

Salem-South Lyon District Library

**Financial Report
with Supplemental Information
June 30, 2016**

Salem-South Lyon District Library

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Independent Auditor's Report

To the Board of Directors
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 the Salem-South Lyon District Library (the "Library") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the 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 an opinion 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.

To the Board of Directors
Salem-South Lyon District Library

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 the Salem-South Lyon District Library as of June 30, 2016 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.

Other Matters

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

August 29, 2016

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, 2016. 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, 2016:

- Penal fine revenue totaled \$56,552 with a breakdown as follows: \$22,888 from Oakland County, \$9,054 from Washtenaw County, and \$24,610 from Livingston County.
- Fine payments from customers declined by \$2,894 from last year at \$23,509.
- Gifts and grant income totaled \$40,754. This amount included solicitation letter donations of \$18,432 for the Library, gifts from the Friends of the Library totaling \$10,512, Friends Club gifts of \$550, True Gift income of \$4,005, and grants of \$2,060.

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 us 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.

Salem-South Lyon District Library

Management's Discussion and Analysis (Continued)

Governmental Activities

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

	2015	2016	Change	Percent Change
Revenue				
Property taxes	\$ 1,237,604	\$ 1,269,492	\$ 31,888	3%
Service contract	259,038	275,156	16,118	6%
Other revenue	<u>182,391</u>	<u>186,477</u>	<u>4,086</u>	2%
Total revenue	1,679,033	1,731,125	52,092	3%
Expenses				
Personnel	769,354	822,616	53,262	7%
Library services and materials	93,909	120,675	26,766	29%
Facilities and equipment	154,163	123,391	(30,772)	-20%
Other operating expenses	106,941	90,890	(16,051)	-15%
Debt service	17,616	9,010	(8,606)	-49%
Depreciation	<u>350,432</u>	<u>321,192</u>	<u>(29,240)</u>	-8%
Total expenses	1,492,415	1,487,774	(4,641)	0%
Loss on Disposal of Assets	-	(5,956)	(5,956)	
Change in Net Position	<u>\$ 186,618</u>	<u>\$ 237,395</u>	<u>\$ 50,777</u>	27%

	2015	2016	Change	Percent Change
Assets				
Other assets	\$ 1,108,107	\$ 905,050	\$ (203,057)	-18%
Capital assets	<u>2,982,639</u>	<u>3,214,861</u>	<u>232,222</u>	8%
Total assets	4,090,746	4,119,911	29,165	1%
Liabilities				
Current liabilities	90,382	79,374	(11,008)	-12%
Long-term liabilities	<u>200,000</u>	<u>2,778</u>	<u>(197,222)</u>	-99%
Total liabilities	<u>290,382</u>	<u>82,152</u>	<u>(208,230)</u>	-72%
Net Position				
Net investment in capital assets	2,782,639	3,214,861	432,222	16%
Restricted	9,300	-	(9,300)	-100%
Unrestricted	<u>1,008,425</u>	<u>822,898</u>	<u>(185,527)</u>	-18%
Total net position	<u>\$ 3,800,364</u>	<u>\$ 4,037,759</u>	<u>\$ 237,395</u>	6%

Salem-South Lyon District Library

Management's Discussion and Analysis (Continued)

The governmental net position increased 6 percent from a year ago - increasing from \$3,800,364 to \$4,037,759.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, decreased by \$185,527 for the governmental activities. The decrease was due to investments made in capital assets and represents a decrease of approximately 18 percent. The current level of unrestricted net position for our activities stands at \$822,898 or about 55 percent of expenditures.

Salem-South Lyon District Library's total governmental revenue increased by \$52,092 or approximately 3 percent.

Expenses decreased by approximately \$4,461 during the year.

Salem-South Lyon District Library's Funds

The Library maintains three funds, the General Fund, the Capital Projects Fund, and the Debt Service Fund. The Debt Service Fund helps to show accountability for the special debt service property tax millage and the debt service payments related to the 1996 building bonds. 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.

The most significant expenditure of the Library is personnel salary and wages which totaled \$706,043. This represents an increase of \$64,479 from 2015. 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 \$191,713.24. The purchase of downloadable materials for the community totaled \$30,416 and physical materials for the library totaled \$114,357. 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:

- MCLS Overdrive catalog for eBooks and downloadable audiobooks over 20,000 titles
- Odilo digital books
- Zinio digital magazines for unlimited and simultaneous access to over 200 magazine titles
- Freegal downloadable and streaming music
- Databases including Consumer Reports Online; Rosetta Stone Web Based Language Learning; Tumble Books Digital Picture Books for Kids; Beanstack Personalized Book Recommendations for Kids; Daily Life Through History - Historical Research for Students; GALE Instructor-Led Online classes; and MeL Databases.

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.

Salem-South Lyon District Library

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2016, the Library had \$3.2 million invested in a broad range of capital assets, including the building, furniture, fixtures, computers, and the collection.

The Library had one outstanding debt issue with an outstanding balance of \$200,000 at June 30, 2015. This debt matured and was paid off at June 30, 2016.

Economic Factors and Next Year's Budget

The debt levy has matured and the Library made its final debt payment during fiscal year end 2016. The Library will continue to closely monitor expenditures and continue fundraising efforts as a means of improving the Library's net position.

Contacting Salem-South Lyon District Library's Management

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

Salem-South Lyon District Library

Statement of Net Position/Governmental Funds Balance Sheet June 30, 2016

	Modified Accrual Basis				Adjustments (Note 2)	Statement of Net Position
	General Fund	Debt Service Fund	Capital Projects Fund	Total		
Assets						
Cash and cash equivalents	\$ 769,215	\$ -	\$ 132,614	\$ 901,829	\$ -	\$ 901,829
Prepaid expenses and other assets	3,221	-	-	3,221	-	3,221
Capital assets:						
Assets not subject to depreciation	-	-	-	-	176,813	176,813
Assets subject to depreciation	-	-	-	-	3,038,048	3,038,048
Total assets	\$ 772,436	\$ -	\$ 132,614	\$ 905,050	3,214,861	4,119,911
Liabilities						
Accounts payable	\$ 18,495	\$ -	\$ -	\$ 18,495	-	18,495
Accrued liabilities and other:						
Accrued salaries and wages	35,603	-	-	35,603	-	35,603
Payroll taxes and withholdings	5,428	-	-	5,428	-	5,428
Provision for property tax refunds	4,112	-	-	4,112	-	4,112
Noncurrent liabilities - Due within one year:						
Compensated absences	-	-	-	-	15,736	15,736
Due in more than one year - Compensated absences	-	-	-	-	2,778	2,778
Total liabilities	63,638	-	-	63,638	18,514	82,152
Equity						
Fund balance:						
Nonspendable - Prepaids	3,179	-	-	3,179	(3,179)	-
Restricted - Debt service	-	-	-	-	-	-
Assigned - (Note 8)	64,302	-	132,614	196,916	(196,916)	-
Unassigned	641,317	-	-	641,317	(641,317)	-
Total fund balance	708,798	-	132,614	841,412	(841,412)	-
Total liabilities and fund balance	\$ 772,436	\$ -	\$ 132,614	\$ 905,050		
Net position:						
Net investment in capital assets					3,214,861	3,214,861
Unrestricted					822,898	822,898
Total net position					\$ 4,037,759	\$ 4,037,759

Salem-South Lyon District Library

Statement of Activities/Governmental Funds Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 2)	Statement of Net Position
Revenue						
Property taxes	\$ 1,061,927	\$ 207,565	\$ -	\$ 1,269,492	\$ -	\$ 1,269,492
Charges for services	275,156	-	-	275,156	-	275,156
Fines and fees	84,221	-	-	84,221	-	84,221
Grant revenue	2,060	-	-	2,060	-	2,060
State aid	14,210	-	-	14,210	-	14,210
Miscellaneous revenue	46,498	-	-	46,498	-	46,498
Sale of equipment	660	-	-	660	-	660
Contributions	36,752	-	-	36,752	-	36,752
Investment earnings	2,076	-	-	2,076	-	2,076
Total revenue	1,523,560	207,565	-	1,731,125	-	1,731,125
Expenditures/Expenses						
Personnel expenditures	832,147	-	-	832,147	(9,531)	822,616
Library services and materials	226,170	-	-	226,170	(105,495)	120,675
Facilities and equipment	191,713	-	385,553	577,266	(453,875)	123,391
Depreciation	-	-	-	-	321,192	321,192
Other operating expenditures	90,890	-	-	90,890	-	90,890
Debt service	-	210,543	-	210,543	(201,533)	9,010
Total expenditures/expenses	1,340,920	210,543	385,553	1,937,016	(449,242)	1,487,774
Excess of Revenue Over (Under) Expenditures/Expenses	182,640	(2,978)	(385,553)	(205,891)	449,242	243,351
Other Financing (Uses) Sources						
Loss on disposal of assets	-	-	-	-	(5,956)	(5,956)
Interfund transfers in	6,322	-	-	6,322	(6,322)	-
Interfund transfers out	-	(6,322)	-	(6,322)	6,322	-
Net Change in Fund Balances/Net Position	188,962	(9,300)	(385,553)	(205,891)	443,286	237,395
Fund Balances/Net Position - Beginning of year	519,836	9,300	518,167	1,047,303	2,753,061	3,800,364
Fund Balances/Net Position - End of year	\$ 708,798	\$ -	\$ 132,614	\$ 841,412	\$ 3,196,347	\$ 4,037,759

The Notes to Financial Statements are an Integral Part of this Statement.

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies

The accounting policies of Salem-South Lyon District Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Salem-South Lyon District Library:

Reporting Entity

Salem-South Lyon District Library is governed by an elected seven-member board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting unit. Based on these criteria, there are no component units of the Library that are to be included in the reporting entity.

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 Government Accounting Standards Board.

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Fund Accounting

The Library accounts for its various activities in the General Fund, Debt Service 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 revenues were used. The Library reports the following as major governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide the Library services. General Fund activities are financed by revenue from a general property tax millage, state aid, and other sources.

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

- The Debt Service Fund is used to account for the annual payments of principal, interest, and expenses in connection with the 1996 Unlimited Tax General Obligation Bonds.
- 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 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.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are 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, Cash Equivalents, and Investments - 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, furniture, and the collection of library books and other materials, are reported in the applicable governmental 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 fair market value at the date of donation.

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

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

Capital Asset Class	Lives
Building and improvements	30 years
Equipment, furniture, and fixtures	5-7 years
Library collection	10 years

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an “other financing source,” as well as bond premiums and discounts. The debt service fund is generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

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

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 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.

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Fund Balance Flow Assumption

Sometimes the government 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 government'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. 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 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 board has by resolution authorized the library director to assign fund balance. The library board 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 tax receivables are shown as net of allowance for uncollectible amounts, if deemed necessary. Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. Taxes are due March 1, at which time penalties and interest are assessed.

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2015 taxable valuation of the Library totaled approximately \$660 million, on which ad valorem taxes levied consisted of 1.602 mills for the Library's operating purposes and 0.3125 mills for the Library's bond debt. The ad valorem taxes levied raise approximately \$1,062,000 for operations and \$208,000 for bond debt, which is recognized in the General Fund and Debt Service Fund financial statements as tax revenue. The debt levy has expired as of June 30, 2016.

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.

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 reporting period. Actual results could differ from those estimates.

Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities

The net position reported in the statement of net position column is different than the fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Fund Balance Reported in Governmental Funds	\$ 841,412
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	3,214,861
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>(18,514)</u>
Net Position of Governmental Activities	<u>\$ 4,037,759</u>

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities (Continued)

The change in net position reported in the statement of activities column is different than the change in fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Net Change in Fund Balances - Total Governmental Funds \$ (205,891)

Amounts reported for governmental activities in the statement of activities 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:

Capital outlay	559,370
Depreciation expense	(321,192)
Net book value of assets disposed of	(5,956)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	200,000
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Change in accrued interest payable and other	1,533
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Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and therefore, are not reported in the fund statements until they come due for payment	9,531
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Change in Net Position of Governmental Activities \$ 237,395

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note 3 - 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 one bank 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 \$182,526 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:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Primary Government - Government investment pool	<u>\$ 246,089</u>	AI/PI/FI	S&P

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note 4 - Capital Assets

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

Governmental Activities	Balance July 1, 2015	Reclassifications	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 152,000	\$ -	\$ -	\$ -	\$ 152,000
Construction in progress	24,358	(24,358)	24,813	-	24,813
Subtotal	176,358	(24,358)	24,813	-	176,813
Capital assets being depreciated:					
Buildings and improvements	3,942,954	24,358	399,088	-	4,366,400
Equipment, furniture, and fixtures	530,040	-	29,974	(7,445)	552,569
Books, periodicals, and videos	1,361,192	-	105,495	(172,616)	1,294,071
Subtotal	5,834,186	24,358	534,557	(180,061)	6,213,040
Accumulated depreciation:					
Buildings and improvements	1,743,121	-	145,985	-	1,889,106
Equipment, furniture, and fixtures	412,440	-	45,800	(1,489)	456,751
Books, periodicals, and videos	872,344	-	129,407	(172,616)	829,135
Subtotal	3,027,905	-	321,192	(174,105)	3,174,992
Net capital assets being depreciated	2,806,281	24,358	213,365	(5,956)	3,038,048
Net capital assets	\$ 2,982,639	\$ -	\$ 238,178	\$ (5,956)	\$ 3,214,861

Depreciation expense was \$321,192 for the year ended June 30, 2016.

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note 5 - Long-term Debt

The Library issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Library.

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds	4.6%	\$ 200,000	\$ -	\$ (200,000)	\$ -	\$ -
Accumulated compensated absences		<u>28,045</u>	<u>-</u>	<u>(9,531)</u>	<u>18,514</u>	<u>15,736</u>
Total governmental activities		<u>\$ 228,045</u>	<u>\$ -</u>	<u>\$ (209,531)</u>	<u>\$ 18,514</u>	<u>\$ 15,736</u>

Total interest expense for the year was approximately \$9,000. The annual debt service has matured as of June 30, 2016.

Note 6 - 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. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Defined Contribution Retirement Plan

The Library provides pension benefits to all of its employees who work in excess of 20 hours per week on a regularly scheduled basis through a defined contribution plan. In a defined 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, 2016 were \$27,005 and \$48,361, respectively.

Salem-South Lyon District Library

Notes to Financial Statements June 30, 2016

Note 8 - Fund Balance Constraints

The detail of the assigned fund balance is as follows:

	<u>General Fund</u>
Fund Balances	
Assigned:	
Book and trilogy	\$ 15,896
Brick campaign	30,806
Building	940
Public relations and marketing	2,506
Gifts and grants	13,797
Materials	<u>357</u>
Total assigned	<u>\$ 64,302</u>

The amounts above have been assigned for specific future projects and programs. In addition, the fund balance in the Capital Projects Fund of \$132,614 has been assigned for future capital related projects.

Required Supplemental Information

Salem-South Lyon District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 1,058,005	\$ 1,058,005	\$ 1,061,927	\$ 3,922
Charges for services	197,000	197,000	275,156	78,156
Fines and fees	72,600	72,600	84,221	11,621
Grant revenue	25,000	35,000	2,060	(32,940)
State aid	12,000	12,000	14,210	2,210
Sale of equipment	1,400	1,400	660	(740)
Contributions and miscellaneous revenue	31,000	31,000	83,250	52,250
Investment earnings	1,600	1,600	2,076	476
Total revenues	<u>1,398,605</u>	<u>1,408,605</u>	<u>1,523,560</u>	<u>114,955</u>
Expenditures				
Personnel expenditures	823,500	834,000	832,147	1,853
Library services and materials	226,000	226,000	226,170	(170)
Facilities and equipment	140,500	263,255	191,713	71,542
Other operating expenditures	75,350	85,350	90,890	(5,540)
Total expenditures	<u>1,265,350</u>	<u>1,408,605</u>	<u>1,340,920</u>	<u>67,685</u>
Excess of Revenues Over Expenditures	133,255	-	182,640	182,640
Other Financing Sources	-	-	6,322	6,322
Net Change in Fund Balance	133,255	-	188,962	188,962
Fund Balance - Beginning of year	519,836	519,836	519,836	-
Fund Balance - End of year	<u>\$ 653,091</u>	<u>\$ 519,836</u>	<u>\$ 708,798</u>	<u>\$ 188,962</u>

Salem-South Lyon District Library

Note to Required Supplemental Information Year Ended June 30, 2016

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Debt Service 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 line item 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.

The budget variance in the library services and materials line was due to unforeseen expenditures. The variance in other operating expenditures is due to spending down the prior year library fund balance reserves.