

Muskegon Area District Library  
Muskegon, Michigan

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

Year ended December 31, 2017



Muskegon Area District Library

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**INDEPENDENT AUDITOR'S REPORT**

June 1, 2018

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, 2017, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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  
June 1, 2018  
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**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, 2017, 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 schedule of funding progress on pages 3 - 8 and 28 - 31 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

# 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. Capital assets increased due to remodeling at the administration building. Liabilities decreased due to a drop in our net pension liability due to increase contributions and positive investment performance. Total deferred inflows of resources increased due to an increase in deferred contributions.

#### Statement of Net Position

	<u>2017</u>	<u>2016</u>
Current assets and other assets	\$ 6,091,168	\$ 5,434,154
Capital assets, net	<u>1,527,737</u>	<u>1,404,352</u>
Total assets	7,618,905	6,838,506
Deferred outflows of resources	<u>325,644</u>	<u>459,742</u>
Total assets and deferred outflows of resources	7,944,549	7,298,248
Liabilities	746,272	1,057,511
Total deferred inflows of resources	<u>3,697,183</u>	<u>3,444,473</u>
Total liabilities and deferred inflows of resources	<u>4,443,455</u>	<u>4,501,984</u>
Net position		
Net investment in capital assets	1,492,884	1,357,954
Unrestricted	<u>2,008,210</u>	<u>1,438,310</u>
Total net position	<u><u>\$ 3,501,094</u></u>	<u><u>\$ 2,796,264</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.

### Statement of Activities

	<u>2017</u>	<u>2016</u>
General revenues		
Property taxes	\$ 3,347,851	\$ 2,374,967
Grants and contributions	245,754	119,184
Fines and forfeitures	239,898	298,590
Other	106,537	82,669
Total revenues	<u>3,940,040</u>	<u>2,875,410</u>
Expenses		
Salaries and wages	1,396,595	1,316,289
Fringe benefits	577,858	508,010
Contracted services	426,396	441,025
Depreciation	308,761	337,187
Other expenses	525,600	426,858
Total expenses	<u>3,235,210</u>	<u>3,029,369</u>
Change in net assets	704,830	(153,959)
Net position at beginning of year	<u>2,796,264</u>	<u>2,950,223</u>
Net position at end of year	<u><u>\$ 3,501,094</u></u>	<u><u>\$ 2,796,264</u></u>

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

#### Revenues

- Property tax revenues increased due to an approved millage rate increase from .749 mills to 1.249 mills.
- There was an increase in State Grants as the Library received \$126,549.34 from the Local Community Stabilization Authority (LCSA). The LCSA was established on October 1, 2014, as a metropolitan government for the metropolitan areas of the State of Michigan under section 27 of article VII of the Michigan Constitution of 1963 by the Local Community Stabilization Authority Act, 2014 PA86, as amended, MCL123.1342 et seq (the "LCSA Act"). The Authority levies the local community stabilization share tax under the USE Tax Act, 1937 PA 94, MCL 205.91 et seq. and distributes the revenue generated to local and intergovernmental units of government throughout Michigan under the LSCA Act for local purposes.
- Penal fines decreased 24% in 2017 after a 4-year increase.
- Other revenues rose due to an increase in Universal Service Funds (USF) fees per the fiber network system in place since 2016 as well as a pass through donation for the Storyville endeavor. In addition, the Library added new multi-function copy machines at all library branches in December 2015. In addition to black and white copy services, branches now offer color copies and fax service to their patrons. The revenue from the new services as well as the high demand for black and white copies has increased revenues (Other revenues).

# Muskegon Area District Library

## Library Management's Discussion and Analysis

### Expenditures

- Salaries and wages increased slightly due to the beginning of a methodical process to bring the Library back to full staffing levels after the hiring freeze in 2016 as well as the implementation of a 4-Phase, board-approved, staffing plan. The reorganization plan included adding two full-time lead librarian positions, moving the Marketing manager position from 20 to 40 hours and changing job descriptions and titles to better encourage staff.
- Fringe benefits increased slightly as the new reorganization/staffing plan was implemented.
- Contracted services decreased as the need for legal services moderated in 2017 as issues involving the Fruitport Branch/Township withdrawal was completed. Branch expenditures continue to rise.
- Depreciation costs declined in 2017 as prior year items became fully depreciated.
- Other Expenses came in higher as many expense accounts returned to more normal levels after being reduced and closely monitored in the prior year while waiting to see the results of the library millage.

### The Library's Fund

The analysis of the Library's sole fund, the General Fund, is included on pages 7 and 8. Revenues for 2017 were up by 36% due to the voter approved millage increase. Revenues exceeded expenditures by 16%.

### The Library's Budget Highlights

The Library ended 2017 with a circulation count of 568,694 a slight decline from 2016. The Library had substantial 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 lower as revenues came in lower than expected.
- Penal fines were lower to reflect the decrease in collections

#### Expenditures

- Fringe benefits were amended lower due to medical insurance premiums increasing less than expected offset by an elected increase in pension contributions to ensure a health pension plan.
- 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.
- Capital outlay budgets were increased in several areas. Office equipment and software was amended higher due to necessary upgrades. Capital improvements was increased to accommodate the remodeling of the Visually and Physically Disabled area of the administration building and the purchase of new air conditioning unit for the administration building.

# 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 over budget due to unanticipated contributions.
- Other revenues ended higher than anticipated due to an increase in Universal Service Fund revenues due to the new fiber network installed in 2016.

### Expenditures

- Salaries and wages came in lower than anticipated due to staff changes and retirements.
- Fringe benefits came in lower than expected due to lower wages and lower than anticipated health insurance costs.
- Other expenditures came in lower due to lower than anticipated costs related to the new Electronic Services databases and lower advertising costs as the Library is in the process of evaluating its program process with the goal of providing more services.

### Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$1,527,737 invested in the building, software, equipment, books and materials net of depreciation. The Library added \$224,298 in new collection items consisting of new books and various audio/visual materials and \$201,697 of construction progress related to the Visually and Physically Disabled Project at the administration building and 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 2018 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 donations from individuals and groups.

It is anticipated that state aid grants to libraries will be maintained at 2017 levels for 2018. 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. Cooperative state aid is anticipated to maintain 2017 levels for 2018.

Penal fines vary from year to year and can only be estimated based upon previous year's receipts. 2017 saw the first decline in penal fine revenue in the past four years.

# Muskegon Area District Library

## Library Management's Discussion and Analysis

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 ballot question to continue library services for 10 years at 1.249 mills was successful on August 2, 2016 and the first levy commenced in 2017. 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 architects for Storyville have designed three unique Storyville villages for three MADL Branches (Montague, Muskegon Heights and Norton Shores) The new Storyville concept and design has been widely accepted across Muskegon County. The hope is to eventually increase awareness and funding to provide a Storyville experience in all library branches.

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.

The union contract between the Library and Teamsters Local 214 will expire on December 31, 2018. Union employees received a 3% increase on January 1, 2017. Negotiations for a new contract should begin in the fall of 2018.

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 will begin 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.

The Library's growth in upgrading services and adding new technology has been on hold for over two years, partly due to the millage election. Significant limitations are now arising with internet speed, servers, software, etc. that are affecting all areas of the Library both public and internal. Example: A fiber network has been installed, but internet speed is too slow indicating a problem with internal structure and equipment. The Library Board put out an RFP in 2016 for a Technology Assessment with hope for completion in 2017 so that upgrades can begin and services enhanced. The Technology Assessment along with the upgrades to equipment will be a large but vital expense for Library and may need to include better trained technical staff. The library Technology Assessment, completed in 2017, indicated critical areas of technological needs and staffing. In 2018 the Library will begin the process of hiring an IT Manager as well as implementing the significant advancements needed in all aspects of the Library's information technology including, hardware, software, training, a new library website and VOIP Telephone System. Technology is a major function that drives today's libraries.

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.

# **Muskegon Area District Library**

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## **Library Management's Discussion and Analysis**

### **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, 2017

	<b>Balance Sheet - Modified Accrual</b>	<b>Adjustments</b>	<b>Statement of Net Position - Full Accrual</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,496,219	\$ -	\$ 2,496,219
Property taxes receivable	3,349,729	-	3,349,729
Due from other governmental units	92,000	-	92,000
Prepaid items	153,220	-	153,220
Capital assets, net of depreciation			
Nondepreciable	-	365,796	365,796
Depreciable	-	1,161,941	1,161,941
Total assets	<u>6,091,168</u>	<u>1,527,737</u>	<u>7,618,905</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	-	304,737	304,737
Net other post-employment benefits asset	-	20,907	20,907
	<u>-</u>	<u>325,644</u>	<u>325,644</u>
Total assets and deferred outflows of resources	<u><b>\$ 6,091,168</b></u>	<u><b>1,853,381</b></u>	<u><b>7,944,549</b></u>
<b>LIABILITIES</b>			
Accounts payable	\$ 60,119	-	60,119
Accrued liabilities	26,143	-	26,143
Noncurrent liabilities			
Due within one year			
Capital lease and other obligations	-	52,000	52,000
Due in more than one year			
Capital lease and other obligations	-	206,660	206,660
Net pension liability	-	401,350	401,350
Total liabilities	<u>86,262</u>	<u>660,010</u>	<u>746,272</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	-	187,002	187,002
Unavailable penal fines	92,000	-	92,000
Property taxes levied for subsequent fiscal year	3,418,181	-	3,418,181
Total liabilities and deferred inflows of resources	<u>3,596,443</u>	<u>847,012</u>	<u>4,443,455</u>
<b>FUND BALANCE</b>			
Nonspendable - prepaid items	153,220	(153,220)	-
Unassigned	2,341,505	(2,341,505)	-
Total fund balance	<u>2,494,725</u>	<u>(2,494,725)</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balance	<u><b>\$ 6,091,168</b></u>		
<b>NET POSITION</b>			
Net investment in capital assets		1,492,884	1,492,884
Unrestricted		2,008,210	2,008,210
Total net position		<u><b>\$ 3,501,094</b></u>	<u><b>\$ 3,501,094</b></u>

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, 2017

	<b>Revenues and Expenditures - Modified Accrual</b>	<b>Adjustments</b>	<b>Statement of Activities - Full Accrual</b>
<b>REVENUES</b>			
Property taxes	\$ 3,347,851	\$ -	\$ 3,347,851
Intergovernmental revenue - State	245,754	-	245,754
Charges for services	21,412	-	21,412
Fines and forfeitures	239,898	-	239,898
Investment earnings	5,708	-	5,708
Contributions	40,687	-	40,687
Reimbursements	8,047	-	8,047
Other	30,683	-	30,683
Total revenues	3,940,040	-	3,940,040
<b>EXPENDITURES</b>			
Current			
Salaries and wages	1,402,948	(6,353)	1,396,595
Fringe benefits	520,549	57,309	577,858
Operating supplies	103,825	-	103,825
Repairs and maintenance	64,929	-	64,929
Professional services	36,797	-	36,797
Utilities	9,443	-	9,443
Insurance	19,076	-	19,076
Travel	24,449	-	24,449
Contracted services	426,396	-	426,396
Telephone	24,956	-	24,956
Occupancy	8,179	-	8,179
Other	128,165	-	128,165
Debt service			
Principal	11,545	(11,545)	-
Interest and fees	1,355	-	1,355
Capital outlay	536,572	(432,146)	104,426
Depreciation	-	308,761	308,761
Total expenditures	3,319,184	(83,974)	3,235,210
Change in fund balance—net position	620,856	83,974	704,830
Fund balance—net position at January 1, 2017	1,873,869	922,395	2,796,264
Fund balance—net position at December 31, 2017	<b>\$ 2,494,725</b>	<b>\$ 1,006,369</b>	<b>\$ 3,501,094</b>

The accompanying notes are an integral part of this statement.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

**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 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.

Fruitport Charter Township voters elected to leave the Authority effective December 31, 2016.

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, 2017

**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, 2017

**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

***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.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

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

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

***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.

**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 lien 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 2016 state taxable value for real/personal property of the Library totaled approximately \$2,660,000. The ad valorem taxes levied consisted of 1.249 mills for operation.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

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

**Revenues and Expenditures/Expenses—Continued**

***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.

**NOTE C—DEPOSITS AND INVESTMENTS**

**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.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

***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, 2017, \$2,321,941 of the Library's bank balance of \$2,571,941 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.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017 was as follows:

	<b>Balance January 1, 2017</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31, 2017</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 98,400	\$ -	\$ -	\$ 98,400
Construction in progress	65,699	201,697	-	267,396
Total capital assets, not being depreciated	164,099	201,697	-	365,796
<b>Capital assets, being depreciated:</b>				
Building and improvements	559,529	6,151	-	565,680
Library books, periodicals, etc.	2,801,257	224,298	588,029	2,437,526
Furniture and equipment	353,670	-	-	353,670
Total capital assets, being depreciated	3,714,456	230,449	588,029	3,356,876
<b>Less accumulated depreciation:</b>				
Building and improvements	87,242	13,927	-	101,169
Library books, periodicals, etc.	2,139,909	267,706	588,029	1,819,586
Furniture and equipment	247,052	27,128	-	274,180
Total accumulated depreciation	2,474,203	308,761	588,029	2,194,935
Total capital assets, being depreciated, net	1,240,253	(78,312)	-	1,161,941
Capital assets, net	<b>\$ 1,404,352</b>	<b>\$ 123,385</b>	<b>\$ -</b>	<b>\$ 1,527,737</b>

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE E—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, 2017:

	<u>Balance January 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2017</u>	<u>Due Within One Year</u>
Capital lease	\$ 46,398	\$ -	\$ 11,545	\$ 34,853	\$ 12,000
Compensated absences	230,160	221,575	227,928	223,807	40,000
	<b>\$ 276,558</b>	<b>\$ 221,575</b>	<b>\$ 239,473</b>	<b>\$ 258,660</b>	<b>\$ 52,000</b>

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
Capital lease	3.295%	October 2020	\$ 34,853

The annual requirements of principal and interest to amortize the capital lease outstanding as of December 31, 2017 follow:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 11,932	\$ 969	\$ 12,901
2019	12,331	570	12,901
2020	10,590	161	10,751
	<b>\$ 34,853</b>	<b>\$ 1,700</b>	<b>\$ 36,553</b>

**NOTE F—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, 2017, these funds were valued at approximately \$437,000.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2017

**NOTE G—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, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	-
Active employees	16
Total employees covered by MERS	21

***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, 2017, the Library’s contributions rate was 8.91% 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, 2016, 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, 2017

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

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

*Actuarial Assumptions*

The total pension liability in the December 31, 2016 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

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 1994 Group Annuity Mortality Table of a 50 percent Male and 50 percent Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2015. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009 through December 31, 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>Long-Term Expected Real Rate of Return</b>
Global equity	57.5%	5.02%
Global fixed income	20.0%	2.18%
Real assets	12.5%	4.23%
Diversifying strategies	10.0%	6.56%

*Discount Rate*

The discount rate used to measure the total pension liability was 8% in 2016. 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, 2017

**NOTE G—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 Liability (a)</b>	<b>Plan Fiduciary Position (b)</b>	<b>Net Pension Liability (a)-(b)</b>
Balance at December 31, 2015	\$ 2,356,634	\$ 1,713,354	\$ 643,280
Changes for the year			
Service costs	94,052	-	94,052
Interest	189,533	-	189,533
Experience differences	(213,257)	-	(213,257)
Contributions - employer	-	97,945	(97,945)
Contributions - employee	-	18,421	(18,421)
Net investment income	-	199,830	(199,830)
Administrative expenses	-	(3,938)	3,938
Benefit payments including refund of employee contributions	(69,007)	(69,007)	-
Net Changes	1,321	243,251	(241,930)
Balance at December 31, 2016	<b>\$ 2,357,955</b>	<b>\$ 1,956,605</b>	<b>\$ 401,350</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 (7.00%)</b>	<b>Current Discount Rate (8.00%)</b>	<b>1% Increase (9.00%)</b>
Library's net pension liability	\$ 654,686	\$ 401,350	\$ 183,465

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE G—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, 2017, the Library recognized pension expense of \$133,382. At December 31, 2017, 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	\$ -	\$ (187,002)
Differences in assumptions	86,399	-
Excess (deficit) investment returns	67,743	-
Contributions subsequent to the measurement date*	150,595	-
Total	<b>\$ 304,737</b>	<b>\$ (187,002)</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, 2016.

*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>
2018	\$ 8,932
2019	8,932
2020	2,998
2021	(53,722)

***Payables to the Pension Plan***

At December 31, 2017 the Library had a payable to the defined benefit pension plan of \$10,823.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2017

**NOTE H—OTHER POSTEMPLOYMENT BENEFITS**

**Retiree Healthcare Plan**

***Plan Description***

The Library has a retiree healthcare funding vehicle (Retiree Healthcare Plan) administered by the Municipal Employees Retirement System (MERS), an agent multiple-employer postemployment healthcare plan (OPEB). The Retiree Healthcare Plan is established under the authority of section 115 of the IRS code and is exempt from taxation. The Retiree Healthcare Plan provides health insurance to eligible retirees and their spouses. Act No. 149 of the Public Acts of 1999 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the Retiree Healthcare Plan to the respective employer entities; that authority rests with the Library. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon Area District Library  
 4845 Airline Road  
 Muskegon, MI 49444

***Funding Policy***

Employees hired prior to October 2010 participate in the Retiree Healthcare Plan. Plan members are not required to contribute to the Plan. The contribution requirements of plan members and the Library are established and may be amended by the Library Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Library. For the year ended December 31, 2017, the Library contributed \$5,152 to the Retiree Healthcare Plan.

***Annual OPEB Cost and Net OPEB Obligation***

The Library's OPEB expense is calculated based on the ARC, an actuarially-determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Library's annual OPEB cost for the year, the amount actually contributed to the Retiree Healthcare Plan, and changes in the Library's net OPEB obligation:

Annual required contribution	\$ (55,325)
Interest on net OPEB obligation	6,422
Adjustment to annual required contribution	<u>(20,467)</u>
Net OPEB cost	(69,370)
Payments made to or on behalf of retirees	-
Contributions made to OPEB trust	<u>5,152</u>
Increase in net OPEB asset	74,522
Net OPEB asset at beginning of year	<u>(95,429)</u>
Net OPEB asset at end of year	<u><u>\$ (20,907)</u></u>

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2017

**NOTE H—OTHER POSTEMPLOYMENT BENEFITS—Continued**

**Trend Information**

**OPEB - TREND INFORMATION**

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
12/31/15	\$ 34,173	83 %	\$ 31,562
12/31/16	(31,444)	(103)	95,428
12/31/17	(69,370)	(7)	20,907

***Actuarial Methods and Assumptions***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Retiree Healthcare Plan as understood by the employer and Retiree Healthcare Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of Retiree Healthcare Plan members not contributing to the Retiree Healthcare Plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The required contribution was determined as part of the December 31, 2017 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent after 6 years. Both rates include a 5 percent inflation assumption. The OPEB Plan's unfunded actuarial accrued liability is being amortized as a projected unit credit - level dollar on a closed basis. The remaining amortization period at December 31, 2017 is 5 years.

***Funded Status and Progress***

As of December 31, 2017, the most recent actuarial valuation date, the Retiree Healthcare Plan was 162 percent funded. The actuarial accrued liability for benefits was approximately \$466,000, and the actuarial value of assets was approximately \$768,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$(302,000). The covered payroll (annual payroll of active employees covered by the Retiree Healthcare Plan) was not available.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the Retiree Healthcare Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE I—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.

***City of Muskegon Heights***

For year ended December 31, 2017, Library property taxes were reduced by \$3,105 under this program.

***City of Montague***

For the year ended December 31, 2017, Library property taxes were reduced by \$9,271 under this program.

***City of Norton Shores***

For the year ended December 31, 2017, Library property taxes were reduced by \$7,458 under this program.

***All other Municipalities***

For the year ended December 31, 2017, Library property taxes were reduced by \$1,795 under this program.

**NOTE J—UPCOMING ACCOUNTING PRONOUNCEMENTS**

GASB Statement 75—*Accounting and Financial Reporting for Postemployment Benefits other than Pensions* was issued by the GASB in June 2015 and will be effective for the Library's 2018 fiscal year. The statement requires governments that participate in postemployment benefits other than pensions (OPEB) to report in their Statement of Net Position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Cost-sharing employers will be required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan.

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

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

**Total fund balance**—governmental fund \$ 2,494,725

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	\$3,722,672	
Accumulated depreciation	<u>(2,194,935)</u>	1,527,737

Deferred outflows/inflows of resources related to  
pensions are not reported in the governmental funds.

Deferred outflows of resources - related to pensions	304,737	
Deferred inflows of resources - related to pensions	<u>(187,002)</u>	117,735

The net other postemployment benefits asset is not an available resource  
and, therefore, is not reported in the governmental fund

20,907

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	(34,853)	
Compensated absences	(223,807)	
Net pension liability	<u>(401,350)</u>	<u>(660,010)</u>

Net position of governmental activities

**\$ 3,501,094**

Muskegon Area District Library  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

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

**Net change in fund balance**—total governmental fund \$ 620,856

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	\$ (308,761)	
Capital outlay	<u>432,146</u>	123,385

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	(74,521)	
Change in compensated absences	<u>6,353</u>	(68,168)

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		11,545
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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>17,212</u>
		<u><b>\$ 704,830</b></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

Muskegon Area District Library  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
For the year ended December 31, 2017

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 3,452,512	\$ 3,348,679	\$ 3,347,851	\$ (828)
Intergovernmental revenues - State	118,666	245,754	245,754	-
Charges for services	21,000	21,000	21,412	412
Fines and forfeitures	265,968	249,638	239,898	(9,740)
Interest and rentals	10,000	10,000	5,708	(4,292)
Contributions	5,000	5,000	40,687	35,687
Reimbursements	9,000	9,000	8,047	(953)
Other	4,000	29,000	30,683	1,683
Total revenues	3,886,146	3,918,071	3,940,040	21,969
<b>Expenditures</b>				
<b>Current</b>				
Salaries and wages	1,507,172	1,506,172	1,402,948	103,224
Fringe benefits	619,816	577,844	520,549	57,295
Operating supplies	72,000	110,000	103,825	6,175
Repairs and maintenance	68,000	77,000	64,929	12,071
Professional services	42,800	44,630	36,797	7,833
Utilities	15,350	14,450	9,443	5,007
Insurance	16,275	23,000	19,076	3,924
Travel	20,150	26,000	24,449	1,551
Contracted services	444,170	456,894	426,396	30,498
Telephone	41,700	111,100	24,956	86,144
Occupancy	11,000	11,000	8,179	2,821
Other	184,205	201,105	128,165	72,940
<b>Debt service</b>				
Principal	11,546	11,546	11,545	1
Interest and fees	1,355	1,355	1,355	-
Capital outlay	438,500	551,250	536,572	14,678
Total expenditures	3,494,039	3,723,346	3,319,184	404,162
Net change in fund balance	<b>\$ 392,107</b>	<b>\$ 194,725</b>	620,856	<b>\$ (426,131)</b>
Fund balance at January 1, 2017			1,873,869	
Fund balance at December 31, 2017			<b>\$ 2,494,725</b>	

Muskegon Area District Library  
 Required Supplementary Information  
**SCHEDULE OF FUNDING PROGRESS—OTHER POST-EMPLOYMENT BENEFITS**  
 For the year ended December 31, 2017

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
12/31/13	\$ 486,817	\$ 493,652	\$ 6,835	99 %	\$ 508,041	1 %
12/31/16	678,561	418,083	(260,478)	162	Not available	Not available
12/31/17	768,128	465,853	(302,275)	165	Not available	Not available

Muskegon Area District Library  
Required Supplementary Information  
**SCHEDULE OF THE LIBRARY'S CONTRIBUTIONS**  
For the year ended December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 67,392	\$ 97,775	\$ 103,140	\$ 87,579	\$ 72,000	\$ 63,000	\$ 68,000	\$ 61,000	\$ 71,000	\$ 57,354
Contributions in relation to the actuarially determined contribution	<u>145,512</u>	<u>97,775</u>	<u>103,140</u>	<u>87,579</u>	<u>72,000</u>	<u>63,000</u>	<u>68,000</u>	<u>61,000</u>	<u>71,000</u>	<u>57,354</u>
Contribution deficiency (excess)	<u>\$ (78,120)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	Not available	\$ 808,164	\$ 887,423	\$ 670,473	\$ 661,171	\$ 670,705	\$ 690,874	\$ 615,627	\$ 589,873	\$ 527,187
Contributions as percentage of covered employee payroll		<b>12.1%</b>	<b>11.6%</b>	<b>13.1%</b>	<b>10.9%</b>	<b>9.4%</b>	<b>9.8%</b>	<b>9.9%</b>	<b>12.0%</b>	<b>10.9%</b>

**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, 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	22 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  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
Last Ten Fiscal Years (Amounts determined as of December 31, in each year)

	<b>2016</b>	<b>2015</b>
<b>TOTAL PENSION LIABILITY</b>		
Service cost	\$ 94,052	\$ 104,181
Interest	189,533	168,674
Differences between expected and actual experience	(213,257)	(27,326)
Changes of assumptions	-	143,399
Benefit payments, including refunds of employee contributions	(69,007)	(49,462)
Net change in total pension liability	1,321	339,466
Total pension liability at beginning of year	2,356,634	2,017,168
Total pension liability at end of year (a)	<b>\$ 2,357,955</b>	<b>\$ 2,356,634</b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contributions-employer	\$ 97,945	\$ 103,140
Contributions-employee	18,421	19,012
Net investment income	199,830	(26,398)
Benefit payments, including refunds or employee contributions	(69,007)	(49,462)
Administrative expense	(3,938)	(3,770)
Net change in plan fiduciary net position	243,251	42,522
Plan fiduciary net position at beginning of year	1,713,354	1,670,832
Plan fiduciary net position at end of year (b)	<b>\$ 1,956,605</b>	<b>\$ 1,713,354</b>
Library's net pension liability at end of year (a)-(b)	<b>\$ 401,350</b>	<b>\$ 643,280</b>
Plan fiduciary net position as a percentage of the total pension liability	<b>82.98%</b>	<b>72.70%</b>
Covered employee payroll	<b>\$ 808,164</b>	<b>\$ 887,423</b>
Library's net pension liability as a percentage of covered employee payroll	<b>49.66%</b>	<b>72.49%</b>

**Notes to Schedule**

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