



REED CITY AREA DISTRICT LIBRARY

REED CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021



Vredeveld Haefner LLC
CPAs and Consultants

REED CITY AREA DISTRICT LIBRARY

TABLE OF CONTENTS

FINANCIAL SECTION	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	7
Statement of Activities	9
Fund Financial Statements	
Balance Sheet - Governmental Funds	10
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Position of Governmental Activities on the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	15-21
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	23



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INDEPENDENT AUDITORS' REPORT

October 5, 2021

Members of the Library Board
Reed City Area District Library
Reed City, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Reed City Area District Library (the Library), Reed City, Michigan, 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 Reed City Area District Library, as of June 30, 2021, and the respective changes in financial position for the year 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 on pages 3 through 6 and the other information on page 23 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.

Vredewold Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

About the Library

The Reed City Area District Library (the "Library") is comprised of the participating municipalities of the City of Reed City, Lincoln Township and Richmond Township within the County of Osceola, Michigan. It also serves the contracting municipalities of Hersey Township, the Village of Hersey and Cedar Charter Township, all within the County of Osceola, Michigan, as well as Green Charter Township within Mecosta, County, Michigan. The Library was established and organized as a District Library under the District Library Establishment Act (Act 24 of 1989) in 2014. The Library is governed by a six-member Board with each participating entity appointing two members.

Financial Highlights

- The Library continues to make additional principal payments toward the outstanding note payable.
- The parking lot was paved during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The fund and government-wide financial statements have been presented separately with a schedule presenting reconciling items between the General fund and the government-wide statement presentation.

The *Government-wide financial statements* are designed to provide readers with a broad overview of the Library's finances, in a manner 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 between the two reported as *net position*. Over time, increases or decreases in net position may 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 period. 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 only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The Library currently has no business-type activities.

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. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library only utilizes governmental funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported 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 period. Such information may be useful in evaluating a Library's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Library's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Library maintains one governmental fund. Information is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General fund which is considered a major fund.

The Library adopts an annual appropriations budget for its General fund as required by state law. A budgetary comparison statement has been provided as required supplementary information for the General fund to demonstrate legal compliance.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This includes this discussion and analysis as well as a budgetary comparison schedule which is provided for the General fund to demonstrate compliance with the annual appropriated budget.

Government-wide Financial Analysis

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Library's financial position. At the close of the most recent fiscal year, assets exceeded liabilities by \$688,355. The following table illustrates the composition of net position.

Net Position		
	<u>2021</u>	<u>2020</u>
Current and other assets	\$252,591	\$254,589
Capital assets	634,595	645,337
Total assets	887,186	899,926
Current and other liabilities	12,819	13,896
Long-term liabilities	186,012	230,096
Total liabilities	198,831	243,992
Net position		
Net Investment in capital assets	448,583	415,241
Unrestricted	239,772	240,693
Total net position	\$688,355	\$655,934

Approximately 35% of the Library's net position reflects unrestricted net position which is available for future operation while a significant portion (65%) of net position is invested in capital assets (e.g., buildings, furniture, equipment and collections materials), less any related debt used to acquire those assets that is still outstanding. The Library uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Statement of Activities

The Library's total revenue for the fiscal year ended June 30, 2021, was \$213,659 while total cost of all programs and services was \$181,238. This results in an increase in net position of \$32,421.

The following table presents a summary of the changes in net position for the years ended June 30.

Changes in Net Position		
	<u>2021</u>	<u>2020</u>
Program revenues		
Charges for services	\$ 5,381	\$ 4,152
Operating grants and contributions	28,733	25,023
Capital grants and contributions	-	-
General revenues		
Property taxes	145,485	138,355
County penal fines	32,497	40,155
Interest earnings	229	420
Other general revenues	1,334	4,431
Total revenues	213,659	212,536
Functions/program expenses		
Library	176,924	184,977
Interest on long-term debt	4,314	5,336
Total expenses	181,238	190,313
Change in net position	32,421	22,223
Net position, beginning of year	655,934	633,711
Net position, end of year	\$688,355	\$655,934

During 2021, property taxes increased \$7,130 as a result of an increase in taxable value however county penal fines decreased \$7,658 during the year.

Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the Library's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements.

The general fund is the chief operating fund of the Library. At the end of the current fiscal period, unassigned fund balance was \$231,969. As a measure of the general fund's liquidity, it may be useful to compare fund balance to fund expenditures. Total fund balance represents 113% of total current year general fund expenditures.

Budgetary Highlights

Significant budget amendments during the year included increasing the budgeted amount for donations by \$23,523 to recognize an unanticipated bequest and private donations, and increasing the budgeted amount for supplies by \$12,657 to reflect additional purchases of programming supplies.

Capital Asset and Debt Administration

Capital assets

During the year the Library had capital asset additions related to a computers, parking lot paving, and collection materials totaling \$42,481. Additional information on capital assets can be found in Note 4 to the financial statements.

Long-term Debt

The Library made principal payments on the note payable during the year totaling \$44,084. Additional information on long-term debt can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The Library Board reviews previous revenue sources and amounts received to estimate the next year's revenues. The Library Board reviews historical costs and potential cost saving measures, and desired improvements to determine the best course of action for the library over the coming years. In addition, the 2021 taxable value for the Library is expected to increase resulting in higher tax revenues, and the Library anticipates hiring a Director.

Contacting the Library Management

This management discussion and analysis provides an overview of the current and prospective financial condition of the Library's operations and financial position. If there are questions concerning this report or if additional information is desired, please contact the Library Director at 231-832-2131.

BASIC FINANCIAL STATEMENTS

REED CITY AREA DISTRICT LIBRARY

STATEMENT OF NET POSITION

JUNE 30, 2020

	<u>Primary Government Governmental Activities</u>
Assets	
Cash	\$ 229,833
Due from other governments	19,100
Prepaid items	3,658
Capital assets	
Depreciable capital assets, net	<u>634,595</u>
Total assets	<u>887,186</u>
Liabilities	
Accounts payable	1,789
Accrued liabilities	6,745
Compensated absences	497
Unearned revenue	3,788
Debt due within one year	50,194
Noncurrent liabilities	
Debt due in more than one year	<u>135,818</u>
Total liabilities	<u>198,831</u>
Net position	
Net investment in capital assets	448,583
Unrestricted	<u>239,772</u>
Total net position	<u>\$ 688,355</u>

The accompanying notes are an integral part of these financial statements.

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REED CITY AREA DISTRICT LIBRARY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities				
Library	\$ 176,924	\$ 5,381	\$ 28,733	\$ (142,810)
Interest on long-term debt	<u>4,314</u>	<u>-</u>	<u>-</u>	<u>(4,314)</u>
Total	<u>\$ 181,238</u>	<u>\$ 5,381</u>	<u>\$ 28,733</u>	<u>(147,124)</u>
General revenues				
Property taxes				145,485
County penal fines				32,497
Interest earnings				229
Other general revenues				<u>1,334</u>
Total general revenues				<u>179,545</u>
Change in net position				32,421
Net position, beginning of year				<u>655,934</u>
Net position, end of year				<u>\$ 688,355</u>

The accompanying notes are an integral part of these financial statements.

REED CITY AREA DISTRICT LIBRARY

GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2020

	General Fund
Assets	
Cash	\$ 229,833
Due from other governments	19,100
Prepaid items	<u>3,658</u>
Total assets	<u><u>\$ 252,591</u></u>
 Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 1,789
Accrued liabilities	2,095
Unearned revenue	<u>3,788</u>
Total liabilities	<u>7,672</u>
 Fund balance	
Nonspendable	3,658
Assigned	
Subsequent year expenditures	9,292
Unassigned	<u>231,969</u>
Total fund balance	<u>244,919</u>
 Total liabilities and fund balance	<u><u>\$ 252,591</u></u>

The accompanying notes are an integral part of these financial statements.

REED CITY AREA DISTRICT LIBRARY

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

JUNE 30, 2020

Fund balances - governmental funds	\$ 244,919
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	634,595
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - note payable	(186,012)
Deduct - accrued interest	(4,650)
Deduct - accrued compensated absences	<u>(497)</u>
Net position of governmental activities	<u>\$ 688,355</u>

The accompanying notes are an integral part of these financial statements.

REED CITY AREA DISTRICT LIBRARY

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2020

	General Fund
Revenues	
Taxes	\$ 145,485
Intergovernmental	
State revenues	7,258
County penal fees	32,497
Fees and charges	5,381
Donations	21,475
Interest	229
Miscellaneous	<u>1,334</u>
Total revenues	<u>213,659</u>
Expenditures	
Current	
Personnel	
Salary and wages	58,919
Benefits	4,991
Contractual	40,963
Supplies and other	19,634
Books, audio and video	17,345
Miscellaneous	948
Capital outlay	24,177
Debt service	
Principal	44,084
Interest	<u>5,416</u>
Total expenditures	<u>216,477</u>
Net changes in fund balance	(2,818)
Fund balance, beginning of year	<u>247,737</u>
Fund balance, end of year	<u><u>\$ 244,919</u></u>

The accompanying notes are an integral part of these financial statements.

REED CITY AREA DISTRICT LIBRARY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

Net changes in fund balances - total governmental funds	\$	(2,818)
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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, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	42,481
Deduct - depreciation expense	(53,223)

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Add - principal payment on bond payable	44,084
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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 the funds.

Add - decrease in accrued interest	1,102
Add - decrease in compensated absences	<u>795</u>

Change in net position of governmental activities	\$	<u>32,421</u>
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The accompanying notes are an integral part of these financial statements.

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REED CITY AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Reed City Area District Library, Reed City, Michigan (the "Library") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Reed City Area District Library. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Library.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues are reported in total. The Library has no business-type or fiduciary activities.

The statement of activities demonstrates the degree to which the direct expenses 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 revenues* include (1) charges to customers or applicants 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 meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

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. Property taxes are recognized as revenues 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.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

REED CITY AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Governmental funds are accounted for using the *modified accrual basis of accounting*. Their revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants, penal fines, and interest which use a one year collection period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt (2) payment for compensated absences, which are recognized when due.

Governmental funds are accounted for on a spending or “flow of financial resources” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available, spendable resources”.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available, spendable resources” during a period.

The Library reports the following major governmental fund:

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

Budgets and Budgetary Accounting

Comparisons to budget are presented for the General fund. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Library Director submits to the Library Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General fund.
5. The budget for the General fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the Library are governed by Michigan Law. The appropriations ordinances are based on the projected expenditures budget of the various functions of the Library. Any amendment to the original budget must meet the requirements of Michigan Law. The Library amended its budget during the year. Any revisions that alter the expenditures at the activity level within the General fund must be approved by the Library Board.

Budgets for expenditures are adopted on an object basis. Budgeted amounts are as amended by the Library Board.

REED CITY AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Deposits and Investments

State statutes authorize the Library to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. 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.
- d. Bankers acceptances of United States banks.
- e. 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.
- f. 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.
- g. External investment pools as authorized by Public Act 20 as amended.

The Library's investment policy is more restrictive than state requirements and allows for investment in only those investment vehicles identified in item b. above.

Capital Assets

Capital assets, which include property and, equipment are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government 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 valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	20
Collections	7
Furniture and fixtures	5-10

REED CITY AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Unearned Revenue

The Library reports unearned revenue in connection with resources that have been received but not yet earned.

Compensated Absences

Under the Library's personnel policy and employment agreements, individual employees have a vested right to receive payments for unused vacation leave under formulas and conditions specified in the policy. Accumulated leave of the General fund is recorded on the statement of net position and not on the General fund balance sheet because it is not expected to be liquidated with expendable available financial resources. Changes in compensated absences during the period were as follows:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Compensated absences	\$1,292	\$990	\$1,785	\$497

Property Taxes

The Library receives an operating millage from the City and two townships within their service area. Property taxes are levied and become an enforceable lien on December 1. Taxes are payable by February 15. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the Library 100% of the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City and townships. The Library also received a payment in lieu of property taxes from the State of Michigan for property located within a renaissance zone. Property tax revenues are recognized as revenue in the year for which they are levied.

Grants and Other Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

Net Position and Fund Balance Reporting

Governmental funds may report fund balance in the following five categories:

1. Non-spendable - the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted – the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed – the related assets can only be spent for a specific purpose identified by formal resolution of the governing board.
4. Assigned – the related assets can only be spent for a specific purpose but do not meet the criteria to be classified as committed.

REED CITY AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

The Library Board has not delegated the authority to assign fund balance. Only the Library Board can assign or commit fund balance.

Net Position and Fund Balance Flow Assumptions

Sometimes the government 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/fund balance and unrestricted – net position/fund balance, 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 use restricted resources first, then unrestricted resource as they are needed. 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.

Long-Term Obligations

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures/expenses regardless of fund or activity.

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2021, the Library carried commercial insurance to cover risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

PA. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the General fund have been shown at the object level, the same level at which the budgets of the Library were adopted. During the year ended June 30, 2021, the Library did not incur any expenditures in excess of the amounts appropriated:

3. DEPOSITS

The balance on the financial statements for cash is \$229,833. This balance is in a financial institution located in Michigan. State policy limits the Library's investing options to financial institutions located in Michigan. All accounts are in the name of the Library and are recorded in Library records at fair value.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. As of year-end, the Library's bank balance was \$242,075 which was fully covered by Federal deposit insurance.

REED CITY AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2021</u>
Governmental activities				
Capital assets being depreciated				
Building and improvements	\$772,367	\$ 16,300	\$ -	\$788,667
Collections	37,046	16,927	4,792	49,181
Furniture and fixtures	58,551	9,254	-	67,805
Total capital assets, being depreciated	<u>867,964</u>	<u>42,481</u>	<u>4,792</u>	<u>905,653</u>
Less accumulated depreciation for				
Building and improvements	192,894	39,433	-	232,327
Collections	6,298	7,256	4,792	8,762
Furniture and fixtures	23,435	6,534	-	29,969
Total accumulated depreciation	<u>222,627</u>	<u>53,223</u>	<u>4,792</u>	<u>271,058</u>
Net capital assets being depreciated	<u>645,337</u>	<u>(10,742)</u>	<u>-</u>	<u>634,595</u>
Governmental activities capital assets, net	<u>\$645,337</u>	<u>\$(10,742)</u>	<u>\$ -</u>	<u>\$634,595</u>

Depreciation expense of \$53,223 was charged to the library's functions/programs of governmental activities.

5. LONG-TERM DEBT

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2021</u>	<u>Due Within One Year</u>
Direct placements debt					
Building renovation note payable; due in annual installments of \$54,844 including interest at 2.5% through October 2025	<u>\$230,096</u>	<u>\$ -</u>	<u>\$44,084</u>	<u>\$186,012</u>	<u>\$50,194</u>

The annual requirements to amortize the note payable as of June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>
2022	\$ 50,194	\$ 4,650
2023	51,449	3,395
2024	52,735	2,109
2025	<u>31,634</u>	<u>791</u>
Total	<u>\$186,012</u>	<u>\$10,945</u>

In the event of default, the Library will be required to use money from its General fund or levy an ad valorem tax sufficient to pay the obligation, subject to applicable constitutional, statutory and charter limitations.

REED CITY AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

6. TAX ABATEMENTS

The Library received reduced property tax revenues as a result of property tax abatements agreements granted by the City of Reed City with local businesses under the Commercial Redevelopment Act, (known as the Commercial Facilities Exemption), PA 255 of 1978, as amended, which affords a tax incentive for the redevelopment of commercial property for the primary purpose and use of a commercial business enterprise. The property must be located within an established Commercial Redevelopment District. Exemptions are approved for a term of 1-12 years as determined by the local unit of government and the taxable value is frozen for the duration of the certificate. For restored facilities, the property taxes are based upon the previous year's (prior to restoration) taxable value and 100% of the mills levied. For new or replacement facilities, the property taxes are based upon the current year's taxable value and 50% of the mills levied. The agreements entered into by the City of Reed City include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation.

For the year ended June 30, 2021, the Library's property tax revenue reduced by this type of abatement was not significant.

The Library received reduced property taxes as a result of property tax abatements granted by the City of Reed City through agreements with a local business under the New Personal Property Exemption Act, PA 328 of 1998, as amended, which affords a 100% property tax exemption for specific businesses located within eligible distressed communities. The property must be located within an established Industrial Development District. Exemptions are approved for a term of 12 years as determined by the local unit of government and the taxable value is exempted for the duration of the certificate.

For the year ended June 30, 2021, the Library's property tax revenues were reduced by approximately \$55,000 based on undepreciated personal property values.

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REQUIRED SUPPLEMENTARY INFORMATION

REED CITY AREA DISTRICT LIBRARY

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2020

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Taxes	\$ 131,168	\$ 131,168	\$ 145,485	\$ 14,317
Intergovernmental				
State grants	4,186	4,186	7,258	3,072
County penal fees	42,663	42,663	32,497	(10,166)
Fees and charges	3,700	3,700	5,381	1,681
Donations	5,000	23,523	21,475	(2,048)
Interest	300	300	229	(71)
Miscellaneous	<u>32,300</u>	<u>34,606</u>	<u>1,334</u>	<u>(33,272)</u>
Total revenues	<u>219,317</u>	<u>240,146</u>	<u>213,659</u>	<u>(26,487)</u>
Expenditures				
Current				
Personnel				
Salary and wages	65,300	62,696	58,919	3,777
Benefits	8,000	7,000	4,991	2,009
Contractual	42,906	45,422	40,963	4,459
Supplies and other	12,947	25,604	19,634	5,970
Books, audio and video	14,719	17,658	17,345	313
Miscellaneous	2,300	2,300	948	1,352
Capital outlay	18,300	24,621	24,177	444
Debt service				
Principal	48,475	48,475	44,084	4,391
Interest	<u>6,370</u>	<u>6,370</u>	<u>5,416</u>	<u>954</u>
Total expenditures	<u>219,317</u>	<u>240,146</u>	<u>216,477</u>	<u>23,669</u>
Net changes in fund balance	-	-	(2,818)	(2,818)
Fund balance, beginning of year	<u>247,737</u>	<u>247,737</u>	<u>247,737</u>	<u>-</u>
Fund balance, end of year	<u>\$ 247,737</u>	<u>\$ 247,737</u>	<u>\$ 244,919</u>	<u>\$ (2,818)</u>

Note to required supplementary information

Budgets and Budgetary Accounting

The Library adopts an annual budget for the general fund following the GAAP basis of accounting. Unexpended appropriations lapse at year-end.