



**SALEM-SOUTH LYON DISTRICT LIBRARY
OAKLAND COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITOR'S REPORT

To the Library Board
Salem-South Lyon District Library

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Salem-South Lyon District Library, Michigan (the "Library"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the 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 the major fund of the Library, as of June 30, 2021, and the respective changes in financial position then 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 and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

A handwritten signature in dark ink that reads "Gabridge & Company". The signature is written in a cursive, flowing style.

Gabridge & Company PLC
Grand Rapids, MI
November 11, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Salem-South Lyon District Library
Management's Discussion and Analysis
June 30, 2021**

As management of the Salem-South Lyon District Library (the "Library" or "government"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets of the Library exceeded its liabilities at the close of this fiscal year by \$4,069,673 (shown as *net position*). Of this amount, \$1,107,498 (*unrestricted net position*), may be used to meet the government's ongoing obligations to citizens and creditors.
- During the year, the Library received \$1,677,755 in revenues and had \$1,658,970 in expenses resulting in an increase in net position of \$18,785.
- The general fund increased its fund balance by \$89,612 during the year for an ending fund balance of \$1,150,953.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$854,310, or 54% of the general fund's expenditures.

Overview of the Financial Statements

The Library's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide a broad overview of the Library's financial position. They are presented using a method of accounting that is similar to a private sector business.

The *statement of net position* presents information on all of the Library's assets and liabilities, with the difference being reported as the net position. Over time, increases or decreases in net position can serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash

flows in future fiscal periods (e.g., capital asset activity). The statement of activities must, at a minimum, present expenses by function. Accordingly, expenses are reported by function as well as further detail.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Library uses fund accounting to ensure compliance with finance-related legal requirements.

Governmental Funds. The Library's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments, and certain other items are treated differently than on the government-wide statements. These items are recorded in the government fund balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. The general fund of the Library is reported as a governmental fund.

The Library adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with its budget.

Notes to the Financial Statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report further presents required supplementary information (RSI) that explains the information presented in the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of overall financial position. In the case of the Library, assets exceeded liabilities by \$4,069,673 at the close of the most recent fiscal year. The following table illustrates the varying results of the governmental activities that combine to capture the Library's total net position (a comparative schedule is not available given that this was the initial year of operation):

Salem-South Lyon District Library's Net Position

	2021	2020
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 1,176,547	\$ 1,085,556
Accounts Receivable	7,204	-
Prepaid Expenses and Other Assets	-	10,198
Total Current Assets	1,183,751	1,095,754
<i>Noncurrent Assets</i>		
Capital Assets not Being Depreciated	172,709	152,000
Capital Assets Being Depreciated	3,512,535	3,673,804
Endowment	26,931	20,000
Total Assets	4,895,926	4,941,558
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	33,185	29,219
Accrued Salaries and Wages	22,333	18,770
Accrued Payroll Taxes	4,211	4,004
Accrued Interest	2,306	2,420
Current Portion of Compensated Absences	12,085	30,818
Current Portion of Long-Term Debt	55,000	50,000
Total Current Liabilities	129,120	135,231
<i>Noncurrent Liabilities</i>		
Compensated Absences	2,133	5,439
Long-Term Debt	695,000	750,000
Total Liabilities	826,253	890,670
NET POSITION		
Investment in Capital Assets	2,935,244	3,025,804
Restricted - Endowment	26,931	20,000
<i>Unrestricted</i>	1,107,498	1,005,084
Total Net Position	\$ 4,069,673	\$ 4,050,888

A significant portion of the Library's net position (\$2,935,244, or 72%) reflects its investment in capital assets (e.g., land, buildings and improvements, equipment and furniture, and library books). The Library uses these capital assets to provide a variety of services to its patrons. Accordingly, these assets are not available for future spending.

Another portion with a balance of \$26,931 is restricted for the Library's endowment.

The remaining balance of \$1,107,498 is unrestricted and may be used to meet the Library's ongoing obligations to its patrons and creditors.

Cash and cash equivalents increased \$90,991. This change closely follows the change in fund balance for the current year. Capital assets being depreciated decreased by \$161,269 as a result of depreciation expense exceeding capital asset additions.

The Library's overall net position increased \$18,785 from the prior fiscal year. The reasons for this overall increase are discussed in the following section for governmental activities.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$18,785 from the prior fiscal year for an ending balance of \$4,069,673.

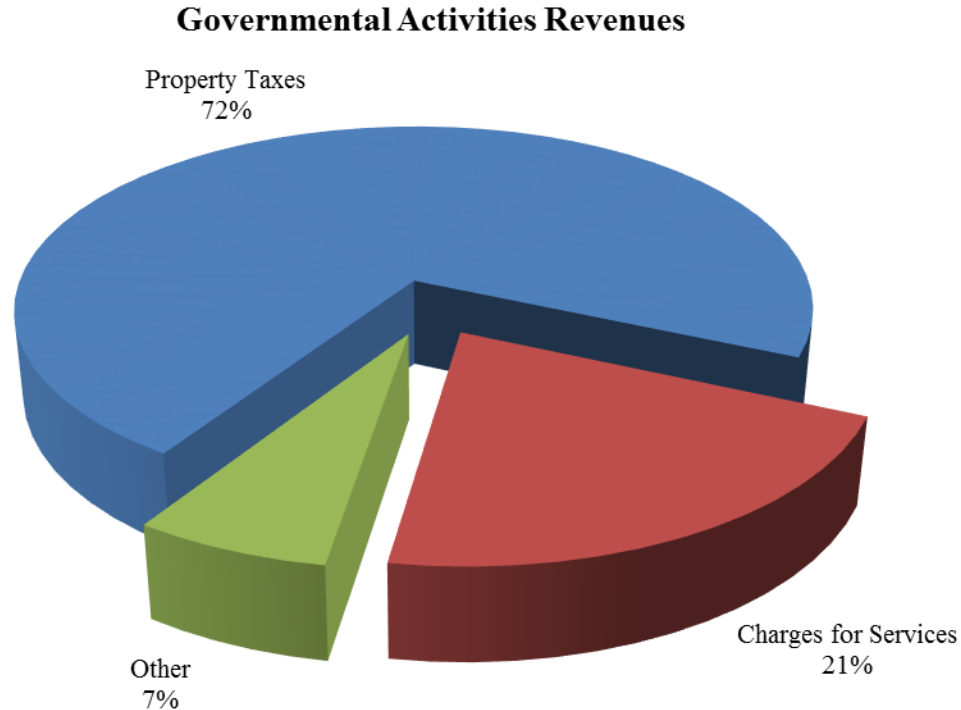
Salem-South Lyon District Library's Changes in Net Position

	2021	2020
Program Revenues		
Charges for Services	\$ 351,933	\$ 366,797
Operating Grants and Contributions	45,636	45,868
<i>Total Program Revenues</i>	397,569	412,665
General Revenues		
Property Taxes	1,215,009	1,185,445
Intergovernmental	19,084	24,913
Penal Fines	39,052	43,956
Interest Revenue	7,041	5,705
<i>Total General Revenues</i>	1,280,186	1,260,019
Total Revenues	1,677,755	1,672,684
Expenses		
Recreation and Culture:		
Library Materials, Services, Personnel and Facility	1,629,564	1,698,060
Interest on Long-Term Debt	29,406	31,171
Total Expenses	1,658,970	1,729,231
<i>Net Change in Net Position</i>	18,785	(56,547)
Net Position at Beginning of Period	4,050,888	4,107,435
<i>Net Position at End of Period</i>	\$ 4,069,673	\$ 4,050,888

Property taxes increased \$29,564 due to a typical annual increase in taxable value. Library materials, services, personnel and facility expenses decrease \$68,496. This decrease is mainly due to fewer personnel expenditures as a result of the library shutting down due to COVID-19.

Governmental Activities

The following chart details the revenue sources for the governmental activities of the Library for the most recent fiscal year-end:



Personnel expenses were the largest expenses for the Library. The Library spent \$877,611 on salaries and wages, or 53% of the Library's expenses. Depreciation expense of \$365,822 represented 22% of the total expenses within the Library.

Financial Analysis of the Government's Funds

The Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General Fund. The general fund is the operating fund of the Library. The general fund increased its balance in this fiscal year by \$89,612, bringing the fund balance to \$1,150,953. The increase in fund balance of the general fund is the result of revenues exceeding expenditures during the current year of operation. Property taxes increased by \$29,564 due to a typical annual increase in taxable value. Expenditures were comparable to the prior year within the general fund.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year there were no significant amendments to original budgeted revenues or appropriations.

Final budget compared to actual results. The Library had no budget exceptions for the fiscal year.

Capital Asset and Debt Administration

Capital Assets. The Library's investment in capital assets at year-end amounted to \$3,685,244 (net of accumulated depreciation). Capital assets of the Library include any items purchased that have an expected useful life of over one year and have an initial individual cost of \$1,000 or more. The Library has invested in a broad range of capital assets. More information about the Library's capital assets can be found in the Notes to the Financial Statements section of this document.

Long-Term Debt. The Library had debt outstanding of \$750,000 as of June 30, 2021. More information on this long-term debt can be found in the notes to the financial statements section of this document.

Economic Factors and Next Year's Budgets and Rates

The Library plans to monitor expenditures carefully to ensure that it can continue to provide a high level of service to its patrons given the above factors which will impact revenues. Additionally, management is currently working to determine the significance that the COVID-19 Pandemic will have on the Library's upcoming revenues and expenditures. The Library plans to monitor expenditures in these areas carefully.

Contacting the Library's Management

This Financial report is designed to provide the wide variety of users of this document with a general overview of the Library's finances and demonstrate the Library's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to:

Salem-South Lyon District Library
9800 Pontiac Trail,
South Lyon, MI 48178

Ph: (248) 437-6431

BASIC FINANCIAL STATEMENTS

Salem-South Lyon District Library
Statement of Net Position
June 30, 2021

ASSETS

Current Assets

Cash and Investments	\$ 1,176,547
Accounts Receivable	7,204
Total Current Assets	1,183,751

Noncurrent Assets

Capital Assets not being Depreciated	172,709
Capital Assets being Depreciated	3,512,535
Endowment	26,931
Total Assets	4,895,926

LIABILITIES

Current Liabilities

Accounts Payable	33,185
Accrued Salaries and Wages	22,333
Accrued Payroll Taxes	4,211
Accrued Interest	2,306
Current Portion of Compensated Absences	12,085
Current Portion of Long-Term Debt	55,000
Total Current Liabilities	129,120

Noncurrent Liabilities

Compensated Absences	2,133
Long-Term Debt	695,000
Total Liabilities	826,253

NET POSITION

Net Investment in Capital Assets	2,935,244
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Restricted for:

Endowment - Nonexpendable	26,931
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<i>Unrestricted</i>	1,107,498
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Total Net Position	\$ 4,069,673
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The Notes to the Financial Statements are an integral part of these Financial Statements

Salem-South Lyon District Library
Statement of Activities
For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Recreation and Culture:					
Library Materials, Services, Personnel and Facility	\$ 1,629,564	\$ 351,933	\$ 45,636	\$ --	\$ (1,231,995)
Interest on Long-Term Debt	29,406	--	--	--	(29,406)
Total	\$ 1,658,970	\$ 351,933	\$ 45,636	\$ --	(1,261,401)
General Purpose Revenues:					
					1,215,009
					19,084
					39,052
					7,041
					<u>1,280,186</u>
					18,785
					<u>4,050,888</u>
					\$ 4,069,673

The Notes to the Financial Statements are an integral part of these Financial Statements

Salem-South Lyon District Library
Balance Sheet
Governmental Fund
June 30, 2021

	<u>General</u>
ASSETS	
Cash and Investments	\$ 1,176,547
Accounts Receivable	7,204
Endowment	26,931
<i>Total Assets</i>	<u>\$ 1,210,682</u>
LIABILITIES	
Accounts Payable	\$ 33,185
Accrued Salaries and Wages	22,333
Accrued Payroll Taxes	4,211
<i>Total Liabilities</i>	<u>59,729</u>
FUND BALANCE	
Restricted	26,931
Assigned	269,712
Unassigned	854,310
<i>Total Fund Balance</i>	<u>1,150,953</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 1,210,682</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Salem-South Lyon District Library
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position
June 30, 2021

Total Fund Balance - Governmental Fund	\$ 1,150,953
In the statement of activities, interest is accrued on long-term debt, whereas in governmental funds, the interest expenditure is reported when due.	(2,306)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. This represents capital assets of \$7,798,330, net of accumulated depreciation of \$4,113,086.	3,685,244
Compensated absences are not due in and payable in the current period, therefore, are not reported in the funds.	(14,218)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(750,000)
Total Net Position - Governmental Activities	\$ <u>4,069,673</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Salem-South Lyon District Library
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2021

	<u>General</u>
Revenues	
Property Taxes	\$ 1,215,009
Intergovernmental	19,084
Penal Fines	39,052
Grant Revenue	2,873
Contributions	46,816
Charges for Services	332,957
Fines and Fees	7,125
Interest Revenue	7,041
Miscellaneous Revenue	7,798
<i>Total Revenues</i>	<u>1,677,755</u>
Expenditures	
Personnel	899,650
Library Services and Materials	270,408
Facilities and Equipment	244,117
Other Expenditures	96,868
Debt Service - Principal	50,000
Debt Service - Interest	27,100
<i>Total Expenditures</i>	<u>1,588,143</u>
<i>Excess of Revenues Over</i>	
<i>(Under) Expenditures</i>	<u>89,612</u>
<i>Net Change in Fund Balance</i>	89,612
<i>Fund Balance at Beginning of Period</i>	<u>1,061,341</u>
<i>Fund Balance at End of Period</i>	<u>\$ 1,150,953</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Salem-South Lyon District Library
Reconciliation of Governmental Fund Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2021

Total Net Change in Fund Balances - Governmental Fund	\$	89,612
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Governmental funds report capital outlay as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This represents the amount by which depreciation expense of \$365,822 exceeded capital outlay of \$225,262.		(140,560)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the decrease in compensated absences of \$22,039 and the increase in accrued interest of \$2,306.		19,733
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Current year long-term debt principal payments on bonds payable are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements.		50,000
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Changes in Net Position - Governmental Activities	\$	<u>18,785</u>
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The Notes to the Financial Statements are an integral part of these Financial Statements

NOTES TO FINANCIAL STATEMENTS

Salem-South Lyon District Library

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Salem-South Lyon District Library (the “Library” or “government”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Library’s significant accounting policies.

Reporting Entity

Salem-South Lyon District Library was established under a District Library Agreement with Salem Township and the City of South Lyon pursuant to the District Library Establishment Act, 1989 PA 24, MCL 397.171. The Library is located in Salem Township within Washtenaw County, Michigan and is governed by a seven-member elected board. The Library is funded through tax levies, fines, state aid, and contributions.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, “*The Financial Reporting Entity*,” these financial statements present the Library. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. There are no other units that should be included in the financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (e.g., the statement of position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Library only has governmental activities.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: 1) charges to Library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other unrestricted items are reported instead as general revenue.

The statement of net position includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library’s net position is reported in three parts: 1) investment in capital assets, 2) restricted net position, and 3) unrestricted net position.

Salem-South Lyon District Library

Notes to the Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Library reports the following major governmental funds:

The ***General Fund*** is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Financial Statement Amounts

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of 90 days or less when acquired. Investments are stated at fair value.

State statutes and Library policy authorize the Library to invest in:

Salem-South Lyon District Library

Notes to the Financial Statements

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investments

Investments are stated at fair market value. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Receivables

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

State aid is accrued for in accordance with the report provided by the State of Michigan which is when the revenue is earned.

The Library tax is levied on property in the Library's district on July 1 and becomes an enforceable lien on December 1. The Library's ad valorem tax is levied based on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year. The Library levied 1.5456 mill and the taxable valuation within the district was \$785,319,727 on the 2020 tax roll (generating 2021's tax revenues).

Salem-South Lyon District Library

Notes to the Financial Statements

Capital Assets

Capital assets are defined by the Library as assets acquired for use in the operation of the Library with an estimated useful life in excess of three years and an individual cost of greater than \$1,000. Such assets are recorded at historical cost. Donated assets are reported at acquisition value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Description	Years
Building and Improvements	30
Equipment, Furniture, and Fixtures	5 - 7
Library collection	7 - 10

Accrued Interest

In accordance with GASB interpretation No. 6, accrued interest is recorded on government-wide statements rather than within the fund financial statements.

Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements. The portion of these liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Compensated Absences

The Library's employees are granted paid time off ("PTO") in varying amounts based upon length of service and position. Unused PTO may accumulate and be carried over to a subsequent year, subject to restrictions. It is the Library's policy to recognize the cost of PTO leave at the time payments are made. PTO pay accrued at year-end which is subject to payment upon termination has been included as a liability on the statement of net position and not on the balance sheet as the balance is not expected to be liquidated with expendable available financial resources.

Deferred Outflow /Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, a separate financial statement element, represents a consumption of net position that applies to future periods and so 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.

Salem-South Lyon District Library

Notes to the Financial Statements

Deferred inflows of resources, a separate financial statement element, represented an acquisition of net position or fund balance, respectively, that applies to a future period and so 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.

Net Position Flow Assumption

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

Fund Balance Flow Assumption

Sometimes the Library will 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 Library’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, 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. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. 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 Library Board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Salem-South Lyon District Library

Notes to the Financial Statements

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 budget committee, with informal board approval, can 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.

Unassigned fund balance is the residual classification for the Library's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Library Board.

Minimum unassigned fund balance shall be two months of general fund expenditures or 17% of general fund revenue, whichever is greater. Although circumstances may require the unassigned fund balance to fall below the minimum level established by this policy, it shall be the Library Board's intent that such minimum balance shall be re-established at the earliest possible opportunity.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through November 11, 2021, the date on which these financial statements were available to be issued. See Note 9 for subsequent events that may have a significant impact on the financial condition of the Library.

Upcoming Accounting Pronouncement

In June 2017, the Governmental Accounting Standards Board issued Statement no. 87, Leases, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Library is currently evaluating the impact this standard will have on the financial statements when adopted. The provision of this statement were originally

Salem-South Lyon District Library

Notes to the Financial Statements

effective for the Library's financial statements for the year ending March 31, 2021 but were extended to March 31, 2023 with the issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The general fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on the basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

The Library employs the following procedures in establishing the budgetary data reflected in the financial statements:

- a) The Library Director prepares the proposed operating budget for the fiscal year commencing July 1 and presents it to the Library Board at its annual work session in April. The operating budget includes proposed expenditures and resources to finance them.
- b) The budget is adopted annually by the Board at the May Board meeting.
- c) The budget is legally adopted at the cost center control level.
- d) Budget amendments are to be presented by the budget committee to the Board, as needed, to keep the budget accurate.
- e) All annual appropriations lapse at fiscal year-end.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2021, the Library had no expenditures in excess of the amount appropriated.

Salem-South Lyon District Library

Notes to the Financial Statements

Note 3 - Deposits and Investments

The Library maintains demand deposits and short-term investment accounts. Following is a reconciliation of deposit and investment balances as of June 30, 2021:

Statement of Net Position

Cash and Investments	\$ 1,176,547
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Deposits and Investments

Checking and Savings Accounts	\$ 815,757
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Brokerage Account	259,414
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External Investment Pool	101,376
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Total	<u>\$ 1,176,547</u>
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Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits might not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year-end, \$615,689 of the Library's bank balance of \$865,689 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Library believes it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits Library funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to minimize this risk, Library policy limits the types of investments and pre-qualifies financial institutions. As of June 30, 2021, none of the Library's investments were exposed to risk since the securities are held in the Library's name by the counterparty.

Following is a summary of the Library's investments as of June 30, 2021:

Cash Equivalents	\$ 360,790
------------------	------------

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Library's investment policy does not have specific limits in excess of state law on investment credit risk.

Salem-South Lyon District Library

Notes to the Financial Statements

Credit risk ratings, where applicable, are summarized as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>FMV</u>
S&P	AAAm	\$ 101,376
Not Rated	N/A	259,414
Total		<u>\$ 360,790</u>

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Maturity dates for investments held at year-end are summarized as follows:

	<u>Investments</u>
No Maturity	\$ 360,790

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Library's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a percentage of the total investment portfolio. All investments held at year end are reported above.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest

Salem-South Lyon District Library

Notes to the Financial Statements

rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

The Library has the following recurring fair value measurements as of June 30, 2021:

- All investments that are categorized as cash equivalents with a balance of \$259,414, which are valued using quoted market prices (level 1 inputs).
- All external investment pool (MI-Class), with a balance of \$101,376, are valued using observable inputs (level 2 inputs).

Salem-South Lyon District Library

Notes to the Financial Statements

Note 4 - Capital Assets

A summary of the changes in capital assets is as follows:

	July 1, 2020	Additions	Reductions	June 30, 2021
Capital assets not being depreciated				
Land	\$ 152,000	\$ -	\$ -	\$ 152,000
Construction in Process	-	20,709	-	20,709
Total capital assets not being depreciated	152,000	20,709	-	172,709
Capital assets being depreciated				
Building and improvements	5,774,641	85,277	-	5,859,918
Equipment, Furniture, and Fixtures	628,075	3,639	31,424	600,290
Library collection	1,049,776	115,637	-	1,165,413
Total capital assets being depreciated	7,452,492	204,553	31,424	7,625,621
Less accumulated depreciation				
Building and improvements	2,585,475	195,599	-	2,781,074
Equipment, Furniture, and Fixtures	568,045	20,255	31,424	556,876
Library collection	625,168	149,968	-	775,136
Total accumulated depreciation	3,778,688	365,822	31,424	4,113,086
Total capital assets (net)	\$ 3,825,804	\$ (140,560)	\$ -	\$ 3,685,244

Depreciation expense was \$365,822 for the year ended June 30, 2021, and was entirely charged to the recreation and culture function of the Library.

Salem-South Lyon District Library

Notes to the Financial Statements

Note 5 - Long-term Debt

The following is a summary of the debt transactions of the Library for the year ended June 30, 2021:

	Interest Rate	Maturity	6/30/2020 Balance	Additions	Reductions	6/30/2021 Balance	Due Within One Year
Bonds and Contracts Payable - Other Debt							
2018 Capital Improvement Bonds	3.69%	2033	\$ 800,000	\$ -	\$ 50,000	\$ 750,000	\$ 55,000
Compensated Absences			36,257		22,039	14,218	12,085
Total			<u>\$ 836,257</u>	<u>\$ -</u>	<u>\$ 72,039</u>	<u>\$ 764,218</u>	<u>\$ 67,085</u>

The annual requirements to amortize all debt outstanding (excluding compensated absences) as of June 30, 2021, are as follows:

	Governmental		
	Principal	Interest	Total
2022	\$ 55,000	\$ 27,675	\$ 82,675
2023	55,000	25,646	80,646
2024	55,000	23,616	78,616
2025	55,000	21,587	76,587
2026	60,000	19,557	79,557
2027-2031	325,000	63,468	388,468
2032-2036	145,000	8,118	153,118
Totals	<u>\$ 750,000</u>	<u>\$ 189,666</u>	<u>\$ 939,666</u>

Note 6 – Deferred Compensation

The Library provides benefits to all of its employees who work more than 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, 2021, were \$7,700 and \$11,693, respectively.

In January 2018, the Library began offering an additional deferred contribution plan held with the 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, 2021 were \$28,796 and \$25,847, respectively.

Salem-South Lyon District Library

Notes to the Financial Statements

Note 7 – Fund Balances

The Library has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Summarized information on fund balances of the Library's funds was as follows:

Fund Balances	General Fund
Restricted	
Endowment - Nonexpendable	\$ 26,931
Assigned	
Friend's Gifts	17,935
Future Capital Improvements	251,777
Unassigned	854,310
Total Fund Balances	<u>\$ 1,150,953</u>

Note 8 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The Library purchased commercial insurance for risks of losses due to employee injuries and liability claims.

Note 9 – Subsequent Events

The Library may be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. COVID-19 has caused significant government and business disruptions through mandated and voluntary closings and stay at home orders. Management and the Library Board are in the process of determining if this outbreak will have a significant financial impact on the Library's financial statements.

The Library is also in the process of building a pavilion for all of its residents to enjoy. The total cost of the project is expected to be approximately \$60,000 and is anticipated to be completed in the 4th quarter of 2021.

REQUIRED SUPPLEMENTARY INFORMATION

Salem-South Lyon District Library
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2021

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 1,226,711	\$ 1,226,711	\$ 1,215,009	\$ (11,702)
Intergovernmental	3,000	3,000	19,084	16,084
Penal Fines	24,875	24,875	39,052	14,177
Grant Revenue	2,873	2,873	2,873	--
Contributions	53,897	53,897	46,816	(7,081)
Charges for Services	324,070	324,070	332,957	8,887
Fines and Fees	7,125	7,125	7,125	--
Interest Revenue	5,000	5,000	7,041	2,041
Miscellaneous Revenue	26,630	26,630	7,798	(18,832)
Total Revenues	1,674,181	1,674,181	1,677,755	3,574
Expenditures				
Personnel	990,000	940,000	899,650	40,350
Library Services and Materials	273,195	273,195	270,408	2,787
Facilities and Equipment	226,516	276,516	244,117	32,399
Other Expenditures	107,370	107,370	96,868	10,502
Debt Service - Principal	50,000	50,000	50,000	--
Debt Service - Interest	27,100	27,100	27,100	--
Total Expenditures	1,674,181	1,674,181	1,588,143	86,038
Excess (Deficiency) of Revenues Over Expenditures	--	--	89,612	89,612
Net Change in Fund Balance	--	--	89,612	89,612
Fund Balance at Beginning of Period	1,061,341	1,061,341	1,061,341	--
Fund Balance at End of Period	\$ 1,061,341	\$ 1,061,341	\$ 1,150,953	\$ 89,612

November 11, 2021

To the Library Board
Salem-South Lyon District Library

We have audited the financial statements of the governmental activities and the major fund of the Salem-South Lyon District Library (the "Library") for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 13, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Library's financial statements was:

- Management's estimate of the current year capital asset depreciation expense is based on the estimated useful lives of the Library's capital assets.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

General Fund:

- Record increase in endowment balance at year-end of \$6,731.
- Record receivables not previously recorded for \$7,204.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 11, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Library's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and the budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board and management of the Library and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being a simple loop.

Gabridge & Company, PLC
Grand Rapids, MI