforceable lien on December 1 of the following year; the tax is based on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2018 taxable valuation of the Library totaled \$721 million, on which taxes levied consisted of 1.5676 mills for the Library's operating purposes. This resulted in \$1,124,435 for operations, which is recognized in the General Fund financial statements as tax revenue.

Compensated Absences (Vacation and Sick Leave)

The Library's PTO policy states salaried and full-time employees will be eligible for paid time off, prorated against their date-of-hire anniversary. The number of days available and maximum accrual are dependent on length of employment. All PTO is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Compensated absences will be liquidated by the General Fund.

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.

Upcoming Accounting Pronouncement

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Library is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Library's financial statements for the year ending June 30, 2020.

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 that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that 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 Library has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority, as listed above. The Library's deposits and investment policies are in accordance with statutory authority.

June 30, 2019

Note 2 - Deposits and Investments (Continued)

The Library'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 Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$509,977 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Library believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Primary Government			
Comerica J Fund	\$ 255,902	A/PI/FI	S&P
Michigan CLASS investment pool	1,134	N/R	N/R

June 30, 2019

Note 3 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

Governmental Activities

	Balance July 1, 2018	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2019
Capital assets not being depreciated:					
Land	\$ 152,000	\$ -	\$ -	\$ -	\$ 152,000
Construction in progress	99,676	(99,676)	-	-	-
Subtotal	251,676	(99,676)	-	-	152,000
Capital assets being depreciated:					
Buildings and improvements	4,509,636	99,676	1,148,147	-	5,757,459
Equipment, furniture, and fixtures	580,782	-	64,416	(16,235)	628,963
Library collection	1,178,020	-	110,627	(172,616)	1,116,031
Subtotal	6,268,438	99,676	1,323,190	(188,851)	7,502,453
Accumulated depreciation:					
Buildings and improvements	2,194,426	-	195,070	-	2,389,496
Equipment, furniture, and fixtures	528,860	-	35,263	(15,779)	548,344
Library collection	730,749	-	120,859	(172,616)	678,992
Subtotal	3,454,035	-	351,192	(188,395)	3,616,832
Net capital assets being depreciated	2,814,403	99,676	971,998	(456)	3,885,621
Net governmental activities capital assets	\$ 3,066,079	\$ -	\$ 971,998	\$ (456)	\$ 4,037,621

Depreciation expense was \$351,192 for the year ended June 30, 2019.

Note 4 - Long-term Debt

Long-term debt activity for the year ended June 30, 2019 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable -					
Other debt - 2018 Capital Improvement Bond	\$ -	\$ 900,000	\$ (50,000)	\$ 850,000	\$ 50,000
Compensated absences	16,267	21,922	(13,827)	24,362	20,708

Note 4 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Other Debt		Total
	Principal	Interest	
2020	\$ 50,000	\$ 31,365	\$ 81,365
2021	50,000	29,520	79,520
2022	55,000	27,675	82,675
2023	55,000	25,645	80,645
2024	55,000	23,616	78,616
2025-2029	305,000	86,346	391,346
2030-2033	280,000	26,384	306,384
Total	<u>\$ 850,000</u>	<u>\$ 250,551</u>	<u>\$ 1,100,551</u>

Note 5 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Library is a member of the Michigan Township Participating Plan for its property and casualty insurance coverage and maintains commercial insurance coverage for workers' compensation and accidental death, dismemberment, and disability liabilities. Beginning in 2016, the Library began offering medical insurance to all full-time staff through third-party commercial insurance coverage. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 6 - Deferred Compensation

The Library provides benefits to all of its employees who work in excess of 20 hours per week on a regularly scheduled basis through a deferred contribution plan with security benefits. In a deferred contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after three months of employment. As established by the library board, the Library contributes 6.5 percent of employees' gross earnings, and employee contributions for each employee plus interest allocated to the employee's account are fully vested upon admittance to the plan. The library employee and employer contributions to the plan related to the fiscal year ended June 30, 2019 were \$17,050 and \$18,063, respectively.

In January 2018, the Library began offering an additional deferred contribution plan held with Municipal Employees' Retirement System. This plan is offered to all employees. Total employee and employer contributions to the plan for the year ended June 30, 2019 were \$29,142 and \$17,607, respectively.

Note 7 - Fund Balance Constraints

The detail of the various components of fund balance is as follows:

	<u>General Fund</u>
Assigned:	
Friends gift	\$ 21,297
Brick campaign	<u>33,136</u>
Total assigned	<u>\$ 54,433</u>

Required Supplemental Information

Salem-South Lyon District Library

**Required Supplemental Information
Budgetary Comparison Schedule - General Fund**

Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue				
Property taxes	\$ 1,129,932	\$ 1,129,932	\$ 1,124,435	\$ (5,497)
Gifts and grant revenue	48,833	59,833	61,590	1,757
State aid	9,500	9,500	10,850	1,350
Charges for services	301,000	304,000	312,212	8,212
Fines and fees	72,120	72,120	68,454	(3,666)
Miscellaneous revenue	33,750	38,750	44,570	5,820
Investment earnings	3,000	19,000	23,173	4,173
Total revenue	1,598,135	1,633,135	1,645,284	12,149
Expenditures				
Current services:				
Personnel expenditures	981,000	921,000	900,004	20,996
Library services and materials	252,577	252,577	247,585	4,992
Facilities and equipment	244,655	320,655	1,207,771	(887,116)
Other operating expenditures	79,470	82,470	85,306	(2,836)
Gifts and grants	40,433	56,433	45,532	10,901
Debt service	-	-	83,057	(83,057)
Total expenditures	1,598,135	1,633,135	2,569,255	(936,120)
Excess of Expenditures Over Revenue	-	-	(923,971)	(923,971)
Other Financing Sources - Proceeds from debt	-	-	900,000	900,000
Net Change in Fund Balance	-	-	(23,971)	(23,971)
Fund Balance - Beginning of year	968,147	968,147	968,147	-
Fund Balance - End of year	<u>\$ 968,147</u>	<u>\$ 968,147</u>	<u>\$ 944,176</u>	<u>\$ (23,971)</u>

Salem-South Lyon District Library

Note to Required Supplemental Information

June 30, 2019

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end. Unexpended appropriations lapse at year end. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. During the current year, the budget was amended in a legally permissible manner.

During the year, the Salem-South Lyon District Library incurred significant expenditures that were in excess of the amounts budgeted, as follows:

	Budget		Actual		Variance
Facilities and equipment	\$ 320,655	\$	1,207,771	\$	(887,116)
Other operating expenditures	82,470		85,306		(2,836)
Debt service	-		83,057		(83,057)