

Muskegon Area District Library
Muskegon, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

December 31, 2018



Muskegon Area District Library

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Muskegon Area District Library
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Muskegon Area District Library, Michigan, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Muskegon Area District Library
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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, 2018, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note J to the financial statements, the Muskegon Area District Library Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require management's discussion and analysis, budgetary comparison schedule, and pension and other post-employment benefits schedules on pages 3 - 8 and 33 - 37 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Muskegon, Michigan
June 6, 2019

Muskegon Area District Library

Library Management's Discussion and Analysis

Brief Discussion of the Basic Financial Statements

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

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

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

Condensed Financial Information

Statement of Net Position

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

Current assets and other assets increased due to an increase in cash due to an overall increase in net position. Deferred inflows and outflows increase due to implementation of GASB 75 related to other postemployment benefits. Liabilities decreased due to a drop in our net pension liability due to increased contributions and positive investment performance.

Statement of Net Position

	<u>2018</u>	<u>2017</u>
Current assets and other assets	\$ 7,661,816	\$ 6,091,168
Capital assets, net	<u>1,584,831</u>	<u>1,527,737</u>
Total assets	9,246,647	7,618,905
Deferred outflows of resources	<u>305,091</u>	<u>325,644</u>
Total assets and deferred outflows of resources	9,551,738	7,944,549
Liabilities		
Current	73,649	86,262
Noncurrent	<u>456,348</u>	<u>660,010</u>
	529,997	746,272
Total deferred inflows of resources	<u>3,962,039</u>	<u>3,697,183</u>
Total liabilities and deferred inflows of resources	<u>4,492,036</u>	<u>4,443,455</u>
Net position		
Net investment in capital assets	1,561,910	1,492,884
Unrestricted	<u>3,497,792</u>	<u>2,008,210</u>
Total net position	<u>\$ 5,059,702</u>	<u>\$ 3,501,094</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>2018</u>	<u>2017</u>
General revenues		
Property taxes	\$ 3,504,496	\$ 3,347,851
Grants and contributions	510,965	245,754
Fines and forfeitures	224,847	239,898
Other	182,302	106,537
Total revenues	<u>4,422,610</u>	<u>3,940,040</u>
Expenses		
Salaries and wages	1,471,965	1,396,595
Fringe benefits	447,267	577,858
Contracted services	369,792	426,396
Depreciation	298,409	308,761
Other expenses	608,721	525,600
Total expenses	<u>3,196,154</u>	<u>3,235,210</u>
Change in net assets	1,226,456	704,830
Net position at beginning of year, as restated	<u>3,833,246</u>	<u>2,796,264</u>
Net position at end of year	<u>\$ 5,059,702</u>	<u>\$ 3,501,094</u>

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

- Property tax revenues increased due to an increase in taxable value.
- There was a substantial increase in State Grants as the Library received \$392,268 from the Local Community Stabilization Authority (LCSA). The LCSA was established on October 1, 2014, as a metropolitan government for the metropolitan areas of the State of Michigan under section 27 of article VII of the Michigan Constitution of 1963 by the Local Community Stabilization Authority Act, 2014 PA86, as amended, MCL123.1342 et seq (the "LCSA Act"). The Authority levies the local community stabilization share tax under the USE Tax Act, 1937 PA 94, MCL 205.91 et seq. and distributes the revenue generated to local and intergovernmental units of government throughout Michigan under the LSCA Act for local purposes. In 2018, the MADL Board committed \$300,000 of this revenue to go to the Storyville project.
- Penal fines decreased 7% in 2018.
- Other revenues rose due to an increase in Universal Service Funds (USF) fees per the fiber network system in place since 2016. The Library added new multi-function copy machines at all library branches in December 2015. In addition to black and white copy services, branches now offer color copies and fax service to patrons. The income from the new services has increased revenues significantly. (Other revenues).
- Interest income increased due to switching banks and receiving a higher rate of return.

Muskegon Area District Library

Library Management's Discussion and Analysis

Expenses

- Salaries and wages increased due to the hiring of two essential positions, an IT Manager and an Early Literacy Coordinator. As well, MADL opened two branches (Ravenna and Montague) on Thursdays which gives the public 10 more hours open per week.
- Fringe benefits decreased due to lower benefit costs such as medical insurance.
- Contracted services decreased due to lower than anticipated costs.
- Other Expenses came in higher as MADL is providing more public programming and more staff training. Both of which are part of the Strategic Plan.

The Library's Fund

The analysis of the Library's sole fund, the General Fund, is included on pages 9 and 10. Revenues for 2018 were up due to higher taxable value.

The Library's Budget Highlights

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

The Library ended 2018 with a circulation count of 567,168, a slight decline from 2017. The Library saw record-high increases in programs and program attendance as well as the E-Library. The Library continues to thrive with technological advances and downloadable materials, indicating libraries remain vital in the community.

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

Revenues

- Property taxes were amended higher as revenues came in higher than expected.
- Penal fines were amended lower to reflect the decrease in collections.

Expenditures

- Fringe benefits were amended lower due to medical insurance premiums increasing less than expected.
- Retirement contribution was amended upward as the Library increased the percentages of employer contributions to the Municipal Employees Retirement System (MERS) so as to keep a healthy funding level.
- The Electronic Services budget was increased substantially due to the escalating need to update and provide electronic services to the public. The MADL added several new databases including Ancestry.com and Reference USA as well as ebooks, etc.

Muskegon Area District Library

Library Management's Discussion and Analysis

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

Revenues

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

Expenditures

- Salaries and wages came in lower than anticipated due to staff additions not taking place until the end of the year and a retirement.
- Fringe benefits came in lower than expected due to lower than anticipated health insurance costs.
- Other expenditures came in higher due to a significant increase in electronic services.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$1,584,831 invested in the building, software, equipment, books and materials net of depreciation. The Library added \$300,853 in new collection items consisting of new books and various audio/visual materials and \$54,650 in expenditures for Storyville.

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

Next Year's Anticipated Budget Factors and Currently Known Facts

The Library's budget for 2019 projects a surplus budget for the year and a positive fund balance at year end. The majority of revenues will come from property taxes and penal fines. The remainder of funds will come from state aid grants to libraries, Universal Service Fund credits, book sale revenues, overdue book fines, lost and damaged book charges, photocopier income and memorial and other donations from individuals and groups.

It is anticipated that state aid grants to libraries will be maintained at 2018 levels for 2019. State aid grants are a small portion of the Library's overall budget, but are a large portion of the budget for the Library for the Visually and Physically Disabled (LVPD). As well, State aid grants are important to library cooperatives and cooperative services to member libraries. Cooperative state aid is anticipated to maintain 2018 levels for 2019.

Penal fines vary from year to year and can only be estimated based upon previous year's receipts. 2017 saw the first decline in penal fine revenue in the past four years. 2018 saw another decline.

Muskegon Area District Library

Library Management's Discussion and Analysis

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

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

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

The architects for Storyville have designed three unique Storyville villages for three MADL Branches (Montague, Muskegon Heights and Norton Shores) The new Storyville concept and design has been widely accepted across Muskegon County. The project has moved forward and a fabricator and project manager have been selected. The construction of the Storyville Villages should commence and as well, be completed in 2019. The Montague Branch Library will have a submarine and weather station, The Muskegon Heights Branch will have a house and garden and the Norton Shores Branch will have a baby garden, toddler bay and a camp store. Early literacy is and will remain a high priority for MADL.

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

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

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

The Library's growth in upgrading services and adding new technology has been slow but methodical. Significant limitations are now arising with internet speed, servers, software, etc. that are affecting all areas of the Library both public and internal. In 2018 the Library hired an IT Manager who has started the process of making the significant advancements needed in all aspects of the Library's information technology including, hardware, software, training, a new library website and VOIP Telephone System. Technology is a major function that drives today's libraries.

MADL's focus in the future will be to not only expand the range of services and material for the public but to focus on updating library branch buildings as well. MADL will work with area municipalities to accomplish these goals.

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

Muskegon Area District Library

Library Management's Discussion and Analysis

Contacting the Library's Financial Management

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

Muskegon Area District Library
BALANCE SHEET—STATEMENT OF NET POSITION
December 31, 2018

	Balance Sheet - Modified Accrual	Adjustments	Statement of Net Position - Full Accrual
ASSETS			
Cash and cash equivalents	\$ 3,900,283	\$ -	\$ 3,900,283
Property taxes receivable	3,226,493	-	3,226,493
Due from other governmental units	120,000	-	120,000
Prepaid items	71,591	-	71,591
Capital assets, net of depreciation			
Nondepreciable	-	420,446	420,446
Depreciable	-	1,164,385	1,164,385
Net other post-employment benefits asset	-	343,449	343,449
	7,318,367	1,928,280	9,246,647
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions and other post employment benefits	-	305,091	305,091
	-	305,091	305,091
Total assets and deferred outflows of resources	\$ 7,318,367	2,233,371	9,551,738
LIABILITIES			
Accounts payable	\$ 44,760	-	44,760
Accrued liabilities	28,889	-	28,889
Noncurrent liabilities			
Due within one year			
Capital lease and other obligations	-	57,700	57,700
Due in more than one year			
Capital lease and other obligations	-	143,328	143,328
Net pension liability	-	255,320	255,320
	73,649	456,348	529,997
DEFERRED INFLOWS OF RESOURCES			
Related to pensions and other post-employment benefits	-	239,749	239,749
Unavailable penal fines	120,000	-	120,000
Property taxes levied for subsequent fiscal year	3,602,290	-	3,602,290
	3,795,939	696,097	4,492,036
FUND BALANCE			
Nonspendable - prepaid items	71,591	(71,591)	-
Unassigned	3,450,837	(3,450,837)	-
	3,522,428	(3,522,428)	-
Total liabilities, deferred inflows of resources and fund balance	\$ 7,318,367		
NET POSITION			
Net investment in capital assets		1,561,910	1,561,910
Unrestricted		3,497,792	3,497,792
		\$ 5,059,702	\$ 5,059,702

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, 2018

	Revenues and Expenditures - Modified Accrual	Adjustments	Statement of Activities - Full Accrual
REVENUES			
Property taxes	\$ 3,504,496	\$ -	\$ 3,504,496
Intergovernmental revenue - State	510,965	-	510,965
Charges for services	20,751	-	20,751
Fines and forfeitures	224,847	-	224,847
Investment earnings	24,148	-	24,148
Contributions	79,516	-	79,516
Reimbursements	11,950	-	11,950
Other	45,937	-	45,937
Total revenues	4,422,610	-	4,422,610
EXPENDITURES			
Current			
Salaries and wages	1,517,665	(45,700)	1,471,965
Fringe benefits	531,294	(84,027)	447,267
Operating supplies	101,933	-	101,933
Repairs and maintenance	52,460	-	52,460
Professional services	38,346	-	38,346
Utilities	8,540	-	8,540
Insurance	13,900	-	13,900
Travel	14,548	-	14,548
Contracted services	369,792	-	369,792
Telephone	131,024	-	131,024
Occupancy	11,875	-	11,875
Other	182,983	-	182,983
Debt service			
Principal	11,932	(11,932)	-
Interest and fees	969	-	969
Capital outlay	407,646	(355,503)	52,143
Depreciation	-	298,409	298,409
Total expenditures	3,394,907	(198,753)	3,196,154
Change in fund balance—net position	1,027,703	198,753	1,226,456
Fund balance—net position at January 1, 2018, as restated	2,494,725	1,338,521	3,833,246
Fund balance—net position at December 31, 2018	\$ 3,522,428	\$ 1,537,274	\$ 5,059,702

The accompanying notes are an integral part of this statement.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Area District Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

Reporting Entity

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

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

Basis of Presentation—Government-wide and Fund Financial Statements

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

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

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Prepaid Items

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

Capital Assets

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

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

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

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

Defined Benefit Plan

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

Other Postemployment Benefit Costs

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Deferred Outflows/Inflows of Resources

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

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

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses

Property Taxes

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

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

The 2017 state taxable value for real/personal property of the Library totaled approximately \$2,780,000. The ad valorem taxes levied consisted of 1.249 mills for operation.

Compensated Absences

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

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

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE C—DEPOSITS AND INVESTMENTS

Deposit and Investment Risks

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

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, 2018, \$3,400,393 of the Library's bank balance of \$3,900,393 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, 2018

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balance January 1, 2018	Additions	Deductions	Balance December 31, 2018
Capital assets, not being depreciated:				
Land	\$ 98,400	\$ -	\$ -	\$ 98,400
Construction in progress	267,396	54,650	-	322,046
Total capital assets, not being depreciated	365,796	54,650	-	420,446
Capital assets, being depreciated:				
Building and improvements	565,680	-	-	565,680
Library books, periodicals, etc.	2,437,526	300,853	458,277	2,280,102
Furniture and equipment	353,670	-	-	353,670
Total capital assets, being depreciated	3,356,876	300,853	458,277	3,199,452
Less accumulated depreciation:				
Building and improvements	101,169	14,388	-	115,557
Library books, periodicals, etc.	1,819,586	258,616	458,277	1,619,925
Furniture and equipment	274,180	25,405	-	299,585
Total accumulated depreciation	2,194,935	298,409	458,277	2,035,067
Total capital assets, being depreciated, net	1,161,941	2,444	-	1,164,385
Capital assets, net	\$ 1,527,737	\$ 57,094	\$ -	\$ 1,584,831

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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, 2018:

	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2018</u>	<u>Due Within One Year</u>
Capital lease	\$ 34,853	\$ -	\$ 11,932	\$ 22,921	\$ 12,000
Compensated absences	230,160	175,879	227,932	178,107	45,700
	\$ 265,013	\$ 175,879	\$ 239,864	\$ 201,028	\$ 57,700

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
Capital lease	3.295%	October 2020	\$ 22,921

The annual requirements of principal and interest to amortize the capital lease outstanding as of December 31, 2018 follow:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 12,331	\$ 570	\$ 12,901
2020	10,590	161	10,751
	\$ 22,921	\$ 731	\$ 23,652

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, 2018, these funds were valued at approximately \$489,000.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2018

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Defined Benefit Pension Plan – MERS

Plan Description

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

Benefits Provided

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

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

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

Employees Covered by Benefit Terms

At December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	-
Active employees	20
Total employees covered by MERS	26

Contributions

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

For the year ended December 31, 2018, the Library’s contributions rate was 8.64% based on annual covered payroll. Employees are required to contribute from 2.25% to 2.34%.

Net Pension Liability

The Library’s net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2018

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Defined Benefit Pension Plan—MERS—Continued

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	57.5%	5.02%
Global fixed income	20.0%	2.18%
Real assets	12.5%	4.23%
Diversifying strategies	10.0%	6.56%

Discount Rate

The discount rate used to measure the total pension liability was 8% in 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Library contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Defined Benefit Pension Plan—MERS—Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Position (b)	Net Pension Liability (a)-(b)
Balance at January 1, 2017	\$ 2,357,955	\$ 1,956,605	\$ 401,350
Changes for the year			
Service costs	111,268	-	111,268
Interest	190,275	-	190,275
Experience differences	(16,125)	-	(16,125)
Contributions - employer	-	146,216	(146,216)
Contributions - employee	-	22,144	(22,144)
Net investment income	-	267,303	(267,303)
Administrative expenses	-	(4,214)	4,214
Benefit payments including refund of employee contributions	(70,314)	(70,314)	-
Net Changes	215,104	361,135	(146,031)
Balance at December 31, 2017	\$ 2,573,059	\$ 2,317,740	\$ 255,319

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Library's net pension liability	\$ 529,278	\$ 255,319	\$ 19,727

Discount Rate

The discount rate used to measure the total pension liability was 8 percent for 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Library contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Defined Benefit Pension Plan—MERS—Continued

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

For the year ended December 31, 2018, the Library recognized pension expense of \$104,363. At December 31, 2018, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 152,323
Differences in assumptions	57,599	-
Excess (deficit) investment returns	-	41,489
Contributions subsequent to the measurement date*	170,093	-
Total	\$ 227,692	\$ 193,812

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending December 31, 2019.

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

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

Year Ending December 31,	Amount
2019	\$ (14,002)
2020	(19,936)
2021	(76,656)
2022	(22,934)
2023	(2,685)

Payables to the Pension Plan

At December 31, 2018 the Library had no payables to the defined benefit pension plan.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2018

NOTE H— OTHER POST-EMPLOYMENT BENEFITS

Retiree Healthcare Plan

Plan Description

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

Benefits Provided

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

Employees Covered by Benefit Terms

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

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

Contributions

The OPEB Plan’s funding policy is that the Organization will make discretionary contributions. There are no long-term contracts for contributions to the OPEB Plan. The OPEB Plan has no legally required reserves. For the year ended December 31, 2018, the Organization made payments for postemployment healthcare benefits for current retirees of \$6,004.

Net OPEB Liability

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

Actuarial Assumptions

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

Inflation	Included in investment rate of return
Salary increases	3.5 percent
Investment rate of return	7.75 percent (including inflation)
Healthcare cost trend rates	Pre-65: 8.5 percent graded down to 4.5 percent over 16 years Post-65: 7 percent graded down to 4.5 percent over 10 years

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2018

NOTE H—OTHER POST-EMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Actuarial Assumptions—Continued

Mortality

Mortality rates were as set forth in the RP-2014 headcount adjusted to 2006 Total Data Set with MP-2018 improvement scale.

Investment Rate of Return

The long-term rate of return on retirement plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan’s target asset allocation as of December 31, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return (including inflation)
Global Equity	55.5%	8.65%
Global Fixed Income	18.5%	3.76%
Real Assets	13.5%	9.72%
Diversifying Strategies	12.5%	7.50%

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

Discount Rate

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE H—OTHER POST-EMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Changes in the Net OPEB Asset

	Increase (Decrease)		Net OPEB
	Total OPEB Liability (a)	Plan Fiduciary Position (b)	Asset (a)-(b)
Balance at January 1, 2018	\$ 415,069	\$ 768,128	\$ (353,059)
Changes for the year			
Service cost	8,158	-	8,158
Interest	32,567	-	32,567
Difference between expected and actual experience	(65,647)	-	(65,647)
Changes of assumptions	10,959	-	10,959
Contributions - employer	-	6,004	(6,004)
Net investment income	-	(27,705)	27,705
Administrative expenses	-	(1,872)	1,872
Benefit payments including refund of employee contributions	(6,004)	(6,004)	-
Net changes	(19,967)	(29,577)	9,610
Balance at December 31, 2018	\$ 395,102	\$ 738,551	\$ (343,449)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Organization's net OPEB asset	\$ 298,633	\$ 343,449	\$ 381,486

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2018

NOTE H—OTHER POST-EMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

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

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

	1% Decrease (7.5%)	Current Healthcare Cost Trend Rates (8.5%)	1% Increase (9.5%)
Organization's net OPEB asset	\$ 386,285	\$ 343,449	\$ 292,542

OPEB Plan Fiduciary Net Position

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2018

NOTE H—OTHER POST-EMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

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

For the year ended December 31, 2018, the Organization recognized OPEB expense of \$15,848. At December 31, 2018, the Organization reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 45,937
Differences in assumptions	7,669	-
Net difference between projected and actual net investment income	69,730	-
Total	\$ 77,399	\$ 45,937

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

Year Ending September 30,	Amount
2019	\$ 1,012
2020	1,012
2021	12,003
2022	17,435

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2018

NOTE I—TAX ABATEMENTS

Industrial Facilities Exemption

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

Muskegon Township

For year ended December 31, 2018, Library property taxes were reduced by \$3,960 under this program.

City of Montague

For the year ended December 31, 2018, Library property taxes were reduced by \$1,190 under this program.

City of Norton Shores

For the year ended December 31, 2018, Library property taxes were reduced by \$7,507 under this program.

All other Municipalities

For the year ended December 31, 2018, Library property taxes were reduced by \$5,713 under this program.

NOTE J—CHANGE IN ACCOUNTING PRINCIPLE

The net position of the governmental activities was restated, effective January 1, 2018, to reflect the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. GASB Statement No. 75 changed how governments measure and report the long-term obligations and annual costs associated with postemployment benefits other than pensions that they provide.

The restatement of the beginning of the year net position is as follows:

	Governmental Activities
Net position at January 1, 2018	\$ 3,501,094
Net OPEB asset	332,152
Net position at January 1, 2018, as restated	\$ 3,833,246

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE K—UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement 84—*Fiduciary Activities* was issued by the GASB in January 2017 and will be effective for the Organization’s 2020 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the Organization’s 2021 fiscal year. The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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

Total fund balance—governmental fund \$ 3,522,428

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	\$3,619,898	
Accumulated depreciation	<u>(2,035,067)</u>	1,584,831

Deferred outflows and inflows of resources related to pensions
and other post-employment benefits are not reported in the governmental funds.

Deferred outflows of resources - related to pensions	227,692	
Deferred inflows of resources - related to pensions	(193,812)	
Deferred outflows of resources - related to other post-employment benefits	77,399	
Deferred inflows of resources - related to other post-employment benefits	<u>(45,937)</u>	65,342

The net other post-employment benefits asset is not an available resource
and, therefore, is not reported in the governmental fund 343,449

Long-term obligations in governmental activities are not due
and payable in the current period and are not reported in the
governmental funds.

Capital lease	(22,921)	
Compensated absences	(178,107)	
Net pension liability	<u>(255,320)</u>	<u>(456,348)</u>

Net position of governmental activities **\$ 5,059,702**

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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

Net change in fund balance—total governmental fund \$ 1,027,703

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	\$ (298,409)	
Capital outlay	<u>355,503</u>	57,094

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

Change in net other post-employment benefits	21,852	
Change in compensated absences	<u>45,700</u>	67,552

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

Repayment of principal on long-term debt		11,932
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Some pension related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

		<u>62,175</u>
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Change in net position in governmental activities		<u><u>\$ 1,226,456</u></u>
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NOTE M—COMMITMENTS

At December 31, 2018, the Library had outstanding commitments for the Storyville project totaling approximately \$468,000. It is anticipated that a significant portion of this expenditure will be funded with distributions from the Community Foundation fund. See note F for additional information on the Community Foundation.

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Area District Library
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
For the year ended December 31, 2018

	<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	\$ 3,418,181	\$ 3,505,000	\$ 3,504,496	\$ (504)
Intergovernmental revenues - State	218,667	510,966	510,965	(1)
Charges for services	21,000	23,000	20,751	(2,249)
Fines and forfeitures	249,638	228,835	224,847	(3,988)
Interest and rentals	18,000	24,000	24,148	148
Contributions	5,000	5,000	79,516	74,516
Reimbursements	9,000	11,000	11,950	950
Other	12,200	46,800	45,937	(863)
Total revenues	3,951,686	4,354,601	4,422,610	68,009
Expenditures				
Current				
Salaries and wages	1,551,184	1,564,300	1,517,665	46,635
Fringe benefits	610,100	555,420	531,294	24,126
Operating supplies	109,000	113,300	101,933	11,367
Repairs and maintenance	77,000	78,500	52,460	26,040
Professional services	45,000	44,500	38,346	6,154
Utilities	14,250	14,200	8,540	5,660
Insurance	18,000	18,500	13,900	4,600
Travel	25,950	17,005	14,548	2,457
Contracted services	447,694	383,394	369,792	13,602
Telephone	136,800	75,850	131,024	(55,174)
Occupancy	11,000	13,500	11,875	1,625
Other	207,605	212,105	182,983	29,122
Debt service				
Principal	11,932	12,901	11,932	969
Interest and fees	969	969	969	-
Capital outlay	448,500	459,000	407,646	51,354
Total expenditures	3,714,984	3,563,444	3,394,907	168,537
Net change in fund balance	<u>\$ 236,702</u>	<u>\$ 791,157</u>	1,027,703	<u>\$ 236,546</u>
Fund balance at January 1, 2018			<u>2,494,725</u>	
Fund balance at December 31, 2018			<u>\$ 3,522,428</u>	

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

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

Notes to Schedule

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	\$ 94,824	\$ 115,317	\$ 93,445	\$ 103,140	\$ 87,579	\$ 72,000	\$ 63,000	\$ 68,000	\$ 61,000	\$ 71,000
Contributions in relation to the actuarially determined contribution	166,538	146,392	97,945	103,140	87,579	72,000	63,000	68,000	61,000	71,000
Contribution deficiency (excess)	\$ (71,714)	\$ (31,075)	\$ (4,500)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	Not available	\$ 963,823	\$ 808,164	\$ 887,423	\$ 670,473	\$ 661,171	\$ 670,705	\$ 690,874	\$ 615,627	\$ 589,873
Contributions as percentage of covered employee payroll	Not available	15.2%	12.1%	11.6%	13.1%	10.9%	9.4%	9.8%	9.9%	12.0%

Notes to Schedule

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

Valuation Date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	21 years
Asset Valuation method	5-year smoothed market
Inflation	2.5 percent
Salary increases	3.75 percent in the long-term
Investment rate of return	7.75 percent, net of investment and administrative expenses
Retirement age	Varies depending on plan adoption
Mortality	50 percent Female/50 percent Male 2014 Group Annuity Mortality Table

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

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

Notes to Schedule

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	\$ (59,178)	\$ (55,325)	\$ (35,472)	\$ (33,703)	\$ (35,021)	\$ (32,905)	\$ (35,058)	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	6,004	5,152	32,422	28,548	30,749	48,660	44,466	-	-	-
Contribution deficiency (excess)	\$ (65,182)	\$ (60,477)	\$ (67,894)	\$ (62,251)	\$ (65,770)	\$ (81,565)	\$ (79,524)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 266,178	Not Available	Not Available	\$ 508,041	\$ 508,041	\$ 208,041	\$ 534,791	Not Available	Not Available	Not Available
Contributions as percentage of covered employee payroll	-22.2%	Not Available	Not Available	-6.6%	-6.9%	-15.8%	-6.6%	Not Available	Not Available	Not Available

Notes to Schedule

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

Valuation Date:

Actuarially determined contribution rates are calculated as of January 1, 2018.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal (level percentage of compensation)
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	7 years
Asset valuation method	Equal to market value of assets
Salary increases	3.5 percent
Investment rate of return	7.75 percent (including inflation), net of administrative and investment expenses
Retirement age	50 - 60 years of age
Mortality	Mortality rates were as set forth in the RP-2014 headcount adjusted to 2006 Total Data Set with MP-2018 improvement scale.