

PENINSULA COMMUNITY LIBRARY

TRAVERSE CITY, MICHIGAN

JUNE 30, 2017



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
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PENINSULA COMMUNITY LIBRARY
TRAVERSE CITY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017

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October 27, 2017

INDEPENDENT AUDITOR'S REPORT

To the Library Board
Peninsula Community Library
Grand Traverse County
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Peninsula Community Library, Grand Traverse County, Traverse City, Michigan, as of and for the year ended June 30, 2017, 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 Peninsula Community Library, Grand Traverse County, Traverse City, Michigan as of June 30, 2017, 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.

Restatement of Beginning Fund Balance and Net Position

As described in Note IV.B to the financial statements, the beginning fund balance of the General Fund and the net position of the governmental activities was increased to account for an understatement of Cash at June 30, 2016.

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 20 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.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2017

The management of Peninsula Community Library, Traverse City, Michigan (“the Library”) offers readers of the Library’s financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2017. This management’s discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Library’s financial activity. 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 \$659,281 (*net position*). Of this amount, \$489,706 represents unrestricted net position, which may be used to meet the Library’s ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the Library’s governmental funds reported an ending fund balance of \$492,895, a decrease of \$1,450 in comparison with the prior year. Approximately \$303,873 of this amount is available for spending at the government’s discretion (*unassigned fund balance*).
- ❖ 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 \$403,873.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Peninsula Community 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 financial position, presented using a method of accounting that is 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. An increase in net position would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net position may indicate a decline in the financial health of an organization.

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.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2017

Both of the government-wide statements distinguish functions of the Library that are principally supported by intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). Governmental activities of the Library include culture and recreation. The Library does not have any business-type activities.

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. Peninsula Community 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 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 evaluating 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 Capital Improvements Fund, which are considered to be major funds. Information is presented in the governmental fund statement of revenue, expenditures, and changes in fund balance for the General Fund and Capital Improvements Fund.

Peninsula Community 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 3-7 of this report.

Notes to Financial Statements

The notes to Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found on pages 8-19 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.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2017

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 Peninsula Community Library, assets exceeded liabilities by \$659,281, at the close of the most recent fiscal year.

	(Restated)	
	2016	2017
<u>Assets</u>		
Current Assets	\$ 494,345	\$ 651,003
Non Current Assets		
Capital Assets	449,412	337,528
Less: Accumulated Depreciation	(291,065)	(167,953)
Total Non Current Assets	158,347	169,575
Total Assets	652,692	820,578
<u>Liabilities</u>		
Current Liabilities	0	158,108
Non Current Liabilities		
Compensated Absences	2,210	3,189
Total Liabilities	2,210	161,297
<u>Net Position</u>		
Net Investment in Capital Assets	158,347	169,575
Unrestricted	492,135	489,706
Total Net Position	\$ 650,482	\$ 659,281

The most significant portion of the Library's net position (74%) reflects unrestricted resources that may be used to meet the library's ongoing obligations to creditors and to provide services to citizens. The remaining balance of the Library's net position (26%) represents 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.

At the end of the current fiscal year, the Library is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2017

Peninsula Community Library's overall net position increased by \$8,799 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

**Peninsula Community Library
Change in Net Position
Years Ended June 30,**

	(Restated)	
	2016	2017
Revenues		
Program Revenues		
Charges for Services	\$ 1,886	\$ 234
Operating Grants and Contributions	176,173	181,285
Capital Grants and Contributions	0	15,207
General Revenues		
State Sources	3,379	3,553
Fines and Forfeitures	15,810	14,654
Interest	2,262	1,038
Other	22,684	27,037
 Total Revenues	 222,194	 243,008
 Expenses		
Cultural and Recreation	210,465	234,209
 Changes in Net Position	 11,729	 8,799
 <u>NET POSITION</u> - Beginning of Year	 638,753	 650,482
 <u>NET POSITION</u> - End of Year	 \$ 650,482	 \$ 659,281

Governmental Activities

During the current fiscal year, net position for the governmental activities increased \$8,799 from the prior fiscal year for an ending balance of \$659,281. The most significant part of the revenue for all governmental activities of the 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.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2017

Governmental Funds – The focus of the Library’s governmental fund 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 June 30, 2017, the Library’s governmental funds reported a fund balance of \$492,895, a decrease of \$1,450 in comparison with the prior year. Approximately \$303,873 of this amount constitutes *unassigned fund balance*, which is available for spending at the government’s discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes, 4) committed for particular purposes (\$89,022), or 5) assigned for particular purposes (\$100,000).

General Fund – The General Fund is the main operating fund of the Library. The General Fund decreased its fund balance by \$90,472 which brings the fund balance to \$403,873. Of the General Fund’s fund balance, \$303,873 of it is unassigned. The reason for the decrease in fund balance was a transfer out to the Capital Projects Fund for \$100,000 to be committed toward the new library building.

Capital Improvements Fund- The Capital Improvements Fund is new in the 2016-17 fiscal year. It was created to account for funds to be used toward construction of a new library building. The Capital Improvements Fund increased its fund balance by \$89,022 mostly due to a \$100,000 transfer in from the General Fund. The entire fund balance of \$89,022 is committed to the new building construction.

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	\$ 216,303	\$ 219,738	\$ 226,280
Total Expenditures	\$ 215,653	\$ 218,037	\$ 216,752

Over the course of the year, the Library Board of Trustees amended the General Fund’s budget to address unplanned needs that occurred during the year. The General Fund budget reflected the Library Board’s goals to continue to pursue quality collection acquisition and provide programming with appeal to all segments of a diverse rural community. Other revenues and penal fines collected were higher than budgeted for, whereas expenditures were very comparable to the Library’s final budget.

Capital Assets and Debt Administration

Capital Assets The Library’s investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$169,575 (net of accumulated depreciation).

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2017

Capital assets summarized below include any items purchased with a cost greater than \$2,500 for all assets individually and 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:

**Peninsula Community Library
Capital Assets as of June 30,**

	2016	2017
Land	\$ 50,000	\$ 50,000
Construction in Progress	0	18,020
Leasehold Improvements	7,073	7,073
Furniture and Equipment	92,055	77,520
Books and Collection Items	300,284	184,915
Total Assets	449,412	337,528
Less Accumulated Depreciation	(291,065)	(167,953)
Net Capital Assets	\$ 158,347	\$ 169,575

Major capital asset events during the fiscal year included the following:

- Construction in Progress at a cost of \$18,020.
- Books and Collection at a cost to the Library of \$30,270.
- Disposal of furniture and equipment totaling \$14,535.
- Disposal of old books and collection items totaling \$145,639.

The Library has also committed to several contracts to be paid in subsequent years totaling \$39,290. For more information on commitments, see page 18 in the notes to financial statements.

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. The Library has also been raising funds to build a new Library building.

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 Peninsula Community Library, 2699 Island View Rd, Traverse City, MI 49686.

PENINSULA COMMUNITY LIBRARY
TRAVERSE CITY, MICHIGAN

STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 279,315
Due from Peninsula Township	371,688
	<hr/>
Total Current Assets	651,003

NON CURRENT ASSETS

Capital Assets	337,528
Less Accumulated Depreciation	(167,953)
	<hr/>
Total Non Current Assets	169,575

TOTAL ASSETS

820,578

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	950
Unearned Donations	157,158
	<hr/>
Total Current Liabilities	158,108

NON CURRENT LIABILITIES

Compensated Absences	3,189
	<hr/>

TOTAL LIABILITIES

161,297

NET POSITION

Net Investment in Capital Assets	169,575
Unrestricted	489,706
	<hr/>

TOTAL NET POSITION

\$ 659,281

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

PENINSULA COMMUNITY LIBRARY
TRAVERSE CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>GOVERNMENTAL ACTIVITIES NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
<u>GOVERNMENTAL ACTIVITIES</u>					
Culture and Recreation	\$ 234,209	\$ 234	\$ 181,285	\$ 15,207	\$ (37,483)
<u>GENERAL REVENUES</u>					
State Sources					3,553
Fines and Forfeitures					14,654
Interest					1,038
Other					27,037
Total General Revenues					46,282
Change in Net Position					8,799
<u>NET POSITION</u> - Beginning of Year (As Restated)					650,482
<u>NET POSITION</u> - End of Year					\$ 659,281

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

PENINSULA COMMUNITY LIBRARY
TRAVERSE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2017

	<u>GENERAL</u> <u>FUND</u>	<u>CAPITAL</u> <u>PROJECTS</u> <u>FUND</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 32,185	\$ 247,130	\$ 279,315
Due from Peninsula Township	371,688	0	371,688
TOTAL ASSETS	<u>\$ 403,873</u>	<u>\$ 247,130</u>	<u>\$ 651,003</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 0	\$ 950	\$ 950
Unearned Donations	0	157,158	157,158
Total Liabilities	<u>0</u>	<u>158,108</u>	<u>158,108</u>
<u>FUND BALANCE</u>			
Assigned for Future Use	100,000	0	100,000
Committed for Capital Projects	0	89,022	89,022
Unassigned	303,873	0	303,873
Total Fund Balance	<u>403,873</u>	<u>89,022</u>	<u>492,895</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 403,873</u>	<u>\$ 247,130</u>	<u>\$ 651,003</u>

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

PENINSULA COMMUNITY LIBRARY
TRAVERSE CITY, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Governmental Fund Balances	\$ 492,895
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	\$ 337,528
Accumulated depreciation is	<u>(167,953)</u> 169,575
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences	<u>(3,189)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 659,281</u></u>

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

PENINSULA COMMUNITY LIBRARY
TRAVERSE CITY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2017

	GENERAL FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
State Grants	\$ 3,553	\$ 0	\$ 3,553
Contributions from Local Units	181,285	0	181,285
Charges for Services	1,531	0	1,531
Fines and Forfeits	13,357	0	13,357
Interest and Rents	980	58	1,038
Other Revenues	25,574	15,207	40,781
	<hr/>		
Total Revenues	226,280	15,265	241,545
	<hr/>		
<u>EXPENDITURES</u>			
Culture and Recreation			
Salaries and Wages	113,840	0	113,840
Accounting Services	1,315	0	1,315
Payroll Taxes	8,695	0	8,695
Employee Benefits	7,187	0	7,187
Supplies	8,370	380	8,750
Books and Periodicals	21,663	0	21,663
Audio and Visual Materials	7,144	0	7,144
Legal Services	5,226	0	5,226
Insurance	5,158	0	5,158
Collection Fees	27	0	27
Audit Fees	3,900	0	3,900
Membership and Dues	2,674	0	2,674
Repairs and Maintenance	1,912	0	1,912
Communications	2,049	0	2,049
Travel	299	0	299
Community Promotions and Activities	13,634	0	13,634
Lease Expense	934	0	934
Rides Delivery	1,989	0	1,989
Rent	10,000	0	10,000
Education and Training	675	0	675
Capital Outlay	0	18,020	18,020

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

PENINSULA COMMUNITY LIBRARY
TRAVERSE CITY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2017

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Miscellaneous	61	34	95
Marketing	0	1,059	1,059
Professional Services	0	6,750	6,750
Total Expenditures	216,752	26,243	242,995
Excess of Revenues Over (Under) Expenditures	9,528	(10,978)	(1,450)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)	(100,000)	100,000	0
Net Change in Fund Balance	(90,472)	89,022	(1,450)
<u>FUND BALANCE</u> - Beginning of Year (As Restated)	494,345	0	494,345
<u>FUND BALANCE</u> - End of Year	\$ 403,873	\$ 89,022	\$ 492,895

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

PENINSULA COMMUNITY LIBRARY
TRAVERSE CITY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Net Change in Fund Balance \$ (1,450)

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	46,827
Depreciation Expense	(36,879)

Governmental funds do not report donated capital assets under the modified accrual basis of accounting but are capitalized over their estimated useful lives in the Statement of Activities.

Donated Books	1,463
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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. (183)

Employees compensated absences are reported on the accrual method in the Statement of Activities, and recorded as expenditures when financial resources are used in the governmental funds.

Compensated Absences - Beginning of Year	2,210
Compensated Absences - End of Year	<u>(3,189)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 8,799</u>
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The notes to the financial statements are an integral part of this statement.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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. Peninsula Community Library does not have any *business-type activities*, *fiduciary activities* or *component units*.

B. Reporting Entity

Peninsula Community Library is a public library established pursuant to Act 138 of the Public Acts of 1917. The Library provides library services primarily to residents in Grand Traverse 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.

Peninsula Community 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.

The *Capital Improvement 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.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 in June 2016, 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.

2. Excess of Expenditures Over Appropriations

Community Promotions and Activities expenditures of \$13,634 exceeded appropriations of \$12,482.

This overage was funded by greater than anticipated revenues and available fund balance.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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.

2. *Investments*

The Library's investment policy is in compliance with state law and authorizes the Library to invest in passbook savings accounts, certificates of deposit, and money market funds. The Library does not have any investments other than interest bearing bank accounts.

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 Peninsula Community 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.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

- (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.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired. 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 in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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 all assets with an individual cost of \$2,500 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.

Land and construction in progress are not depreciated. The other property, plant, furniture and equipment and books and collection items of the Library are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Leasehold Improvements	20 years
Furniture and Equipment	2-30 years
Books and Collection Items	6 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 revenue related to building donations in the capital projects fund.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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.

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 Library 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 Library’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. *Fund Balance Flow Assumptions*

Sometimes the Library 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 Library’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 Library 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 Library’s highest level of decision-making authority. The governing Board is the highest level of decision-making authority for the Library that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 Library 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 based on the tax base of Peninsula Township. Peninsula Community Library entered into an associate library agreement with the District Library to provide enhanced services. Revenue for the fiscal year ended June 30, 2017 was \$181,285.

3. Compensated Absences

Employees may use their accumulated compensated absences for vacation, illness, or personal days off. An employee who terminates service will be paid one-half of the cumulative sick time not to exceed 30 days. Compensatory and vacation time shall be used by the end of every fiscal year with the exception that five days may be carried into the following year.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 June 30, 2017.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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 June 30, 2017, \$2,559 of the Library's bank balance of \$288,214 was exposed to custodial credit risk because it was uninsured and uncollateralized. 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 investment pools and limiting the average maturity in accordance with the Library's cash requirements.

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

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

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.

The carrying amount of deposits and investments is as follows:

	<u>Total</u>
Deposits	\$ 279,310
Petty Cash	5
	<u> </u>
Total	<u>\$ 279,315</u>

The above amounts are reported in the financial statements as follows:

Cash and Cash Equivalents	<u>\$ 279,315</u>
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PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

B. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 50,000	\$ 0	\$ 0	\$ 50,000
Construction in Progress	0	18,020	0	18,020
Total Capital Assets, Not Being Depreciated	50,000	18,020	0	68,020
Capital Assets, Being Depreciated				
Leasehold Improvements	7,073	0	0	7,073
Furniture and Equipment	92,055	0	14,535	77,520
Books and Collection Items	300,284	30,270	145,639	184,915
Total Capital Assets, Being Depreciated	399,412	30,270	160,174	269,508
Less Accumulated Depreciation for:				
Leasehold Improvements	3,176	358	0	3,534
Furniture and Equipment	75,064	4,266	14,352	64,978
Books and Collection Items	212,825	32,255	145,639	99,441
Total Accumulated Depreciation	291,065	36,879	159,991	167,953
Total Capital Assets, Being Depreciated, Net	108,347	(6,609)	183	101,555
Net Capital Assets per Statement of Net Position	\$ 158,347	\$ 11,411	\$ 183	\$ 169,575

Depreciation for the fiscal year-end June 30, 2017, amounted to \$36,879.

C. Due from Peninsula Township

Peninsula Township maintains a trust and agency account for the Library and acts as the financial agent of the Library. The balance in this account as of June 30, 2017 is \$371,688 and is shown as due from other governments in the Library's financial statements.

D. Interfund Receivables, Payables and Transfers

Individual fund transfer balances as of June 30, 2017 were:

<u>Fund</u>	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 0	\$ 100,000
Capital Improvements Fund	100,000	0
	\$ 100,000	\$ 100,000

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Deferred Compensation Plan

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by Nationwide Retirement Solutions. The plan, available to all Library employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred, all property and rights purchased, and all income, property or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participant and their beneficiaries.

F. Leases

The Library has entered into a 3 year lease agreement with Traverse City Area Public Schools for the use of a portion of the Old Mission Peninsula School to be used as an operating location for the Library. Annual rental charges are payable on or before February 20th of each school year. Total rental expense for the 2016-2017 fiscal year amounted to \$10,000. The rental expense for 2017-2018 and 2018-2019 will be \$12,000 and \$14,400.

G. Long Term Debt

The following is a summary of debt transactions of Peninsula Community Library for the year ended June 30, 2017:

	Balance 6/30/2016	Increases	Balance 6/30/2017
Compensated Absences	\$ 2,210	\$ 979	\$ 3,189

H. Pension Plan

The Library participates in Peninsula Township's defined contribution (money purchase) pension plan through John Hancock Life Insurance Company. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the Library for the year ended June 30, 2017 was \$55,284 the total payroll for the year ended June 30, 2017 was \$113,840. Employer contributions are based upon a percentage of annual payroll. Employees may make additional contributions if they so desire. Employees are vested 100% in employer contributions after 20 months of service. The Library fully funded its required contribution for the year ended June 30, 2017. Current year employer contributions amounted to \$7,187, or 13% of the covered payroll. None of the plan's assets are invested in the Library securities or those of related parties. There are no loans from the plan to the Library.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

IV. OTHER INFORMATION

A. Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost 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.

B. Restatement of Fund Balance and Net Position

Fund balance of the General Fund and net position of the Governmental Activities was increased by \$2,258, as cash was understated at June 30, 2016, bringing the net position at the beginning of the year to \$650,482.

C. Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees.

The Library participates in 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 workers' disability compensation. The pool is considered a public entity risk pools. The 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 Library has not been informed of any special assessments being required.

D. Commitments

The Library has a signed contract with Zrimec & Wick, LLC to provide a fundraising plan to secure funds for a new building. The total amount of the contract is \$27,000. The Library paid \$6,750 of the contract during the current fiscal year and has a balance of \$20,250 remaining on this contract.

The Library has a signed contract with Gosling Czubak Engineering Sciences, Inc. to provide engineering services for the construction of the new library building. The amount of the contract is \$19,040, to be expensed in future years.

E. Subsequent Events

Subsequent to year end, the Library entered into a contract with Cornwell Architects, P.C. to provide architectural services for the construction of the new library building. The amount of the contract is \$104,000.

PENINSULA COMMUNITY LIBRARY, GRAND TRAVERSE COUNTY
TRAVERSE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

In addition, the Library entered into a contract with Library Design Associates, Inc. to provide interior design services for the new library building. The Library is to pay the consultants 25% of the price and delivery charge of all new furnishings procured by the consultant.

No adjustments have been made to the financial statements.

PENINSULA COMMUNITY LIBRARY
TRAVERSE CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
State Grants	\$ 1,765	\$ 3,553	\$ 3,553
Contributions from Local Units	176,173	181,285	181,285
Charges for Services	1,675	1,409	1,531
Fines and Forfeits	15,000	10,000	13,357
Interest and Rents	2,000	765	980
Other Revenues	19,690	22,726	25,574
Total Revenues	216,303	219,738	226,280
<u>EXPENDITURES</u>			
Culture and Recreation			
Salaries and Wages	114,215	113,840	113,840
Accounting Services	600	1,340	1,315
Payroll Taxes	8,738	8,695	8,695
Employee Benefits	7,700	7,300	7,187
Supplies	7,000	8,500	8,370
Books and Periodicals	25,000	22,300	21,663
Audio and Visual Materials	8,000	7,200	7,144
Legal Services	4,000	6,000	5,226
Insurance	5,300	5,165	5,158
Collection Fees	100	50	27
Audit Fees	4,000	4,000	3,900
Membership and Dues	2,000	2,700	2,674
Repairs and Maintenance	1,900	1,915	1,912
Communications	2,000	2,100	2,049
Travel	400	300	299
Community Promotions and Activities	14,100	12,482	13,634
Lease Expense	1,500	1,200	934
Rides Delivery	0	2,000	1,989
Rent	6,000	10,000	10,000
Education and Training	1,000	800	675
Capital Outlay	1,000	0	0
Miscellaneous	100	100	61
Contingency	500	50	0
Archival Preservation	500	0	0
Total Expenditures	215,653	218,037	216,752
Excess of Revenues Over (Under) Expenditures	650	1,701	9,528
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)	0	0	(100,000)
Net Change in Fund Balance	650	1,701	(90,472)
<u>FUND BALANCE</u> - Beginning of Year (As Restated)	0	0	494,345
<u>FUND BALANCE</u> - End of Year	\$ 650	\$ 1,701	\$ 403,873



Baird, Cotter & Bishop, P.C.

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www.bcbcpa.com

October 27, 2017

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

To the Library Board
Peninsula Community Library
Grand Traverse County
Traverse City, Michigan

We have audited the financial statements of the governmental activities and each major fund information of Peninsula Community Library for the year ended June 30, 2017. 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 September 26, 2017. 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 Peninsula Community 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 2016-2017. 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 of Peninsula Community 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. Management's estimates of the liability of the payout of employee compensated absences are based on expected payout. 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. We detected various material misstatements as a result of our audit procedures that were corrected by management. The material adjustments made were a result of converting the entity's financial records from cash basis to modified accrual basis of accounting.

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 October 27, 2017.

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 Peninsula Community 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 Peninsula Community 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 Peninsula Community Library for the year ended June 30, 2017, we noted the following items which we feel deserve comment:

Budget

The Library should amend their budget before expenditures exceed appropriations. Overall, the Library does a great job budgeting with only one line item exceeding appropriations at fiscal year end.

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 use of the Library Board and management of Peninsula Community Library and is not intended to be, and should not be, used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.



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www.bcbcpa.com

October 27, 2017

COMMUNICATION OF MATERIAL WEAKNESSES

To the Library Board
Peninsula Community Library
Grand Traverse County
Traverse City, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund information of Peninsula Community Library as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Peninsula Community 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 Peninsula Community Library's internal control. Accordingly, we do not express an opinion on the effectiveness of Peninsula Community 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 deficiencies in Peninsula Community Library's internal control to be material weaknesses:

1) Lack of Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of duties.

Condition: The government has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities may be occurring on a routine basis, but are not being documented.

Effect: As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

2) *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 and minimal activity, 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 notes prior to approving them and accepting responsibility for their content and presentation.

Peninsula Community Library's response to the material weaknesses 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.

BAIRD, COTTER AND BISHOP, P.C.

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