

**Benton Harbor Public Library  
Berrien County, Michigan**

**Financial Report**

**June 30, 2020**

RENDEL ELIE

— & —

ASSOCIATES PLC

CERTIFIED PUBLIC ACCOUNTANTS

# Benton Harbor Public Library

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RENDEL ELIE  
— & —  
ASSOCIATES PLC  
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Library Board  
Benton Harbor Public Library  
Benton Harbor, Michigan

We have audited the accompanying financial statements of the Benton Harbor Public Library as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Benton Harbor Public 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Benton Harbor Public Library as of June 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 table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Rendel Elie & Associates*

RENDEL ELIE & ASSOCIATES, PLC  
CERTIFIED PUBLIC ACCOUNTANTS

October 20, 2020

**Benton Harbor Public Library  
Management's Discussion and Analysis  
June 30, 2020**

**About the Library**

The Benton Harbor Public Library (the "Library") serves the residents of the City of Benton Harbor and Benton Charter Township. The Library is governed by a seven-member board, consisting of five residents of the City of Benton Harbor and two residents of Benton Charter Township. The Library serves Benton Charter Township residents under a Library Services Agreement, expiring December 31, 2022. The agreement assigns Benton Charter Township's portion of penal fines and state aid, which represents approximately \$142,500 in revenue. The current agreement does not include a required contribution for library services. However, Benton Charter Township contributed \$25,000 during the fiscal year.

**Financial Highlights**

- The Library finished the year with an increase in net position of \$16,696, ending the year with a net position of \$1,080,962. Of this total, \$729,018 is unrestricted and equates to 129% of the general fund expenses for the year.
- Total revenue of \$579,677 increased from the prior year by \$11,878, largely due to increases in grants and contributions.
- Total expenses of \$562,981 increased from the prior year by \$44,222 largely due to an increase in repairs and maintenance and an increase in salaries and benefits which included a change in the compensated absences policy.
- Total long-term liabilities, which represents compensated absences, increased by \$19,238, represented by a change in the employee compensated absences policy.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements comprise three components: 1) Government – wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government – wide Financial Statements**

The *Government – wide financial statements* are designed to provide readers with a broad overview of the library's finances, in a manner similar to a private – sector business.

The *statement of net position* presents information showing how the Library's assets and liabilities, with the difference between the two 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.

**Benton Harbor Public Library  
Management's Discussion and Analysis  
June 30, 2020**

**Government – wide Financial Statements (Continued)**

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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes)

Both of the government- wide financial statements distinguish functions of the Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through fees and charges (*business- type activities*). The Library currently has no business- type activities.

**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. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library only utilizes governmental funds.

**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 Library'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 the *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 Library's near- term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and change in the fund balances, provide a reconciliation to facilitate this comparison.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government- wide and fund financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*, which includes this discussion and analysis as well as a budgetary comparison schedule, which is provided for the General Fund to demonstrate compliance with the annual appropriated budget.

**Benton Harbor Public Library  
Management's Discussion and Analysis  
June 30, 2020**

**General Fund Budgetary Highlights**

Total revenue of \$579,677 was higher than budgeted revenue of \$571,029 by \$8,648. Operating supplies of \$27,008 was lower than budgeted by \$31,717, largely due to closure during COVID.

**Capital Asset and Long- Term Debt Activities**

During the year, the Library purchased new library collection materials including books, films/visual, and audio materials. Additional information on capital assets can be found in the footnotes to the financial statements.

The Library's long-term debt consisted of compensated absences. Refer to the notes to the financial statements for further information.

**Factors Bearing on the Library's Future**

The following factors were considered in preparing the Library's budget for the 2020-2021 fiscal year:

- Focus on providing excellent customer service and a safe, inviting environment for our patrons.
- A decrease in revenue is expected, as penal fines revenue continue to decrease.
- A decrease in the materials, as the Library continues to increase collaborative programs and digital materials.

**Contacting the Library's Management**

This Management discussion and analysis provides an overview of the current and prospective financial condition of the Library's operations and financial position. If there are questions concerning this report or if additional information is desired, contact the Library Director at the Benton Harbor Public Library, 213 E Wall Street, Benton Harbor, MI 49022.

**Condensed Financial Information**

The following table represents condensed information about the Library's financial position for the past two fiscal years. Net position increased \$16,696 during the year. Total net position included the investment in capital assets. Capital assets represent the capital assets held by the Library, net of related accumulated depreciation.

**Benton Harbor Public Library  
Management's Discussion and Analysis  
June 30, 2020**

**Condensed Financial Information**

The Library has received more general revenues than the prior year, largely due to more grants and contributions. A summary of revenues and expenses for the past two fiscal years is presented below.

	<u>2020</u>	<u>2019</u>
Current assets	\$ 843,246	\$ 780,303
Non-current assets	<u>321,724</u>	<u>349,299</u>
 Total assets	 <u>1,164,970</u>	 <u>1,129,602</u>
 Current liabilities	 38,054	 38,621
Long-term liabilities	<u>45,954</u>	<u>26,716</u>
 Total liabilities	 84,008	 65,337
 Net position:		
Invested in capital assets	321,724	349,299
Restricted	30,220	19,180
Unrestricted	<u>729,018</u>	<u>695,786</u>
 Total net position	 <u>\$ 1,080,962</u>	 <u>\$ 1,064,266</u>
 Program revenues		
Charges for services	\$ 3,696	\$ 6,845
Grants and contributions	48,341	34,774
General revenues		
Property taxes	313,096	309,627
Penal fines	182,030	182,502
State revenue sharing	22,597	23,925
Other general revenues	4,617	4,702
Interest income	<u>5,300</u>	<u>5,425</u>
 Total revenue	 579,677	 567,799
 Expenses – library services	 <u>562,981</u>	 <u>518,759</u>
 Changes in net position	 16,696	 49,040
 Net position, beginning of year	 <u>1,064,266</u>	 <u>1,015,226</u>
 Net position, end of year	 <u>\$ 1,080,962</u>	 <u>\$ 1,064,266</u>

**Benton Harbor Public Library**  
**Statement of Net Position**  
**June 30, 2020**

		Primary Government / Governmental <u>Activities</u>
<b>Assets</b>		
Cash and checking	\$	368,033
Certificates of deposit and savings		375,965
Taxes receivable		81,152
State aid receivable		10,007
Prepaid expenses		6,992
Capital assets, net		<u>321,724</u>
 Total assets		 <u>1,164,970</u>
<b>Liabilities</b>		
Accounts payable		16,695
Accrued payroll		15,158
Compensated absences:		
Expected to be paid within one year		6,201
Expected to be paid after one year		<u>45,954</u>
 Total liabilities		 <u>84,008</u>
<b>Net Position</b>		
Invested in capital assets, net of related debt		321,724
Restricted - reading programs		30,220
Unrestricted		<u>729,018</u>
 Total net position	 \$	 <u><u>1,080,962</u></u>

See independent auditors' report and notes to financial statements.

**Benton Harbor Public Library**  
**Statement of Activities**  
**Year Ended June 30, 2020**

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expense)</u> <u>Revenue</u>
		<u>Charges</u> <u>for Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	
Governmental activities:					
Library	\$ 562,981	\$ 3,696	\$ 48,341	\$ -	\$ (510,944)
General revenues:					
Property taxes					313,096
County penal fines					182,030
State revenues					22,597
Interest income					5,300
Other general revenues					4,617
Total general revenues					527,640
Change in net position					16,696
Net position, beginning of year					1,064,266
<b>Net position, end of year</b>					<b>\$ 1,080,962</b>

See independent auditors' report and notes to financial statements.

**Benton Harbor Public Library  
Governmental Fund Balance Sheet  
June 30, 2020**

	<u>General Fund</u>
<b>Assets</b>	
Cash and checking	\$ 368,033
Certificates of deposit and savings	375,965
Taxes receivable	81,152
State aid receivable	10,007
Prepaid expenses	<u>6,992</u>
 Total assets	 <u><u>\$ 843,246</u></u>
<b>Liabilities and Fund Balance</b>	
Liabilities:	
Accounts payable	\$ 16,695
Accrued payroll	15,158
Compensated absences:	
Expected to be paid within one year	<u>6,201</u>
 Total liabilities	 <u>38,054</u>
Fund balance:	
Nonspendable - prepaid expenses	6,992
Restricted - reading programs	30,220
Committed - compensated absences	52,155
Unassigned	<u>715,825</u>
 Total fund balance	 <u>805,192</u>
 Total liabilities and fund balance	 <u><u>\$ 843,246</u></u>

**Benton Harbor Public Library  
 Reconciliation of Fund Balance on the Balance Sheet  
 For Governmental Fund to Net Position of  
 Governmental Activities on the Statement of Net Position  
 June 30, 2020**

<b>Fund balance - total governmental funds</b>	\$	805,192
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds

Add - capital assets, net		321,724
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Long-term compensated absences are reported as a liability		<u>(45,954)</u>
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<b>Net position of governmental activities</b>	<b>\$</b>	<b><u><u>1,080,962</u></u></b>
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**Benton Harbor Public Library  
Governmental Fund  
Statement of Governmental Revenue, Expenditures,  
and Changes in Fund Balance  
Year Ended June 30, 2020**

	<u>General Fund</u>
<b>Revenues:</b>	
Property taxes	\$ 313,096
Intergovernmental	
County penal fines	182,030
State revenues	22,597
Interest income	5,300
Donations	48,341
Fees and charges	3,696
Miscellaneous	4,617
	<hr/>
Total revenue	579,677
	<hr/>
<b>Expenditures:</b>	
Salaries and fringe benefits	319,474
Operating materials and supplies	55,349
Repairs and maintenance	62,994
Utilities	48,145
Professional services	12,032
Community promotion	3,829
Memberships and dues	7,278
Insurance and bonds	5,850
Equipment rental	1,038
Conventions and workshops	179
Capital outlay	-
	<hr/>
Total expenditures	516,168
	<hr/>
<b>Net change in fund balance</b>	63,509
<b>Fund balance, beginning of year</b>	741,683
	<hr/>
<b>Fund balance, end of year</b>	\$ 805,192
	<hr/> <hr/>

See independent auditors' report and notes to financial statements.

**Benton Harbor Public Library  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balance of Governmental Fund  
 to the Statement of Activities  
 Year Ended June 30, 2020**

**Net changes in fund balances - total governmental funds** \$ 63,509

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay including circulating collection capitalized	28,341
Deduct - depreciation expense	(55,916)

Change in the accrual for long-term compensated absences are reported as an expenditure in the statement of activities, but not in the fund statements.	(19,238)
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<b>Change in net position of governmental activities</b>	<b>\$ 16,696</b>
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**Benton Harbor Public Library**  
**Notes to Financial Statements**  
**June 30, 2020**

**Summary of Significant Accounting Policies**

The accounting policies of the Benton Harbor Public Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**Reporting Entity**

Benton Harbor Public Library is a Class IV public library. The Library serves a population of 24,787 patrons from the City of Benton Harbor and the Township of Benton.

The Library is defined as a governmental unit under criteria set forth by AICPA'S Audits of State and Local Governmental Units (ASLGU). These criteria include; a Board of Trustees consisting of representative members appointed or elected from the governmental units served and, the power to enact and enforce a tax levy.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported in total. The Library has no business-type or fiduciary activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**Benton Harbor Public Library**  
**Notes to Financial Statements**  
**June 30, 2020**

**Summary of Significant Accounting Policies (Continued)**

All individual governmental funds are reported as separate columns in the fund financial statements.

The Library maintains one fund, the general fund, which is reported as a major governmental fund and is used to account for all financial resources of the Library not required to be accounted for in another fund.

**Measurement Focus and Basis of Accounting**

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 the 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.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental funds are accounted for using the *modified accrual basis of accounting*. Their revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants and interest which use a one-year collection period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt (2) payment for compensated absences, which are recognized when due.

Governmental funds are accounted for on a spending or "flow of financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available, spendable resources".

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available, spendable resources" during a period.

**Benton Harbor Public Library**  
**Notes to Financial Statements**  
**June 30, 2020**

**Summary of Significant Accounting Policies (Continued)**

**Budgets and Budgetary Accounting**

Comparisons to budget are presented for the General Fund. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Starting in the spring, the Library Director establishes a proposed operating budget for the fiscal year commencing the following July 1<sup>st</sup>.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1<sup>st</sup>, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund.
5. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP), except that capital outlay related to the acquisition of assets acquired from donations are not budgeted.
6. Adoption and amendments of all budgets used by the Library are governed by Michigan Law. The appropriations ordinances are based on the projected expenditures budget of the various functions of the Library. Any amendment to the original budget must meet the requirements of Michigan Law. The Library amended its budget for the year ended June 30, 2020. Any revisions that alter the expenditures at the object level within the general fund must be approved by the Library Board.

**Deposits and Investments**

State statutes authorize the Library to invest in:

- a. Bond, securities, other obligations and repurchase agreements 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 qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.

**Benton Harbor Public Library  
Notes to Financial Statements  
June 30, 2020**

**Summary of Significant Accounting Policies (Continued)**

**Deposits and Investments (Continued)**

- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.

The Library utilized depository and savings accounts during the year.

**Capital Assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Library books and materials	3-10 years
Furniture and equipment	5-10 years
Improvements	20 years

Collections – The Library’s collections, which were acquired through contribution since the Library’s inception, are made up of artifacts of historical significance and art objects. In conformity with the practice generally followed by libraries, no value is assigned to the collections in the statement of financial position and contributed collection items are not recognized as revenues.

**Property Taxes**

Property taxes are levied on December 1<sup>st</sup> based on the taxable valuation of the property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

The Library receives an advance from the Berrien County Revolving Fund for delinquent property taxes. The County collects the delinquent property taxes on behalf of the Library and advances the delinquent real property taxes to the City of Benton Harbor.

**Benton Harbor Public Library  
Notes to Financial Statements  
June 30, 2020**

**Summary of Significant Accounting Policies (Continued)**

**Grants and Other Intergovernmental Revenues**

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

**Compensated Absences (Vacation and Sick Leave)**

It was the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation and sick leave accrued to full-time and part-time, permanent employees to specified maximums, as outlined in the Employee Handbook. Accumulated vacation pay is paid to full-time employees with at least 12 years of employment as of June 30, 2016 at the time of the employee's termination or retirement.

Effective July 1, 2016, the Library began utilizing a paid time off (PTO) policy for all current and future employees. The PTO policy took place of all former sick, vacation, bereavement and other paid time. Former sick and vacation time earned may be used interchangeably as time off with director's prior approval. Each current employee earns PTO based upon years of service and full-time or part-time status.

**Net Position and Fund Balance Reporting**

Governmental funds may report fund balance in the following five categories:

1. Non-spendable – the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Non-spendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the non-spendable portion of endowments.
2. Restricted – the related assets can only be spent for the specific purposes stipulated by external resource providers, constitutional provisions, or enabling legislation for use for a specific purpose.
3. Committed – the related assets can only be spent for a specific purpose identified by formal resolution of the governing board.
4. Assigned – the related assets can only be spent for a specific purpose identified by management as authorized by the Library Board.
5. Unassigned – the residual classification and includes all spendable amounts not contained in the other classifications.

Fund Balance can only be committed or assigned by formal resolution of the Library Board. Restricted net position represents those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. When multiple net position/fund balance classifications are available for use, it is the government's policy to utilize the most restricted balances first, then the next most restricted balance as needed. Further, when components of unrestricted fund balance can be used for the same purpose, committed is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Benton Harbor Public Library**  
**Notes to Financial Statements**  
**June 30, 2020**

**Summary of Significant Accounting Policies (Continued)**

**Risk Management**

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2020, the Library carried commercial insurance to cover risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year-end.

The general fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Library Board. The budget for the general fund is adopted at the level of detail displayed in the basic financial statements.

**Deposits and Investments**

The balance in the financial statements for cash and certificates of deposit is \$743,998. These balances are in financial institutions located in Michigan. State policy limits the Library's investing options to financial institutions located in Michigan. All accounts are in the name of the Library and are recorded in Library records at fair value.

*Custodial credit risk* for deposits is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year-end, the Library's cash was comprised of bank deposits, including checking, certificates of deposit, and cash on hand. The balance at June 30, 2020 was \$743,998. Of these funds, \$667,501 was covered by federal depository insurance and \$76,497 was uninsured and uncollateralized.

**Benton Harbor Public Library  
Notes to Financial Statements  
June 30, 2020**

**Capital Assets**

Capital asset activities for the year ended June 30, 2020 were as follows:

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>
Capital assets being depreciated				
Building improvements	\$ 314,459	\$ -	\$ -	\$ 314,459
Furniture & equipment	203,813	-	-	203,814
Books	620,572	23,732	74,846	569,458
Films	24,187	4,609	4,886	23,911
Audio	11,958	-	2,080	9,877
Total assets being depreciated	<u>1,174,989</u>	<u>28,341</u>	<u>(81,812)</u>	<u>1,121,519</u>
Less accumulated depreciation				
Building improvements	148,302	15,862	-	164,164
Equipment & furniture	193,200	4,453	-	197,653
Books	458,385	31,469	74,846	415,008
Films	15,921	2,754	4,886	13,789
Audio	9,882	1,379	2,080	9,181
Total accumulated depreciation	<u>(825,690)</u>	<u>(55,917)</u>	<u>(81,812)</u>	<u>(799,795)</u>
Total assets, net	<u>\$ 349,299</u>	<u>\$ (27,576)</u>	<u>\$ (0)</u>	<u>\$ 321,724</u>

The circulating library book collection, films, and audio materials are capitalized. Accessions are accounted for in the year acquired. The Library follows a policy of periodically removing books that are in poor condition, not in demand, and/or no longer current.

Depreciation expense of \$55,916 was charged to functions/programs of the primary government as Library expenses.

**Long-term Liabilities**

The following is a summary of the changes in long-term liabilities for the fiscal year ended June 30, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Compensated absences	\$ 42,881	\$ 28,345	\$ 19,071	\$ 52,155	\$ 6,201

The compensated absences represent the estimated liability to be paid to full-time employees with at least 12 years of service as of June 30, 2016, under the Library's former vacation and sick pay policy.

**Benton Harbor Public Library**  
**Notes to Financial Statements**  
**June 30, 2020**

**Contingent Liabilities**

**Tax revenue** - The Library has received advances from the Berrien County Tax Revolving Fund for delinquent taxes assessed on real property. If those taxes prove to be uncollectible, the Library will be responsible for repayment.

**Unemployment taxes** - The Library has elected to reimburse the Michigan Unemployment Insurance Agency for any unemployment benefits paid to former employees.

**Contract Services and Concentration Risk**

A service agreement with Benton Charter Township assigns the Benton Charter Township's portion of penal fines and state aid to the Library in exchange for providing library services to the residents of the Township. This revenue represents approximately \$142,500 in revenue. The three-year agreement began on January 1, 2020 and expires on December 31, 2022. The current level of the Library's operations and services would be impacted if the funding is not renewed.

**Defined Contribution Retirement Plan – 401(k)**

The Library established a 401(k) retirement plan that is administered by the Board of Trustees. Employees are eligible to participate after one year of service and more than 37.5 average hours worked per week. The matching contribution is discretionary and determined annually by the Library Board. The Library matched 4.5% of each participant's gross wages from July 1 through December 31, 2019 and 3% of each participant's gross wages from January 1 to June 30, 2020. Compensation includes overtime, bonuses, sick, and vacation payments. Retirement plan expense, consisting of administration fees and employer contributions, was \$8,589 for the fiscal year ended June 30, 2020.

**Community Foundation Endowment Fund**

Certain funds donated by unrelated third parties for the benefit of the Library are held and managed by the Berrien Community Foundation (the "Foundation"). The funds are reported as an asset on the Foundation's books, as the Foundation has been granted unilateral variance power by the donors. Earnings are available for distribution to the Library at the discretion of the Foundation, and therefore, are not reflected as revenue in the financial statements until received by the Library.

**Use of Facilities**

The Library operates out of a building that is owned by the City of Benton Harbor.

**Subsequent Events**

In preparing these financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through October 20, 2020, the date the financial statements were available to be issued.

**Benton Harbor Public Library  
Governmental Fund  
Required Supplementary Information  
Budgetary Comparison Schedule  
Year Ended June 30, 2020**

	<b>Budget Amounts</b>		<b>Actual Amount</b>	<b>Actual Over (Under) Budget</b>
	<b><u>Original</u></b>	<b><u>Final</u></b>		
<b>Revenues:</b>				
Property taxes	\$ 257,145	\$ 309,435	\$ 313,096	\$ 3,661
Intergovernmental				
County penal fines	171,230	182,030	182,030	(0)
State revenues	20,058	18,514	22,597	4,083
Interest income	4,500	4,993	5,300	307
Donations	37,850	47,743	48,341	598
Fees and charges	5,750	3,696	3,696	(0)
Miscellaneous	4,325	4,617	4,617	(0)
	<u>500,858</u>	<u>571,029</u>	<u>579,677</u>	<u>8,648</u>
<b>Total revenue</b>				
<b>Expenditures:</b>				
Salaries and fringe benefits	321,275	339,096	338,712	(384)
Operating supplies	65,600	58,725	27,008	(31,717)
Repairs and maintenance	63,615	65,635	62,994	(2,641)
Utilities	56,491	52,840	48,145	(4,695)
Professional services	7,750	12,395	12,032	(363)
Community promotion	4,250	4,250	3,829	(421)
Memberships and dues	8,000	8,225	7,278	(947)
Insurance and bonds	5,923	5,923	5,850	(73)
Equipment rental	1,250	1,250	1,038	(212)
Conventions and workshops	1,000	179	179	-
Depreciation expense	-	60,140	55,916	(4,224)
	<u>535,153</u>	<u>608,657</u>	<u>562,981</u>	<u>(45,676)</u>
<b>Total expenditures</b>				
<b>Net change in fund balance - budgetary basis</b>	(34,295)	(37,629)	16,696	54,325
<b>Net adjustments to GAAP basis</b>			<u>46,813</u>	
<b>Net change in fund balance - GAAP basis</b>			63,509	
<b>Fund balance, beginning of year</b>	<u>741,683</u>	<u>741,683</u>	<u>741,683</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 707,388</u>	<u>\$ 704,054</u>	<u>\$ 805,192</u>	<u>\$ 54,325</u>

See independent auditors' report and notes to financial statements.

RENDEL ELIE  
— & —  
ASSOCIATES PLC  
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Communication With Those Charged With Governance

October 20, 2020

Benton Harbor Public Library  
213 E Wall Street  
Benton Harbor, MI 49022

We have audited the financial statements of the governmental activities of the Benton Harbor Public Library for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 24, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Benton Harbor Public Library are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended 2020.

We noted no transactions entered into by the Library 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.

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The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of 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 estimate of the accrued compensated absences is based on the current rates of employee pay and historical rates, along with the Library's policies.
- Management's estimate of the revenue assigned to the Library with the Benton Charter Township agreement to serve its residents.

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 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. All material misstatements detected as a result of audit procedures were corrected by management, and are as described:

- Recording changes in capital assets and taxes receivable.

#### *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 auditors' 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 20, 2020.

### *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 the Library’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards required 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 the 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.

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

Sincerely,

*Rendel Elie & Associates*

RENDEL ELIE & ASSOCIATES, PLC  
CERTIFIED PUBLIC ACCOUNTANTS

RENDEL ELIE  
— & —  
ASSOCIATES PLC  
CERTIFIED PUBLIC ACCOUNTANTS

Audit Results Communication

October 20, 2020

Board of Directors  
Benton Harbor Public Library  
Benton Harbor, MI 49022

We completed our audit of the financial statements of the Benton Harbor Public Library for the year ended June 30, 2020 and expect to issue our report thereon dated October 20, 2020. The following comments summarize the results of our 2020 audit:

In planning and performing our audit of the financial statements of the Benton Harbor Public Library, in accordance with auditing standards generally accepted in the United State of America, we considered Benton Harbor Public Library's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected, on a timely basis.

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We consider the following deficiencies in Benton Harbor Public Library's internal control to be material weaknesses:

**Material audit adjustments and financial statement preparation:**

*Criteria:* The Library is a governmental unit and required to follow governmental rules. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a 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 the related footnotes (i.e., external financial reporting.)

*Condition:* We identified and proposed several material audit adjustments that management reviewed and approved. Audit adjustments were made to record changes in capital assets, accrued payroll, and taxes receivable.

As is the case with many small and medium-sized governmental units, the Library has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Reliance on your *external* auditors who cannot, by definition, be considered a part of the Library's *internal* controls. As a result of this condition, the Library lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task. In addition, the Library's records were initially misstated by an amount material to the financial statements. This is a repeat finding.

*Cause:* This condition was caused by the Library's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Library to perform this task internally because outsourcing the task is considered more cost effective.

*Effect:* The Library's accounting records were initially misstated by amounts material to the financial statements. In addition, the Library lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

*Auditor's recommendation:* We recommend that management continue to monitor the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Library's annual financial statements versus contracting with its auditor for these services.

*Library response:* The Library has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, for the year-end audit adjustments and financial statement preparation. Management will continue to review the audit adjustments, draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

*We provide the following additional information for your review:*

**Michigan Uniform Chart of Accounts:**

*Criteria:* All local units of government in Michigan must use the Uniform Chart of Accounts (UCA).

The State of Michigan has postponed the date by which local units must implement the new UCA. Early implementation is allowed and recommended by the State of Michigan. To meet the deadline for the fiscal year ending June 30, 2023, it is recommended that the new UCA is implemented July 1, 2022.

*Condition:* The Library is not in compliance with the Michigan Department of Treasury requirement that the State of Michigan Chart of Accounts be used in the accounting records. There is an account system being used, but it is not the current authorized version.

*Auditor's recommendation:* The Library should continue reviewing the revised Chart of Accounts to determine what changes will be necessary, including any budgetary changes, and set up a plan to comply.

*Library response:* The Library will continue the planning process for the revised uniform chart of accounts.

Benton Harbor Public Library's responses 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 management, the Library's board, and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the cooperation extended to us during this audit.

Sincerely,

*Rendel Elie & Associates*

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CERTIFIED PUBLIC ACCOUNTANTS