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REED CITY AREA DISTRICT LIBRARY
REED CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023



Vredeveld Haefner LLC
CPAs and Consultants

REED CITY AREA DISTRICT LIBRARY

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INDEPENDENT AUDITORS' REPORT

December 26, 2023

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

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Reed City Area District Library (the Library) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Library, as of June 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Library and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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.

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.

Approximately 33% of the Library's net position reflects unrestricted net position which is available for future operation while the remaining 67% 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, 2023, was \$227,175 while total cost of all programs and services was \$220,615. This results in an increase in net position of \$6,560.

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

Changes in Net Position		
	<u>2023</u>	<u>2022</u>
Program revenues		
Charges for services	\$ 7,447	\$ 7,154
Operating grants and contributions	30,696	31,324
Capital grants and contributions	-	-
General revenues		
Property taxes	157,529	149,415
County penal fines	30,007	28,444
Interest earnings	95	108
Other general revenues	1,401	634
Total revenues	<u>227,175</u>	<u>217,079</u>
Functions/program expenses		
Library	219,121	219,732
Interest on long-term debt	1,494	2,656
Total expenses	<u>220,615</u>	<u>222,388</u>
Change in net position	6,560	(5,309)
Net position, beginning of year	683,046	688,355
Net position, end of year	<u>\$689,606</u>	<u>\$683,046</u>

During 2023, property taxes increased \$8,114 as a result of an increase in taxable value and county penal fines increased slightly 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, fund balance amounted to \$230,192. Of this amount, \$77,423 was set aside (assigned) to meet the 2023-24 budget requirements and \$149,105 remained available as unassigned fund balance. As a measure of the general fund's liquidity, it may be useful to compare fund balance to fund expenditures. Total fund balance represents 101% of total current year general fund expenditures.

BASIC FINANCIAL STATEMENTS

REED CITY AREA DISTRICT LIBRARY

STATEMENT OF NET POSITION

JUNE 30, 2023

	<u>Primary Government Governmental Activities</u>
Assets	
Cash	\$ 218,102
Due from other governments	15,655
Prepaid items	3,664
Capital assets	
Depreciable capital assets, net	<u>549,184</u>
Total assets	<u>786,605</u>
Liabilities	
Accounts payable	3,714
Accrued liabilities	5,632
Compensated absences	2,958
Debt due within one year	52,727
Noncurrent liabilities	
Debt due in more than one year	<u>31,968</u>
Total liabilities	<u>96,999</u>
Net position	
Net investment in capital assets	464,489
Unrestricted	<u>225,117</u>
Total net position	<u>\$ 689,606</u>

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

REED CITY AREA DISTRICT LIBRARY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2023

<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	\$ 219,121	\$ 7,447	\$ 30,696	\$ (180,978)
Interest on long-term debt	1,494	-	-	(1,494)
Total	\$ 220,615	\$ 7,447	\$ 30,696	(182,472)
General revenues				157,529
Property taxes				30,007
County penal fines				95
Interest earnings				1,401
Other general revenues				
Total general revenues				189,032
Change in net position				6,560
Net position, beginning of year				683,046
Net position, end of year				\$ 689,606

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, 2023

Fund balances - governmental funds	\$ 230,192
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)	549,184
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - note payable	(84,695)
Deduct - accrued interest	(2,117)
Deduct - accrued compensated absences	<u>(2,958)</u>
Net position of governmental activities	<u>\$ 689,606</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, 2023

Net changes in fund balances - total governmental funds	\$ (158)
Amounts reported for <i>governmental activities</i> 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	11,060
Deduct - depreciation expense	(56,202)
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	51,225
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	1,281
Deduct - increase in compensated absences	<u>(646)</u>
Change in net position of governmental activities	<u>\$ 6,560</u>

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

REED CITY AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

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, 2023

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, 2023

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, 2023, 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, 2023, the Library incurred expenditures in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General Fund			
Personnel			
Benefits	\$ 6,250	\$ 6,585	\$ (335)
Contractual	39,221	49,127	(9,906)
Supplies and other	10,824	24,408	(13,584)

3. DEPOSITS

The balance on the financial statements for cash is \$218,102. 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.

REED CITY AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

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.

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, 2023, 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, 2023, the Library's property tax revenues were reduced by approximately \$45,000 based on undepreciated personal property values.

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, 2023

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 143,421	\$ 143,421	\$ 157,529	\$ 14,108
Intergovernmental				
State grants	7,000	7,000	6,791	(209)
County penal fees	35,200	35,200	30,007	(5,193)
Fees and charges	6,600	6,600	7,447	847
Donations	14,550	14,550	23,905	9,355
Interest	150	150	95	(55)
Miscellaneous	550	550	1,401	851
Total revenues	<u>207,471</u>	<u>207,471</u>	<u>227,175</u>	<u>19,704</u>
Expenditures				
Current				
Personnel				
Salary and wages	88,053	88,053	80,866	7,187
Benefits	6,250	6,250	6,585	(335)
Contractual	39,221	39,221	49,127	(9,906)
Supplies and other	10,824	10,824	24,408	(13,584)
Books, audio and video	14,000	14,000	11,319	2,681
Miscellaneous	1,850	1,850	1,028	822
Debt service				
Principal	54,000	54,000	51,225	2,775
Interest	6,370	6,370	2,775	3,595
Total expenditures	<u>220,568</u>	<u>220,568</u>	<u>227,333</u>	<u>(6,765)</u>
Net changes in fund balance	(13,097)	(13,097)	(158)	12,939
Fund balance, beginning of year	<u>230,350</u>	<u>230,350</u>	<u>230,350</u>	<u>-</u>
Fund balance, end of year	<u>\$ 217,253</u>	<u>\$ 217,253</u>	<u>\$ 230,192</u>	<u>\$ 12,939</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.

