

INTERLOCHEN PUBLIC LIBRARY

INTERLOCHEN, MICHIGAN

DECEMBER 31, 2020



Baird, Cotter & Bishop, P.C.
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CERTIFIED PUBLIC ACCOUNTANTS
134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
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INTERLOCHEN PUBLIC LIBRARY

INTERLOCHEN, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2020

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January 22, 2021

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 the major fund of Interlochen Public Library, Grand Traverse County, Interlochen, Michigan, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Interlochen Public Library, Grand Traverse County, Interlochen, Michigan as of December 31, 2020, 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, 2020

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, 2020. 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 \$2,922,002 (*net position*). Of this amount, \$112,910 represents unrestricted net position.
- ❖ At the close of the current fiscal year, the Library’s governmental funds reported an ending fund balance of \$112,910, an increase of \$33,573 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 \$109,954.

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, 2020

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 one governmental fund, the General Fund, which is considered to be a major fund.

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 \$2,922,002, at the close of the most recent fiscal year.

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

	2020	2019
<u>Assets</u>		
Current Assets	\$ 170,892	\$ 81,752
Non Current Assets		
Capital Assets	3,058,486	3,066,160
Less: Accumulated Depreciation	(249,394)	(172,558)
Total Non Current Assets	2,809,092	2,893,602
Total Assets	2,979,984	2,975,354

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2020

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

	<u>2020</u>	<u>2019</u>
<u>Liabilities</u>		
Current Liabilities	57,982	2,415
<u>Net Position</u>		
Net Investment in Capital Assets	2,809,092	2,893,602
Unrestricted	112,910	79,337
Total Net Position	<u>\$ 2,922,002</u>	<u>\$ 2,972,939</u>

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.

The remaining balance of \$112,910 is unrestricted.

At the end of the current fiscal year, the Library reported a positive balance in the unrestricted net position of the governmental activities. The same situation held true for the prior fiscal year.

Interlochen Public Library's overall net position decreased by \$50,937 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,**

	<u>2020</u>	<u>2019</u>
Revenues		
Program Revenues		
Charges for Services	\$ 2,249	\$ 3,729
Operating Grants and Contributions	212,378	212,636
Capital Grants and Contributions	0	41,084
General Revenues		
State Sources	4,630	4,636
Interest	585	2,785
Other	48,496	37,327
Total Revenues	<u>268,338</u>	<u>302,197</u>

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2020

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

	<u>2020</u>	<u>2019</u>
Expenses		
Culture and Recreation	319,275	323,073
Changes in Net Position	(50,937)	(20,876)
<u>NET POSITION</u> - Beginning of Year	2,972,939	2,993,815
<u>NET POSITION</u> - End of Year	<u>\$ 2,922,002</u>	<u>\$ 2,972,939</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.

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 is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. 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, 2020, Interlochen Public Library's governmental funds reported a fund balance of \$112,910, an increase of \$33,573 in comparison with the prior year. \$109,954 of this amount constitutes an *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 (\$2,956), 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 increased its fund balance by \$33,573 which brings the fund balance to \$112,910. Of the General Fund's fund balance, \$109,954 of it is unassigned. The increase in fund balance was due to conservative spending.

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2020

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	\$ 255,740	\$ 255,740	\$ 268,338
Total Expenditures	\$ 255,740	\$ 255,470	\$ 234,765

There were no amendments between the original budget and the final budgeted revenues. The variances between final budgeted revenues and actual revenues were due to receiving more donations than budgeted for. The original budgeted expenditures did not differ from final budgeted expenditures in total. The variances between final budgeted expenditures and actual expenditures were mostly related to conservative spending.

Capital Assets

Capital Assets The Library's investment in capital assets for its governmental activities as of December 31, 2020, amounts to \$2,809,092 (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>2020</u>	<u>2019</u>
Land Improvements	\$ 32,009	\$ 32,009
Buildings and Improvements	2,842,760	2,842,760
Equipment and Furnishings	58,725	58,725
Books and Collection Items	124,992	132,666
Total Assets	3,058,486	3,066,160
Less Accumulated Depreciation	(249,394)	(172,558)
Net Capital Assets	<u>\$ 2,809,092</u>	<u>\$ 2,893,602</u>

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

- Books and collection items at a cost of \$14,405.

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2020

Economic Condition and Outlook

At the time that these financial statements were prepared and audited, the Library was aware of certain 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. The Library also continues to evaluate the effects of the COVID-19 pandemic on its operations.

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, 9411 Tenth Street, Interlochen, Michigan 49643.

INTERLOCHEN PUBLIC LIBRARY
INTERLOCHEN, MICHIGAN

STATEMENT OF NET POSITION
DECEMBER 31, 2020

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 167,936
Prepaid Expense	2,956
	<hr/>
Total Current Assets	170,892

NON CURRENT ASSETS

Capital Assets	3,058,486
Less Accumulated Depreciation	(249,394)
	<hr/>
Total Non Current Assets	2,809,092

TOTAL ASSETS	<hr/> <hr/> 2,979,984
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LIABILITIES

CURRENT LIABILITIES

Accrued Payroll and Liabilities	1,780
Unearned Grant Revenue	56,202
	<hr/>

TOTAL LIABILITIES	<hr/> 57,982
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NET POSITION

Net Investment in Capital Assets	2,809,092
Unrestricted	112,910
	<hr/>

TOTAL NET POSITION	<hr/> <hr/> \$ 2,922,002
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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, 2020

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	\$ 319,275	\$ 2,249	\$ 212,378	\$ 0	\$ (104,648)
<u>GENERAL REVENUES</u>					
State Sources					4,630
Interest					585
Other					48,496
Total General Revenues					53,711
Change in Net Position					(50,937)
<u>NET POSITION</u> - Beginning of Year					2,972,939
<u>NET POSITION</u> - End of Year					\$ 2,922,002

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

INTERLOCHEN PUBLIC LIBRARY
INTERLOCHEN, MICHIGAN

GOVERNMENTAL FUND

BALANCE SHEET
DECEMBER 31, 2020

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 167,936
Prepaid Expenditures	2,956
	<hr/>
TOTAL ASSETS	\$ 170,892
	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accrued Payroll and Liabilities	\$ 1,780
Unearned Grant Revenue	56,202
	<hr/>
Total Liabilities	57,982
	<hr/>
<u>FUND BALANCE</u>	
Nonspendable	
Prepaid Expenditures	2,956
Unassigned	109,954
	<hr/>
Total Fund Balance	112,910
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 170,892
	<hr/> <hr/>

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, 2020

Total Governmental Fund Balance	\$ 112,910
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	\$ 3,058,486
Accumulated depreciation is	<u>(249,394) 2,809,092</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,922,002</u></u>

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

INTERLOCHEN PUBLIC LIBRARY
INTERLOCHEN, MICHIGAN

GOVERNMENTAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2020

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
State Grants	\$ 4,630
Contributions from Local Units	200,115
Charges for Services	2,249
Fines and Forfeits	12,263
Interest and Rents	585
Other Revenues	48,496
	<hr/>
Total Revenues	268,338
	<hr/>
<u>EXPENDITURES</u>	
Culture and Recreation	
Personal Services	152,789
Supplies	6,013
Other Services and Charges	56,492
Capital Outlay	19,471
	<hr/>
Total Expenditures	234,765
	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	33,573
<u>FUND BALANCE</u> - Beginning of Year	79,337
	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 112,910
	<hr/> <hr/>

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, 2020

Net Change in Fund Balance	\$ 33,573
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	14,405
Depreciation Expense	<u>(98,915)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (50,937)</u>

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, 2020

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 one major governmental fund:

The *General Fund* is the primary operating fund of the Library. It accounts for all financial resources of the Library.

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.

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

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 December 16, 2019, 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.

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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.

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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. The Library has unearned grant revenue of \$56,202 at December 31, 2020.

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

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INTERLOCHEN, MICHIGAN

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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.

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.

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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 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 of funding 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, 2020 was \$194,115.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

The Library was not in violation of State Law this year, and all expenditures were within budgeted amounts.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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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, 2020, none of the Library's bank balance of \$168,483 was exposed to custodial credit risk because it was insured and collateralized. 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

INTERLOCHEN PUBLIC LIBRARY, GRAND TRAVERSE COUNTY
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market participants would use in pricing the security and would be based on the best information available under the circumstances.

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	\$ 32,009	\$ 0	\$ 0	\$ 32,009
Buildings and Improvements	2,842,760	0	0	2,842,760
Equipment and Furnishings	58,725	0	0	58,725
Books and Collection Items	132,666	14,405	22,079	124,992
Total Capital Assets, Being Depreciated	3,066,160	14,405	22,079	3,058,486
Less Accumulated Depreciation for:				
Land Improvements	1,734	1,601	0	3,335
Buildings and Improvements	76,990	71,069	0	148,059
Equipment and Furnishings	8,819	8,389	0	17,208
Books and Collection Items	85,015	17,856	22,079	80,792
Total Accumulated Depreciation	172,558	98,915	22,079	249,394
Total Capital Assets, Being Depreciated, Net	\$ 2,893,602	\$ (84,510)	\$ 0	\$ 2,809,092

Depreciation for the fiscal year ended December 31, 2020, amounted to \$98,915.

C. Leases

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

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INTERLOCHEN, MICHIGAN

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the leased property. The Library also entered into a lease agreement for a Xerox printer and copy machine. The lease expense for December 31, 2020 was \$3,020, which includes additional print and copy charges as well. The future minimum lease payments are as follows:

<u>YEAR ENDING</u> <u>DECEMBER 31,</u>	
2021	\$ 2,073
2022	<u>2,073</u>
	<u>\$ 4,146</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.

IV. OTHER INFORMATION

A. Commitments and Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the Library.

INTERLOCHEN PUBLIC LIBRARY
INTERLOCHEN, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED DECEMBER 31, 2020

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
State Grants	\$ 4,700	\$ 4,700	\$ 4,630
Contributions from Local Units	196,000	196,000	200,115
Charges for Services	3,400	3,400	2,249
Fines and Forfeits	17,000	17,000	12,263
Interest and Rents	2,540	2,540	585
Other Revenues	32,100	32,100	48,496
Total Revenues	255,740	255,740	268,338
<u>EXPENDITURES</u>			
Culture and Recreation			
Personal Services	157,728	157,728	152,789
Supplies	6,200	6,200	6,013
Other Services and Charges	74,112	72,112	56,492
Capital Outlay	17,700	19,700	19,471
Total Expenditures	255,740	255,740	234,765
Excess (Deficiency) of Revenues Over Expenditures	0	0	33,573
<u>FUND BALANCE</u> - Beginning of Year	0	0	79,337
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 0	\$ 112,910



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January 22, 2021

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

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

We have audited the financial statements of the governmental activities and the major fund of Interlochen Public Library for the year ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 21, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Interlochen Public Library are described in Note I to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2020. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the governmental activities and the major fund of Interlochen Public Library's financial statements was:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 22, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Interlochen Public Library's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Interlochen Public Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of Interlochen Public Library for the year ended December 31, 2020, we noted the following item which we feel deserves comment:

Condition of Accounting Records and Accounting Controls

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis and the Budgetary Comparison Schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Library Board and management of Interlochen Public Library and is not intended to be, and should not be, used by anyone other than these specified parties.

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January 22, 2021

COMMUNICATION OF MATERIAL WEAKNESSES

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

In planning and performing our audit of the financial statements of the governmental activities and the major fund information of Interlochen Public Library as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Interlochen Public Library's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Interlochen Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of Interlochen Public Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in Interlochen Public Library's internal control to be a material weakness:

1) *Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements*

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

Recommendation: Due to the size of the government, we recommend that the government continue to outsource financial statement preparation.

View of Responsible Officials: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and noted prior to approving them and accepting responsibility for their content and presentation.

Corrective Action: The Library has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the Library to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. The person responsible for the corrective action is the board president. The anticipated completion date of the corrective action plan is immediate.

Interlochen Public Library's response to the material weakness identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Library Board and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

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