

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the FRED C. FISCHER Library)

**FINANCIAL REPORT
WITH
SUPPLEMENTARY INFORMATION**

JUNE 30, 2019

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

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INDEPENDENT AUDITOR'S REPORT

Members of the Belleville Area District Library Board
Belleville Area District Library
Belleville, Michigan

We have audited the accompanying financial statements of the governmental activities and major funds of the Belleville Area District Library (the Library) as of and for the year ended June 30, 2019, 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 Responsible 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 of 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 controls relevant to the Library'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 of the effectiveness of the Library's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major funds of the Library as of June 30, 2019 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 Supplement Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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.

Alan C. Young & Assoc.

Detroit, Michigan
December 17, 2019

BELLEVILLE AREA DISTRICT LIBRARY

(formerly the Fred C. Fischer Library)

Management's Discussion and Analysis
June 30, 2019

Belleville Area District Library (the "Library") management offers this narrative overview and analysis of the Library's financial activities and statements for the fiscal year ended June 30, 2019. This narrative is an overview of the financial health of the Library based on the information in the statements. This discussion is intended to be an objective, straightforward and understandable introduction to the Library's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities of the Library as a whole present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting to demonstrate the cost of providing services during the current year and the degree to which the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view and demonstrate how the taxpayers' resources were spent during the year, as well as how much is available for future spending, on a modified accrual basis. The fund financial statements report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Financial Highlights

The Library's financial activities continue to reflect the new library building construction project due to be completed by Spring 2020. To support the repayment of the project's 20-year bond issue of \$13,820,000 approved by the voters in November 2016, a debt service millage of 0.64 mills was authorized by the Library Board to be levied in Winter 2018. The library also levied two operating millages approved by the voters of 0.7 mills and 0.75 mills. The operating millages levied on the Winter 2018 tax bill were rolled back by the Headlee Amendment (MCL 211.34d) to 0.6930 mills and 0.7425 mills.

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Management's Discussion and Analysis (Continued)
June 30, 2019

Statement of Net Position

The following table shows, in a condensed format, the Library's net position on a comparative basis as of June 30, 2019 and 2018:

	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2018</u>	<u>Change from</u> <u>2019-2018</u>
Assets			
Capital Assets	\$ 6,870,750	\$ 1,998,290	\$ 4,872,460
Restricted Investments	9,347,912	12,568,371	(3,220,459)
Other Assets	3,886,785	2,729,826	1,156,959
Total Assets	<u>20,105,447</u>	<u>17,296,487</u>	<u>2,808,960</u>
Liabilities			
Current Liabilities	2,052,483	721,620	1,330,863
Bonds Payable, Net of Current Portion	12,702,848	13,244,192	(541,344)
Compensated Absences	85,206	78,851	6,355
Total Liabilities	<u>14,840,537</u>	<u>14,044,663</u>	<u>795,874</u>
Net Position			
Net Investment in Capital Assets	676,762	499,797	176,965
Restricted-Unspent Bond Proceeds	(7,626,012)	(12,321,507)	4,695,495
Restricted for Capital Projects and Debt Service	8,615,036	13,089,719	(4,474,683)
Restricted Building Contributions	359,050	-	359,050
Unrestricted	3,240,074	1,983,815	1,256,259
Total Net Position	<u>\$ 5,264,910</u>	<u>\$ 3,251,824</u>	<u>\$ 2,013,086</u>

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Management's Discussion and Analysis (Continued)
 June 30, 2019

Statement of Activities

The following table shows, in a consolidated format, the Library's Statement of Activities on a comparative basis for the years ended June 30, 2019 and June 30, 2018:

	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2018</u>	<u>Change from</u> <u>2019-2018</u>
Revenue			
Property Taxes	\$ 2,892,758	\$ 3,209,345	\$ (316,587)
Library Fines and Fees	140,014	130,601	9,413
Other	397,433	37,664	359,769
Interest Income	<u>255,810</u>	<u>120,629</u>	<u>135,181</u>
Total Revenue	3,686,015	3,498,239	187,776
Expenses			
Salaries and Benefits	842,797	721,824	120,973
Depreciation	152,899	144,266	8,633
Other	<u>677,233</u>	<u>690,193</u>	<u>(12,960)</u>
Total Expenditures	<u>1,672,929</u>	<u>1,556,283</u>	<u>116,646</u>
Change in Net Position	<u>\$ 2,013,086</u>	<u>\$ 1,941,956</u>	<u>\$ 71,130</u>

The Library's net position increased from June 30, 2018 to June 30, 2019 by approximately \$2.0 million primarily due to property tax revenue from new debt service and operating millages. These revenues were primarily used to pay debt service and for construction of the new building.

The property tax revenues for June 30, 2019 were generated by an operating millage of 0.693 mills. Voters in the library service area authorized the Library to levy an additional 0.75 operating millage and a 0.64 debt service millage to support the issuance of bonds in the amount of \$13,820,000 to fund the construction of a new library. These millages were levied on the winter 2018 tax roll and recognized in the year ending June 30, 2019. The additional operating millage was reduced to 0.7425 mills under the Headlee rollback.

The Library's Funds

General Fund

For the fiscal year ended June 30, 2019, the General Fund revenues were in excess of expenditures by \$1,092,374. Actual revenues were higher than budget by \$131,278 and actual expenditures were less than budgeted by \$282,496. Per Board resolution, \$1,000,000 of the fund balance has been committed to cover the Library's 2019-2020 budget.

BELLEVILLE AREA DISTRICT LIBRARY

(formerly the Fred C. Fischer Library)

Management's Discussion and Analysis (Continued)
June 30, 2019

Capital Projects Fund

During fiscal year ended June 30, 2017 the Capital Projects Fund received \$13,820,000 of bond proceeds plus a premium from the bond sale of \$426,880. The bonds will be paid off over a twenty year period. The bond proceeds were immediately invested and generated approximately \$252,000 of interest income for the year ended June 30, 2019. Capital outlay expenditures incurred approximately \$4.7 million.

Debt Service Fund

For the fiscal year ending June 30, 2019, the Debt Service Fund had property tax revenue of \$950,670. Debt service payments of \$982,125 were made during the year.

Capital Assets

During the year ended June 30, 2019, the Library purchased books and periodicals totaling \$145,107, which were added to the existing collection. In addition, property costing \$4,695,495 was purchased by the Capital Projects Fund in connection with the construction of a new library. Computers were purchased with a cost of \$184,757. Depreciation expense for the year was \$152,899.

General Fund Budgetary Highlights

Over the course of the year, the Library revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Library's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Budgeted revenues for the General Fund were increased by \$355,700 from the original budget, primarily due to contributions and donations. Budgeted expenditures for the General Fund were increased by \$201,800. The Library did not have any significant budget variances and total expenditures were \$282,496 under budget.

Economic Factors and Next Year's Budget

The 2019-2020 General Fund budgeted tax revenues reflect an increase in taxable values. The 2019-2020 General Fund Budget reflects the anticipated costs of staffing and maintaining a small media center in Sumpter Township, located in the southern portion of the library's service area.

In 2016 voters in the library service area authorized the Library to incur \$13,820,000 in debt (total 20-year repayment with interest \$19,654,575) for the construction of a new library facility. The maximum number of years the bonds may be outstanding, exclusive of any refunding is twenty-one years.

The 2019-2020 Capital Projects budget reflects anticipated construction costs to be incurred.

The 2019-2020 Debt Service Fund reflects the anticipated .62 debt service millage to be received from the Winter 2019 tax roll plus the payment of interest and principal on the outstanding bonds due in November 2019 and May 2020.

BELLEVILLE AREA DISTRICT LIBRARY

(formerly the Fred C. Fischer Library)

Management's Discussion and Analysis (Continued)
June 30, 2019

Contacting the Library's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors 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 Belleville Area District Library at 167 Fourth Street, Belleville, MI 48111.

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Statement of Net Position
June 30, 2019

	Governmental Funds
Assets	
Current Assets	
Cash & Cash Equivalents (Note 3)	\$ 3,606,899
Investments-Restricted (Note 3)	9,347,912
Due From Other Governmental Units	251,787
Prepaid Expenses	18,489
Accrued Interest	<u>9,610</u>
Total Current Assets	<u>13,234,697</u>
Non-Current Assets	
Capital Assets - Net (Note 5)	<u>6,870,750</u>
Total Assets	<u><u>\$ 20,105,447</u></u>
Liabilities and Net Position	
Liabilities	
Current Liabilities	
Accounts Payable	\$ 1,422,283
Accrued Liabilities	12,281
Bond Payable-Current Portion (Note 8)	520,000
Bond Premium-Current Portion (Note 8)	21,344
Accrued Interest payable	<u>76,575</u>
Total Current Liabilities	<u>2,052,483</u>
Non-Current Liabilities	
Bonds Payable (Note 8)	12,340,000
Bond Premiums (Note 8)	362,848
Compensated Absences Payable (Note 7)	<u>85,206</u>
Total Non-Current Liabilities	<u>12,788,054</u>
Total Liabilities	<u>14,840,537</u>
Net Position	
Net Investment in Capital Assets	676,762
Restricted-Unspent Bond Proceeds	(7,626,012)
Restricted for Capital Projects	8,189,391
Restricted for Debt Service	425,645
Restricted - Building Contributions	359,050
Unrestricted	<u>3,240,074</u>
Total Net Position	<u>5,264,910</u>
Total Liabilities and Net Position	<u><u>\$ 20,105,447</u></u>

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

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Statement of Activities
Year Ended June 30, 2019

	Program Revenue			Governmental	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions / Programs:					
Governmental Activities:					Net (Expense) Revenue and Changes in Net Position
Library	\$ 1,672,929	\$ -	\$ 4,981	\$ 359,050	\$ (1,308,898)
General Revenues:					
Property Taxes (Note 1)					2,892,758
State Aid					32,458
Library Fines and Fees					140,014
Contributions and Donations					944
Interest					255,810
Total General Revenues					<u>3,321,984</u>
Change in Net Position					2,013,086
Net Position, Beginning of Year					<u>3,251,824</u>
Net Position, End of Year					<u>\$ 5,264,910</u>

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

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Balance Sheet
Governmental Funds
June 30, 2019

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Assets				
Cash and Cash Equivalents (Note 3)	\$ 3,007,720	\$ 215,649	\$ 383,530	\$ 3,606,899
Investments-Restricted (Note 3)	-	9,347,912	-	9,347,912
Due from Other Governmental Units	208,696	-	43,091	251,787
Prepaid Expenses	18,489	-	-	18,489
Due from Other Funds (Note 9)	12,959	25,768	-	38,727
Accrued interest	-	9,610	-	9,610
Total Assets	<u>\$ 3,247,864</u>	<u>\$ 9,598,939</u>	<u>\$ 426,621</u>	<u>\$ 13,273,424</u>
Liabilities and Fund Balance				
Liabilities				
Accounts Payable	\$ 24,718	\$ 1,397,565	\$ -	\$ 1,422,283
Accrued Liabilities	12,281	-	-	12,281
Due to Other Funds (Note 9)	25,768	11,983	976	38,727
Total Liabilities	<u>62,767</u>	<u>1,409,548</u>	<u>976</u>	<u>1,473,291</u>
Fund Balance				
Non-Spendable	18,489	-	-	18,489
Restricted	359,050	8,189,391	425,645	8,974,086
Committed for Working Capital	1,000,000	-	-	1,000,000
Unassigned	1,807,558	-	-	1,807,558
Total Fund Balance	<u>3,185,097</u>	<u>8,189,391</u>	<u>425,645</u>	<u>11,800,133</u>
Total Liabilities and Fund Balance	<u>\$ 3,247,864</u>	<u>\$ 9,598,939</u>	<u>\$ 426,621</u>	<u>\$ 13,273,424</u>

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

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Reconciliation of Total Governmental Fund Balance
to Net Position of Governmental Activities
June 30, 2019

Total Fund Balance - Governmental Fund \$ 11,800,133

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 therefore are not reported in the Governmental Funds
Balance Sheet

Capital Assets at Cost	9,084,236
Accumulated Depreciation	(2,213,486)

Long-term Liabilities are not due and payable in the current period
and therefore are not reported in governmental funds

Bonds Payable	(12,860,000)
Bond Premium	(384,192)
Compensated Absences Payable	(85,206)

Accrued interest is not reported in the governmental funds	<u>(76,575)</u>
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Total Net Position \$ 5,264,910

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

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

**Statement of Revenues, Expenditures, and Changes in Fund
Balance – Governmental Funds
June 30, 2019**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenue				
Property Taxes	\$ 1,942,088	\$ -	\$ 950,670	\$ 2,892,758
Grant Revenue	4,981	-	-	4,981
State Aid	32,458	-	-	32,458
Local Library Fines and Fees	140,014	-	-	140,014
Contributions and Donations	359,994	-	-	359,994
Investment Income	3,543	252,267	-	255,810
Total Revenue	<u>2,483,078</u>	<u>252,267</u>	<u>950,670</u>	<u>3,686,015</u>
Expenditures				
Salaries	631,876	-	-	631,876
Benefits and FICA	210,921	-	-	210,921
Books	145,107	-	-	145,107
Supplies	12,922	-	-	12,922
Professional Fees	20,318	-	-	20,318
Dues	2,629	-	-	2,629
Contracted Services	68,571	-	-	68,571
Telephone	13,916	-	-	13,916
Insurance	12,904	-	-	12,904
Utilities	25,157	-	-	25,157
Repairs and Maintenance	4,676	-	-	4,676
Printing and Publications	7,099	-	-	7,099
Postage	8,846	-	-	8,846
Computer Hardware/Software	55,626	-	-	55,626
Bank Charges	499	-	-	499
Miscellaneous	13,679	-	-	13,679
Capital Outlay	155,958	4,695,495	-	4,851,453
Debt Service	-	-	982,125	982,125
Total Expenditures	<u>1,390,704</u>	<u>4,695,495</u>	<u>982,125</u>	<u>7,068,324</u>
Excess/(Deficiency) of Revenues Over Expenditures	1,092,374	(4,443,228)	(31,455)	(3,382,309)
Fund Balance - June 30, 2018	<u>2,092,723</u>	<u>12,632,619</u>	<u>457,100</u>	<u>15,182,442</u>
Fund Balance - June 30, 2019	<u>\$ 3,185,097</u>	<u>\$ 8,189,391</u>	<u>\$ 425,645</u>	<u>\$ 11,800,133</u>

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

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
 In Fund Balance of Governmental Funds to the Statement of Activities
 June 30, 2019**

Net Changes in Fund Balance - Total Governmental Funds \$ (3,382,309)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their useful lives as depreciation

Depreciation Expense	(152,899)
Capital Outlay	5,025,359

Increase in non-current liabilities for compensated absences payable is an expense in the Statement of Activities but is not an expenditure in the governmental funds	(6,355)
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Repayment of debt is an expense in the governmental funds but it reduces the debt in the statement of Net Position	505,000
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Amortization of bond premiums reduces the debt liability in the statement of Net Position	21,344
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Accrued interest on bonds is not recorded at the fund level, but is an expense in the Statement of Activities	<u>2,946</u>
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Change in Net Position \$ 2,013,086

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

BELLEVILLE AREA DISTRICT LIBRARY

(formerly the Fred C. Fischer Library)

Notes to Financial Statements
June 30, 2019

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Effective April 17, 2010, Belleville Area District Library (the "Library") (formerly known as the Fred C. Fischer Library) was established as a district library with a territory which is located in the jurisdictional limits of the City of Belleville, Van Buren Township, and Sumpter Township. Its purpose is to provide library services to the residents of all the participating communities.

Reporting Entity

The Library is governed by an elected seven-member board. The accompanying 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 entity. The Library utilizes a General Fund, a Capital Projects Fund and a Debt Service Fund to account for all its financial resources.

Basis of Accounting

The accounting policies of 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:

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes susceptible to accrual that is, when it becomes both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Library's policy is to first apply restricted resources.

When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Library's policy to spend funds in this order: committed, assigned, and unassigned.

BELLEVILLE AREA DISTRICT LIBRARY

(formerly the Fred C. Fischer Library)

Notes to Financial Statements (Continued)
June 30, 2019

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Library:

- a. **General Fund** is the general operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. **Capital Projects Fund** is used to record proceeds or other revenue and the disbursement of invoices specifically designated for construction of the new library building. The fund operates until the purpose for which it was created is accomplished.
- c. **Debt Service Funds** are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Property Tax Revenue - Property taxes are levied on each December 1 on the taxable valuation of property included in the Library's district, as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2018 tax is levied and collectible on December 1, 2018 and is recognized as revenue in the year ended June 30, 2019, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2018 taxable valuation of the Library's district, which includes that of the City of Belleville, Sumpter Township, and Van Buren Township, totaled approximately \$1,468 million. A portion of that taxable value is captured by various tax increment financing districts. Taxes levied consisted of 1.4355 mills and resulted in a net Library levy of approximately \$1,942,000.

In addition, a tax levy of 0.64 mills was levied for debt service which resulted in a net levy of approximately \$951,000 recorded in the debt service fund.

Cash Equivalents - The Library considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Restricted Assets – Certain resources from the issuance of bonds are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants.

Prepaid Expenses – Payments made to vendors for services that will benefit periods beyond June 30, 2019 are recorded as prepaid expenses.

BELLEVILLE AREA DISTRICT LIBRARY

(formerly the Fred C. Fischer Library)

Notes to Financial Statements (Continued)
June 30, 2019

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fixed Assets - The building that the Library currently occupies is owned by the City of Belleville. Capital assets owned by the Library, including subsequent building additions funded by the Library, are reported in the statement of net position. 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. However, books and periodicals are identified by management at acquisition regardless of dollar amount and capitalized accordingly. 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.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Books and Periodicals	5 to 15 years
Building Additions	30 years
Building Improvements	15 years
Computers	5 years

Compensated Absences (Vacation and Sick Leave) – It is the Library’s policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

Deferred Outflows of Resources – In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of new position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Library did not have any items that qualify for reporting in this category at June 30, 2019.

Deferred Inflows of Resources – In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Library did not have any balances classified as deferred inflows at June 30, 2019.

Fund Equity – Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

BELLEVILLE AREA DISTRICT LIBRARY

(formerly the Fred C. Fischer Library)

Notes to Financial Statements (Continued)
June 30, 2019

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Equity (Continued)

Fund Equity is classified as net position and displayed in three components:

- (a) **Net Investment in Capital Assets** - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b) **Restricted** - Consists of net position with constraints placed on the use by: (1) external groups such as creditors, grantors, contributors, or laws or regulations of other *governments*; or (2) law through constitutional provisions or enabling legislation.
- (c) **Unrestricted** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable** - Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- **Committed** - Amounts that have been formally set aside by the Library's board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Library's board.
- **Assigned** - Intent to spend resources on specific purposes expressed by the Library's board.
- **Unassigned** – Amounts that do not fall into any other category above. This is the residual classification within 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 period. Actual results could differ from those estimates.

2) **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

For the fiscal year ended June 30, 2019, no expenditures exceeded appropriations except telephone expense which exceeded the budget by \$916.

BELLEVILLE AREA DISTRICT LIBRARY

(formerly the Fred C. Fischer Library)

Notes to Financial Statements (Continued)
June 30, 2019

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. A 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 three financial institutions for the deposit of its funds. The investment policy, adopted by the board effective April 17, 2010 and 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 the state statutory authority as listed above. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's cash is subject to 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 \$12,723,557 of deposits that were uninsured and uncollateralized. 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.

Investments

The Library has investments that are held in various investment vehicles. Following is a summary of the Library's investment securities which were uninsured and unregistered,

<u>Investment Type</u>	<u>Fair Value</u>
Short-term Investments	\$ 6,650,697
Federal Agency Bonds	<u>2,697,215</u>
Total Investments	<u><u>\$ 9,347,912</u></u>

Custodial Credit Risk

The Library has adopted a policy that indicates the Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty the Library will not be able to recover the value of its investments that are in possession of an outside party, by diversifying the investment portfolio so the impact of potential loss from any one type of security or issuer will be minimized.

BELLEVILLE AREA DISTRICT LIBRARY
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Notes to Financial Statements (Continued)
 June 30, 2019

3) DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

The Library has adopted a policy that indicates the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of the investment portfolio to less than a given period of time.

	<u>Amount</u>	<u>Weighted Average Maturity</u>
Short Term Investments	\$ 6,650,697	<1 year
Bonds	2,697,215	<6 months
	<u>\$ 9,347,912</u>	

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Library has the ability to access.

Level 2: Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that is observable for the assets or liabilities;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Notes to Financial Statements (Continued)
 June 30, 2019

3) **DEPOSITS AND INVESTMENTS (Continued)**

Fair Value Measurements (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Library's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2019 is summarized as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Short-term Investment	\$ 6,650,697	\$ -	\$ -	\$ 6,650,697
Federal Agency Bonds	2,697,215	-	-	2,697,215
Total	<u>\$ 9,347,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,347,912</u>

Following is the description of the valuation methodologies used for assets measured at fair value:

Short-term Investments: The Library's short-term investments consist of deposits in sweep and checking accounts. It has the general characteristics of demand deposit accounts in that the Library may deposit and withdraw additional cash at any time without prior notice or penalty.

Federal Agency Bonds: The Library's bonds pricing is based on information gathered from market sources, integrate relative credit, observed market movement and various models. They are priced on a daily basis.

Credit Risk

The Uniform Prudent Management of Institutional Funds Act does not limit investments of the endowment funds to certain credit ratings issued by nationally recognized statistical rating organizations. The Library has adopted a policy that indicates the Library's investment goals and objectives.

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Notes to Financial Statements (Continued)
June 30, 2019

3) DEPOSITS AND INVESTMENTS (Continued)

Credit Risk Continued

The investments held by the primary government were rated by Standard & Poor's as follows:

	<u>Fair Value-S&P</u>
AA+	\$ 2,697,215
Not Rated	<u>6,650,697</u>
	<u>\$ 9,347,912</u>

Concentration of Credit Risk

The Library has adopted a policy that indicates the Library will minimize custodial credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

4) RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for employee injuries and participates in the Michigan Municipal Risk Management Authority risk pool (as a state pool member) for claims relating to loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Notes to Financial Statements (Continued)
June 30, 2019

5) CAPITAL ASSETS

Capital asset activity of Belleville Area District Library's governmental activities is as follows:

	Balance 6/30/2018	Additions	Disposals	Balance 6/30/2019
Land	\$ 205,969	\$ -	\$ -	\$ 205,969
Capital Work in Progress	1,292,524	4,695,495	-	5,988,019
Books and Periodicals	1,957,412	145,107	(109,548)	1,992,971
Leasehold Improvements	526,176	-	-	526,176
Furniture and Fixtures	111,422	-	-	111,422
Computers	74,922	184,757	-	259,679
Subtotal	4,168,425	5,025,359	(109,548)	9,084,236
Accumulated Depreciation:				
Books and Periodicals	1,553,405	120,708	(109,548)	1,564,565
Leasehold Improvements	445,241	17,184	-	462,425
Furniture and Fixtures	101,376	1,699	-	103,075
Computers	70,113	13,308	-	83,421
Subtotal	2,170,135	152,899	(109,548)	2,213,486
Net Capital Assets	<u>\$ 1,998,290</u>	<u>\$ 4,872,460</u>	<u>\$ -</u>	<u>\$ 6,870,750</u>

6) DEFINED CONTRIBUTION PENSION PLAN

The Library provides pension benefits to all of its full-time employees 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 from the date of employment. As established by board approval, the Library contributes 10 percent of employees' gross earnings, and employee contributions for each employee plus interest allocated to the employee's account are fully vested immediately. The Library's total payroll for the current period was \$631,876. The current period contribution was calculated based on covered payroll of \$421,940, resulting in an employer contribution of \$42,194 and employee contributions of \$21,097.

7) COMPENSATED ABSENCES

Compensated absences represent the Library's liability for accrued sick and vacation time at June 30, 2019. This is a long-term liability, and is therefore recorded only in the statement of net position, and not at the fund level. The balance for compensated absences payable was \$85,206 at June 30, 2019.

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Notes to Financial Statements (Continued)
 June 30, 2019

8) BONDS PAYABLE

On April 10, 2017, the Library sold \$13,820,000 of bonds to fund a new facility. The bond principal and interest is to be paid over a twenty-year period. The bond principal outstanding as of June 30, 2019 was \$12,860,000. The bonds carry an interest rate of 3.5%-4.0% and is repayable in the range of \$455,000-\$955,000 per year.

The bonds were issued with a premium of \$426,880. This will be amortized over the life of the bonds. The unamortized premium at June 30, 2019 was \$384,192.

The future maturities of the bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 520,000	\$ 459,450	\$ 979,450
2021	540,000	441,250	981,250
2022	560,000	422,350	982,350
2023	580,000	402,750	982,750
2024	600,000	382,450	982,450
2025-29	3,335,000	1,582,025	4,917,025
2030-34	3,970,000	955,350	4,925,350
2035-37	2,755,000	218,775	2,973,775
Total	<u>\$ 12,860,000</u>	<u>\$ 4,864,400</u>	<u>\$ 17,724,400</u>

9) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
General Fund	Capital Projects	\$ 11,983
	Debt Service	976
Capital Projects	General Fund	25,768

Interfund balances are a result of a time lag between the dates goods and services are provided, transactions are recorded and payments between funds are made.

10) SUBSEQUENT EVENTS

Subsequent events were evaluated through December 17, 2019, which is the date the financial statements were available to be issued. No issues which could have a material effect on these financial statements have come to our attention.

REQUIRED SUPPLEMENTARY INFORMATION

BELLEVILLE AREA DISTRICT LIBRARY
(formerly the Fred C. Fischer Library)

Required Supplemental Information
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue				
Property Taxes	\$ 1,890,000	\$ 1,890,000	\$ 1,942,088	\$ 52,088
Grant Revenue	6,600	4,900	4,981	81
State aid	30,000	32,000	32,458	458
Local Library Fines and Fees	66,000	61,200	140,014	78,814
Contributions and Donations	2,500	360,700	359,994	(706)
Interest Income	1,000	3,000	3,543	543
Total Revenue	<u>1,996,100</u>	<u>2,351,800</u>	<u>2,483,078</u>	<u>131,278</u>
Expenditures - Current				
Salaries	665,000	645,000	631,876	13,124
Benefits and FICA	227,600	219,000	210,921	8,079
Books	155,000	170,000	145,107	24,893
Supplies	27,000	22,500	12,922	9,578
Professional Fees	40,000	30,000	20,318	9,682
Dues	3,500	3,500	2,629	871
Contracted Services	89,500	78,600	68,571	10,029
Telephone	22,000	13,000	13,916	(916)
Insurance	18,000	18,000	12,904	5,096
Utilities	31,000	31,000	25,157	5,843
Repairs and Maintenance	10,000	7,500	4,676	2,824
Printing and Publications	16,000	12,000	7,099	4,901
Postage	10,000	10,000	8,846	1,154
Computer Hardware/Software	100,000	80,000	55,626	24,374
Bank Charges	300	600	499	101
Capital Outlay	40,000	315,000	155,958	159,042
Miscellaneous	16,500	17,500	13,679	3,821
Total Expenditures	<u>1,471,400</u>	<u>1,673,200</u>	<u>1,390,704</u>	<u>282,496</u>
Excess of Revenue (Under) Over Expenditures	<u>524,700</u>	<u>678,600</u>	<u>1,092,374</u>	<u>413,774</u>
Fund Balance - June 30, 2018	<u>2,092,723</u>	<u>2,092,723</u>	<u>2,092,723</u>	<u>-</u>
Fund Balance - June 30, 2019	<u>\$ 2,617,423</u>	<u>\$ 2,771,323</u>	<u>\$ 3,185,097</u>	<u>\$ 413,774</u>

BELLEVILLE AREA DISTRICT LIBRARY

(formerly the Fred C. Fischer Library)

Note to Required Supplementary Information
Year Ended June 30, 2019

1) BUDGETARY INFORMATION

The annual budget is prepared by the Library's director and submitted to the Library's board for its approval; subsequent amendments are also submitted to the Library's board for approval. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2019 has not been determined. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the participating communities' board or council and Belleville Area District Library is included in the required supplemental information.