

Muskegon Area District Library
Muskegon, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended December 31, 2012

Muskegon Area District Library

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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 and liabilities, 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.

Statement of Net Position

	<u>2012</u>	<u>2011</u>
Current assets and other assets	\$ 4,767,354	\$ 4,705,401
Capital assets, net	<u>1,501,252</u>	<u>1,446,169</u>
Total assets	6,268,606	6,151,570
Liabilities	298,089	312,517
Total deferred inflows of resources	<u>2,475,647</u>	<u>2,523,009</u>
Total liabilities and deferred inflows of resources	<u>2,773,736</u>	<u>2,835,526</u>
Net position		
Invested in capital assets	1,501,252	1,446,169
Unrestricted	<u>1,993,618</u>	<u>1,869,875</u>
Total net position	<u>\$ 3,494,870</u>	<u>\$ 3,316,044</u>

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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>2012</u>	<u>2011</u>
General revenues		
Property taxes	\$ 2,352,518	\$ 2,413,689
Grants and contributions	98,675	106,041
Fines and forfeitures	226,003	255,682
Other	<u>100,852</u>	<u>81,759</u>
Total revenues	2,778,048	2,857,171
Expenses		
Salaries and wages	1,188,295	1,205,473
Fringe benefits	427,508	417,868
Contracted services	355,198	378,259
Depreciation	300,120	252,726
Other expenses	<u>328,101</u>	<u>364,876</u>
Total expenses	<u>2,599,222</u>	<u>2,619,202</u>
Change in net assets	178,826	237,969
Net position at beginning of year	<u>3,316,044</u>	<u>3,078,075</u>
Net position at end of year	<u><u>\$ 3,494,870</u></u>	<u><u>\$ 3,316,044</u></u>

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

Revenues

- Property tax revenue declined 2.6% due to lower property values.
- Interest income increased after a sharp decline in 2011 due to moving investments out of County of Muskegon and an increase in interest rates.
- Penal fines continued a multi-year decline in revenues.
- Donations were received from Great Start for a literacy backpack program and the pursuit of the Storyville Project.

Expenditures

- Salaries and wages decreased from 2011 due to the completion of the RFID project.
- For 2012 employee raises per the union contract were .45 cents per hour. In addition a cost of living adjustment payment of .15 cents per hour worked was paid in December 2012.
- Fringe benefits increased due to a 6.9% increase in medical premiums along with average increases to dental and disability insurances.

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Library Management's Discussion and Analysis

- Depreciation increased due to continued investment in the Library's collection.

The Library's Fund

The analysis of the Library's sole fund, the General Fund, is included on pages 2 and 3. Revenues for 2012 were down slightly. Expenditures came in under budget which provides the Library with a minimal change in the fund balance.

The Library's Budget Highlights

The Library had its first year (2012) being totally independent from the County of Muskegon. Services previously provided by the County are now being done in-house which includes the following: computer tech services, human resources, banking, general ledger and all accounting areas. Payroll and benefits are also the responsibility of the Library business office with an outside payroll service printing payroll checks and completing payroll tax returns.

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

- Penal fines were amended to reflect collections by the County.
- Overdue fines were amended to reflect increased revenues due to increasing circulation.

Expenditures

- Contracted services and insurance fees were amended to reflect actual costs.
- Retirement expenses were amended to reflect higher costs due to plan changes.

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

Revenues

- Property taxes are budgeted based on an estimate from the prior year. The current year budget was not amended to reflect actual collections.
- Intergovernmental revenues – State came in slightly higher than anticipated.

Expenditures

- Fringe benefits were lower than budgeted due to insurance plans with lower than anticipated costs.
- Contracted services were under budget due to lower than anticipated expenses.
- Other expenditures were less than budgeted due to not fully carrying out the additional marketing, advertising and programming that had been planned.
- Capital outlay was less than budgeted due to the delay in plans for the administration building renovations and Storyville.

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Library Management's Discussion and Analysis

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$1,501,252 invested in the building, software, equipment, books and materials net of depreciation. The Library added \$327,757 in new collection items consisting of new books and various audio/visual materials.

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

Next Year's Anticipated Budget Factors and Currently Known Facts

The Library's budget for 2013 projects a deficit budget for the year, but 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 2012 levels for 2013. State aid grants are a small portion of the Library's overall budget, but are a large portion of the budget for our Blind and Physically Handicapped services. State aid grants are important to library cooperatives and cooperative services to member libraries. Cooperative state aid is anticipated to maintain 2012 levels for 2013. "Out of pocket" expenses by member libraries should not increase for 2013.

Penal fines vary from year to year and can only be estimated on previous year's receipts. Penal fines continue to erode as a result of alternative sentencing, increased fees, and parallel ordinances passed by local units of government. Additionally, collections are down due to the rate of unemployment in the county and the reduced number of police officers available for enforcement. After years of steady decline, it is hoped penal fines will begin a level trend.

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 2012, the payment was .15 per hour, and it is anticipated to be .20 for the year 2013.

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

The current depressed real estate market will have a continuing effect on property tax revenues. Tax captures such as Renaissance zone, TIFA's and DDA's have reduced our property tax revenues.

Only a portion of the remodeling plans for the Administration Building have been completed with the addition of the passage corridor. Further plans are pending at this time as several options are being considered.

In June of 2013 there will be a reopening of the Collective Bargaining Agreement for wages and health care.

The Library continues to implement the Strategic Planning process from 2010 with a focus on public information, programming, technology and early childhood literacy. In late 2012, the Library Board approved architectural fees for a Storyville Project which will enhance the Library

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Library Management's Discussion and Analysis

system as a learning/literacy center. The Library Board remains focused on the Storyville Project which ties in well with the Strategic Plan and focuses on literacy for the birth to age five group.

The above factors may result in budget amendments but should still result in a balanced budget with a surplus.

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 Stephen Dix, Director at Muskegon Area District Library, 4845 Airline Road, Unit 5, Muskegon, Michigan 49444.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

May 22, 2013

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, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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.

BRICKLEY DELONG

Board of Directors
Muskegon Area District Library
May 22, 2013
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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, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require management's discussion and analysis and required supplementary information on pages i - v and 18 - 19 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, MI

Muskegon Area District Library
BALANCE SHEET—STATEMENT OF NET POSITION
December 31, 2012

	Balance Sheet - Modified Accrual	Adjustments	Statement of Net Position - Full Accrual
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 1,278,183	\$ -	\$ 1,278,183
Investments	1,002,462	-	1,002,462
Property taxes receivable	2,338,345	-	2,338,345
Due from other governmental units	80,000	-	80,000
Prepaid items	41,940	-	41,940
Capital assets, net of depreciation			
Nondepreciable	-	98,400	98,400
Depreciable	-	1,402,852	1,402,852
Net other postemployment benefits asset	-	26,424	26,424
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 4,740,930</u>	1,527,676	6,268,606
LIABILITIES			
Accounts payable	\$ 46,455	-	46,455
Accrued liabilities	52,142	-	52,142
Compensated absences	-	199,492	199,492
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	98,597	199,492	298,089
DEFERRED INFLOWS OF RESOURCES			
Property taxes levied for subsequent fiscal year	2,475,647	-	2,475,647
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and deferred inflows of resources	2,574,244	199,492	2,773,736
FUND BALANCE			
Nonspendable - prepaid items	41,940	(41,940)	-
Subsequent year's budget appropriation of fund balance	85,942	(85,942)	-
Unassigned	2,038,804	(2,038,804)	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	2,166,686	(2,166,686)	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 4,740,930</u>		
NET POSITION			
Invested in capital assets		1,501,252	1,501,252
Unrestricted		1,993,618	1,993,618
		<u> </u>	<u> </u>
Total net position		<u>\$ 3,494,870</u>	<u>\$ 3,494,870</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, 2012

	Revenues and Expenditures - Modified		Statement of Activities - Full Accrual
	Accrual	Adjustments	
REVENUES			
Property taxes	\$ 2,352,518	\$ -	\$ 2,352,518
Intergovernmental revenue - State	98,675	-	98,675
Charges for services	6,602	-	6,602
Fines and forfeitures	226,003	-	226,003
Investment earnings	14,286	-	14,286
Contributions	26,226	-	26,226
Reimbursements	15,904	-	15,904
Other	37,834	-	37,834
	<hr/>		
Total revenues	2,778,048	-	2,778,048
EXPENDITURES			
Current			
Salaries and wages	1,182,303	5,992	1,188,295
Fringe benefits	436,771	(9,263)	427,508
Operating supplies	32,017	-	32,017
Repairs and maintenance	24,599	-	24,599
Professional services	20,520	-	20,520
Utilities	9,496	-	9,496
Insurance	15,643	-	15,643
Travel	16,495	-	16,495
Contracted services	355,198	-	355,198
Telephone	56,657	-	56,657
Occupancy	8,361	-	8,361
Other	82,925	-	82,925
Capital outlay	416,591	(355,203)	61,388
Depreciation	-	300,120	300,120
	<hr/>		
Total expenditures	2,657,576	(58,354)	2,599,222
Change in fund balance—net position	120,472	58,354	178,826
Fund balance—net position at January 1, 2012	2,046,214	1,269,830	3,316,044
	<hr/>		
Fund balance—net position at December 31, 2012	\$ 2,166,686	\$ 1,328,184	\$ 3,494,870
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The accompanying notes are an integral part of this statement.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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 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, 2012

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, 2012

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.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

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, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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 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 2011 state taxable value for real/personal property of the Library totaled approximately \$3,259,000,000. The ad valorem taxes levied consisted of .7490 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, 2012

NOTE C—DEPOSITS AND INVESTMENTS

As of December 31, 2012, the Library had the following investments:

Investment Type	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>	<u>Moody's</u>	<u>Percent</u>
U.S. agency obligations	\$1,002,462	39	AAA	100.0 %

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. The Federal Deposit Insurance Corporation (FDIC) coverage is unlimited on non-interest bearing accounts, and interest bearing accounts are covered in total up to \$250,000. As of December 31, 2012, \$417,114 of the Library's bank balance of \$1,288,027 was exposed to custodial credit risk because it was uninsured and uncollateralized. Effective January 1, 2013, the FDIC coverage is limited to \$250,000 per financial institution.

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, 2012

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012
Capital assets, not being depreciated:				
Land	\$ 98,400	\$ -	\$ -	\$ 98,400
Capital assets, being depreciated:				
Building and improvements	536,441	13,966	-	550,407
Library books, periodicals, etc.	2,743,417	327,757	265,681	2,805,493
Furniture and equipment	322,689	13,480	3,500	332,669
Total capital assets, being depreciated	3,602,547	355,203	269,181	3,688,569
Less accumulated depreciation:				
Building and improvements	13,114	15,065	-	28,179
Library books, periodicals, etc.	2,005,695	261,953	265,681	2,001,967
Furniture and equipment	235,969	23,102	3,500	255,571
Total accumulated depreciation	2,254,778	300,120	269,181	2,285,717
Total capital assets, being depreciated, net	1,347,769	55,083	-	1,402,852
Capital assets, net	\$ 1,446,169	\$ 55,083	\$ -	\$ 1,501,252

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, 2012.

	Balance December 1, 2012	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Compensated absences	\$ 193,500	\$ 77,542	\$ 71,550	\$ 199,492	\$ 70,000

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

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, 2012, these funds were valued at approximately \$88,000.

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Defined Benefit Pension Plan

Plan Description

The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS 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

Library employees are required to contribute 2.34 percent of their annual covered payroll to the plan. The Library is required to contribute at an actuarially-determined rate; the current rate is 10.14 percent of annual covered payroll. The contribution requirements of plan members and the library are established and may be amended by the Library.

Annual Pension Cost

For the year ended December 31, 2012, the Library's annual pension cost was approximately \$63,000 which the Library contributed. The employees contributed approximately \$16,500.

Trend Information

<u>Year Ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/10	\$ 61,000	100 %	\$ -
12/31/11	68,000	100	-
12/31/12	63,000	100	-

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Annual Pension Cost—Continued

The required contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age normal cost funding method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 1 percent to 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011 was 27 years. This period will be reduced by one year in each of the next seven valuations until reaching 20 years after which the 20 year period will be reestablished with each annual actuarial valuation.

Funding Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 93 percent funded. The actuarial accrued liability for benefits was approximately \$1,426,000, and the actuarial value of assets was approximately \$1,322,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$104,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$691,000, and the ratio of the UAAL to the covered payroll was 15 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

NOTE H—OTHER POSTEMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Funding Policy

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, 2012, the Library contributed \$44,466 to the Retiree Healthcare Plan, which is 126% of the annual required contribution (ARC).

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	\$ (35,058)
Interest on net OPEB obligation	1,287
Adjustment to annual required contribution	(1,432)
Net OPEB cost	<u>(35,203)</u>
Payments made to or on behalf of retirees	-
Contributions made to OPEB trust	<u>44,466</u>
Increase in net OPEB asset	9,263
Net OPEB asset at beginning of year	<u>17,161</u>
Net OPEB asset at end of year	<u><u>\$ 26,424</u></u>

Trend Information

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
12/31/10	\$ 34,235	117 %	\$ 5,677
12/31/11	33,377	134	17,161
12/31/12	35,203	126	26,424

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE H—OTHER POSTEMPLOYMENT BENEFITS—Continued

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, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate of 5 percent initially, reduced by decrements to an ultimate rate of 0 percent after 5 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, 2010 is 27 years.

Funded Status and Progress

As of December 31, 2010, the most recent actuarial valuation date, the Retiree Healthcare Plan was 64 percent funded. The actuarial accrued liability for benefits was approximately \$368,000, and the actuarial value of assets was approximately \$234,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$134,000. The covered payroll (annual payroll of active employees covered by the Retiree Healthcare Plan) was approximately \$535,000, and the ratio of the UAAL to the covered payroll was 25 percent.

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 Retiree Healthcare Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE I—SUBSEQUENT EVENT

In 2013, the Library entered into contracts for a feasibility study and architect plans of approximately \$65,000. The project will be paid with available fund balance.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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

Total fund balance—governmental fund \$ 2,166,686

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	\$3,786,969	
Accumulated depreciation	<u>(2,285,717)</u>	1,501,252

The net other postemployment benefits assets is not an available resource and, therefore, is not reported in the governmental fund		26,424
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Compensated absences in governmental activities are not due and payable in the current period and are not reported in the governmental funds		<u>(199,492)</u>
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Net position of governmental activities		<u>\$ 3,494,870</u>
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Net change in fund balance—total governmental fund \$ 120,472

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 their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (300,120)	
Capital outlay	<u>355,203</u>	55,083

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 postemployment benefits		9,263
Change in compensated absences		<u>(5,992)</u>

Change in net position in governmental activities		<u>\$ 178,826</u>
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REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Area District Library
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 For the year ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues				
Property taxes	\$2,441,009	\$ 2,441,009	\$ 2,352,518	\$ (88,491)
Intergovernmental revenues - State	91,988	97,432	98,675	1,243
Charges for services	6,300	9,400	6,602	(2,798)
Fines and forfeitures	251,176	223,604	226,003	2,399
Interest and rentals	12,000	12,000	14,286	2,286
Contributions	7,000	6,000	26,226	20,226
Reimbursements	12,000	15,000	15,904	904
Other	45,500	46,500	37,834	(8,666)
Total revenues	2,866,973	2,850,945	2,778,048	(72,897)
Expenditures				
Current				
Salaries and wages	1,183,624	1,225,023	1,182,303	42,720
Fringe benefits	510,680	511,300	436,771	74,529
Operating supplies	40,000	40,000	32,017	7,983
Repairs and maintenance	31,000	34,000	24,599	9,401
Professional services	31,000	25,000	20,520	4,480
Utilities	15,600	15,600	9,496	6,104
Insurance	19,500	21,500	15,643	5,857
Travel	14,800	18,800	16,495	2,305
Contracted services	397,000	403,035	355,198	47,837
Telephone	64,800	68,800	56,657	12,143
Occupancy	12,000	9,000	8,361	639
Administrative expense	27,000	-	-	-
Other	103,400	105,635	82,925	22,710
Capital outlay	415,050	427,050	416,591	10,459
Total expenditures	2,865,454	2,904,743	2,657,576	247,167
Net change in fund balance	<u>\$ 1,519</u>	<u>\$ (53,798)</u>	120,472	<u>\$ 174,270</u>
Fund balance at January 1, 2012			<u>2,046,214</u>	
Fund balance at December 31, 2012			<u>\$ 2,166,686</u>	

Muskegon Area District Library
 Required Supplementary Information
SCHEDULES OF FUNDING PROGRESS
 For the year ended December 31, 2012

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) PENSION PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/09	\$ 1,049,407	\$ 1,087,842	\$ 38,435	96 %	\$ 589,873	7 %
12/31/10	1,190,021	1,240,784	50,763	96	615,627	8
12/31/11	1,321,751	1,426,360	104,609	93	690,874	15

OTHER POSTEMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/07	\$ 140,083	\$ 669,897	\$ 529,814	21 %	\$ 441,045	120 %
12/31/10	234,312	367,951	133,639	64	534,791	25