

INTERLOCHEN PUBLIC LIBRARY

INTERLOCHEN, MICHIGAN

DECEMBER 31, 2018



**Baird, Cotter & Bishop, P.C.**  
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749

[www.bcbcpa.com](http://www.bcbcpa.com)

INTERLOCHEN PUBLIC LIBRARY

INTERLOCHEN, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2018

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April 29, 2019

## INDEPENDENT AUDITOR'S REPORT

To the Library Board  
Interlochen Public Library  
Grand Traverse County  
Interlochen, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Interlochen Public Library, Grand Traverse County, Interlochen, Michigan, as of and for the year ended December 31, 2018, 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 each major fund of Interlochen Public Library, Grand Traverse County, Interlochen, Michigan as of December 31, 2018, 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 and budgetary comparison information on pages iii-viii and 16 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.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2018

As management of Interlochen Public Library ("the Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

- ❖ The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$2,993,815 (*net position*). Of this amount, (\$19,337) represents a deficit in unrestricted net position.
- ❖ At the close of the current fiscal year, the Library's governmental funds reported an ending fund balance of \$14,813 a decrease of \$604,335 in comparison with the prior year.
- ❖ At the end of the current fiscal year, unrestricted fund balance (the total of *committed, assigned, and unassigned* components of fund balance) for the general fund was \$10,355.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Interlochen Public Library's basic financial statements. The Library's basic financial statements consist of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements themselves.

**Government-Wide Financial Statements** 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 financial information on all of the Library's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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 year. 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 for some items that will only result in cash flows in future periods.

The government-wide financial statements can be found on pages 1-2 of this report.

**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. Interlochen Public Library, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**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*

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2018

*outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government'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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund 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 two governmental funds, the General Fund and the Building Capital Projects Fund, which are considered to be major funds.

The Library adopts an annual budget for the general fund. A budgetary comparison has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

**Notes to Financial Statements** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 7-15 of this report.

**Other Information** In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Overall Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Interlochen Public Library, assets exceeded liabilities by \$2,993,815, at the close of the most recent fiscal year.

**Interlochen Public Library  
Net Position  
Years Ended December 31,**

	<u>2018</u>	<u>2017</u>
<b><u>Assets</u></b>		
Current Assets	\$ 72,838	\$ 2,532,753
Non Current Assets		
Capital Assets	3,083,018	580,212
Less: Accumulated Depreciation	(104,016)	(162,883)
Total Non Current Assets	<u>2,979,002</u>	<u>417,329</u>
<b>Total Assets</b>	<u>3,051,840</u>	<u>2,950,082</u>

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED DECEMBER 31, 2018

**Interlochen Public Library**  
**Net Position**  
**Years Ended December 31,**

	<b>2018</b>	<b>2017</b>
<b><u>Liabilities</u></b>		
Current Liabilities	58,025	1,913,605
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	2,979,002	417,329
Restricted for Specific Purposes	34,150	357,979
Unrestricted (Deficit)	(19,337)	261,169
<b>Total Net Position</b>	<b>\$ 2,993,815</b>	<b>\$ 1,036,477</b>

The largest portion of the Library's net position is made up of its net investment in capital assets (e.g. furniture and fixtures, equipment and circulating materials). The Library uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

An additional portion of the Library's net position, \$34,150, represents resources that are subject to external restrictions on how they may be used. The remaining balance is a deficit of (\$19,337) and is unrestricted.

At the end of the current fiscal year, the Library reported a negative balance in the unrestricted net position of the governmental activities. This is the first year that the library reported a negative balance in unrestricted net position, and it is resolved early in 2019.

Interlochen Public Library's overall net position increased by \$1,957,338 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

**Interlochen Public Library**  
**Change in Net Position**  
**Years Ended December 31,**

	<b>2018</b>	<b>2017</b>
<b>Revenues</b>		
Program Revenues		
Charges for Services	\$ 3,170	\$ 3,549
Operating Grants and Contributions	201,341	203,163
Capital Grants and Contributions	2,032,905	359,500
General Revenues		
State Sources	4,242	3,783
Interest	14,230	16,156
Other	14,645	11,290
<b>Total Revenues</b>	<b>2,270,533</b>	<b>597,441</b>

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2018

**Interlochen Public Library  
Change in Net Position  
Years Ended December 31,**

	<u>2018</u>	<u>2017</u>
<b>Expenses</b>		
Cultural and Recreation	313,195	258,460
Changes in Net Position	1,957,338	338,981
<u>NET POSITION</u> - Beginning of Year	1,036,477	697,496
<u>NET POSITION</u> - End of Year	<u>\$ 2,993,815</u>	<u>\$ 1,036,477</u>

**Governmental Activities**

The most significant part of the revenue for all governmental activities of Interlochen Public Library comes from Traverse Area District Library and donations related to the building project.

The Library's governmental activities expenses are dominated by culture and recreation expenditures, which make up 100% of the total.

**Financial Analysis of the Governmental Funds**

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

**Governmental Funds** – The focus of Interlochen Public Library's governmental funds are to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Library itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Library Board.

At December 31, 2018, Interlochen Public Library's governmental funds reported a fund balance of \$14,813, a decrease of \$604,335 in comparison with the prior year. Approximately (\$21,992) of this amount constitutes a deficit *unassigned fund balance*. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form \$36,805, 2) legally required to be maintained intact, 3) restricted for particular purposes, 4) committed for particular purposes, or 5) assigned for particular purposes.

**General Fund** – The General Fund is the main operating fund of the Library. The General Fund decreased its fund balance by \$5,033 which brings the fund balance to \$47,160. Of the General Fund's fund balance, \$10,355 of it is unassigned. The decrease in fund balance was due to increased capital outlay spending.



INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2018

**Building Capital Projects Fund** – The Building Capital Projects Fund accounts for the construction of the new building, and corresponding revenues. The fund balance decreased by \$599,302 due to completing the new library building.

**General Fund Budgetary Highlights**

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	\$ 221,195	\$ 221,195	\$ 224,013
Total Expenditures	\$ 221,195	\$ 221,195	\$ 229,046

There are no individually significant variances between budgeted revenues and actual revenues. The significant variances between final budgeted expenditures and actual expenditures were mostly related to contracted services being higher than expected.

**Capital Assets**

**Capital Assets** The Library's investment in capital assets for its governmental activities as of December 31, 2018, amounts to \$2,979,002 (net of accumulated depreciation).

Capital assets summarized below include any items purchased with a cost greater than \$2,500 for Equipment and Machinery and \$5,000 for all other assets individually and that have a useful life greater than one year and books and collections in aggregate by year. A summary of capital asset categories is illustrated below:

**Interlochen Public Library  
Capital Assets as of December 31,**

	<u>2018</u>	<u>2017</u>
Land Improvements	\$ 32,009	\$ 5,440
Buildings and Improvements	2,842,760	48,753
Construction in Progress	0	337,033
Equipment and Furnishings	55,882	15,641
Books and Collection Items	152,367	173,345
Total Assets	3,083,018	580,212
Less Accumulated Depreciation	(104,016)	(162,882)
<b>Net Capital Assets</b>	<b>\$ 2,979,002</b>	<b>\$ 417,330</b>

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2018

The Library had the following major capital asset events during the fiscal year:

- New Library Building at a cost of \$2,505,727.
- New Furniture at a cost of \$22,929.
- New Library Landscaping at a cost of \$32,009.
- Audio Visual Equipment at a cost of \$32,953.
- Books at a cost of \$12,460.

During the fiscal year the Library had the following capital asset disposals:

- Leasehold and Land Improvements.
- Shelving, Cabinets, and Furnishings.
- Old Books.

**Economic Condition and Outlook**

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future. A significant portion of the Library's funding comes from the Traverse Area District Library and penal fines. Any impairment to these funding sources would greatly impact the future of the Library.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Interlochen Public Library, 9700 Riley Road, Interlochen, Michigan 49643.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

STATEMENT OF NET POSITION  
DECEMBER 31, 2018

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 70,183
Prepaid Expense	2,655
	<hr/>
Total Current Assets	72,838
	<hr/>

NON CURRENT ASSETS

Capital Assets	3,083,018
Less Accumulated Depreciation	(104,016)
	<hr/>
Total Non Current Assets	2,979,002
	<hr/>

TOTAL ASSETS	<u>3,051,840</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable	52,955
Accrued Payroll and Liabilities	5,070
	<hr/>

TOTAL LIABILITIES	<u>58,025</u>
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NET POSITION

Net Investment in Capital Assets	2,979,002
Restricted for Nonspendable Endowment	34,150
Unrestricted (Deficit)	(19,337)
	<hr/>

TOTAL NET POSITION	<u>\$ 2,993,815</u>
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The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				GOVERNMENTAL ACTIVITIES
EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION	
<u>GOVERNMENTAL ACTIVITIES</u>					
Culture and Recreation	\$ 313,195	\$ 3,170	\$ 201,341	\$ 2,032,905	\$ 1,924,221
<u>GENERAL REVENUES</u>					
State Sources					4,242
Interest					14,230
Other					14,645
Total General Revenues					33,117
Change in Net Position					1,957,338
<u>NET POSITION</u> - Beginning of Year					1,036,477
<u>NET POSITION</u> - End of Year					\$ 2,993,815

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
DECEMBER 31, 2018

	<u>GENERAL FUND</u>	<u>BUILDING CAPITAL PROJECTS FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 49,575	\$ 20,608	\$ 70,183
Prepaid Expenditures	2,655	0	2,655
<b>TOTAL ASSETS</b>	<b>\$ 52,230</b>	<b>\$ 20,608</b>	<b>\$ 72,838</b>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 0	\$ 52,955	\$ 52,955
Accrued Payroll and Liabilities	5,070	0	5,070
<b>Total Liabilities</b>	<b>5,070</b>	<b>52,955</b>	<b>58,025</b>
<u>FUND BALANCE</u>			
Nonspendable			
Prepaid Expenditures	2,655	0	2,655
Endowments	34,150	0	34,150
Unassigned (Deficit)	10,355	(32,347)	(21,992)
<b>Total Fund Balance (Deficit)</b>	<b>47,160</b>	<b>(32,347)</b>	<b>14,813</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 52,230</b>	<b>\$ 20,608</b>	<b>\$ 72,838</b>

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2018

Total Governmental Fund Balances	\$ 14,813
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	\$ 3,083,018
Accumulated depreciation is	<u>(104,016)      2,979,002</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,993,815</u>

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED DECEMBER 31, 2018

	GENERAL FUND	BUILDING CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
State Grants	\$ 4,242	\$ 0	\$ 4,242
Contributions from Local Units	184,000	0	184,000
Charges for Services	3,170	0	3,170
Fines and Forfeits	17,341	0	17,341
Interest and Rents	615	13,615	14,230
Other Revenues	14,645	2,032,905	2,047,550
<b>Total Revenues</b>	<b>224,013</b>	<b>2,046,520</b>	<b>2,270,533</b>
<u>EXPENDITURES</u>			
Culture and Recreation			
Personal Services	142,517	0	142,517
Supplies	5,627	0	5,627
Other Services and Charges	59,438	1,124	60,562
Capital Outlay	21,464	2,644,698	2,666,162
<b>Total Expenditures</b>	<b>229,046</b>	<b>2,645,822</b>	<b>2,874,868</b>
Excess (Deficiency) of Revenues Over Expenditures	(5,033)	(599,302)	(604,335)
<u>FUND BALANCE - Beginning of Year</u>	<u>52,193</u>	<u>566,955</u>	<u>619,148</u>
<u>FUND BALANCE - End of Year (Deficit)</u>	<u>\$ 47,160</u>	<u>\$ (32,347)</u>	<u>\$ 14,813</u>

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balance	\$ (604,335)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the Statement of Activities. These costs are allocated over their estimated useful lives as depreciation.

Capital Outlay	2,606,079
Depreciation Expense	(30,525)

In the Statement of Activities, only the gain or loss on the sale of fixed assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net position differs from the change in fund balances by the cost of the capital assets sold net of accumulated depreciation.

(13,881)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,957,338</u></u>
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The notes to the financial statements are an integral part of this statement.



INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY  
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governmental is financially accountable. Interlochen Public Library does not have any *business-type activities*, *fiduciary activities* or *component units*.

**B. Reporting Entity**

Interlochen Public Library is a public library established pursuant to Act 138 of the Public Acts of 1917. The Library provides library services primarily to the Green Lake Township residents in Grand Traverse County and portions of Benzie County. Under the criteria established by accounting principles generally accepted in the United States of America, the Library has determined that there are no component units which should be included in its reporting entity.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds.

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Interlochen Public Library reports the following major governmental funds:

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

The *Building Capital Projects Fund* accounts for resources to be used for the construction of a new building.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY  
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are 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. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Library.

**F. Budgetary Information**

***1. Budgetary Basis of Accounting***

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year-end. Budgeted amounts presented are as originally adopted on November 20, 2017, or as amended by the Library Board from time to time throughout the year.

The appropriated budget is prepared by fund and object. The Library Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***1. Cash and Cash Equivalents***

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments. The government considered all highly liquid investments (including certificates of deposit) to be cash equivalents.

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**2. Investments**

The Investment Policy adopted by the Library states that the Library is limited to investments authorized by PA 20 of 1943, as amended, and may invest in the following:

- (a) Bonds, securities, and other obligations 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 financial institution. Authorized depositories shall be designated by the Interlochen Public Library Board at the Board's organizational meeting after each regular election of board members.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, title I of chapter 686, 54 Stat. 789 15 U.S.C. 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Library. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- (h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967.
- (i) Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (j) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

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**3. *Inventories and Prepaid Items***

Inventory is valued at cost using the first-in/first-out method. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased. There were no material inventories at year-end.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable columns in the government-wide financial statements. The Library's policy is to capitalize Equipment and Machinery with an individual cost of \$2,500 or more and all other assets with an individual cost of \$5,000 or more and an estimated useful life of one year or more and books and collections in aggregate by year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value 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.

Property, plant, and equipment of the Library are depreciated using the straight-line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	40 years
Building Improvements	25 years
Equipment and Furnishings	5-7 years
Land Improvements	20 years
Vehicles	10 years
Books and Collection Items	7 Years

**5. *Unearned Revenue***

Unearned revenue arises when resources are received by the Library before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized.

**6. *Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Library does not have any deferred outflows of resources.

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In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The 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 does not have any deferred inflows of resources.

**7. *Net Position Flow Assumption***

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 and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**8. *Fund Balance Flow Assumptions***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**9. *Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing Board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action

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does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**10. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**H. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as program revenue 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Contributions from Local Government Revenue**

Traverse Area District Library provides an amount based on a tax base. Interlochen Public Library entered into an associate library agreement with the District Library to provide enhanced services. Revenue for the fiscal year ended December 31, 2018 was \$184,000.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Violations of Legal or Contractual Provisions**

Note I.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended December 31, 2018.

The Library has a deficit fund balance in the Building Capital Projects Fund which is a violation of state law that occurred for the year ended December 31, 2018. Early in 2019, this deficit was eliminated.

**III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Cash Deposits with Financial Institutions**

The Library's deposits are all on deposit with Chemical Bank.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2018, none of the Library's bank balance of \$341,915 was exposed to custodial credit risk because it was insured and

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collateralized. The risk is absorbed by the Library's Building Capital Projects Fund. Although the Library's investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Library's deposits.

*Interest rate risk.* 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; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirement.

*Credit risk.* State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

*Concentration of credit risk.* The Library will minimize Concentration of 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.

*Foreign currency risk.* The Library is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

**Fair Market Value Disclosure** - The Library is required to disclose amounts within a framework established for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

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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. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

The Library does not have any investments that are subject to fair value disclosure.

**B. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated				
Land Improvements	\$ 5,440	\$ 32,009	\$ 5,440	\$ 32,009
Buildings and Improvements	48,753	2,842,760	48,753	2,842,760
Equipment and Furnishings	15,641	55,882	15,641	55,882
Books and Collection Items	173,345	12,460	33,438	152,367
<b>Total Capital Assets, Being Depreciated</b>	<b>243,179</b>	<b>2,943,111</b>	<b>103,272</b>	<b>3,083,018</b>
Less Accumulated Depreciation for:				
Land Improvements	4,148	382	4,397	133
Buildings and Improvements	34,126	7,710	35,915	5,921
Equipment and Furnishings	15,642	666	15,641	667
Books and Collection Items	108,966	21,767	33,438	97,295
<b>Total Accumulated Depreciation</b>	<b>162,882</b>	<b>30,525</b>	<b>89,391</b>	<b>104,016</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>\$ 80,297</b>	<b>\$ 2,912,586</b>	<b>\$ 13,881</b>	<b>\$ 2,979,002</b>

Depreciation for the fiscal year-end December 31, 2018, amounted to \$30,525.

**C. Leases**

On January 20, 2017, the Library entered a lease agreement for \$250 per year with Green Lake Township for the Land that the new library building is built on. This lease is to renew annually for \$250 per year. The Library is responsible for upkeep, repairs and maintenance, utilities and insurance on the leased property. The Library also entered into a new lease agreement for a Xerox



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copy machine. The rent expense for December 31, 2018 was \$2,821, and the future minimum lease payments are as follows:

<u>YEAR ENDING</u> <u>DECEMBER 31,</u>	
2019	\$ 1,864
2020	1,864
2021	1,864
2022	<u>1,864</u>
	<u>\$ 7,456</u>

**D. Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries.

The Interlochen Public Library participates a distinct pool of governmental entities within the State of Michigan for various risks of loss, including general liability, property and casualty, employee health and accident insurance, and self-insuring workers' disability compensation. The pool is considered a public entity risk pools. The Interlochen Public Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Interlochen Public Library has not been informed of any special assessments being required.

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REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED DECEMBER 31, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
State Grants	\$ 3,800	\$ 3,800	\$ 4,242
Contributions from Local Units	188,000	188,000	184,000
Charges for Services	3,200	3,200	3,170
Fines and Forfeits	16,500	16,500	17,341
Interest and Rents	445	445	615
Other Revenues	9,250	9,250	14,645
	<hr/>		
Total Revenues	221,195	221,195	224,013
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<u>EXPENDITURES</u>			
Culture and Recreation			
Personal Services	144,845	144,845	142,517
Supplies	6,000	6,000	5,627
Other Services and Charges	49,850	45,600	59,438
Capital Outlay	20,500	24,750	21,464
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Total Expenditures	221,195	221,195	229,046
	<hr/>		
Excess (Deficiency) of Revenues Over Expenditures	0	0	(5,033)
	<hr/>		
<u>FUND BALANCE</u> - Beginning of Year	0	0	52,193
	<hr/>		
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 0	\$ 47,160
	<hr/>		