

***Southwest Michigan Library Cooperative  
Cass County, Michigan***

**FINANCIAL STATEMENTS**

*Year ended September 30, 2020*

---

## CONTENTS

	<i>Page</i>
<b>INDEPENDENT AUDITOR'S REPORT</b>	3 - 4
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	5 - 7
<b>BASIC FINANCIAL STATEMENTS</b>	
Balance sheet and statement of net position	8
Statement of revenues, expenditures, and change in fund balance and statement of activities	9
Notes to financial statements	10 - 11
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary comparison schedule - Operating Fund	12

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southwest Michigan Library Cooperative

We have audited the accompanying financial statements of the governmental activities and the major fund of the Southwest Michigan Library Cooperative (the Cooperative) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, as listed in the 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 the Southwest Michigan Library Cooperative as of September 30, 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, as listed in the contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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.

*Siegfried Crandall P.C.*

November 24, 2020

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Southwest Michigan Library Cooperative's (the Cooperative) financial performance provides a narrative overview of the Cooperative's financial activities for the fiscal year ended September 30, 2020. Please read it in conjunction with the Cooperative's financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Cooperative's total net position (and the related Operating Fund balance) increased by \$28,169 (16 percent) as a result of this year's activities.
- The Operating Fund's unassigned fund balance at the end of the fiscal year was \$205,884, which represents 81 percent of the actual total Operating Fund expenditures for the current fiscal year.

### **Overview of the financial statements**

The Cooperative's annual report is comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of the Cooperative:

- The first column of the financial statements includes information on the Cooperative's Operating Fund under the modified accrual method of accounting. These fund financial statements focus on current financial resources and provide a more detailed view of the accountability of the Cooperative's sources and uses of funds.
- The adjustments column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The third column presents the Cooperative's operations on a full accrual basis, which provides both short-term and long-term financial information about the Cooperative's financial status. The government-wide statements report information about the Cooperative as a whole using accounting methods similar to those used by private-sector companies.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the government-wide financial statements for 2020 and 2019 is also presented.

### **Government-wide financial statements**

The Statement of Net Position reports all of the Cooperative's assets and liabilities, along with the difference between the two, which is identified as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the Cooperative's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position.

The Statement of Activities shows how the Cooperative's net position changed during the fiscal year. All changes in net position are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). This statement should help the reader to answer the question: Is the Cooperative better or worse off as a result of this year's activities?

## FINANCIAL ANALYSIS OF THE COOPERATIVE AS A WHOLE

**Net position**

As noted earlier, net position may serve, over time, as a useful indicator of a Cooperative's financial position. In the Cooperative's case, assets exceeded liabilities at the end of the fiscal year by \$205,884. There are no restrictions as to use of the net position.

*Schedule 1 - Net position*

	<u>Governmental activities</u>	
	<u>2020</u>	<u>2019</u>
Current assets	<u>\$ 205,884</u>	<u>\$ 177,715</u>
Net position, unrestricted	<u>\$ 205,884</u>	<u>\$ 177,715</u>

**Changes in net position**

Net position of the Cooperative's governmental activities increased by \$28,169 (16 percent) to \$205,884, as current year revenues were higher than expenses. The total cost of the Cooperative's operations amounted to \$252,996 in 2020 compared to \$244,326 in 2019 (an increase of \$8,670, or 4 percent). In both 2020 and 2019, the Cooperative focused on allocations to member libraries for technological additions and betterments, and related administration. In 2020, state aid decreased by \$352, as the state slightly decreased distributions from the previous year.

*Schedule 2 - Changes in net position*

	<u>Governmental activities</u>	
	<u>2020</u>	<u>2019</u>
General revenues - state aid	<u>\$ 281,165</u>	<u>\$ 281,517</u>
Expenses - recreation and culture:		
Member services/technology	<u>228,190</u>	<u>222,971</u>
Administration	<u>24,806</u>	<u>21,355</u>
Total expenses	<u>252,996</u>	<u>244,326</u>
Changes in net position	<u>\$ 28,169</u>	<u>\$ 37,191</u>
Net position, end of year	<u>\$ 205,884</u>	<u>\$ 177,715</u>

**FINANCIAL ANALYSIS OF THE COOPERATIVE'S FUND**

The accounts of the Cooperative are organized on the basis of funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cooperative reports a single governmental fund type, the Operating Fund, which accounts for the expenditures involved in providing services to its constituents and is funded primarily by state grants. This fund uses the modified accrual basis of accounting.

The notes to the basic financial statements provide additional information that is necessary to understand the data reported in the financial statements.

**Operating Fund budgetary highlights**

The original budget was not amended during the current fiscal year. Actual revenues were lower than the final budget by \$835, primarily due to lower than expected state aid. Actual total expenditures were higher than the final budget by \$5,562.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

At the end of the fiscal year, the Cooperative reported no investment in capital assets and no long-term debt.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Cooperative expects to rely on carryover monies and state aid to finance operating costs. The Cooperative has elected to maintain a significantly reduced level of operation until the state can be more definitive as to the role of regional library cooperatives.

COVID-19 has created uncertainties that are likely to negatively impact our operations and financial condition. While it is difficult to estimate the financial impact of COVID-19, we expect certain revenues to decline. Because economic activity has weakened, state aid revenue is expected to decrease.

**CONTACTING THE COOPERATIVE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Cooperative's finances to its customers and creditors and to demonstrate the Cooperative's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Andrea Estelle, Director  
Southwest Michigan Library Cooperative  
c/o Otsego District Library  
401 Dix St.  
Otsego, MI 49078

Phone: (269) 694,9690

## **BASIC FINANCIAL STATEMENTS**

Southwest Michigan Library Cooperative

**BALANCE SHEET AND STATEMENT OF NET POSITION**

September 30, 2020

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of net position</u>
<b>ASSETS</b>			
Cash	\$ 205,884	\$ -	\$ 205,884
<b>FUND BALANCE</b>			
Unassigned	<u>205,884</u>	<u>(205,884)</u>	
Total fund balance	<u>\$ 205,884</u>	<u>(205,884)</u>	
<b>NET POSITION - unrestricted</b>		<u>\$ 205,884</u>	<u>\$ 205,884</u>

See notes to financial statements

*Southwest Michigan Library Cooperative*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND  
BALANCE AND STATEMENT OF ACTIVITIES**

*Year ended September 30, 2020*

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
<b>EXPENDITURES/EXPENSES</b>			
Recreation and culture:			
Member services/technology	\$ 228,190	\$ -	\$ 228,190
Administration	<u>24,806</u>	<u>-</u>	<u>24,806</u>
Total expenditures/expenses	252,996	-	252,996
<b>GENERAL REVENUES</b>			
State grants	<u>281,165</u>	<u>-</u>	<u>281,165</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>			
	28,169	(28,169)	
<b>CHANGE IN NET POSITION</b>			
		28,169	28,169
<b>FUND BALANCE/NET POSITION - BEGINNING</b>			
	<u>177,715</u>	<u>-</u>	<u>177,715</u>
<b>FUND BALANCE/NET POSITION - ENDING</b>			
	<u>\$ 205,884</u>	<u>\$ -</u>	<u>\$ 205,884</u>

*See notes to financial statements*

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Southwest Michigan Library Cooperative (the Cooperative), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

*Reporting entity:*

As required by generally accepted accounting principles, these financial statements present only the Cooperative (located in Van Buren County), as management has determined that there are no other entities for which the Cooperative is financially accountable.

The Cooperative was established under the authority and provision of Michigan Public Act 89 to provide library services to its member libraries. The Cooperative derives its principal operating revenues from state grants.

*Basis of accounting:*

The statement of net position and the statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Operating Funds 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 if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Cooperative generally considers revenues to be available if they are expected to be 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

*Assets, liabilities, and equity:*

*Cash* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

*Capital assets* - Capital assets, which include land, buildings, equipment and furniture, and vehicles, are defined by the Cooperative as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Currently, the Cooperative holds no capital assets.

*Net position* - Net position represents the difference between assets and liabilities. The Cooperative may report three categories of net position, as follows: (1) *Investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Cooperative's debt. Restricted net position is reduced by liabilities related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Cooperative.

*Net position flow assumption* - Sometimes, the Cooperative 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 Cooperative's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

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

*Assets, liabilities, and equity (continued):*

*Fund equity* - The Operating Fund report nonspendable fund balance for amounts that cannot be spent because they are not in spendable form. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Board retains the authority to assign fund balance as to purpose. Unassigned fund balances are amounts that do not fall into any other category above. When the Cooperative incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Cooperative’s policy to use the restricted fund balance first, then unassigned fund balance.

*Use of estimates* - The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results may differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*Budgetary information* - The annual budget is adopted on a basis consistent with generally accepted accounting principles for the Operating Fund. The legal level of budgetary control adopted by the governing body is the function level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

*Excess of expenditures over appropriations* - The following schedule sets forth the reportable budget variance:

<u>Fund</u>	<u>Function</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Operating	Recreation and culture	\$ 247,434	\$ 252,996	\$ 5,562

**NOTE 3 - CASH**

Deposits are maintained at a single financial institution in the name of the Cooperative. Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), authorizes the Cooperative to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Cooperative’s deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Cooperative will not be able to recover its deposits. At September 30, 2020, cash consisted solely of a non-interest bearing deposit with a single financial institution, with a corresponding bank balance of \$212,144. The entire bank balance is covered by federal depository insurance.

**NOTE 4 - RISK MANAGEMENT**

The Cooperative is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Cooperative has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**REQUIRED SUPPLEMENTARY INFORMATION**

Southwest Michigan Library Cooperative

**BUDGETARY COMPARISON SCHEDULE - Operating Fund**

Year ended September 30, 2020

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
<b>REVENUES</b>				
State grants - state aid	\$ 282,000	\$ 282,000	\$ 281,165	\$ (835)
<b>EXPENDITURES</b>				
Recreation and culture:				
Member services/technology	221,434	221,434	228,190	(6,756)
Administration	26,000	26,000	24,806	1,194
Total expenditures	247,434	247,434	252,996	(5,562)
<b>NET CHANGES IN FUND BALANCES</b>	34,566	34,566	28,169	(6,397)
<b>FUND BALANCES - BEGINNING</b>	177,715	177,715	177,715	-
<b>FUND BALANCES - ENDING</b>	<u>\$ 212,281</u>	<u>\$ 212,281</u>	<u>\$ 205,884</u>	<u>\$ (6,397)</u>