

Muskegon Area District Library
Muskegon, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended December 31, 2014



Muskegon Area District Library

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

May 29, 2015

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, 2014, 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.

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 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.

BRICKLEY DELONG

Board of Directors
Muskegon Area District Library
May 29, 2015
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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, 2014, 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 - 6 and 23 - 24 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.

Statement of Net Position

	<u>2014</u>	<u>2013</u>
Current assets and other assets	\$ 4,767,783	\$ 4,691,667
Capital assets, net	<u>1,465,336</u>	<u>1,552,018</u>
Total assets	6,233,119	6,243,685
Liabilities	285,688	281,384
Total deferred inflows of resources	<u>2,504,879</u>	<u>2,483,372</u>
Total liabilities and deferred inflows of resources	<u>2,790,567</u>	<u>2,764,756</u>
Net position		
Net investment in capital assets	1,465,336	1,552,018
Unrestricted	<u>1,977,216</u>	<u>1,926,911</u>
Total net position	<u>\$ 3,442,552</u>	<u>\$ 3,478,929</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>2014</u>	<u>2013</u>
General revenues		
Property taxes	\$ 2,302,230	\$ 2,281,796
Grants and contributions	111,475	100,684
Fines and forfeitures	280,353	251,314
Other	90,606	74,603
Total revenues	<u>2,784,664</u>	<u>2,708,397</u>
Expenses		
Salaries and wages	1,212,565	1,219,494
Fringe benefits	493,003	466,827
Contracted services	383,720	358,119
Depreciation	346,111	317,708
Other expenses	385,642	362,190
Total expenses	<u>2,821,041</u>	<u>2,724,338</u>
Change in net assets	(36,377)	(15,941)
Net position at beginning of year	<u>3,478,929</u>	<u>3,494,870</u>
Net position at end of year	<u><u>\$ 3,442,552</u></u>	<u><u>\$ 3,478,929</u></u>

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

Revenues

- Property tax revenue increased 1% after a decline in 2013.
- Investment earnings continue to struggle due to low interest rates.
- Penal fines increased for the second year after a multi-year decline.

Expenditures

- Salaries and wages decreased in 2014 because the Director went to part-time status and a vacant position was not filled.
- Fringe benefits increased due to an increase in medical insurance premiums.
- Depreciation increased due to continued investment in the Library's collection.

Muskegon Area District Library

Library Management's Discussion and Analysis

The Library's Fund

The analysis of the Library's sole fund, the General Fund, is included on pages 7 and 8. Revenues for 2014 were up slightly by approximately 3%. Expenditures came in under budget which provides the Library with a minimal change in the fund balance.

The Library's Budget Highlights

The Library ended 2014 with an all-time circulation high of 594,289 items as well as continued increases in public visits and programs and attendance. 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

- Penal fines were amended higher to reflect a welcome increase in collections after a multi-year decline.

Expenditures

- Operating Supplies were amended higher as the need for SIP licenses for self-checkout machines and a one-time purchase of TimeIT licenses were purchased.
- Repairs and Maintenance costs were amended higher as the copier lease and copy overages resulted in higher than anticipated costs.
- Contracted Services were amended downward as branch expenditures costs came in lower than anticipated.
- Telephone Expenses were amended downward due to lower costs from migrating internet services from the Lakeland Library Cooperative to MADL local providers which provided a significant savings.
- Capital Outlay was increased to allow for the increase in square footage at the Ravenna Branch Library due to a beautiful renovation project by Ravenna Township. As well, the Storyville Capital Campaign had increased expenses as the campaign gained momentum.

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

Revenues

- Contributions were higher than anticipated due to several donations as well as using funds from the Community Foundation grants for special purchases at the North Muskegon and Norton Shores Branches.

Expenditures

- Salaries and wages were lower than anticipated due to a vacant position and a part-time director.
- Fringe benefits were lower than anticipated due to a vacant position and a part-time director.
- Contracted services were less than anticipated due to lower branch expenditures.

Muskegon Area District Library

Library Management's Discussion and Analysis

- Telephone expense was lower than anticipated due to moving our internet from the Lakeland Library Cooperative to local internet providers which has provided the Library with substantial savings.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$1,465,366 invested in the building, software, equipment, books and materials net of depreciation. The Library added \$259,429 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 2015 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 2014 levels for 2015. 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 2014 levels for 2015.

Penal fines vary from year to year and can only be estimated on previous year's receipts. After years of erosion due to a result of alternative sentencing, increased fees, and parallel ordinances passed by local units of government, 2014 reflects a welcomed increase that will hopefully begin a leveling 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 December each year.

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

A new Director came on board in January 2015 with a new vision for MADL. As well, the beginning efforts for a millage campaign have begun.

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, 2014

	Balance Sheet - Modified Accrual	Adjustments	Statement of Net Position - Full Accrual
ASSETS			
Cash and cash equivalents	\$ 1,902,940	\$ -	\$ 1,902,940
Investments	498,511	-	498,511
Property taxes receivable	2,193,957	-	2,193,957
Due from other governmental units	110,000	-	110,000
Prepaid items	25,188	-	25,188
Capital assets, net of depreciation			
Nondepreciable	-	164,099	164,099
Depreciable	-	1,301,237	1,301,237
Net other postemployment benefits asset	-	37,187	37,187
	\$ 4,730,596	1,502,523	6,233,119
LIABILITIES			
Accounts payable	\$ 34,812	-	34,812
Accrued liabilities	67,501	-	67,501
Compensated absences	-	183,375	183,375
	102,313	183,375	285,688
DEFERRED INFLOWS OF RESOURCES			
Property taxes levied for subsequent fiscal year	2,504,879	-	2,504,879
	2,607,192	183,375	2,790,567
FUND BALANCE			
Nonspendable - prepaid items	25,188	(25,188)	-
Assigned for subsequent year's budget appropriation	121,851	(121,851)	-
Unassigned	1,976,365	(1,976,365)	-
	2,123,404	(2,123,404)	-
	\$ 4,730,596		
NET POSITION			
Net investment in capital assets		1,465,336	1,465,336
Unrestricted		1,977,216	1,977,216
		\$ 3,442,552	\$ 3,442,552

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, 2014

	Revenues and Expenditures - Modified		Statement of Activities -
	Accrual	Adjustments	Full Accrual
REVENUES			
Property taxes	\$ 2,302,230	\$ -	\$ 2,302,230
Intergovernmental revenue - State	111,475	-	111,475
Charges for services	7,564	-	7,564
Fines and forfeitures	280,353	-	280,353
Investment earnings	6,793	-	6,793
Contributions	37,960	-	37,960
Reimbursements	19,927	-	19,927
Other	18,362	-	18,362
	<hr/>		
Total revenues	2,784,664	-	2,784,664
EXPENDITURES			
Current			
Salaries and wages	1,205,069	7,496	1,212,565
Fringe benefits	488,267	4,736	493,003
Operating supplies	42,721	-	42,721
Repairs and maintenance	28,514	-	28,514
Professional services	89,802	-	89,802
Utilities	11,203	-	11,203
Insurance	10,916	-	10,916
Travel	16,025	-	16,025
Contracted services	383,720	-	383,720
Telephone	26,646	-	26,646
Occupancy	8,986	-	8,986
Other	86,354	-	86,354
Capital outlay	323,904	(259,429)	64,475
Depreciation	-	346,111	346,111
	<hr/>		
Total expenditures	2,722,127	98,914	2,821,041
	<hr/>		
Change in fund balance—net position	62,537	(98,914)	(36,377)
Fund balance—net position at January 1, 2014	2,060,867	1,418,062	3,478,929
	<hr/>		
Fund balance—net position at December 31, 2014	\$ 2,123,404	\$ 1,319,148	\$ 3,442,552
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The accompanying notes are an integral part of this statement.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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.

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, 2014

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, 2014

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, 2014

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.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

Property Taxes—Continued

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

The 2013 state taxable value for real/personal property of the Library totaled approximately \$3,173,000,000. 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, 2014

NOTE C—DEPOSITS AND INVESTMENTS

As of December 31, 2014, 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	\$498,511	20	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. As of December 31, 2014, \$1,419,157 of the Library's bank balance of \$1,919,157 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments

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

Foreign Currency Risk

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 98,400	\$ -	\$ -	\$ 98,400
Construction in progress	65,699	-	-	65,699
Total capital assets, not being depreciated	164,099	-	-	164,099
Capital assets, being depreciated:				
Building and improvements	550,407	-	-	550,407
Library books, periodicals, etc.	2,867,753	259,429	186,656	2,940,526
Furniture and equipment	347,153	-	-	347,153
Total capital assets, being depreciated	3,765,313	259,429	186,656	3,838,086
Less accumulated depreciation:				
Building and improvements	43,448	15,269	-	58,717
Library books, periodicals, etc.	2,056,823	312,158	186,656	2,182,325
Furniture and equipment	277,123	18,684	-	295,807
Total accumulated depreciation	2,377,394	346,111	186,656	2,536,849
Total capital assets, being depreciated, net	1,387,919	(86,682)	-	1,301,237
Capital assets, net	<u>\$ 1,552,018</u>	<u>\$ (86,682)</u>	<u>\$ -</u>	<u>\$ 1,465,336</u>

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, 2014:

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2014</u>	<u>Due Within One Year</u>
Compensated absences	\$ 175,879	\$ 93,543	\$ 86,047	\$ 183,375	\$ 90,000

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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, 2014, these funds were valued at approximately \$192,000.

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 13.58 percent of annual covered payroll. The contribution requirements of plan members and the library are established and may be amended by the Library.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Defined Benefit Pension Plan—Continued

Annual Pension Cost

For the year ended December 31, 2014, the Library’s annual pension cost was approximately \$88,000 which the Library contributed. The employees contributed approximately \$15,700.

Trend Information

<u>Year Ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/12	\$ 63,000	100 %	\$ -
12/31/13	72,000	100	-
12/31/14	88,000	100	-

The required contribution was determined as part of the December 31, 2012 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 13.0 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, 2013 was 26 years. This period will be reduced by one year in each of the next six 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, 2013, the most recent actuarial valuation date, the plan was 84 percent funded. The actuarial accrued liability for benefits was approximately \$1,928,000, and the actuarial value of assets was approximately \$1,614,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$314,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$661,000, and the ratio of the UAAL to the covered payroll was 48 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.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

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, 2014, the Library contributed \$30,749 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	\$ 35,021
Interest on net OPEB obligation	(3,144)
Adjustment to annual required contribution	3,608
Net OPEB cost	35,485
Payments made to or on behalf of retirees	-
Contributions made to OPEB trust	(30,749)
Decrease in net OPEB asset	(4,736)
Net OPEB asset at beginning of year	41,923
Net OPEB asset at end of year	\$ 37,187

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE H—OTHER POSTEMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Annual OPEB Cost and Net OPEB Obligation—Continued

Trend Information

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
12/31/12	\$ 35,203	126 %	\$ 26,424
12/31/13	33,161	147	41,923
12/31/14	35,485	87	37,187

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, 2013 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 4 percent initially, reduced by decrements to an ultimate rate of 0 percent after 4 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, 2013 is 27 years.

Funded Status and Progress

As of December 31, 2013, the most recent actuarial valuation date, the Retiree Healthcare Plan was 99 percent funded. The actuarial accrued liability for benefits was approximately \$494,000, and the actuarial value of assets was approximately \$487,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$7,000. The covered payroll (annual payroll of active employees covered by the Retiree Healthcare Plan) was approximately \$508,000, and the ratio of the UAAL to the covered payroll was 1 percent.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE H—OTHER POSTEMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Funded Status and Progress—Continued

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.

NOTE I—UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement 68—*Accounting and Financial Reporting for Pensions* was issued by the GASB in June 2012 and will be effective for the Library’s 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their Statement of Net Position a net pension liability. The net pension liability is the difference between the total pension 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.

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

Total fund balance —governmental fund		\$ 2,123,404
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.		
Cost of capital assets	\$4,002,185	
Accumulated depreciation	<u>(2,536,849)</u>	1,465,336
The net other postemployment benefits asset is not an available resource and, therefore, is not reported in the governmental fund		
		37,187
Compensated absences in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
		<u>(183,375)</u>
Net position of governmental activities		<u><u>\$ 3,442,552</u></u>

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

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

Net change in fund balance—total governmental fund \$ 62,537

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	\$ (346,111)	
Capital outlay	<u>259,429</u>	(86,682)

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	(4,736)	
Change in compensated absences	<u>(7,496)</u>	<u>(12,232)</u>

Change in net position in governmental activities	<u>\$ (36,377)</u>
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REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Area District Library
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 For the year ended December 31, 2014

	<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	\$ 2,376,372	\$ 2,302,500	\$ 2,302,230	\$ (270)
Intergovernmental revenues - State	111,440	111,475	111,475	-
Charges for services	8,600	8,600	7,564	(1,036)
Fines and forfeitures	250,403	283,088	280,353	(2,735)
Interest and rentals	10,000	10,000	6,793	(3,207)
Contributions	5,000	5,000	37,960	32,960
Reimbursements	16,000	20,000	19,927	(73)
Other	29,000	19,000	18,362	(638)
Total revenues	2,806,815	2,759,663	2,784,664	25,001
Expenditures				
Current				
Salaries and wages	1,285,900	1,278,922	1,205,069	73,853
Fringe benefits	568,325	533,550	488,267	45,283
Operating supplies	39,000	44,500	42,721	1,779
Repairs and maintenance	28,200	36,000	28,514	7,486
Professional services	26,800	86,015	89,802	(3,787)
Utilities	12,500	14,200	11,203	2,997
Insurance	20,700	19,034	10,916	8,118
Travel	13,750	17,250	16,025	1,225
Contracted services	408,200	403,134	383,720	19,414
Telephone	66,600	39,035	26,646	12,389
Occupancy	9,000	9,000	8,986	14
Other	97,180	102,720	86,354	16,366
Capital outlay	379,000	338,000	323,904	14,096
Total expenditures	2,955,155	2,921,360	2,722,127	199,233
Net change in fund balance	<u>\$ (148,340)</u>	<u>\$ (161,697)</u>	62,537	<u>\$ 224,234</u>
Fund balance at January 1, 2014			2,060,867	
Fund balance at December 31, 2014			<u>\$ 2,123,404</u>	

Muskegon Area District Library
 Required Supplementary Information
SCHEDULES OF FUNDING PROGRESS
 For the year ended December 31, 2014

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
12/31/11	\$ 1,321,751	\$ 1,426,360	\$ 104,609	93 %	\$ 690,874	15 %
12/31/12	1,455,169	1,708,919	253,750	85	670,705	38
12/31/13	1,614,364	1,928,563	314,199	84	661,171	48

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
12/31/13	486,817	493,652	6,835	99	508,041	1