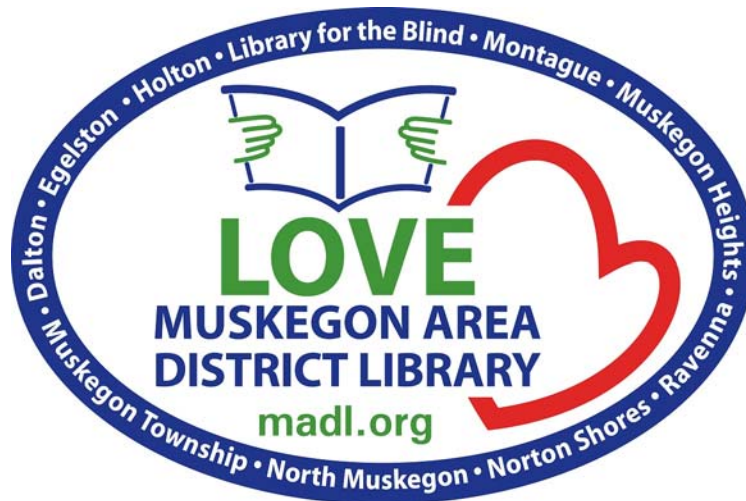


Muskegon Area District Library  
Muskegon, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

December 31, 2019



Muskegon Area District Library

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Muskegon Area District Library  
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Muskegon Area District Library, Michigan, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors  
Muskegon Area District Library  
Page 2

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Muskegon Area District Library, Michigan, as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require management's discussion and analysis, budgetary comparison schedule, and pension and other post-employment benefits schedules on pages 3 - 8 and 33 - 37 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.



Muskegon, Michigan  
June 19, 2020

# Muskegon Area District Library

## Library Management's Discussion and Analysis

### Brief Discussion of the Basic Financial Statements

This report consists of three parts -- *management's discussion and analysis (this section), the basic financial statements, and required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These financial statements focus on current resources and provide a detailed view about the Library's sources and uses of funds.
- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method.
- The third column provides both long-term and short-term information about the Library's overall financial status. The "Statement of Net Position" and the "Statement of Activities" provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances.

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

### Condensed Financial Information

#### Statement of Net Position

The Statement of Net Position presents information on all of the Library's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between the two reported as net position. Over time increases or decreases in net position may serve as an indicator of whether the financial position of the Library is improving or deteriorating.

Current assets and other assets increased due to an increase in cash due to an overall increase in net position. Deferred inflows and outflows increase and decrease based on various fluctuations between actual and expected variables in the pension and other postemployment benefit plans. Current liabilities increased due to higher accounts payable at the end of the year related to the Storyville projects. Noncurrent liabilities increased due to an increase the net pension liability.

# Muskegon Area District Library

## Library Management's Discussion and Analysis

### Statement of Net Position

	<u>2019</u>	<u>2018</u>
Current assets and other assets	\$ 7,992,812	\$ 7,661,816
Capital assets, net	<u>2,577,648</u>	<u>1,584,831</u>
Total assets	10,570,460	9,246,647
Deferred outflows of resources	<u>501,924</u>	<u>305,091</u>
Total assets and deferred outflows of resources	11,072,384	9,551,738
Liabilities		
Current	202,017	73,649
Noncurrent	<u>709,660</u>	<u>456,348</u>
	911,677	529,997
Total deferred inflows of resources	<u>3,981,708</u>	<u>3,962,039</u>
Total liabilities and deferred inflows of resources	<u>4,893,385</u>	<u>4,492,036</u>
Net position		
Net investment in capital assets	2,567,058	1,561,910
Unrestricted	<u>3,611,941</u>	<u>3,497,792</u>
Total net position	<u><u>\$ 6,178,999</u></u>	<u><u>\$ 5,059,702</u></u>

# Muskegon Area District Library

## Library Management's Discussion and Analysis

### Statement of Activities

The table below shows key financial information under the full accrual method in a condensed format. Amounts and totals reported are for all Library activities, including general operations, improvements, and gift activity in order to give a complete picture.

	<u>2019</u>	<u>2018</u>
General revenues		
Property taxes	\$ 3,615,232	\$ 3,504,496
Grants and contributions	806,242	540,481
Fines and forfeitures	236,115	224,847
Other	172,098	152,786
Total revenues	<u>4,829,687</u>	<u>4,422,610</u>
Expenses		
Salaries and wages	1,678,480	1,471,965
Fringe benefits	610,573	447,267
Contracted services	399,835	369,792
Depreciation	364,308	298,409
Other expenses	657,194	608,721
Total expenses	<u>3,710,390</u>	<u>3,196,154</u>
Change in net assets	1,119,297	1,226,456
Net position at beginning of year	<u>5,059,702</u>	<u>3,833,246</u>
Net position at end of year	<u><b>\$ 6,178,999</b></u>	<u><b>\$ 5,059,702</b></u>

The following explains some of the significant changes between the prior year and current year:

#### Revenues

- Property tax revenues increased due to an increase in taxable value.
- Grants and contributions increased due to increased contributions from the Community Foundation offset by a decrease in State of Michigan Local Community Stabilization payments intended to smooth out the effect of the change in the personal property tax laws.
- Other revenues rose due to increased investment income due to switching banks and receiving a higher rate of return

# Muskegon Area District Library

## Library Management's Discussion and Analysis

### Expenses

- Salaries and wages increased due to the creation of essential positions for MADL including two IT positions and an Early Literacy Coordinator to oversee Storyville operations. MADL's tech offerings have nearly doubled in the last few years.
- Fringe benefits increased due to the addition of three full-time positions with benefits.
- Contracted services increased due to increased costs from local municipalities that operate a branch library. Under the current Agreement, MADL reimburses those municipalities for their operating costs to run the branch such as heat, lights and water.
- Other expenses came in higher than expected as MADL is providing more public programming and more staff training. Both of which are part of the Strategic Plan.

### The Library's Fund

The analysis of the Library's sole fund, the General Fund, is included on pages 9 and 10. Revenues for 2019 were up due to higher taxable value, increased interest income and an increase in contributions related to the Storyville projects.

### The Library's Budget Highlights

The Muskegon Area District Library (MADL) is the largest (Class 6) multi-branch library system with 10 locations located throughout Muskegon County. The library system was established in 1938 and in 2018 MADL celebrated its 80<sup>th</sup> Anniversary.

The Library ended 2019 with a circulation count of 567,168, an increase from 2018. The Library saw record-high increases in programs and program attendance as well as the E-Library. The Library continues to thrive with technological advances and downloadable materials, indicating libraries remain vital in the community.

Over the course of the year, the Library Board amended the budget to address unplanned needs and events that occurred during the year. The amendments to revenues and expenditures are as follows:

#### Revenues

- Property taxes were amended higher as revenues came in higher than expected.
- Intergovernmental revenues – State were amended lower due to a decrease in Local Community Stabilization payments received in the current year.
- Penal fines were amended upwards to reflect the increase in collections.

#### Expenditures

- Fringe benefits were amended higher due to the addition of new staff at MADL.
- Retirement contribution was amended upward as the Library increased the percentages of employer contributions to the Municipal Employees Retirement System (MERS) so as to keep a healthy funding level.
- The capital outlay budget was increased due to expansion of the Storyville project.
- Various other budget line items were reduced due to lower than expected costs.



# Muskegon Area District Library

## Library Management's Discussion and Analysis

The following comments summarize the major variations from the final budget to actual revenues and expenditures:

### Revenues

- Contributions came in higher due to a large contribution made during the year.

### Expenditures

- Fringe benefits came in lower than anticipated due to lower than anticipated premiums.
- Contracted services came in lower than anticipated due to the timing of anticipated expenditures.
- Telephone came in lower due to lower than anticipated costs.

### Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$2,577,648 invested in the building, software, equipment, books and materials net of depreciation. The Library added \$311,836 in new collection items consisting of new books and various audio/visual materials and \$1,045,289 in other capital expenditures primarily related to the Storyville project.

The Library's long-term debt activity consists of capped accumulated employee compensated absences (sick leave) to be paid to eligible employees upon retirement and a capital lease.

### Next Year's Anticipated Budget Factors and Currently Known Facts

The Library's budget for 2020 projects a surplus budget for the year and a positive fund balance at year end. The majority of revenues will come from property taxes and penal fines. The remainder of funds will come from state aid grants to libraries, Universal Service Fund credits, book sale revenues, overdue book fines, lost and damaged book charges, photocopier income and memorial and other donations from individuals and groups.

It is anticipated that State Aid will be cut to some degree due to the COVID-19 pandemic. State aid grants are a small portion of the Library's overall budget, but are a large portion of the budget for the Library for the Visually and Physically Disabled (LVPD). As well, State aid grants are important to library cooperatives and cooperative services to member libraries.

Penal fines vary from year to year and can only be estimated based upon previous year's receipts. 2019 saw a 12.5% increase from the prior year.

Inflation will have an impact on the cost of supply and materials purchases. Wages are also affected by inflation as the library pays a cost of living formula (COLA) in December each year.

Fluctuating gas prices will have an effect on the overall costs of delivery services.

The Library's millage to continue library services for 10 years at 1.249 mills was successful on August 2, 2016 and the first levy commenced in 2016. With the new millage, MADL hopes to raise the level of library service in Muskegon County. Poverty, literacy and education statistics for Muskegon County prove the need for a better funded library system.

The Storyville project was complete in December 2019. In January 2020 Storyville was opened to the public and the interest was remarkable with 2,825 visitors in the first two months of opening.

# Muskegon Area District Library

## Library Management's Discussion and Analysis

On January 9, 2017, Michigan Governor Snyder signed into law a package of bills, all with immediate effect, that would exempt certain taxes levied for library purposes from being captured by tax increment financing authorities, including downtown development authorities (DDAs), tax increment finance authorities (TIFAs), local development finance authorities (LDFAs), and corridor improvement authorities (CIAs), (collectively, the "TIF Authorities"). The new laws do not affect the ability of Brownfield Redevelopment Authorities to capture library millages.

A union contract was negotiated in 2018 for the term 1-1-19 through 12-31-2025. Union employees received a lump-sum payment in 2019 and will receive a 2% increase in salary for 2020 and 2021.

This is a critical time for the Library. Thanks to the additional property tax revenues, the Library has the ability to impact the people and community it serves in new and profound ways. The system always faces the issue that in reality it serves multiple, distinct communities with very different needs. These are significant challenges. The strategic plan completed in 2017 has begun the process of significantly altering the way the Library does business and will broaden and deepen library services in Muskegon. The Library's new mission statement is: **The Muskegon Area District Library connects a diverse community to resources and services that educate, inform, enrich and entertain.** The Library is committed to providing high quality services to the community now and into the future.

As part of the Strategic Plan, MADL launched a new website to improve ease of use, expand digital access and user satisfaction.

MADL's partnership with MAISD has generated over 8,000 new library cards for the county's youth and as well MADL has implemented a no fines for youth policy to encourage and expand library use. MADL is continuing to try to remove barriers to library service.

A Bookmobile was ordered in the Fall of 2019 and MADL hopes to begin service in 2020.

For the first time, MADL is offering Sunday hours at the Norton Shores Branch which began in the Fall of 2019.

MADL began a new service of providing mobile HotSpots (internet) for patrons and the service has proven to be extremely popular. MADL began with 30 HotSpots and has now increased to 80 devices. They are always checked out and have proved vital during the COVID-19 Pandemic for many families.

A new facility is being leased by Muskegon Township to house the Muskegon Township Branch Library. The 2,198 square foot space is located in the Quarter Apple Mall. The vacant building will be remodeled with state-of-the-art library design and technology which will better serve the needs of Muskegon Township and Muskegon County residents. It is hoped the facility will open in the fall of 2020.

MADL's focus and as part of the millage campaign is to not only expand the range of services and material for the public but to focus on updating library branch buildings as well. Remodel projects are underway for the Muskegon Heights, Norton Shores, North Muskegon. MADL will continue with projects in all branch libraries to enhance the patron experiences.

With the new Director on board (2015) and a new vision, The Library is looking forward to strengthening and revitalizing public services in all branch locations.

### Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those interested in the Library's finances. If you have any questions about this report or need additional information, contact Kelly Richards, Director at Muskegon Area District Library, 4845 Airline Road, Unit 5, Muskegon, Michigan 49444.

Muskegon Area District Library  
**BALANCE SHEET—STATEMENT OF NET POSITION**  
December 31, 2019

	<b>Balance Sheet - Modified Accrual</b>	<b>Adjustments</b>	<b>Statement of Net Position - Full Accrual</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,519,577	\$ -	\$ 2,519,577
Investments	1,533,297	-	1,533,297
Receivables			
Property taxes	3,364,861	-	3,364,861
Other	76	-	76
Due from other governmental units	135,000	-	135,000
Prepaid items	71,082	-	71,082
Capital assets, net of depreciation			
Nondepreciable	-	152,656	152,656
Depreciable	-	2,424,992	2,424,992
Net other post-employment benefits asset	-	368,919	368,919
	7,623,893	2,946,567	10,570,460
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions and other post employment benefits	-	501,924	501,924
	-	501,924	501,924
Total assets and deferred outflows of resources	<b>\$ 7,623,893</b>	3,448,491	11,072,384
<b>LIABILITIES</b>			
Accounts payable	\$ 131,866	-	131,866
Accrued liabilities	41,269	-	41,269
Noncurrent liabilities			
Due within one year			
Capital lease and other obligations	-	29,000	29,000
Due in more than one year			
Capital lease and other obligations	-	177,989	177,989
Net pension liability	-	531,553	531,553
	173,135	738,542	911,677
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions and other post-employment benefits	-	128,785	128,785
Unavailable penal fines	135,000	-	135,000
Property taxes levied for subsequent fiscal year	3,717,923	-	3,717,923
	4,026,058	867,327	4,893,385
<b>FUND BALANCE</b>			
Nonspendable - prepaid items	71,082	(71,082)	-
Unassigned	3,526,753	(3,526,753)	-
	3,597,835	(3,597,835)	-
Total liabilities, deferred inflows of resources and fund balance	<b>\$ 7,623,893</b>		
<b>NET POSITION</b>			
Net investment in capital assets		2,567,058	2,567,058
Unrestricted		3,611,941	3,611,941
		<b>\$ 6,178,999</b>	<b>\$ 6,178,999</b>

The accompanying notes are an integral part of this statement.

Muskegon Area District Library  
**STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES**  
 For the year ended December 31, 2019

	<b>Revenues and Expenditures - Modified Accrual</b>	<b>Adjustments</b>	<b>Statement of Activities - Full Accrual</b>
<b>REVENUES</b>			
Property taxes	\$ 3,615,232	\$ -	\$ 3,615,232
Intergovernmental revenue - State	217,261	-	217,261
Charges for services	17,904	-	17,904
Fines and forfeitures	236,115	-	236,115
Investment earnings	86,126	-	86,126
Contributions	588,981	-	588,981
Reimbursements	10,597	-	10,597
Other	57,471	-	57,471
	<hr/>		
Total revenues	4,829,687	-	4,829,687
<b>EXPENDITURES</b>			
Current			
Salaries and wages	1,660,188	18,292	1,678,480
Fringe benefits	667,607	(57,034)	610,573
Operating supplies	129,685	-	129,685
Repairs and maintenance	77,515	-	77,515
Professional services	39,810	-	39,810
Utilities	10,592	-	10,592
Insurance	17,173	-	17,173
Travel	21,388	-	21,388
Contracted services	399,835	-	399,835
Telephone	99,112	-	99,112
Occupancy	12,000	-	12,000
Other	202,382	-	202,382
Debt service			
Principal	12,331	(12,331)	-
Interest and fees	570	-	570
Capital outlay	1,404,092	(1,357,125)	46,967
Depreciation	-	364,308	364,308
	<hr/>		
Total expenditures	4,754,280	(1,043,890)	3,710,390
Change in fund balance—net position	75,407	1,043,890	1,119,297
Fund balance—net position at beginning of year	3,522,428	1,537,274	5,059,702
	<hr/>		
Fund balance—net position at end of year	<b>\$ 3,597,835</b>	<b>\$ 2,581,164</b>	<b>\$ 6,178,999</b>
	<hr/>		

The accompanying notes are an integral part of this statement.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Muskegon Area District Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (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 the Library's accounting policies are described below.

**Reporting Entity**

The Library was established in October 2005 by a district library agreement between Muskegon County, Blue Lake Township, Casnovia Township, Cedar Creek Township, Dalton Township, Egelston Township, Fruitland Township, Fruitport Charter Township, Village of Fruitport, Holton Township, Laketon Township, City of Montague, Montague Township, Moorland Township, City of Muskegon Heights, Muskegon Charter Township, City of North Muskegon, City of Norton Shores, Ravenna Township, City of Roosevelt Park, Sullivan Township, and White River Township pursuant to the District Library Establishment Act. The district of the Muskegon Area District Library shall consist of all that territory which is located in the jurisdictional limits of Muskegon County except Whitehall Township and those areas located within the jurisdictional boundaries of the White Lake Community Library, Fruitport District Library or the Hackley Public Library. The Library is governed by an eight member Library Board. Participating municipalities are divided into seven regions from which appointments are made in addition to one appointment by Muskegon County at large. The Library is administered by a director appointed by the Board. The Library is primarily funded through a property tax levy on property within the Library district, fines, fees and state aid.

Generally accepted accounting principles require that if the Library is considered to be financially accountable over other organizations, those organizations should be included as component units in the Library's financial statements. Since no organizations met this criterion, none are included in the financial statements.

**Basis of Presentation—Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Library. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. The Library does not have any business-type activities.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds columns.

The fund financial statements provide information about the Library's governmental funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Library only has one fund, no separate columns have been provided.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the Library.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***Cash and Investments***

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Library are reported at fair value (generally based on quoted market prices).

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

***Capital Assets***

Capital assets, which include property, library books, periodicals, etc. and equipment are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year with exception of library books, periodicals, etc. which are all recorded as capital assets.

As the Library constructs or acquires additional capital assets each period they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property and equipment of the Library are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Building and improvements	5-40
Library books, periodicals, etc.	5
Furniture and equipment	3-10

***Defined Benefit Plan***

The Library offers a defined benefit pension plan to its employees through Municipal Employees Retirement System (MERS). The Library records a net pension liability for the difference between the total pension liability calculated by the actuary and the Plan's fiduciary net position. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***Other Postemployment Benefit Costs***

The Library offers a defined benefit retiree healthcare benefits to retirees. The Library records a net other postemployment benefit (OPEB) liability for the difference between the total OPEB liability calculated by the actuary and the OPEB Plan's fiduciary net position. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Deferred Outflows/Inflows of Resources***

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

***Net Position Flow Assumption***

Sometimes the Library will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Library's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

***Fund Balance Flow Assumptions***

Sometimes the Library will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Library's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Library itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Library's highest level of decision-making authority. The Library Board is the highest level of decision-making authority for the Library that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Library for specific purposes but do not meet the criteria to be classified as committed. The Library Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.



Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Revenues and Expenditures/Expenses**

***Property Taxes***

All trade and property tax receivables are shown net of allowance for uncollectibles.

Property taxes are collected and forwarded to the Library by the participating municipalities. Taxes are levied and liened on December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of the following March 1 are turned over by the Library to the County for collection. The County advances the Library all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Library. Taxes levied on December 1 are recorded as receivables and deferred inflows. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy.

The 2018 state taxable value for real/personal property of the Library totaled approximately \$2,870,000,000. The ad valorem taxes levied consisted of 1.249 mills for operation.

***Compensated Absences***

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused vacation days are paid to employees upon termination.

The liability for these compensated absences is accrued when incurred in the government-wide financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The appropriated budget is prepared by individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

All annual appropriations lapse at the end of the fiscal year.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE C—DEPOSITS AND INVESTMENTS**

As of December 31, 2019, the Library has the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (Days)</b>	<b>Standard &amp; Poor's rating</b>	<b>Percent</b>
Money market mutual fund	\$ 135,384	31	not rated	8.8 %
Negotiable certificates of deposit	125,439	989	not rated	8.2
U.S. agency obligations	1,272,474	386	not rated	83.0
Total fair value	<u>\$ 1,533,297</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>404</u>		

**Deposit and Investment Risks**

***Interest Rate Risk***

The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

***Credit Risk***

State law limits investments in commercial paper and corporate bonds to the two highest classifications issues by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices.

***Concentration of Credit Risk***

The Library does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

***Custodial Credit Risk - Deposits***

The Library does not have a custodial credit risk policy for deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of December 31, 2019, \$2,118,400 of the Library's bank balance of \$2,618,400 was exposed to custodial credit risk because it was uninsured and uncollateralized.

***Custodial Credit Risk - Investments***

The Library does not have a custodial credit risk policy for investments. In an investment, this is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

***Foreign Currency Risk***

The Library is not authorized to invest in investments which have this type of risk.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE D—FAIR VALUE MEASUREMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Library has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019.

***Money market funds:*** Valued at amortized cost which approximates fair value.

***Negotiable certificates of deposit:*** Valued at the closing price reported on the active market on which the individual securities are traded.

***U.S. government securities:*** Valued at the closing price reported on the active market on which the individual securities are traded.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE D—FAIR VALUE MEASUREMENTS—Continued**

The following table sets forth by level, within the fair value hierarchy, the Library’s assets at fair value on a recurring basis as of December 31, 2019:

	<b>Assets at Fair Value as of December 31, 2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market mutual fund	\$ -	\$ 135,384	\$ -	\$ 135,384
Negotiable certificates of deposit	125,439	-	-	125,439
U.S. agency obligations	1,272,474	-	-	1,272,474
Total assets at fair value	<b>\$ 1,397,913</b>	<b>\$ 135,384</b>	<b>\$ -</b>	<b>\$ 1,533,297</b>

**NOTE E—CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2019 was as follows:

	<b>Balance January 1, 2019</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31, 2019</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 98,400	\$ -	\$ -	\$ 98,400
Construction in progress	322,046	54,256	322,046	54,256
Total capital assets, not being depreciated	420,446	54,256	322,046	152,656
<b>Capital assets, being depreciated:</b>				
Building and improvements	565,680	1,287,424	-	1,853,104
Library books, periodicals, etc.	2,280,102	311,836	232,464	2,359,474
Furniture and equipment	353,670	25,655	-	379,325
Total capital assets, being depreciated	3,199,452	1,624,915	232,464	4,591,903
<b>Less accumulated depreciation:</b>				
Building and improvements	115,557	73,637	-	189,194
Library books, periodicals, etc.	1,619,925	265,113	232,464	1,652,574
Furniture and equipment	299,585	25,558	-	325,143
Total accumulated depreciation	2,035,067	364,308	232,464	2,166,911
Total capital assets, being depreciated, net	1,164,385	1,260,607	-	2,424,992
Capital assets, net	<b>\$ 1,584,831</b>	<b>\$ 1,314,863</b>	<b>\$ 322,046</b>	<b>\$ 2,577,648</b>

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE F—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the Library for the year ended December 31, 2019:

	<u>Balance January 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2019</u>	<u>Due Within One Year</u>
Direct borrowing and direct placements					
Capital lease	\$ 22,921	\$ -	\$ 12,331	\$ 10,590	\$ 10,590
Compensated absences	178,107	111,908	93,616	196,399	18,292
	<u>\$ 201,028</u>	<u>\$ 111,908</u>	<u>\$ 105,947</u>	<u>\$ 206,989</u>	<u>\$ 28,882</u>

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
Capital lease	3.295%	October 2020	\$ 10,590

Annual debt service requirements to maturity for direct borrowing and direct placement as of December 31, 2019 follow:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	
	<u>Notes from Direct Borrowings and Direct Placements</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 10,590	\$ 161

**NOTE G—OTHER INFORMATION**

**Risk Management**

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

**Community Foundation**

The Community Foundation for Muskegon County has established various endowment funds for the Library which have not been included in the financial statements. These funds are accounted for and administered by the Community Foundation for Muskegon County. At December 31, 2019, these funds were valued at approximately \$351,000.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2019

**NOTE H—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**Defined Benefit Pension Plan—MERS**

***Plan Description***

The Library participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

***Benefits Provided***

The Library’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. Public Act 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The Plan covers all full-time employees hired after March 2001.

For employees hired prior to December 1, 2010, benefits provided by the plan have a multiplier of 2.5% and the vesting period is 10 years. Normal retirement age is 60 or age 55 with 25 years of service, with a reduced retirement at age 50 with 25 years of service or age 55 with 15 years of service. Final average compensation is calculated based on 5 years.

For employees hired after December 2010, benefits provided by the plan have a multiplier of 2.25% and the vesting period is 10 years. Normal retirement age is 60 with a reduced retirement at age 50 with 25 years of services or age 55 with 15 years of service. Final average compensation is based on 5 years.

***Employees Covered by Benefit Terms***

At December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	-
Active employees	22
Total employees covered by MERS	30

***Contributions***

The Library is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Library may establish contribution rates to be paid by its covered employees.

For the year ended December 31, 2019, the Library’s contributions rate was 8.59% based on annual covered payroll. Employees are required to contribute from 2.25% to 2.34%.

***Net Pension Liability***

The Library’s net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE H—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**Defined Benefit Pension Plan—MERS—Continued**

***Actuarial Assumptions***

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.75 percent
Investment rate of return	7.75 percent, net of administrative and investment expenses including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5 percent long-term wage inflation assumption would be consistent with a price inflation of 3-4 percent. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50 percent Male and 50 percent Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009 through 2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Target Allocation Gross Rate of Return</b>	<b>Long-Term Expected Gross Rate of Return</b>	<b>Inflation Assumption</b>	<b>Long-Term Expected Real Rate of Return</b>
Global equity	55.5%	8.65%	4.80%	2.50%	3.42%
Global fixed income	18.5%	3.76%	0.70%	2.50%	0.23%
Real assets	13.5%	9.72%	1.31%	2.50%	0.97%
Diversifying strategies	12.5%	7.50%	0.94%	2.50%	0.63%
	<b>100.0%</b>		<b>7.75%</b>		<b>5.25%</b>

***Discount Rate***

The discount rate used to measure the total pension liability was 8 percent in 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Library contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE H—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**Defined Benefit Pension Plan—MERS—Continued**

*Changes in the Net Pension Liability*

	<b>Increase (Decrease)</b>		
	<b>Total Pension</b>	<b>Plan</b>	<b>Net</b>
	<b>Liability (a)</b>	<b>Fiduciary</b>	<b>Pension</b>
	<b>Liability (a)</b>	<b>Position (b)</b>	<b>Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a)-(b)</b>
Balance at January 1, 2018	\$ 2,573,059	\$ 2,317,740	\$ 255,319
Changes for the year			
Service costs	117,974	-	117,974
Interest	206,680	-	206,680
Experience differences	44,203	-	44,203
Contributions - employer	-	169,151	(169,151)
Contributions - employee	-	24,270	(24,270)
Net investment income	-	(96,174)	96,174
Administrative expenses	-	(4,624)	4,624
Benefit payments including refund of employee contributions	(97,087)	(97,087)	-
Net Changes	271,770	(4,464)	276,234
Balance at December 31, 2018	<b>\$ 2,844,829</b>	<b>\$ 2,313,276</b>	<b>\$ 531,553</b>

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the Library, calculated using the discount rate of 8 percent, as well as what the Library's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
	<b>(7.00%)</b>	<b>Discount Rate</b>	<b>(9.00%)</b>
	<b>(7.00%)</b>	<b>(8.00%)</b>	<b>(9.00%)</b>
Library's net pension liability	\$ 832,054	\$ 531,553	\$ 273,590

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expense.



Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE H—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**Defined Benefit Pension Plan—MERS—Continued**

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended December 31, 2019, the Library recognized pension expense of \$160,917. At December 31, 2019, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences in experience	\$ 36,836	\$ 101,519
Differences in assumptions	28,799	-
Excess (deficit) investment returns	185,080	-
Contributions subsequent to the measurement date*	211,035	-
Total	<b>\$ 461,750</b>	<b>\$ 101,519</b>

\*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending December 31, 2020.

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—Continued*

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

<b>Year Ending December 31,</b>	<b>Amount</b>
2020	\$ 46,074
2021	(10,646)
2022	43,076
2023	63,324
2024	7,368

*Payables to the Pension Plan*

At December 31, 2019 the Library had no payables to the defined benefit pension plan.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2019

**NOTE I— OTHER POST-EMPLOYMENT BENEFITS**

**Retiree Healthcare Plan**

***Plan Description***

The Organization’s defined benefit OPEB Plan, the Muskegon Area District Library Retiree Health Plan (OPEB Plan), provides healthcare benefits to certain employees upon retirement. The Plan is a single-employer defined benefit plan administered by the Organization. The benefits are provided under collective bargaining agreements and at the discretion of the Organization.

***Benefits Provided***

The OPEB Plan provides a stipend for medical insurance for eligible retirees who retire at the age of 50 with 25 years of service, with reduced benefits for eligible retirees who retire at the age of 55 with 20 years of service or at the age of 60 with 15 years of service.

***Employees Covered by Benefit Terms***

At the December 31, 2019 valuation, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	-
Active employees	5
Total employees covered by OPEB Plan	9

***Contributions***

The OPEB Plan’s funding policy is that the Organization will make discretionary contributions. There are no long-term contracts for contributions to the OPEB Plan. The OPEB Plan has no legally required reserves. For the year ended December 31, 2019, the Organization made payments for postemployment healthcare benefits for current retirees of \$6,005.

***Net OPEB Liability***

The Organization’s net OPEB liability (asset) was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as December 31, 2018, which was rolled forward to December 31, 2019.

***Actuarial Assumptions***

The total OPEB liability in the December 31, 2018 actuarial valuation rolled forward to December 31, 2019 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.1 percent
Salary increases	3.5 percent
Investment rate of return	7.35 percent (including inflation)
Healthcare cost trend rates	Pre-65: 8.5 percent graded down to 4.5 percent over 16 years Post-65: 7 percent graded down to 4.5 percent over 10 years

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2019

**NOTE I—OTHER POST-EMPLOYMENT BENEFITS—Continued**

**Retiree Healthcare Plan—Continued**

*Actuarial Assumptions—Continued*

*Mortality*

Mortality rates were as set forth in the 2019 Public Employees and Retirees, head-count weighted, 2019 improvement.

*Investment Rate of Return*

The long-term rate of return on retirement plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan’s target asset allocation as of December 31, 2019 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return (including inflation)</b>
Global Equity	55.5%	8.65%
Global Fixed Income	18.5%	3.76%
Private Assets	26.0%	8.65%

The sum of each target allocation times its long-term expected real rate plus inflation is 7.75 percent.

*Discount Rate*

The discount rate used to measure the total OPEB liability was 7.35 percent. The projection of cash flows to determine the discount rate assumed that no further contributions will be made to the trust. Based on those assumptions, the OPEB Plan’s fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability. The discount rate used to calculate the liability at the beginning of the year was 7.75 percent.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE I—OTHER POST-EMPLOYMENT BENEFITS—Continued**

**Retiree Healthcare Plan—Continued**

*Changes in the Net OPEB Asset*

	<b>Increase (Decrease)</b>		<b>Net OPEB (Asset) (a)-(b)</b>
	<b>Total OPEB Liability (a)</b>	<b>Plan Fiduciary Position (b)</b>	
Balance at January 1, 2019	\$ 395,102	\$ 738,551	\$ (343,449)
Changes for the year			
Service cost	6,906	-	6,906
Interest	30,841	-	30,841
Difference between expected and actual experience	(1,803)	-	(1,803)
Changes of assumptions	30,165	-	30,165
Contributions - employer	-	(6,005)	6,005
Net investment income	-	98,994	(98,994)
Administrative expenses	-	(1,410)	1,410
Benefit payments including refund of employee contributions	(8,103)	(8,103)	-
Net changes	58,006	83,476	(25,470)
Balance at December 31, 2019	<b>\$ 453,108</b>	<b>\$ 822,027</b>	<b>\$ (368,919)</b>

***Sensitivity of the Net OPEB Asset to Changes in the Discount Rate***

The following presents the net OPEB asset of the Library, calculated using the discount rate of 7.75 percent, as well as what the Library's net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<b>1% Decrease (6.35%)</b>	<b>Current Discount Rate (7.35%)</b>	<b>1% Increase (8.35%)</b>
Organization's net OPEB asset	\$ 317,802	\$ 368,919	\$ 412,152

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2019

**NOTE I—OTHER POST-EMPLOYMENT BENEFITS—Continued**

**Retiree Healthcare Plan—Continued**

*Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rate*

The following presents the Library's net OPEB asset calculated using assumed trend rates would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher:

	<b>1% Decrease (7.5%)</b>	<b>Current Healthcare Cost Trend Rates (8.5%)</b>	<b>1% Increase (9.5%)</b>
Organization's net OPEB asset	\$ 421,127	\$ 368,919	\$ 306,502

***OPEB Plan Fiduciary Net Position***

Detailed information about the OPEB Plan's fiduciary net position is not available in a separately issued financial report. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the Organization's fiduciary net position have been determined on the same basis as they are reported by the Organization. For these purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

For the year ended December 31, 2019, the Organization recognized OPEB expense of \$912. At December 31, 2019, the Organization reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences in experience	\$ -	\$ 27,266
Differences in assumptions	21,762	-
Net difference between projected and actual net investment income	18,412	-
Total	<b>\$ 40,174</b>	<b>\$ 27,266</b>

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2019

**NOTE I—OTHER POST-EMPLOYMENT BENEFITS—Continued**

**Retiree Healthcare Plan—Continued**

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—Continued***

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

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 4,559
2021	7,857
2022	8,962
2023	(8,470)

***Payables to the OPEB Plan***

At December 31, 2019, the Library did not have a payable to the OPEB Plan

**NOTE J—TAX ABATEMENTS**

**Industrial Facilities Exemption**

Municipalities within the Library boundaries entered into property tax abatement agreements with local business under the Industrial Development Districts Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. The IFT on new facilities and non-industrial property, such as some high-tech personal property, is computed at half the local property tax millage. This amounts to a reduction in property taxes of approximately 50 percent.

***Muskegon Township***

For the year ended December 31, 2019, Library property taxes were reduced by \$3,638 under this program.

***City of Montague***

For the year ended December 31, 2019, Library property taxes were reduced by \$1,047 under this program.

***City of Norton Shores***

For the year ended December 31, 2019, Library property taxes were reduced by \$7,555 under this program.

***All other Municipalities***

For the year ended December 31, 2019, Library property taxes were reduced by \$4,717 under this program.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE K—UPCOMING ACCOUNTING PRONOUNCEMENTS**

GASB Statement 84—*Fiduciary Activities* was issued by the GASB in January 2017 and will be effective for the Organization’s 2021 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the Library’s 2022 fiscal year. The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

**NOTE L— COMMITMENTS**

At December 31, 2019, the Library had a contract agreement outstanding of approximately \$217,000 related to the construction of a bookmobile.

**NOTE M— SUBSEQUENT EVENTS**

In May 2020, the Library entered into two contracts of approximately \$650,000 related to the construction and renovation of various locations.

The COVID-19 pandemic that the world is experiencing is unprecedented. It is nearly impossible to fully understand the impact that it will have on the economy and on the Library’s operations. As of June 19, 2020, the Library is in the process of implementing risk mitigation tactics including all aspects of the Library’s operations.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE N—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO  
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

<b>Total fund balance</b> —governmental fund		\$ 3,597,835
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.		
Cost of capital assets	\$4,744,559	
Accumulated depreciation	<u>(2,166,911)</u>	2,577,648
Deferred outflows and inflows of resources related to pensions and other post-employment benefits are not reported in the governmental funds.		
Deferred outflows of resources - related to pensions	461,750	
Deferred inflows of resources - related to pensions	(101,519)	
Deferred outflows of resources - related to other post-employment benefits	40,174	
Deferred inflows of resources - related to other post-employment benefits	<u>(27,266)</u>	373,139
The net other post-employment benefits asset is not an available resource and, therefore, is not reported in the governmental fund		
		368,919
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Capital lease	(10,590)	
Compensated absences	(196,399)	
Net pension liability	<u>(531,553)</u>	<u>(738,542)</u>
Net position of governmental activities		<u><b>\$ 6,178,999</b></u>



Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE N—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO  
GOVERNMENT-WIDE FINANCIAL STATEMENTS—Continued**

**Net change in fund balance**—total governmental fund \$ 75,407

Amounts reported for government activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures.

However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (364,308)	
Capital outlay	<u>1,357,125</u>	992,817

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in net other post-employment benefits	6,916	
Change in compensated absences	<u>(18,292)</u>	(11,376)

The issuance of long-term debt provides current financial resources to governmental funds, but increases liabilities in the Statement of Net Position. Repayment of debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.

Repayment of principal on long-term debt		12,331
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Some pension related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in net position in governmental activities		<u>50,118</u>
		<u><u>\$ 1,119,297</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

Muskegon Area District Library  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
For the year ended December 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Revenues</b>				
Property taxes	\$ 3,602,290	\$ 3,615,800	\$ 3,615,232	\$ (568)
Intergovernmental revenues - State	430,698	217,261	217,261	-
Charges for services	23,000	19,000	17,904	(1,096)
Fines and forfeitures	227,000	244,113	236,115	(7,998)
Interest and rentals	25,000	80,000	86,126	6,126
Contributions	5,000	5,000	588,981	583,981
Reimbursements	10,000	12,000	10,597	(1,403)
Other	1,000	58,145	57,471	(674)
Total revenues	4,323,988	4,251,319	4,829,687	578,368
<b>Expenditures</b>				
<b>Current</b>				
Salaries and wages	1,667,641	1,677,164	1,660,188	16,976
Fringe benefits	658,249	680,963	667,607	13,356
Operating supplies	152,000	133,100	129,685	3,415
Repairs and maintenance	99,000	91,000	77,515	13,485
Professional services	44,500	48,495	39,810	8,685
Utilities	14,250	13,550	10,592	2,958
Insurance	18,200	20,100	17,173	2,927
Travel	20,950	23,300	21,388	1,912
Contracted services	449,394	468,194	399,835	68,359
Telephone	136,800	124,800	99,112	25,688
Occupancy	11,000	12,000	12,000	-
Other	237,605	221,105	202,382	18,723
<b>Debt service</b>				
Principal	12,901	12,901	12,331	570
Interest and fees	570	570	570	-
Capital outlay	588,500	1,405,500	1,404,092	1,408
Excess of revenues over (under) expenditures	212,428	(681,423)	75,407	(756,830)
Net change in fund balance	<u>\$ 212,428</u>	<u>\$ (681,423)</u>	75,407	<u>\$ 756,830</u>
Fund balance at beginning of year			<u>3,522,428</u>	
Fund balance at end of year			<u>\$ 3,597,835</u>	

Muskegon Area District Library  
Required Supplementary Information  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
Last Ten Fiscal Years (Amounts were determined as of December 31 of each fiscal year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>TOTAL PENSION LIABILITY</b>				
Service cost	\$ 117,974	\$ 111,268	\$ 94,052	\$ 104,181
Interest	206,680	190,275	189,533	168,674
Differences between expected and actual experience	44,203	(16,125)	(213,257)	(27,326)
Changes of assumptions	-	-	-	143,399
Benefit payments, including refunds of employee contributions	(97,087)	(70,314)	(69,007)	(49,462)
Net change in total pension liability	271,770	215,104	1,321	339,466
Total pension liability at beginning of year	2,573,059	2,357,955	2,356,634	2,017,168
Total pension liability at end of year (a)	<b>\$ 2,844,829</b>	<b>\$ 2,573,059</b>	<b>\$ 2,357,955</b>	<b>\$ 2,356,634</b>
<b>PLAN FIDUCIARY NET POSITION</b>				
Contributions-employer	\$ 169,151	\$ 146,216	\$ 97,945	\$ 103,140
Contributions-employee	24,270	22,144	18,421	19,012
Net investment income	(96,174)	267,303	199,830	(26,398)
Benefit payments, including refunds or employee contributions	(97,087)	(70,314)	(69,007)	(49,462)
Administrative expense	(4,624)	(4,214)	(3,938)	(3,770)
Net change in plan fiduciary net position	(4,464)	361,135	243,251	42,522
Plan fiduciary net position at beginning of year	2,317,740	1,956,605	1,713,354	1,670,832
Plan fiduciary net position at end of year (b)	<b>\$ 2,313,276</b>	<b>\$ 2,317,740</b>	<b>\$ 1,956,605</b>	<b>\$ 1,713,354</b>
Library's net pension liability at end of year (a)-(b)	<b>\$ 531,553</b>	<b>\$ 255,319</b>	<b>\$ 401,350</b>	<b>\$ 643,280</b>
Plan fiduciary net position as a percentage of the total pension liability	<b>81.32%</b>	<b>90.08%</b>	<b>82.98%</b>	<b>72.70%</b>
Covered employee payroll	\$ 1,079,931	\$ 963,823	\$ 808,164	\$ 887,423
Library's net pension liability as a percentage of covered employee payroll	<b>49.22%</b>	<b>26.49%</b>	<b>49.66%</b>	<b>72.49%</b>

**Notes to Schedule**

Additional actuarial data is not available and will be provided in subsequent years.

Muskegon Area District Library  
Required Supplementary Information  
**PENSION SYSTEM SCHEDULE OF CONTRIBUTIONS**  
Last Ten Fiscal Years (Amounts were determined as of December 31 of each fiscal year)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 115,020	\$ 107,678	\$ 115,317	\$ 93,445	\$ 103,140	\$ 87,579	\$ 72,000	\$ 63,000	\$ 68,000	\$ 61,000
Contributions in relation to the actuarially determined contribution	211,035	169,151	146,392	97,945	103,140	87,579	72,000	63,000	68,000	61,000
Contribution deficiency (excess)	<b>\$ (96,015)</b>	<b>\$ (61,473)</b>	<b>\$ (31,075)</b>	<b>\$ (4,500)</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	Not available	\$ 1,079,931	\$ 963,823	\$ 808,164	\$ 887,423	\$ 670,473	\$ 661,171	\$ 670,705	\$ 690,874	\$ 615,627
Contributions as percentage of covered employee payroll	Not available	15.7%	15.2%	12.1%	11.6%	13.1%	10.9%	9.4%	9.8%	9.9%

**Notes to Schedule**

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	20 years
Asset Valuation method	5-year smoothed market
Inflation	2.5 percent
Salary increases	3.75 percent in the long-term
Investment rate of return	7.75 percent, net of investment and administrative expenses
Retirement age	Varies depending on plan adoption
Mortality	50 percent Female/50 percent Male 2014 Group Annuity Mortality Table

Muskegon Area District Library  
Required Supplementary Information  
**RETIREE HEALTHCARE SYSTEM SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**  
Last Ten Fiscal Years (Amounts were determined as of December 31 of each fiscal year)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>TOTAL OPEB LIABILITY</b>			
Service cost	\$ 6,906	\$ 8,158	\$ 7,571
Interest	30,841	32,567	29,203
Differences between expected and actual experience	(1,803)	(65,647)	(1,925)
Changes of assumptions	30,165	10,959	14,078
Benefit payments, including refunds of employee contributions	(8,103)	(6,004)	(4,896)
Net change in total OPEB liability	58,006	(19,967)	44,031
Total OPEB liability at beginning of year	395,102	415,069	371,084
Total OPEB liability at end of year (a)	<b>\$ 453,108</b>	<b>\$ 395,102</b>	<b>\$ 415,115</b>
<b>PLAN FIDUCIARY NET POSITION</b>			
Contributions-employer	\$ 6,005	\$ 6,004	\$ 5,152
Net investment income	98,994	(27,705)	89,864
Benefit payments, including refunds or employee contributions	(8,103)	(6,004)	(3,711)
Administrative expense	(1,410)	(1,872)	(1,738)
Net change in plan fiduciary net position	95,486	(29,577)	89,567
Plan fiduciary net position at beginning of year	738,551	768,128	678,561
Plan fiduciary net position at end of year (b)	<b>\$ 834,037</b>	<b>\$ 738,551</b>	<b>\$ 768,128</b>
Organization's net OPEB asset at end of year (a)-(b)	<b>\$ (380,929)</b>	<b>\$ (343,449)</b>	<b>\$ (353,013)</b>
Plan fiduciary net position as a percentage of the total OPEB asset	<b>184.07%</b>	<b>186.93%</b>	<b>185.04%</b>
Covered employee payroll	\$ 273,855	\$ 266,178	Not Available
Organization's net OPEB asset as a percentage of covered employee payroll	<b>139.10%</b>	<b>129.03%</b>	Not Available

**Notes to Schedule**

Additional actuarial data is not available and will be provided in subsequent years.

Muskegon Area District Library  
Required Supplementary Information  
**RETIREE HEALTHCARE SYSTEM SCHEDULE OF CONTRIBUTIONS**  
Last Ten Fiscal Years (Amounts were determined as of December 31 of each fiscal year)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ (66,290)	\$ (59,178)	\$ (55,325)	\$ (35,472)	\$ (33,703)	\$ (35,021)	\$ (32,905)	\$ (35,058)	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	6,005	6,004	5,152	32,422	28,548	30,749	48,660	44,466	-	-
Contribution deficiency (excess)	<u>\$ (72,295)</u>	<u>\$ (65,182)</u>	<u>\$ (60,477)</u>	<u>\$ (67,894)</u>	<u>\$ (62,251)</u>	<u>\$ (65,770)</u>	<u>\$ (81,565)</u>	<u>\$ (79,524)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 273,855	\$ 266,178	Not Available	Not Available	\$ 508,041	\$ 508,041	\$ 208,041	\$ 534,791	Not Available	Not Available
Contributions as percentage of covered employee payroll	-24.2%	-22.2%	Not Available	Not Available	-6.6%	-6.9%	-15.8%	-6.6%	Not Available	Not Available

**Notes to Schedule**

Additional actuarial data is not available and will be provided in subsequent years.

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, 2019.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal (level percentage of compensation)
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	6 years
Asset valuation method	Equal to market value of assets
Salary increases	3.5 percent
Investment rate of return	7.75 percent (including inflation), net of administrative and investment expenses
Retirement age	55 - 70 years of age
Mortality	Mortality rates were as set forth in the RP-2014 headcount adjusted to 2006 Total Data Set with MP-2018 improvement scale.