

September 17, 2018

To the Board of Trustees
Salem-South Lyon District Library

We have audited the financial statements of Salem-South Lyon District Library (the "Library") as of and for the year ended June 30, 2018 and have issued our report thereon dated September 17, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 20, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 30, 2018.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Salem-South Lyon District 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 2018.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

To the Board of Trustees
Salem-South Lyon District Library

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There were no significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates.

The most sensitive estimate affecting the financial statements was the allowance for uncollectible property taxes. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements 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.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as 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.

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. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Library, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our 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 of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 17, 2018.

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.

To the Board of Trustees
Salem-South Lyon District Library

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Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the board of trustees and management of Salem-South Lyon District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "W. Brickey", written in a cursive style.

William E. Brickey

A handwritten signature in black ink, appearing to read "Nicolette Acho", written in a cursive style.

Nicolette Acho

Salem-South Lyon District Library

**Financial Report
with Supplemental Information
June 30, 2018**

Salem-South Lyon District Library

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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 ended June 30, 2018 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 opinion.

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, 2018 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

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

September 17, 2018

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, 2018. 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, 2018:

- Penal fine revenue totaled \$48,782 with a breakdown as follows: \$22,939 from Oakland County, Michigan; \$8,122 from Washtenaw County, Michigan; and \$17,721 from Livingston County, Michigan.
- Fine payments from customers declined by \$1,937 from last year to \$21,111.
- Gifts and grant income totaled \$66,546. This amount included solicitation letter donations of \$15,668 for the Library, gifts from the Friends of the Library totaling \$34,200, True Gift income of \$4,370, and grants of \$8,818.

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 with prior year.

	Governmental Activities			Percent Change
	2017	2018	Change	
Assets				
Current and other assets	\$ 1,044,534	\$ 1,180,861	\$ 136,327	13.1
Capital assets	3,166,168	3,066,079	(100,089)	(3.2)
Total assets	4,210,702	4,246,940	36,238	0.9
Liabilities				
Current liabilities	106,197	98,462	(7,735)	(7.3)
Noncurrent liabilities	2,466	2,440	(26)	(1.1)
Total liabilities	108,663	100,902	(7,761)	(7.1)
Net Position				
Net investment in capital assets	3,166,168	3,066,079	(100,089)	(3.2)
Unrestricted	935,871	1,079,959	144,088	15.4
Total net position	<u>\$ 4,102,039</u>	<u>\$ 4,146,038</u>	<u>\$ 43,999</u>	1.1

Salem-South Lyon District Library

Management's Discussion and Analysis (Continued)

Library's Changes in Net Position

	2017	2018	Change	Percent Change
Revenue				
Property taxes	\$ 1,072,593	\$ 1,084,567	\$ 11,974	1.1
Grant revenue	3,601	8,818	5,217	144.9
State aid	12,966	17,881	4,915	37.9
Charges for services	300,683	299,359	(1,324)	(0.4)
Fines and fees	82,439	73,663	(8,776)	(10.6)
Contributions	25,900	57,728	31,828	122.9
Investment earnings	2,599	4,693	2,094	80.6
Miscellaneous revenue	41,018	39,000	(2,018)	(4.9)
Total revenue	1,541,799	1,585,709	43,910	2.8
Expenditures				
Personnel	847,781	902,182	54,401	6.4
Library services and materials	113,091	135,504	22,413	19.8
Facilities and equipment	108,274	101,795	(6,479)	(6.0)
Other operating expenditures	90,243	96,084	5,841	6.5
Depreciation	318,130	306,145	(11,985)	(3.8)
Total expenditures	1,477,519	1,541,710	64,191	4.3
Excess of Revenue Over Expenditures	64,280	43,999	(20,281)	(31.6)
Net Change in Fund Balances	\$ 64,280	\$ 43,999	\$ (20,281)	(31.6)

The governmental net position increased 1 percent from a year ago - increasing from \$4,102,039 to \$4,146,038.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, increased by \$144,088 for the governmental activities and represents an increase of approximately 15 percent. The current level of unrestricted net position for our activities stands at \$1,079,959, or about 70 percent of expenditures.

Salem-South Lyon District Library's total governmental revenue increased by \$43,910, or approximately 3 percent. The increase is due to an increase in the Library's property tax revenue, as well as additional contributions received.

Expenses increased by approximately \$64,000 during the year, mainly due to an increase in personnel costs.

Financial Analysis of Individual Funds

The Library maintains two funds, the General Fund and the Capital Projects Fund. The Capital Projects Fund accounts for all capital-related projects at the Library. 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)

The most significant expenditure of the Library is personnel salary and wages, which totaled \$902,355. This represents an increase of \$52,500 from 2017. 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 \$202,504. The purchase of downloadable materials for the community totaled \$50,036 and physical materials for the Library totaled \$105,347. Membership in The Library Network expands customer access to 4,000,000 copies, conveniently delivered to the Library. Library customers also enjoy access to the Library's 24/7 digital collections, including the following:

MCLS Overdrive catalog for downloadable eBooks and audiobooks offering over 160,000 titles

RB digital magazines for unlimited and simultaneous access to over 200 magazine titles

Databases including Consumer Reports Online, Tumble Books Digital Picture Books for Kids, and MeL Databases

Ancestry Library Edition, Foundation Center, Reference USA, Kanopy, Hoopla, SCOLA, and Basic ESL

General Fund Budgetary Highlights

The Library made minimal amendments to the budget to take into account events during the year. Library departments overall stayed below budget.

Capital Assets and Debt Administration

At the end of 2018, the Library had \$3.1 million invested in a broad range of capital assets, including the building, furniture, fixtures, computers, and the collection.

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. Subsequent to year end, the Library issued a \$900k Capital Improvement Bond, Series 2018 to finance the Library's \$1.2 million expansion project. During the fiscal year, the Library spent \$90,766 for the initial phases of the building construction. The project intends to be completed in the 2018-2019 fiscal year.

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 Fund Balance Sheet

June 30, 2018

	Modified Accrual			Adjustments	Statement of Net Position
	General Fund	Capital Projects Fund	Total Governmental Funds		
Assets					
Cash and cash equivalents	\$ 1,047,016	\$ 132,957	\$ 1,179,973	\$ -	\$ 1,179,973
Prepaid expenses and other assets	888	-	888	-	888
Capital assets:					
Assets not subject to depreciation	-	-	-	251,676	251,676
Assets subject to depreciation - Net	-	-	-	2,814,403	2,814,403
Total assets	\$ 1,047,904	\$ 132,957	\$ 1,180,861	3,066,079	4,246,940
Liabilities					
Accounts payable	\$ 59,760	\$ 4,878	\$ 64,638	-	64,638
Accrued liabilities and other:					
Accrued salaries and wages	13,311	-	13,311	-	13,311
Payroll taxes and withholdings	5,638	-	5,638	-	5,638
Provision for property tax refunds	1,048	-	1,048	-	1,048
Noncurrent liabilities:					
Due within one year:					
Compensated absences	-	-	-	13,827	13,827
Due in more than one year:					
Compensated absences	-	-	-	2,440	2,440
Total liabilities	79,757	4,878	84,635	16,267	100,902
Equity					
Fund balance:					
Nonspendable - Prepaids	888	-	888	(888)	-
Assigned (Note 6)	61,090	128,079	189,169	(189,169)	-
Unassigned	906,169	-	906,169	(906,169)	-
Total fund balance	968,147	128,079	1,096,226	(1,096,226)	-
Total liabilities and fund balance	\$ 1,047,904	\$ 132,957	\$ 1,180,861		
Net position:					
Net investment in capital assets				3,066,079	3,066,079
Unrestricted				1,079,959	1,079,959
Total net position				\$ 4,146,038	\$ 4,146,038

Salem-South Lyon District Library

**Reconciliation of the Statement of Net Position to Governmental Fund
Balance Sheet**

June 30, 2018

Fund Balances Reported in Governmental Funds	\$ 1,096,226
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	3,066,079
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	<u>(16,267)</u>
Net Position of Governmental Activities	<u>\$ 4,146,038</u>

Salem-South Lyon District Library

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

Year Ended June 30, 2018

	Modified Accrual				Statement of Activities
	General Fund	Capital Projects Fund	Governmental Funds	Adjustments	
Revenue					
Property taxes	\$ 1,084,567	\$ -	\$ 1,084,567	\$ -	\$ 1,084,567
Charges for services	299,359	-	299,359	-	299,359
Fines and fees	73,663	-	73,663	-	73,663
Grant revenue	8,818	-	8,818	-	8,818
State aid	17,881	-	17,881	-	17,881
Miscellaneous revenue	39,000	-	39,000	-	39,000
Contributions	57,728	-	57,728	-	57,728
Investment earnings	4,693	-	4,693	-	4,693
Total revenue	1,585,709	-	1,585,709	-	1,585,709
Expenditures					
Personnel	902,355	-	902,355	(173)	902,182
Library services and materials	240,851	-	240,851	(105,347)	135,504
Facilities and equipment	111,738	90,766	202,504	(100,709)	101,795
Other operating expenditures	96,084	-	96,084	-	96,084
Depreciation	-	-	-	306,145	306,145
Total expenditures	1,351,028	90,766	1,441,794	99,916	1,541,710
Excess of Revenue Over (Under) Expenditures	234,681	(90,766)	143,915	(99,916)	43,999
Net Change in Fund Balances	234,681	(90,766)	143,915	(99,916)	43,999
Fund Balances/Net Position - Beginning of year	733,466	218,845	952,311	3,149,728	4,102,039
Fund Balances/Net Position - End of year	\$ 968,147	\$ 128,079	\$ 1,096,226	\$ 3,049,812	\$ 4,146,038

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, 2018

Net Change in Fund Balance Reported in Governmental Funds	\$ 143,915
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:	
Depreciation expense	(306,145)
Capital outlay	206,056
Compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	<u>173</u>
Change in Net Position of Governmental Activities	<u><u>\$ 43,999</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) as 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 is used to account for the undertaking of significant capital projects at the Library.

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:

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

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.

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.

Note 1 - Significant Accounting Policies (Continued)

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 government 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.

Property Tax Revenue

Property taxes receivables 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 2017 taxable valuation of the Library totaled \$697 million, on which taxes levied consisted of 1.5707 mills for the Library's operating purposes. This resulted in \$4,146,038 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 the 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.

Note 1 - Significant Accounting Policies (Continued)

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.

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, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which 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 two 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.

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 \$466,973 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 Government investment pool	\$ 250,505	AI/PI/FI	S&P

Note 3 - Capital Assets

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

Governmental Activities

	Balance July 1, 2017	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 152,000	\$ -	\$ -	\$ -	\$ 152,000
Construction in progress	8,910	-	90,766	-	99,676
Subtotal	160,910	-	90,766	-	251,676
Capital assets being depreciated:					
Buildings and improvements	4,509,636	-	-	-	4,509,636
Equipment, furniture, and fixtures	570,839	-	9,943	-	580,782
Library collection	1,245,289	-	105,347	(172,616)	1,178,020
Subtotal	6,325,764	-	115,290	(172,616)	6,268,438
Accumulated depreciation:					
Buildings and improvements	2,041,766	-	152,660	-	2,194,426
Equipment, furniture, and fixtures	497,692	-	31,168	-	528,860
Library collection	781,048	-	122,317	(172,616)	730,749
Subtotal	3,320,506	-	306,145	(172,616)	3,454,035
Net capital assets being depreciated	3,005,258	-	(190,855)	-	2,814,403
Net governmental activities capital assets	<u>\$ 3,166,168</u>	<u>\$ -</u>	<u>\$ (100,089)</u>	<u>\$ -</u>	<u>\$ 3,066,079</u>

Depreciation expense was \$306,145 for the year ended June 30, 2018.

Construction Commitments

The Library has an active construction project at year end to expand the youth section of the Library. At June 30, 2018, the Library's commitments with contractors is approximately \$1,030,000.

Note 4 - 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 5 - 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, 2018 were \$35,669 and \$33,918, 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, 2018 was \$21,366 and \$11,778, respectively.

Note 6 - Fund Balance Constraints

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

	<u>General Fund</u>
Assigned	
Friends gift	\$ 34,200
Brick campaign	<u>26,890</u>
Total assigned	<u>\$ 61,090</u>

The amounts above have been assigned for specific future projects and programs. In addition, the fund balance in the Capital Projects Fund of \$128,079 as been assigned for future capital-related projects.

Note 7 - Subsequent Events

On July 11, 2018, the Library issued a \$900,000 Capital Improvement Bond, Series 2018. The bond will be paid over 15 years with principal payments ranging from \$50,000 to \$75,000 plus interest at 3.690 percent. The first principal payment will be made on June 1, 2019 for \$50,000.

Required Supplemental Information

Salem-South Lyon District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,094,396	\$ 1,094,396	\$ 1,084,567	\$ (9,829)
Gifts and grant revenue	32,900	32,900	66,546	33,646
State aid	14,000	14,000	17,881	3,881
Charges for services	279,000	279,000	299,359	20,359
Fines and fees	80,620	80,620	73,663	(6,957)
Miscellaneous revenue	37,350	37,350	39,000	1,650
Investment earnings	2,000	2,000	4,693	2,693
Total revenue	1,540,266	1,540,266	1,585,709	45,443
Expenditures				
Current services:				
Personnel expenditures	977,500	977,500	902,355	75,145
Library services and materials	243,267	243,267	240,851	2,416
Facilities and equipment	210,802	210,802	111,738	99,064
Other operating expenditures	76,947	76,947	76,287	660
Gifts and grants	31,750	31,750	19,797	11,953
Total expenditures	1,540,266	1,540,266	1,351,028	189,238
Excess of Revenue Over Expenditures	-	-	234,681	234,681
Net Change in Fund Balances	-	-	234,681	234,681
Fund Balances - Beginning of year	733,466	733,466	733,466	-
Fund Balances - End of year	\$ 733,466	\$ 733,466	\$ 968,147	\$ 234,681

Salem-South Lyon District Library

Note to Required Supplemental Information

June 30, 2018

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.