

SWAN MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This is a narrative overview and analysis of the financial activities of SWAN for the fiscal year ended June 30, 2023. Readers are encouraged to consider the information presented here in conjunction with additional information that is in SWAN's financial statements.

Management's Discussion, Analysis, & Financial Highlights

Audit report page 3

SWAN's organization purpose as outlined in our strategic plan's mission statement is summarized here. In addition to the report's financial highlights for fiscal year 2023's conclusion, the following:

- As a result of current year operations, net position increased by \$281,204, which brings SWAN's total net position to \$2,707,187 total. However, for the purposes of budgeting SWAN's excess cash for special projects, research & development, and one-time costs, we will use the Unrestricted financial figure of \$2,690,635
- This year, GASB statement number 96, Subscription Based Information Technology Arrangements was adopted and moving forward for SWAN, the technology subscriptions that meet the GASB 96 definition for SWAN will be tracked as a liability and an intangible asset. The budget expense Library Services Platform is impacted by the audit, but SWAN will continue to record the actual expense for SirsiDynix and EBSCO in the given budget year.
- Two years ago, GASB statement number 87, Leases, was adopted and moving forward for SWAN, the commercial office lease is going to tracked as a Capital Asset (Right of Use Asset). This means the remaining years of the lease is tracked similar to how Capital Equipment would be treated. While this GASB rule impacts the audit, SWAN can continue to record the actual expense for the lease under the Buildings & Grounds in the operations budget.

SWAN's financial statements are comprised of two components: (1) government-wide financial statements, and (2) notes to financial statements. This report also contains other supplementary information in addition to the two financial statements.

Government-Wide Financial Analysis

Audit report pages 4-6

SWAN's net position for fiscal year 2023 is detailed and compared with the previous fiscal year.

SWAN's Net Position	30-Jun-23	30-Jun-22	Positive (Negative) Variance
Total assets	\$3,662,206	\$2,869,271	\$792,935
Total liabilities	\$955,019	\$443,288	\$511,731
Total net position	\$2,262,362	\$2,060,448	\$201,914
Change in Net Position			Positive (Negative) Variance
Total revenues	\$4,118,809	\$3,981,625	\$137,184
Total expenses	\$3,837,605	\$3,818,004	\$19,601
Change in net position	\$281,204	\$163,621	\$117,583
Net position – beginning	\$2,425,983	\$2,262,362	\$163,621
Net position – ending	\$2,707,187	\$2,425,983	\$281,204

Government-Wide Financial Statements

Audit report pages 8 – 10

The government-wide financial statements are designed to provide readers with a broad overview of SWAN's finances. The statement of net position presents information about SWAN's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SWAN is improving or deteriorating.

The statement of activities presents information showing how SWAN's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement from some items that will only result in cash flows in future fiscal periods (e.g., unused compensated absences, other post-employment benefits payable, grant receivables and accrued interest expense).

Notes to the Financial Statements

Audit report pages 12 - 21

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and combining individual and fund financial statements and schedules.

Funds

SWAN uses only the proprietary fund type, which as detailed in the audit report, are used to account for activities similar to those found in the private sector.

Capital Assets

Capital assets for SWAN are detailed on page 17 of the audit report, which for fiscal year 2023 depreciated by (\$56,423).

Long-term liabilities

Long-term liabilities for SWAN include accrued compensated absences, i.e., vacation pay. The liability for Subscription Based Intangible Assets (SBITA) are calculated for the first time in fiscal year 2023, and what to record in the next two fiscal years 2024 and 2025.

Commitments

SWAN's grant awarded by RAILS is detailed.

Other Supplementary Information (pages 20-21)

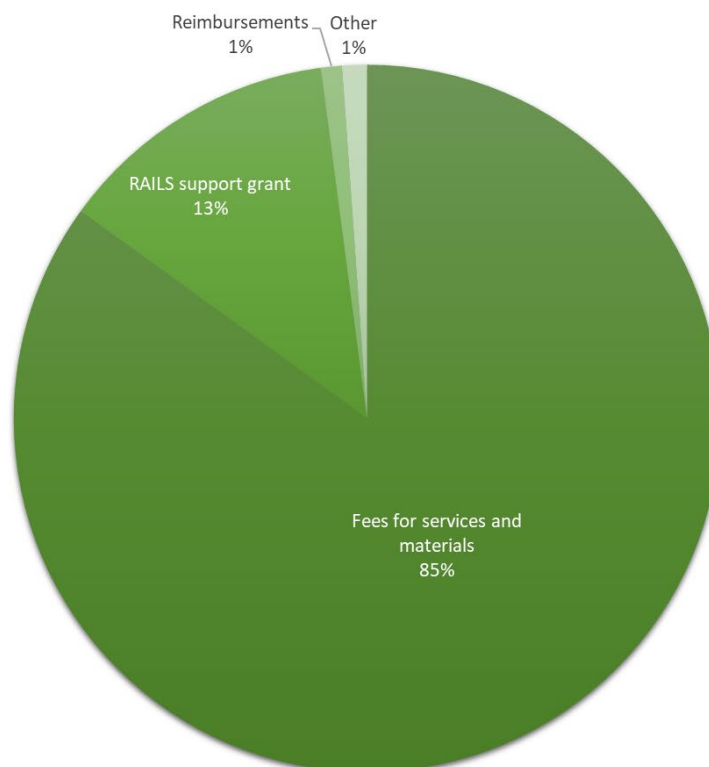
SWAN's budget and actual operating revenue and expenses are detailed in the schedule.

SWAN Financial Outlook

SWAN relies on wide base of funding through assessment of membership fees, which comprises 85% of its revenue. RAILS LLSAP funding grant was awarded at \$527,381 for fiscal year 2023. Operating revenues ended the year over budget at \$25,221.

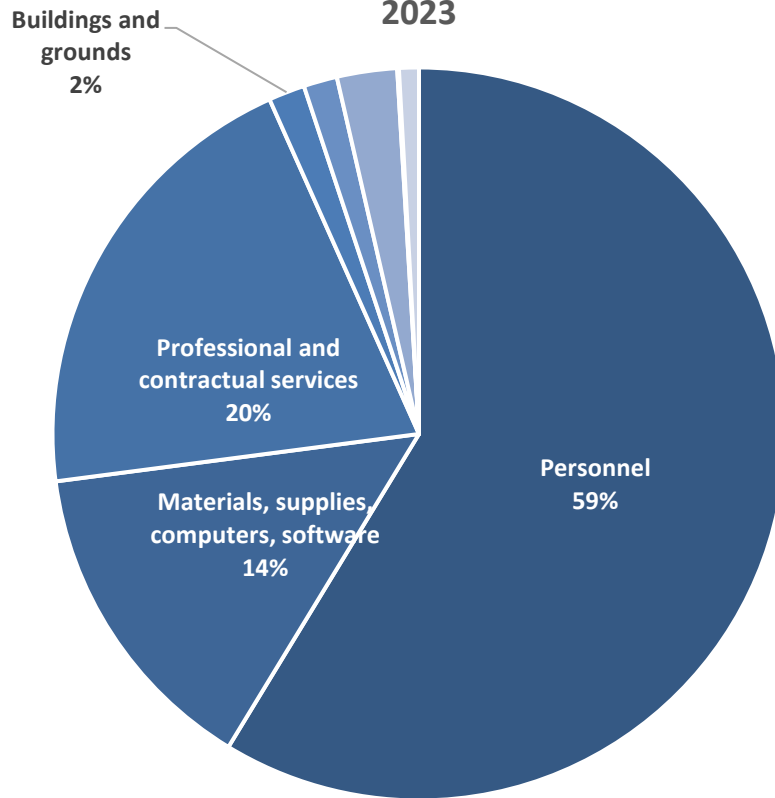
Operating expenses ended the year under budget at \$284,873.

Operating revenue net position for the year ended June 30, 2023



Operating revenues	Actual	Budget	Positive (Negative) Variance with Final Budget
Fees for services and materials	\$3,462,697	\$3,449,045	(\$13,652)
RAILS support grant	\$527,381	\$527,381	\$0
Reimbursements	\$39,105	\$84,000	\$44,895
Other	\$46,149	\$82,000	\$35,851
Total operating revenues	\$3,947,933	\$3,973,154	\$25,221

**Operating expenses net position for the year ended June 30,
2023**



Operations	Actual	Budget	Positive (Negative) Variance with Final Budget
Personnel	\$1,809,423	\$2,041,700	\$232,277
Materials, supplies, computers, software	\$438,579	\$1,110,000	\$671,421
Professional and contractual services	\$628,193	\$617,206	(\$10,987)
Buildings and grounds	\$49,309	\$124,270	\$74,961
Equipment and software maintenance expense	\$45,738	\$78,200	\$32,462
Miscellaneous (bank fees, reimbursement expenses, etc.)	\$81,729	\$134,750	\$53,021
Depreciation	\$2,321	\$3,607	\$1,286
Conferences, training and travel	\$26,964	\$37,300	\$10,336
Total operating expenses	\$3,747,088	\$4,031,961	\$284,873

Requests for Information

This financial report is designed to provide a general overview of SWAN's finances. Questions and comments concerning any information provided in this report should be addressed to Aaron Skog, 800 Quail Ridge Drive, Westmont, IL 60559 Phone: 630-326-7022; email: aaron@swalibraries.net



**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2023**

System Wide Automated Network

Annual Financial Report

For the Year Ended June 30, 2023

Administrative Offices

800 Quail Ridge Drive
Westmont, IL 60559

**System Wide Automated Network
Annual Financial Report
For the Year Ended June 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

Selden Fox

Accounting for your future

One Parkview Plaza, Suite 710 | Oakbrook Terrace, IL 60181 | www.seldenfox.com
p 630.954.1400 | f 630.954.1327 | email@seldenfox.com

INDEPENDENT AUDITOR'S REPORT

Executive Board
System Wide Automated Network
Westmont, Illinois

Opinion

We have audited the accompanying financial statements of **System Wide Automated Network** (SWAN) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of System Wide Automated Network as of June 30, 2023, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SWAN and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

SWAN adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* during the year ended June 30, 2023. The implementation of this guidance resulted in changes to the assets, liabilities, deferred inflows of resources, revenues, expenditures and notes to the financial statements (see Note I.E. for additional information). Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SWAN's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SWAN's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SWAN's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Selden Fox, Ltd.

January 5, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

**System Wide Automated Network
Management's Discussion and Analysis
June 30, 2023**

This discussion and analysis of System Wide Automated Network's (SWAN's) financial performance provides an overview of its financial activities for the year ended June 30, 2023. Please read it in conjunction with our financial statements, which begin on page 8.

GENERAL INFORMATION

SWAN is an organization of member libraries participating in a Library Services Platform (LSP) with the mission to improve services for Member Libraries by sharing resources, technology and a planned process of individual and collective growth. SWAN's vision is that SWAN will set the standard of excellence as a library technology consortium. SWAN works to focus consortium resources on shared strategic initiatives while building upon a tradition of excellence and dedicated service.

SWAN is governed by an Executive Board established with the seven voting members consisting of a representative from seven libraries within SWAN's network. Each voting member of the Executive Board is entitled one vote.

SWAN serves various libraries within the Chicagoland area. SWAN currently serves 100 libraries, with hopes of adding more.

FINANCIAL HIGHLIGHTS

- SWAN's assets and deferred outflows exceed its liabilities and deferred inflows by \$2,707,187 as of June 30, 2023.
- As a result of the current year operations, net position increased by \$281,204.
- Total liabilities of \$955,019 include accounts payable, accruals for payroll, compensated absences, and interest, an operating lease liability for right to use asset, and a subscription liability for \$672,046.
- SWAN has recorded an intangible right to use asset and a lease liability under GASB Statement Number 87, *Leases*. Accumulated amortization on the intangible right of use asset totaled \$137,094 and \$68,547 at June 30, 2023 and 2022, respectively. Principal outstanding on the lease liability totaled \$118,238 and \$197,620 at June 30, 2023 and 2022, respectively.
- SWAN adopted GASB Statement Number 96, *Subscription-Based Information Technology Arrangements*, which required recognition of an intangible subscription-based information technology arrangement and a subscription liability of \$871,812 as of July 1, 2022.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The *Statement of Net Position* and the *Statement of Revenues, Expenses and Changes in Net Position – Budget and Actual* (pages 8-10) provide information about the activities of SWAN as a whole and present a longer-term view of its finances. The *Statement of Cash Flows* (pages 11) shows the cash generated and used in operating and capital-related financing activities.

The *Statement of Net Position* reports information on all of SWAN's assets/deferred outflows and liabilities/deferred inflows, 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 agency is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position – Budget and Actual* presents information showing how SWAN'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., earned but unused vacation leave).

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 12-21 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a schedule of operating expenses – budget and actual (pages 22-23).

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. The following tables show that in the case of SWAN, assets and deferred outflows exceeded liabilities and deferred inflows by \$2,707,187 at June 30, 2023 (\$2,425,983 at June 30, 2022). At the end of the year, \$2,690,635 of net position represents unrestricted net position and may be used to meet SWAN's ongoing obligations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (cont'd)

	Net Position	
	6/30/2023	6/30/2022
Current assets	\$ 2,260,590	\$ 2,661,276
Capital assets – net	16,552	18,873
Operating right of use/subscription asset	1,361,597	165,655
Other assets – deposits	23,467	23,467
Total assets	3,662,206	2,869,271
Accounts payable	6,480	34,357
Accrued expenses	48,506	45,063
Unearned revenues	-	42,928
Lease liability – right to use asset	118,238	197,620
Subscription liability	672,046	-
Compensated absences payable	109,749	123,320
Total liabilities	955,019	443,288
Net position:		
Net investment in capital assets	16,552	18,873
Unrestricted	2,690,635	2,407,110
Total net position	\$ 2,707,187	\$ 2,425,983
	Changes in Net Position	
	6/30/2023	6/30/2022
Revenues:		
Charges to members for services	\$ 3,462,697	\$ 3,378,786
Operating grants	527,381	524,691
Reimbursements and other	85,254	75,664
Investment income	43,477	2,484
Total revenues	4,118,809	3,981,625
Expenses:		
Personnel	1,809,423	1,833,571
Equipment and software maintenance	45,738	42,212
Library materials and supplies	438,579	1,103,321
Buildings and grounds	49,309	48,880
Conferences, travel and training	26,964	5,245
Professional and contractual services	628,193	638,851
Miscellaneous	81,729	72,512
Depreciation, amortization and interest	757,670	73,412
Total expenses	3,837,605	3,818,004
Change in net position	281,204	163,621
Net position – beginning	2,425,983	2,262,362
Net position – ending	\$ 2,707,187	\$ 2,425,983

GOVERNMENT-WIDE FINANCIAL ANALYSIS (cont'd)

Net position increased by \$281,204 in the fiscal year ended June 30, 2023 (\$163,621 in the fiscal year ended June 30, 2022). Charges to members for services increased by \$83,911 (2.5%) in fiscal year ended June 30, 2023. Operating expenses for the current year of \$3,837,605 increased by \$19,601 (0.5%).

BUDGETARY HIGHLIGHTS

Actual operating revenues of \$4,075,332 were \$67,094 lower than the final budgeted revenues of \$4,142,426.

Actual expenditures on a budgetary basis of \$3,837,605 were \$309,428 less than the final budgeted expenditures of \$4,147,033. The primary source of savings versus budget was within personnel services. There were new positions budgeted within regular salaries that were not filled.

DEBT ADMINISTRATION

SWAN recorded a lease liability for a right to use asset for their office lease under GASB 87 in the prior year and a subscription liability under GASB 96 in the current year. Additional information can be found in Note III. C on page 18 of this report.

CAPITAL ASSETS

SWAN's net investment in capital assets as of June 30, 2023, was \$16,552 (\$18,873 at June 30, 2022). This investment in capital assets includes leasehold improvements, computer equipment, and machinery and equipment. Effective July 1, 2021, the investment in capital assets also includes an intangible right to use asset for office space.

	Capital Assets – Net of Depreciation	
	6/30/2023	6/30/2022
Leasehold improvements	\$ 1,223	\$ 2,084
Computer equipment	-	-
Machinery and equipment	15,329	16,789
Intangible right to use lease-office space	97,108	165,655
	\$ 113,660	\$ 184,528

Additional information on SWAN's capital assets can be found in Note III.B on page 17 of this report.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of SWAN's finances, compliance with finance related laws and regulations, and demonstrate SWAN's commitment to public accountability. Questions about this report or requests for additional information should be sent to the Executive Director of the System Wide Automated Network, 800 Quail Ridge Drive, Westmont, Illinois 60559

BASIC FINANCIAL STATEMENTS

System Wide Automated Network
Statement of Net Position
June 30, 2023

Assets	
Current assets:	
Cash and cash equivalents	\$ 2,168,033
Accounts receivable, net of allowance	886
Prepaid expenses	<u>91,671</u>
Total current assets	<u>2,260,590</u>
Noncurrent assets:	
Capital assets	367,779
Accumulated depreciation and amortization	<u>(351,227)</u>
Total net capital assets	<u>16,552</u>
Operating right of use assets	234,202
Accumulated amortization	<u>(137,094)</u>
Total net operating right of use assets	<u>97,108</u>
Subscription assets	1,933,499
Accumulated amortization	<u>(669,010)</u>
Total net subscription assets	<u>1,264,489</u>
Other assets - deposits	<u>23,467</u>
Total noncurrent assets	<u>1,401,616</u>
Total assets	<u>\$ 3,662,206</u>

See accompanying notes.

Liabilities

Current liabilities:

Accounts payable	\$ 6,480
Accrued payroll	48,245
Accrued interest	261
Operating lease liability - right to use asset	82,771
Subscription liability	441,416
Compensated absences payable	<u>21,950</u>

Total current liabilities	<u>601,123</u>
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Noncurrent liabilities:

Lease liability - right to use asset	35,467
Subscription liability	230,630
Compensated absences payable	<u>87,799</u>

Total noncurrent liabilities	<u>353,896</u>
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Total liabilities	<u>\$ 955,019</u>
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Net Position

Net position:

Net investment in capital assets	\$ 16,552
Unrestricted	<u>2,690,635</u>

Total net position	<u>\$ 2,707,187</u>
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See accompanying notes.

**System Wide Automated Network
Statement of Revenues, Expenses and Changes in
Net Position - Budget and Actual
For the Year Ended June 30, 2023**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance With Final Budget</u>
Operating revenues:				
Fees for services and materials	\$ 3,449,045	\$ 3,449,045	\$ 3,462,697	\$ 13,652
RAILS support grant	527,381	527,381	527,381	-
Reimbursements	84,000	84,000	39,105	(44,895)
Other	82,000	82,000	46,149	(35,851)
Total operating revenues	<u>4,142,426</u>	<u>4,142,426</u>	<u>4,075,332</u>	<u>(67,094)</u>
Operating expenses:				
Administration	<u>4,147,033</u>	<u>4,147,033</u>	<u>3,837,605</u>	<u>309,428</u>
Operating income (loss)	<u>(4,607)</u>	<u>(4,607)</u>	<u>237,727</u>	<u>242,334</u>
Nonoperating revenues:				
Investment income	<u>1,000</u>	<u>1,000</u>	<u>43,477</u>	<u>42,477</u>
Changes in net position	<u>\$ (3,607)</u>	<u>\$ (3,607)</u>	<u>281,204</u>	<u>\$ 284,811</u>
Net position, beginning of the year			<u>2,425,983</u>	
Net position, end of the year			<u>\$ 2,707,187</u>	

See accompanying notes.

**System Wide Automated Network
Statement of Cash Flows
For the Year Ended June 30, 2023**

Cash flows from operating activities:	
Received from customers and users	\$ 3,437,856
Grant receipts	527,381
Other receipts	85,254
Payments to suppliers	(1,071,733)
Payments to employees	(1,819,812)
Principal paid on lease liability on right to use asset	(79,382)
Net cash flows from operating activities	1,079,564
Cash flows from investing activities - interest received	43,477
Cash flows from financing activities:	
Principal paid on subscription liability	(883,222)
Interest paid on subscription liability	(15,632)
Net cash flows from financing activities	(898,854)
Net change in cash and cash equivalents	224,187
Cash and cash equivalents, beginning of the year	1,943,846
Cash and equivalents, end of the year	\$ 2,168,033
Reconciliation of operating income to net cash flows from operating activities:	
Operating income	\$ 237,727
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	2,321
Amortization	737,557
Interest on subscription liability	15,893
Changes in:	
Receivables	18,087
Inventory	1,733
Prepaid expenses	226,822
Accounts payable	(27,877)
Accrued payroll	3,182
Unearned revenue	(42,928)
Compensated absences payable	(13,571)
Operating lease liability	(79,382)
Net cash from operating activities	\$ 1,079,564

See accompanying notes.

System Wide Automated Network Notes to the Financial Statements

I. 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.

A. The 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 GAAP 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.

B. 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: 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.

System Wide Automated Network Notes to the Financial Statements (cont'd)

I. Summary of Significant Accounting Policies (cont'd)

B. Basis of Presentation (cont'd)

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.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. SWAN's principal operating revenues are charges to customers for services and materials and grants awarded. SWAN's operating expenses for enterprise funds and internal service funds include the cost of providing these services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets/Deferred Outflows, Liabilities/Deferred Inflows and Net Position or Equity

1. 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.

System Wide Automated Network
Notes to the Financial Statements (cont'd)

I. Summary of Significant Accounting Policies (cont'd)

D. Assets/Deferred Outflows, Liabilities/Deferred Inflows and Net Position or Equity (cont'd)

2. 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.

3. 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.

Right of use assets resulting from lease contracts and subscription-based information technology arrangements are capitalized at the present value of the lease/subscription liability plus any deposits or prepayments and are amortized over the life of a contract.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Leasehold Improvements	7 years
Computer Equipment	5 years
Machinery and equipment	25 years

4. 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 (cont'd)

I. Summary of Significant Accounting Policies (cont'd)

D. Assets/Deferred Outflows, Liabilities/Deferred Inflows and Net Position or Equity (cont'd)

4. Compensated Absences (cont'd)

In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

5. Long-Term Liabilities

Long-term debt and other long-term obligations are reported as liabilities.

6. Net Position

Net position is displayed in two components as follows:

Net 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.

E. Change in Accounting Principle

For 2023, SWAN implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). GASB Statement No. 96 requirements for SBITA accounting based on the principle that subscriptions are financings of the right to use an underlying asset. A local government is required to recognize a subscription liability and an intangible asset for the right to use another party's information technology software. These changes were incorporated in SWAN's 2023 financial statements. At July 1, 2022, SWAN recognized a SBITA intangible asset and a subscription liability of \$871,812.

II. Stewardship, Compliance and Accountability

Budgetary Accounting – 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's 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 2023.

System Wide Automated Network
Notes to the Financial Statements (cont'd)

III. Detailed Notes for All Activities and Fund Types

A. 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.

Deposits – At year-end, the carrying amount of SWAN's deposits totaled \$2,168,033 and the bank balances totaled \$2,184,057.

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, 2023, 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 – 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 collateral held in the SWAN's name or 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 investment 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).

System Wide Automated Network
Notes to the Financial Statements (cont'd)

III. Detailed Notes for All Activities and Fund Types (cont'd)

B. Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

	Balance, July, 1 2022	Additions	Retirements/ Adjustments	Balance, June 30, 2023
Capital assets, being depreciated:				
Leasehold improvements	\$ 6,895	\$ -	\$ -	\$ 6,895
Computer equipment	324,383	-	-	324,383
Machinery and equipment	36,501	-	-	36,501
Intangible right to use lease – office space	234,202	-	-	234,202
Subscription-based Information technology arrangements	1,250,043	683,456	-	1,933,499
Total capital assets	1,852,024	683,456	-	2,535,480
Less accumulated depreciation and amortization for:				
Leasehold improvements	4,811	861	-	5,672
Computer equipment	324,383	-	-	324,383
Machinery and equipment	19,712	1,460	-	21,172
Intangible right to use lease – office space	68,547	68,548	-	137,095
Subscription-based Information technology arrangements	-	669,010	-	669,010
Total accumulated depreciation and amortization	417,453	739,879	-	1,157,332
Total net depreciable capital assets	\$ 1,434,571	\$ (56,423)	\$ -	\$ 1,378,148

SWAN has two software arrangements that require recognition under GASB Statement No. 96, which are included in the above table as subscription-based information technology arrangements and are recognized in the Statement of Net Position as a subscription asset, net of accumulated amortization, and a subscription-based information technology arrangements (SBITA) liability. The software amortization expense is included on the Statement of Revenues, Expenses and Changes in Fund Net Position – Budget and Actual in administration expense.

System Wide Automated Network
Notes to the Financial Statements (cont'd)

III. Detailed Notes for All Activities and Fund Types (cont'd)

B. Capital Assets (cont'd)

The first contractual agreement is with SirsiDynix for ILS software for five years beginning May 1, 2020 and ending April 30, 2025. This contract requires annual payments ranging from \$499,781 to \$433,013. SWAN has used a 0.36% discount rate for this arrangement based on the five-year U.S. Treasury rates in effect at the inception of the agreement. This contract also set costs for new member libraries that join SWAN within the five-year agreement. The addition of new products and services will result in additional expenses related to the contract, and the contract is cancellable beginning May 1, 2021. SWAN does not expect to cancel the contract during this five-year period.

The second contractual agreement is a three-year agreement with EBSCO Information Services for three software product subscriptions – OpenAthens, Novelist Select, and the EBSCO Discovery Services with SirsiDynix Integration. The contract runs from July 1, 2022 to June 30, 2025. SWAN has used a 2.85% discount rate for this arrangement based on the three-year U.S. Treasury rates in effect at the inception of the agreement.

Depreciation expense for the year was \$2,321. Amortization of intangible right to use asset for the year was \$68,548. Amortization of the subscription-based information technology arrangements for the year was \$521,416.

C. Long-Term Liabilities

Lease Liability – SWAN entered into a seven-year, non-cancelable lease agreement for a right to use office space asset beginning in March 2017 and ending in November 2024. The total right to use office space acquired under this agreement is \$234,202. Total principal payments made during the fiscal year were \$79,382. The lease liability is \$118,238 at June 30, 2023.

Per the agreement, the landlord will provide an annual cost statement and SWAN's pro rata share of the cost is compared to the estimated rent payments made during the year. Swan will be assessed any underpayment or refunded, through future rent credits, any overpayment.

A summary of the principal and interest amounts for the remaining lease is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 82,771	\$ 948
2025	35,467	104
Total	<u>\$ 118,238</u>	<u>\$ 1,052</u>

System Wide Automated Network
Notes to the Financial Statements (cont'd)

III. Detailed Notes for All Activities and Fund Types (cont'd)

C. Long-Term Liabilities (cont'd)

SBITA Liability – \$1,933,499 has been recorded as intangible subscription-based information technology arrangements in the governmental capital assets. With the implementation of GASB Statement No. 96, these arrangements with SirsiDynix and EBSCO Information Services met the criteria for SBITA; thus requiring it to be recorded by SWAN as intangible assets and a SBITA liability. These assets will be amortized over their lease terms of five and three years, ending on April 30, 2025 and June 30, 2025, respectively.

The annual payment due to EBSCO Information Services for the fiscal period from July 1, 2023 to June 30, 2024 was paid prior to June 30 2023, and was recorded as a reduction of the SBITA liability. A summary of the principal and interest amounts for the remaining arrangements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 441,416	\$ 1,596
2025	230,630	6,678
Total	<u>\$ 672,046</u>	<u>\$ 8,274</u>

A summary of changes in long-term liabilities follows:

	<u>Balance, July 1, 2022</u>	<u>Additions</u>	<u>Depletions</u>	<u>Balance, June 30, 2023</u>
Lease liability – right to use asset	\$ 197,620	\$ -	\$ 79,382	\$ 118,238
Subscription liability	871,812	683,456	883,222	672,046
Accrued compensated absences	123,320	74,748	88,319	109,749
	<u>\$ 1,192,752</u>	<u>\$ 758,204</u>	<u>\$ 1,050,923</u>	<u>\$ 900,033</u>

System Wide Automated Network
Notes to the Financial Statements (cont'd)

IV. Other Information

A. 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 commercial insurance policies purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Commitments

From July 2011 through June 2019, SWAN maintained a contract for services with the Reaching Across Illinois Library System (RAILS), a governmental entity. These services included, with some variations between contracts: administration, management, finance, human resources, bibliographic services, information technology support, use of facilities, utilities, telecommunications, vehicles, and all personnel salaries and costs. Under these agreements, SWAN either paid an amount to RAILS to partially reimburse RAILS for its contract expenditures incurred or received a support amount from RAILS to supplement the other support received.

In July 2019, this contract transitioned to an annual grant award from RAILS to SWAN, subject to an annual application and semi-annual report process. The services in the fiscal year 2023 grant agreement include use of meeting rooms, communication and collaboration opportunities and services, grant opportunities for new members, delivery services to Local Library System Automation Program (LLSAP) facility, help desk ticket system services, integrated library system (ILS) phone notification dialer co-location, and website provision and support. Under the grant, SWAN will receive payment from RAILS to supplement its other support in the total amount of \$498,398 during fiscal year 2024. This agreement is cancellable by mutual written consent or by either party upon 120 days' written notice to the other party. RAILS may terminate this agreement due to the discontinuation of sufficient funding from the Illinois Secretary of State upon written notice to SWAN effective as of the date of termination or the discontinuance of such funding.

C. 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. SWAN's contribution for fiscal year ended June 30, 2023, was \$132,609.

**System Wide Automated Network
Notes to the Financial Statements (cont'd)**

IV. Other Information (cont'd)

C. Defined Contribution Plan (cont'd)

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.

Other Post-Employment Benefits

SWAN has evaluated its potential other post-employment benefits liability. Former employees who choose to retain their rights to health insurance through SWAN are required to pay 100% of the current premium. However, there is minimal participation. As SWAN provides no explicit benefit, and there is minimal participation, there is no material implicit subsidy to calculate in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Therefore, SWAN has not recorded a liability as of June 30, 2023.

OTHER SUPPLEMENTARY INFORMATION

**System Wide Automated Network
Schedule of Operating Expenses - Budget and Actual
For the Year Ended June 30, 2023**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance With Final Budget</u>
Operations:				
Personnel:				
Salaries and wages	\$ 1,546,800	\$ 1,546,800	\$ 1,400,058	\$ 146,742
Payroll, taxes and benefits:				
Health, dental, life and disability insurance	228,800	228,800	166,660	62,140
Retirement benefits and administration	140,900	140,900	132,609	8,291
Other fringe benefits	2,900	2,900	570	2,330
Social Security taxes	118,400	118,400	104,110	14,290
Workers compensation	3,900	3,900	5,416	(1,516)
Total personnel	<u>2,041,700</u>	<u>2,041,700</u>	<u>1,809,423</u>	<u>232,277</u>
Equipment and software maintenance expense	<u>78,200</u>	<u>78,200</u>	<u>45,738</u>	<u>32,462</u>
Library materials and supplies:				
Computers, software & supplies	1,102,900	1,102,900	436,002	666,898
General office supplies & equip	1,500	1,500	1,714	(214)
Postage	600	600	848	(248)
Print materials	5,000	5,000	-	5,000
Marketing & promotional materials	-	-	15	(15)
Total library materials and supplies	<u>1,110,000</u>	<u>1,110,000</u>	<u>438,579</u>	<u>671,421</u>
Buildings and grounds:				
Rent	113,160	113,160	37,453	75,707
Utilities	5,700	5,700	7,025	(1,325)
Property insurance	650	650	803	(153)
Repairs and maintenance	1,560	1,560	713	847
Custodial service and supplies	3,200	3,200	3,315	(115)
Total buildings & grounds	<u>124,270</u>	<u>124,270</u>	<u>49,309</u>	<u>74,961</u>

(cont'd)

System Wide Automated Network
Schedule of Operating Expenses - Budget and Actual (cont'd)
For the Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Positive (Negative) Variance With Final Budget
Operations (cont'd):				
Conferences, training and travel:				
Conferences and training	\$ 23,200	\$ 23,200	\$ 19,067	\$ 4,133
Professional development	6,700	6,700	6,184	516
Travel	7,400	7,400	1,713	5,687
Total conferences, training and travel	37,300	37,300	26,964	10,336
Professional & contractual services:				
Accounting	18,900	18,900	19,760	(860)
Consulting	19,200	19,200	1,470	17,730
Equipment rental	3,700	3,700	1,576	2,124
Group purchases	447,006	447,006	465,316	(18,310)
Information services	77,100	77,100	73,693	3,407
Legal	1,500	1,500	258	1,242
Liability insurance	11,100	11,100	14,042	(2,942)
Other contractual services	7,300	7,300	6,021	1,279
Telephone & telecommunications	14,500	14,500	13,588	912
Notification and collection	16,900	16,900	30,870	(13,970)
Recruitment	-	-	1,599	(1,599)
Total professional services	617,206	617,206	628,193	(10,987)
Miscellaneous:				
eCommerce	70,050	70,050	41,065	28,985
Other	-	-	1,733	(1,733)
Bank fees	4,700	4,700	1,614	3,086
Reimburse resource sharing	50,000	50,000	37,317	12,683
Electronic resources	10,000	10,000	-	10,000
Total miscellaneous	134,750	134,750	81,729	53,021
Depreciation	3,607	3,607	2,321	1,286
Amortization on lease liability	-	-	68,547	(68,547)
Amortization on subscription liability	-	-	669,010	(669,010)
Interest on lease liability	-	-	1,899	(1,899)
Interest on subscription liability	-	-	15,893	(15,893)
Total operating expenses	\$ 4,147,033	\$ 4,147,033	\$ 3,837,605	\$ 309,428

See independent auditor's report.