

SYSTEM WIDE AUTOMATED
NETWORK
WESTMONT, ILLINOIS

ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED
June 30, 2018

SYSTEM WIDE AUTOMATED NETWORK

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

October 9, 2018

The Administrators' Board
System Wide Automated Network
Westmont, Illinois

We have audited the accompanying financial statements of System Wide Automated Network (SWAN), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SWAN'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 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 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 SWAN'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 SWAN'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 SWAN, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof 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 budgetary information reported in the required supplementary 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, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SWAN's basic financial statements. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplemental schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

SWAN has not presented a Management's Discussion and Analysis as required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.


LAUTERBACH & AMEN, LLP

BASIC FINANCIAL STATEMENTS

SYSTEM WIDE AUTOMATED NETWORK

**Statement of Net Position
June 30, 2018**

See Following Page

SYSTEM WIDE AUTOMATED NETWORK

Statement of Net Position June 30, 2018

| ASSETS | |
|---|------------------|
| Current Assets | |
| Cash and Cash Equivalents | \$ 2,109,705 |
| Accounts Receivable - Net of Allowances | 51,996 |
| Other Receivables | 60 |
| Prepaid Expenses | <u>271,469</u> |
| Total Current Assets | <u>2,433,230</u> |
| Noncurrent Assets | |
| Capital Assets | |
| Depreciable Capital Assets | 367,779 |
| Accumulated Depreciation | <u>(277,163)</u> |
| Total Net Capital Assets | 90,616 |
| Other Assets - Deposits | <u>23,467</u> |
| Total Noncurrent Assets | <u>114,083</u> |
| Total Assets | <u>2,547,313</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred Items - Postretirement Health Plan | <u>6,383</u> |
| Total Assets and Deferred Outflows of Resources | <u>2,553,696</u> |

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

LIABILITIES

Current Liabilities

| | |
|------------------------------|----------------|
| Accounts Payable | 172,284 |
| Accrued Payroll | 26,378 |
| Unearned Revenues | 321,140 |
| Accrued Rent | 2,061 |
| Compensated Absences Payable | <u>16,590</u> |
| Total Current Liabilities | <u>538,453</u> |

Noncurrent Liabilities

| | |
|---|----------------|
| Accrued Rent | 50,475 |
| Compensated Absences Payable | 66,359 |
| Total OPEB Liability - Postretirement Health Plan | <u>36,924</u> |
| Total Noncurrent Liabilities | <u>153,758</u> |
| Total Liabilities | <u>692,211</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|---|----------------|
| Deferred Items - Postretirement Health Plan | <u>3,954</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>696,165</u> |

NET POSITION

| | |
|------------------------------|-------------------------|
| Investment in Capital Assets | 90,616 |
| Unrestricted | <u>1,766,915</u> |
| Total Net Position | <u><u>1,857,531</u></u> |

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

SYSTEM WIDE AUTOMATED NETWORK

Statement of Revenues, Expenses and Changes in Net Position - Budget and Actual For the Fiscal Year Ended June 30, 2018

| | Original and Final Budget | Actual |
|--------------------------------------|------------------------------|-------------------------|
| Operating Revenues | | |
| Fees for Services and Materials | \$ 1,787,020 | 1,784,355 |
| Intergovernmental Agreement | 505,842 | 503,448 |
| Grants | 214,659 | 253,748 |
| Reimbursements | 6,600 | 25,202 |
| Miscellaneous | - | 13,359 |
| Total Operating Revenues | <u>2,514,121</u> | <u>2,580,112</u> |
| Expenses | | |
| Administration | <u>2,806,050</u> | <u>2,916,034</u> |
| Operating Income (Loss) | (291,929) | (335,922) |
| Nonoperating Revenues | | |
| Investment Income | <u>6,800</u> | <u>21,792</u> |
| Change in Net Position | <u>(285,129)</u> | (314,130) |
| Net Position - Beginning as Restated | | <u>2,171,661</u> |
| Net Position - Ending | | <u><u>1,857,531</u></u> |

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

SYSTEM WIDE AUTOMATED NETWORK

Statement of Cash Flows For the Fiscal Year Ended June 30, 2018

| | |
|--|-------------------------|
| Cash Flows from Operating Activities | |
| Receipts from Customers and Users | \$ 1,803,241 |
| Other Receipts | 795,757 |
| Payments to Suppliers | <u>(2,663,572)</u> |
| | (64,574) |
| | |
| Cash Flows from Investing Activities | |
| Interest Received | <u>21,792</u> |
| | |
| Net Change in Cash and Cash Equivalents | (42,782) |
| | |
| Cash and Cash Equivalents | |
| Beginning | <u>2,152,487</u> |
| Ending | <u><u>2,109,705</u></u> |
| | |
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | (335,922) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation Expense | 52,793 |
| Other Expense | (19,561) |
| (Increase) Decrease in Current Assets | 18,886 |
| Increase (Decrease) in Current Liabilities | <u>219,230</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>(64,574)</u></u> |

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

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of System Wide Automated Network (“SWAN”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of SWAN’s accounting policies are described below.

REPORTING ENTITY

SWAN is a membership organization that is designed for libraries in and around Chicago to house their collections and data in a shared, collaborative environment. The SWAN organization was formed as an Illinois Intergovernmental Instrumentality in 2010. SWAN is governed by its Administrators' Board, comprised of seven library directors elected from the SWAN membership.

As defined by generally accepted accounting principles established by GASB, the financial reporting entity consists of the primary government. Financial accountability is defined as:

1. Appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
2. Fiscal dependency on the primary government.

SWAN is not included as a component unit of any other entity.

BASIS OF PRESENTATION

In the Statement of Net Position, SWAN’s activities are reported on a full accrual, economic basis, which recognizes all long-term assets/deferred outflows and receivables as well as long-term debt/deferred inflows and obligations. SWAN’s net position is reported in two parts: net investment in capital assets and unrestricted.

SWAN uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into the following categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." SWAN utilizes only the proprietary fund type.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to members or outside parties and are accounted for as enterprise funds.

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

On the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, SWAN’s activities are presented using the economic resources measurement focus as defined below. All proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are on the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets/deferred outflows and liabilities/deferred inflows (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

In the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, SWAN’s activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets/deferred outflows, and liabilities/deferred inflows resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

ASSETS/DEFERRED OUTFLOWS, LIABILITIES/DEFERRED INFLOWS, AND NET POSITION

Cash and Cash Equivalents

Cash and cash equivalents on the Statement of Net Position and the Statement of Cash Flows are considered to be cash on hand and demand deposits.

Receivables and Prepaid Expenses

In the Statement of Net Position, receivables, if any, consist of all revenues earned at year-end and not yet received.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements. The costs of prepaid expenses are recorded as expenses when consumed rather than when purchased.

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS/DEFERRED OUTFLOWS, LIABILITIES/DEFERRED INFLOWS, AND NET POSITION – Continued

Capital Assets

Capital assets purchased or acquired with an original, individual cost of \$5,000 or more are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their 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, as applicable. Depreciation of capital assets in the proprietary fund types is computed using the straight-line method.

In SWAN’s capital asset policy, the following estimated useful lives are used to compute depreciation:

| | |
|-------------------------|----------|
| Leasehold Improvements | 8 Years |
| Computer Equipment | 5 Years |
| Machinery and Equipment | 25 Years |

Deferred Outflows/Inflows of Resources

Deferred outflow/inflow of resources represents an acquisition/reduction of net position that applies to a future period and therefore will not be recognized as an outflow of resources (expense)/inflow of resources (revenue) until that future time.

Compensated Absences

SWAN accrues accumulated unpaid vacation and associated employee-related costs when earned (or estimated to be earned) by the employee.

All vacation pay is accrued when incurred in the financial statements. SWAN records a liability for employees' vacation leave earned, but not taken at salary rates in effect at the end of the fiscal year. A portion of this liability will be paid within the next fiscal year.

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS/DEFERRED OUTFLOWS, LIABILITIES/DEFERRED INFLOWS, AND NET POSITION – Continued

Net Position

In the basic financial statements, equity is classified as net position and displayed in two components:

Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings, if any, that are attributable to the acquisition or improvement of those assets.

Unrestricted – The remaining amount of net position.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with generally accepted accounting principles. An annual budget is adopted for the enterprise fund by vote of the full membership and ratification of this vote by the Administrators' Board.

The Administrators' Board prepares the annual budget. The budget is prepared by category and includes information on the current year estimates. The proposed budget is presented to the full membership for review and voting prior to ratification of this vote by the Administrators' Board. The budget was not amended in fiscal year 2018.

NOTE 3 – DETAIL NOTES ON THE BASIC FINANCIAL STATEMENTS

DEPOSITS AND INVESTMENTS

Permitted Deposits and Investments – Statutes authorize SWAN to make deposits/invest in commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, obligations of States and their political subdivisions, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, Illinois Funds and the Illinois Metropolitan Investment Fund.

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 3 – DETAIL NOTES ON THE BASIC FINANCIAL STATEMENTS – Continued

DEPOSITS AND INVESTMENTS – Continued

Credit Risk, Custodial Credit Risk and Concentration Risk

Deposits. At year-end, the carrying amount of SWAN’s deposits totaled \$2,109,705 and the bank balances totaled \$2,314,495.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SWAN minimizes this risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operation funds primarily in shorter-term securities. SWAN held no investments at June 30, 2018; and therefore, they are not subject to interest rate risk.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SWAN minimizes its exposure to credit risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which SWAN will do business, and by diversifying the portfolio so that potential losses on individual securities will be minimized.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of bank failure, SWAN’s deposits may not be returned to it. Per SWAN’s investment policy, deposits are insured or collateralized with securities held by the pledging institutions. At year end, the bank balances of SWAN were fully covered by federal depository insurance.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of SWAN’s investment in a single issuer. SWAN’s investment policy requires that investments be made only in securities guaranteed by the U.S. Government, or in FDIC insured institutions. Deposit accounts in banks or savings and loan institutions will not exceed the amount insured by FDIC coverage (unless adequately collateralized pursuant to Regulations of the Federal Reserve regarding custody and safekeeping of collateral). At year-end, SWAN does not have any investments over 5 percent of the total cash and investment portfolio (other than investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments).

NET POSITION RESTATEMENT

Beginning net position was restated due to the implementation of GASB Statement No. 75. The following is a summary of the net position as originally reported and as restated:

| Net Position | As Reported | As Restated | (Decrease) |
|--------------------------|--------------|-------------|------------|
| Business-Type Activities | \$ 2,222,848 | 2,171,661 | (51,187) |

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 3 – DETAIL NOTES ON THE BASIC FINANCIAL STATEMENTS – Continued

CAPITAL ASSETS

Business-type capital asset activity for the year was as follows:

| | Beginning Balances | Additions | Deletions | Ending Balances |
|--------------------------------------|-----------------------|-----------------|-----------|--------------------|
| Depreciable Capital Assets | | | | |
| Leasehold Improvements | \$ 6,895 | - | - | 6,895 |
| Computer Equipment | 324,383 | - | - | 324,383 |
| Machinery and Equipment | 36,501 | - | - | 36,501 |
| | <u>367,779</u> | <u>-</u> | <u>-</u> | <u>367,779</u> |
| Less Accumulated Depreciation | | | | |
| Leasehold Improvements | 503 | 861 | - | 1,364 |
| Computer Equipment | 211,456 | 50,471 | - | 261,927 |
| Machinery and Equipment | 12,411 | 1,461 | - | 13,872 |
| | <u>224,370</u> | <u>52,793</u> | <u>-</u> | <u>277,163</u> |
| Total Net Depreciable Capital Assets | <u>143,409</u> | <u>(52,793)</u> | <u>-</u> | <u>90,616</u> |

Depreciation expense of \$52,793 was charged to the business-type activities.

LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2018 was as follows:

| Type of Liability | Restated Beginning Balances | Additions | Deductions | Ending Balances | Amounts Due within One Year |
|----------------------|-----------------------------------|---------------|---------------|--------------------|-----------------------------------|
| Accrued Rent | \$ 40,924 | 12,061 | 449 | 52,536 | 2,061 |
| Compensated Absences | 57,340 | 39,386 | 13,777 | 82,949 | 16,590 |
| Total OPEB Liability | <u>54,056</u> | <u>-</u> | <u>17,132</u> | <u>36,924</u> | <u>-</u> |
| | <u>152,320</u> | <u>51,447</u> | <u>31,358</u> | <u>172,409</u> | <u>18,651</u> |

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 4 – OTHER INFORMATION

RISK MANAGEMENT

SWAN is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters. These risks are provided for through a commercial insurance policy purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

COMMITMENTS

SWAN entered into an agreement for integrated library system software licenses and services. The remaining estimated payments due under the agreement are as follows:

| | | |
|------|----|----------------|
| 2019 | \$ | <u>230,930</u> |
|------|----|----------------|

The addition of services will result in additional expenses related to the contract. Software maintenance expense for the year ended June 30, 2018 was \$263,208.

In March of 2015, SWAN entered into a three-year contract for services with Reaching Across Illinois Library System (RAILS), a governmental entity. This agreement was amended in December, 2016. Under the amended agreement, SWAN received payment from RAILS to supplement its other support in the total amount of \$503,448 during fiscal year 2018.

In July 2018, SWAN entered into a new one-year contract for services with RAILS. These services include data center services, website services, help desk ticket system services, financial services, meeting room space, and bibliographic services. Under this new agreement, SWAN will receive payment from RAILS to supplement its other support in the total amount of \$598,985 during fiscal year 2019. This amount may be adjusted by mutual written agreement, and this contract is cancellable by mutual written consent or by either party upon 120 days' written notice to the other party.

SWAN entered into a non-cancelable operating lease for office space. Minimum future payments under the lease agreement are as follows:

| | | |
|------------|----|----------------|
| 2019 | \$ | 72,217 |
| 2020 | | 74,383 |
| 2021 | | 76,615 |
| 2022 | | 78,913 |
| 2023 | | 81,281 |
| Thereafter | | <u>119,293</u> |
| | | <u>502,702</u> |

In addition to the minimum rental payments, SWAN is required to pay its pro-rata share of real estate taxes, insurance, and operating expenses.

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 4 – OTHER INFORMATION – Continued

COMMITMENTS – Continued

The lease calls for specified rent increases in future years. The lessors allowed SWAN to take occupancy of the premises for three months before the lease began and additionally abated the first six months of rent at the start of the lease. Total rent expense is being recorded on a straight-line basis over the term of the lease.

Rent expense for the year ended June 30, 2018 was as follows:

| | | |
|------------------------|----|-----------------------|
| Payments: | | |
| Minimum rentals | \$ | 70,156 |
| Contingent rentals | | 20,863 |
| Change in accrued rent | | <u>11,612</u> |
| Total | | <u><u>102,631</u></u> |

DEFINED CONTRIBUTION PLAN

SWAN provides retirement benefits for all of its full-time employees through a defined contribution plan. This plan was established with the International City Managers Association Retirement Corporation (ICMA-RC), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for state and local governments and their instrumentalities throughout the United States. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings, SWAN's policy is such that SWAN contributes on behalf of each full-time employee 9.75% of the employee's earnings at the end of every biweekly payroll period. Only one employee may make contributions to the plan; the employee contribution is \$825 each biweekly payroll period. SWAN's contribution for the fiscal year ended June 30, 2018 was \$132,299.

Additionally, SWAN allows employees to contribute to Individual Retirement Accounts (IRA's), which are also administered by ICMA-RC, through biweekly payroll deductions.

SWAN's contributions for each employee (and interest allocated to the employee's account) are fully vested if the employee was hired prior to July 1, 2012, All employees hired after July 1, 2012 will be vested 100% after completing one year of service. SWAN's nonvested contributions and the interest forfeited by employees who leave employment before one year of service are used to reduce SWAN's contribution requirement to the remaining employees. The Executive Director and Administrators' Board are responsible for establishing and amending the plan provisions.

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 4 – OTHER INFORMATION – Continued

OTHER POST-EMPLOYMENT BENEFITS

General Information about the OPEB Plan

Plan Description. SWAN administers a single-employer defined benefit healthcare plan ("the Postretirement Health Plan"). The plan provides limited healthcare insurance for eligible retirees through SWAN's group health insurance plan, which covers both active and retired members. The Postretirement Health Plan does not issue a publicly available financial report. Article 11 of the State Compiled Statutes grants the authority to establish and amend the benefit terms and financing requirements to the SWAN Administrators' Board. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. SWAN, through Library Insurance Management and Risk Control Combination (LIMRICC), provides healthcare benefits for retirees over the age of 59.5 and terminating upon Medicare eligibility or eligibility for other coverage. Retirees are not allowed to change healthcare plans after retirement, and retirees are not allowed to exit the plan and join at a later date. The benefit terms provide for 100 percent of the plan premiums and all administrative fees to be paid by the retirees.

Plan Membership. As of May 30, 2018, the measurement date, the following employees were covered by the benefit terms:

| | |
|--|------------------|
| Inactive Plan Members Currently Receiving Benefits | 1 |
| Inactive Plan Members Entitled to but not yet Receiving Benefits | - |
| Active Plan Members | <u>21</u> |
| Total | <u><u>22</u></u> |

Total OPEB Liability

SWAN's total OPEB liability was measured as of May 30, 2018, and was determined by an actuarial valuation as of July 1, 2017.

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 4 – OTHER INFORMATION – Continued

OTHER POST-EMPLOYMENT BENEFITS – Continued

Total OPEB Liability – Continued

Actuarial assumptions and other inputs. The total OPEB liability in the May 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--|---|
| Inflation | 3.00% |
| Salary Increases | 3.50% |
| Discount Rate | 3.45% |
| Healthcare Cost Trend Rates | |
| PPO Plan | 9.0% for 2018, decreasing 0.5% per year to an ultimate rate of 5.0% for 2027 and later years |
| HMO Plans | 6.5% for 2018, decreasing 0.19% per year to an ultimate rate of 5.0% for 2027 and later years |
| Retirees' Share of Benefit-Related Costs | Same as Healthcare Cost Trend Rates |

The discount rate was based on yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

Mortality rates were based on the RP-2014 Combined Annuitant Mortality Table for males and females.

Change in the Total OPEB Liability

| | <u>Total OPEB Liability</u> |
|---|-------------------------------------|
| Balance at June 30, 2017 | \$ 54,056 |
| Changes for the Year: | |
| Service Cost | 11,212 |
| Interest on the Total OPEB Liability | 1,591 |
| Changes of Benefit Terms | (16,690) |
| Difference Between Expected and Actual Experience | 5,257 |
| Changes of Assumptions or Other Inputs | 1,311 |
| Benefit Payments | (15,861) |
| Other Changes | (3,952) |
| Net Changes | <u>(17,132)</u> |
| Balance at June 30, 2018 | <u>36,924</u> |

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 4 – OTHER INFORMATION – Continued

OTHER POST-EMPLOYMENT BENEFITS – Continued

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability, calculated using a Single Discount Rate of 3.45%, as well as what the total OPEB liability would be if it were calculated using a Single Discount Rate that is one percentage point lower or one percentage point higher:

| | 1% Decrease (2.45%) | Current Discount Rate (3.45%) | 1% Increase (4.45%) |
|----------------------|------------------------|-------------------------------------|------------------------|
| Total OPEB Liability | \$ 39,616 | 36,924 | 34,468 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability, calculated using a Healthcare Trend Rate of 9.00% and 6.50%, as well as what the total OPEB liability would be if it were calculated using a Healthcare Trend Rate that is one percentage point lower or one percentage point higher:

| | 8.00% and 5.50% (decreasing to 4.00%) | Healthcare Cost Trend Rates 9.00% and 6.50% (decreasing to 5.00%) | 8.00% and 7.50% (decreasing to 6.00%) |
|----------------------|---|--|---|
| Total OPEB Liability | \$ 32,920 | 36,924 | 41,930 |

SYSTEM WIDE AUTOMATED NETWORK

Notes to the Financial Statements June 30, 2018

NOTE 4 – OTHER INFORMATION – Continued

OTHER POST-EMPLOYMENT BENEFITS – Continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, SWAN recognized OPEB expense of \$3,700. At June 30, 2018, SWAN reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Totals |
|--|--------------------------------------|-------------------------------------|--------------|
| Difference Between Expected and Actual Experience | \$ 4,881 | - | 4,881 |
| Changes of Assumptions | 1,502 | (3,954) | (2,452) |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | - | - | - |
| Total Deferred Amounts Related to OPEB | <u>6,383</u> | <u>(3,954)</u> | <u>2,429</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year | Net Deferred Outflows of Resources |
|----------------|--|
| 2019 | \$ 187 |
| 2020 | 187 |
| 2021 | 187 |
| 2022 | 187 |
| 2023 | 187 |
| Thereafter | <u>1,494</u> |
| Total | <u>2,429</u> |

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Schedule of Changes in the Employer's Total OPEB Liability
Other Post-Employment Benefit Plan

SYSTEM WIDE AUTOMATED NETWORK

Other Post-Employment Benefit Plan

Required Supplementary Information Schedule of Changes in the Employer's Total OPEB Liability June 30, 2018

| | 2018 |
|---|--------------|
| Total OPEB Liability | |
| Service Cost | \$ 11,212 |
| Interest | 1,591 |
| Changes of Benefit Terms | (16,690) |
| Differences Between Expected and Actual Experience | 5,257 |
| Changes of Assumptions or Other Inputs | 1,311 |
| Benefit Payments | (15,861) |
| Other Changes | (3,952) |
| Net Change in Total OPEB Liability | (17,132) |
| Total OPEB Liability - Beginning | 54,056 |
| Total OPEB Liability - Ending | 36,924 |
| Covered Payroll | \$ 1,311,255 |
| Total OPEB Liability as a Percentage of Covered Payroll | 2.82% |

Notes:

This schedule is intended to show information for ten years. Information for additional years will be displayed as it becomes available.

Changes of Benefit Terms. In the last valuation, spouses of retirees were modeled as having the option of electing medical coverage. Per SWAN personnel, this policy has changed and spouses no longer have that option. This change is reflected in the results (Changes of Benefit Terms).

Changes of Assumptions. Changes of assumptions and other inputs reflect the effects of changes in the healthcare trend rate each period. The following are the healthcare trend rates used in each period:

| Fiscal Year | PPO | HMO |
|-------------|-------|-------|
| 2019 | 6.50% | 9.00% |
| 2020 | 6.31% | 8.50% |
| 2021 | 6.13% | 8.00% |
| 2022 | 5.94% | 7.50% |
| 2023 | 5.75% | 7.00% |
| 2024 | 5.56% | 6.50% |
| 2025 | 5.38% | 6.00% |
| 2026 | 5.19% | 5.50% |
| Ultimate | 5.00% | 5.00% |

In 2018, the healthcare trend rates were reset based on recent experience.

OTHER SUPPLEMENTARY INFORMATION

SYSTEM WIDE AUTOMATED NETWORK

**Schedule of Operating Expenses - Budget and Actual
For the Fiscal Year Ended June 30, 2018**

| | Original and Final Budget | Actual |
|---|------------------------------|------------------|
| Operations | | |
| Personnel | | |
| Salaries and Wages | \$ 1,418,500 | 1,401,955 |
| Payroll Taxes and Benefits | | |
| Health, Dental, Life and Disability Insurance | 185,900 | 186,186 |
| Other Fringe Benefits | 7,600 | 2,244 |
| Retirement Benefits and Administration | 130,500 | 133,299 |
| Social Security Taxes | 108,600 | 100,547 |
| Unemployment Insurance | - | 1,270 |
| Worker's Compensation | 2,200 | 3,648 |
| Total Personnel | <u>1,853,300</u> | <u>1,829,149</u> |
| Equipment and Software Maintenance Expense | <u>373,565</u> | <u>356,088</u> |
| Library Materials and Supplies | | |
| Computers, Software and Supplies | 22,600 | 29,221 |
| eRources | 500 | 389 |
| General Office Supplies and Equipment | 9,000 | 3,603 |
| Postage | 900 | 900 |
| Print Materials | 8,000 | 15,047 |
| Total Library Materials and Supplies | <u>41,000</u> | <u>49,160</u> |
| Building and Grounds | | |
| Rent | 94,607 | 102,631 |
| Utilities | 13,800 | 6,169 |
| Property Insurance | 1,200 | 1,476 |
| Repairs and Maintenance | 200 | 1,419 |
| Custodial Service and Supplies | 9,300 | 10,370 |
| Other Building Maintenance | 580 | 150 |
| Total Building and Grounds | <u>119,687</u> | <u>122,215</u> |
| Conferences, Training and Travel | | |
| Conferences and Training | 16,900 | 22,891 |
| Travel | | |
| In-State | 2,200 | 3,103 |
| Out-of-State | 10,400 | 4,208 |
| Total Conferences, Training and Travel | <u>29,500</u> | <u>30,202</u> |

SYSTEM WIDE AUTOMATED NETWORK

Schedule of Operating Expenses - Budget and Actual For the Fiscal Year Ended June 30, 2018

| | Original and Final Budget | Actual |
|--|------------------------------|------------------|
| Operations - Continued | | |
| Professional and Contractual Services | | |
| Accounting | \$ 5,300 | 9,700 |
| Consulting | 17,000 | 13,065 |
| Contract Agreements with Systems, Member Libraries and Cooperatives | 119,659 | 158,748 |
| Equipment Rental | 2,700 | 3,936 |
| Group Purchases | 5,700 | 3,309 |
| Information Services | 200,139 | 228,055 |
| Legal | 1,800 | 2,840 |
| Liability Insurance | 7,600 | 8,550 |
| Other Contractual Services | 8,200 | 23,818 |
| Telephone and Telecommunications | 19,900 | 19,082 |
| | <u>387,998</u> | <u>471,103</u> |
| Total Professional and Contractual Services | | |
| | 387,998 | 471,103 |
| Miscellaneous | | |
| eCommerce | - | 3 |
| Other | 1,000 | 5,321 |
| | <u>1,000</u> | <u>5,324</u> |
| Total Miscellaneous | | |
| | 1,000 | 5,324 |
| Depreciation | - | 52,793 |
| | <u>-</u> | <u>52,793</u> |
| Total Operating Expenses | <u>2,806,050</u> | <u>2,916,034</u> |