

Spring Lake
District Library



Year Ended
December 31,
2019

Financial
Statements

SPRING LAKE DISTRICT LIBRARY

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INDEPENDENT AUDITORS' REPORT

April 10, 2020

Board of Trustees
Spring Lake District Library
Spring Lake, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Spring Lake District Library* (the "Library") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Spring Lake District Library as of December 31, 2019, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 84

As described in Note 15, the Library implemented the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. Accordingly, beginning net position of fiduciary funds was restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the schedules for the pension and other postemployment benefit plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2020 on our consideration of the Spring Lake District Library’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library’s internal control over financial reporting and compliance.



MANAGEMENT'S DISCUSSION AND ANALYSIS

SPRING LAKE DISTRICT LIBRARY

Management's Discussion and Analysis

As management of the Spring Lake District Library (the "Library"), we offer readers of the Spring Lake District Library financial statements this narrative review and analysis of the financial activities for the year ended December 31, 2019. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- . The assets and deferred outflows of resources of the Library exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$7,590,590 (*net position*).
- . The Library's total net position increased by \$510,227.
- . As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$2,200,817, an increase of \$202,442 in comparison with the prior year.
- . At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,701,723, or 105% of general fund expenditures and transfers out.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's financial statements. The Library's basic financial statements comprise three components:

1. Government-wide statements
2. Fund financial statements, and
3. Notes to the financial statements

Government-wide Statements

The *statement of net position* presents information on all of the Library's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual balance reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the government-wide financial statements display functions of the Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The Library had no business-type activities as of and for the year ended December 31, 2019.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

SPRING LAKE DISTRICT LIBRARY

Management's Discussion and Analysis

Governmental funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Library maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund, and capital projects fund, each of which is a major fund for financial reporting purposes as defined by GASB Statement No. 34.

The Library adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

Reporting the Library's Fiduciary Responsibilities. The Library is the trustee, or fiduciary, for certain amounts held on behalf of others. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Library's own programs. The Library's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. The accounting used for fiduciary funds is much like that used for proprietary funds. The Library is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Library's financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules for the pension and other postemployment benefits plans immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Library's financial position. In the case of the Library, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$7,590,590 at the close of the most recent fiscal year.

SPRING LAKE DISTRICT LIBRARY

Management's Discussion and Analysis

	Net Position	
	Governmental Activities	
	2019	2018
Assets		
Current and other assets	\$ 4,669,423	\$ 4,180,645
Capital assets, net	5,301,342	5,498,387
Total assets	9,970,765	9,679,032
Deferred outflows of resources	168,052	314,108
Liabilities		
Other liabilities	42,660	124,837
Long-term debt	750,435	1,101,303
Total liabilities	793,095	1,226,140
Deferred inflows of resources	1,755,132	1,686,637
Net position		
Net investment in capital assets	4,623,207	4,497,902
Restricted	938,994	799,731
Unrestricted	2,028,389	1,782,730
Total net position	\$ 7,590,590	\$ 7,080,363

A portion of the Library's net position reflects investment in capital assets net of related debt (e.g., land, buildings, vehicles, and equipment, less any related debt used to acquire those assets that is still outstanding). The Library uses these capital assets to provide services to the patrons it serves; consequently, these assets are not available for future spending. Although the Library's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Library's net position represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net position* may be used to meet the Library's ongoing obligations to its general programs.

SPRING LAKE DISTRICT LIBRARY

Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2019	2018
Revenues		
Program revenues:		
Charges for services	\$ 29,202	\$ 36,853
Operating grants and contributions	203,570	187,499
General revenues:		
Property taxes	1,638,265	1,684,329
Penal fines	68,135	59,223
State revenue	16,954	15,511
Unrestricted investment earnings	45,717	32,490
Total revenues	<u>2,001,843</u>	<u>2,015,905</u>
Expenses		
Library services	1,461,257	1,665,177
Interest on long-term debt	30,359	42,070
Total expenses	<u>1,491,616</u>	<u>1,707,247</u>
Change in net position	510,227	308,658
Net position, beginning of year	<u>7,080,363</u>	<u>6,771,705</u>
Net position, end of year	<u>\$ 7,590,590</u>	<u>\$ 7,080,363</u>

Governmental activities. Net position increased by \$510,227. This was largely due an increase in the net pension asset and net other postemployment benefits asset of \$320,254 in comparison with the previous year.

Financial Analysis of the Library's Funds

The fund balance of the Library's general fund increased by \$39,889 during the current fiscal year. The largest revenue source in this fund is property taxes. Expenditures consist primarily of costs associated with operating the Library. The overall increase in fund balance was the result of careful spending control and timing of purchases resulting in total expenditures coming in under budget. Further discussion is provided below in the General Fund Budgetary Highlights section.

The fund balance of the debt service fund decreased by \$11,314 from the prior year. The debt service millage rate is established at the level necessary to cover principal and interest payments on bonds payable. The fund is not expected to accumulate any significant resources.

The fund balance of the capital projects fund increased by \$173,867 primarily due to a transfer in from the general fund of \$181,400 and several large capital projects being completed including a new roof, and a new phone system (previously in construction in progress).

SPRING LAKE DISTRICT LIBRARY

Management's Discussion and Analysis

General Fund Budgetary Highlights

Amendments to the original adopted budget are passed in order to reflect changes in information and circumstances. Some of the more significant changes between the original adopted and final amended budgets were:

- Property tax revenue increased due to a 4.6% increase in taxable value.
- Contribution revenue increased in the amended budget due to the distributions from the endowment balances.

Additionally, at the end of the year there were certain variances between the final amended budget and actual. Some of the more significant variances included:

- Actual salaries and wages and employee benefits expenditures were lower than the amended budget due to changes in staffing levels throughout the year.
- Actual professional fees expense was lower than in the amended budget because there were fewer tech services than anticipated and less snow removal and legal expenses than anticipated.

The Library is not permitted to amend the budget after December 31, 2019 in accordance with State law. Therefore, the budget is estimated as close to actual as possible, with the understanding that small variances are expected.

Capital Assets and Debt Administration

	Capital Assets (Net of Depreciation)	
	Governmental Activities	
	2019	2018
Land	\$ 599,210	\$ 599,210
Construction in progress	-	18,150
Building	4,073,032	4,192,021
Office equipment and furniture	229,152	300,291
Library collection	399,948	388,715
Total	\$ 5,301,342	\$ 5,498,387

Additional information on the Library's capital assets can be found in Note 3 of this report.

SPRING LAKE DISTRICT LIBRARY

Management's Discussion and Analysis

	Outstanding Debt	
	Governmental Activities	
	2019	2018
General obligation bonds and unamortized premium	\$ 686,053	\$ 1,014,342
Compensated absences	64,382	86,961
Total	\$ 750,435	\$ 1,101,303

Additional information on the Library's long-term debt can be found in Note 6 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Library's budget for the year ending December 31, 2020:

- . Siding repair expenses were anticipated.
- . Rebuilding the Capital Projects Fund for future repair and replacement projects was a priority.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Library Director, Spring Lake District Library, 123 E. Exchange St., Spring Lake, MI 49456.

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BASIC FINANCIAL STATEMENTS

SPRING LAKE DISTRICT LIBRARY

Statement of Net Position

December 31, 2019

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 763,815
Restricted cash and cash equivalents	143,200
Investments	1,464,997
Receivables	1,503,142
Prepays	38,534
Net pension asset	64,261
Net other postemployment benefit asset	691,474
Capital assets not being depreciated	599,210
Capital assets being depreciated, net	<u>4,702,132</u>
Total assets	<u>9,970,765</u>
Deferred outflows of resources	
Deferred charge on refunding	7,918
Deferred pension amounts	56,361
Deferred other postemployment benefit amounts	<u>103,773</u>
Total deferred outflows of resources	<u>168,052</u>
Liabilities	
Payables and accrued liabilities	42,660
Long-term debt:	
Due within one year	370,480
Due in more than one year	<u>379,955</u>
Total liabilities	<u>793,095</u>
Deferred inflows of resources	
Taxes levied but intended for subsequent period	1,674,711
Deferred pension amounts	<u>80,421</u>
Total deferred inflows of resources	<u>1,755,132</u>
Net position	
Net investment in capital assets	4,623,207
Restricted:	
Crockery township services	56,991
Debt service	46,555
Pension benefits	40,201
Other postemployment benefits	795,247
Unrestricted	<u>2,028,389</u>
Total net position	<u>\$ 7,590,590</u>

The accompanying notes are an integral part of these financial statements.

SPRING LAKE DISTRICT LIBRARY

Statement of Activities

For the Year Ended December 31, 2019

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Library services	\$ 1,461,257	\$ 29,202	\$ 203,570	\$ (1,228,485)
Interest on long-term debt	30,359	-	-	(30,359)
Total governmental activities	<u>\$ 1,491,616</u>	<u>\$ 29,202</u>	<u>\$ 203,570</u>	<u>(1,258,844)</u>
General revenues				
Property taxes				1,638,265
Penal fines				68,135
State revenue				16,954
Unrestricted investment earnings				45,717
Total general revenues				<u>1,769,071</u>
Change in net position				510,227
Net position, beginning of year				<u>7,080,363</u>
Net position, end of year				<u>\$ 7,590,590</u>

The accompanying notes are an integral part of these financial statements.

SPRING LAKE DISTRICT LIBRARY

Balance Sheet

Governmental Funds

December 31, 2019

	General	Debt Service	Capital Projects	Total
Assets				
Cash and cash equivalents	\$ 408,948	\$ -	\$ 354,867	\$ 763,815
Restricted cash and cash equivalents	56,991	86,209	-	143,200
Investments	1,464,997	-	-	1,464,997
Taxes receivable	1,196,039	293,462	-	1,489,501
Accrued interest receivable	13,641	-	-	13,641
Prepays	37,909	625	-	38,534
Total assets	\$ 3,178,525	\$ 380,296	\$ 354,867	\$ 3,913,688
Liabilities				
Accounts payable	\$ 21,947	\$ -	\$ -	\$ 21,947
Accrued liabilities	16,213	-	-	16,213
Total liabilities	38,160	-	-	38,160
Deferred inflows of resources				
Taxes levied but intended for subsequent period	1,345,470	329,241	-	1,674,711
Fund balances				
Nonspendable	37,909	625	-	38,534
Restricted	56,911	50,430	-	107,341
Assigned	-	-	354,867	354,867
Unassigned	1,700,075	-	-	1,700,075
Total fund balances	1,794,895	51,055	354,867	2,200,817
Total liabilities, deferred inflows of resources and fund balances	\$ 3,178,525	\$ 380,296	\$ 354,867	\$ 3,913,688

The accompanying notes are an integral part of these financial statements.

SPRING LAKE DISTRICT LIBRARY

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2019

Fund balances - total governmental funds \$ 2,200,817

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets not being depreciated	599,210
Capital assets being depreciated, net	4,702,132

Certain pension and other postemployment benefit-related amounts, such as the net pension asset, net other postemployment benefit asset and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.

Net pension asset	64,261
Deferred outflows related to the net pension asset	56,361
Deferred inflows related to the net pension asset	(80,421)
Net other postemployment benefit asset	691,474
Deferred outflows related to the net other postemployment benefit asset	103,773

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deferred charge on refunding of bonds payable, net	7,918
Compensated absences payable	(64,382)
Bonds and loans payable	(675,000)
Unamortized premium on bonds payable	(11,053)
Accrued interest on bonds payable	(4,500)

Net position of governmental activities \$ 7,590,590

The accompanying notes are an integral part of these financial statements.

SPRING LAKE DISTRICT LIBRARY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2019

	General	Debt Service	Capital Projects	Total
Revenues				
Property taxes	\$ 1,294,889	\$ 343,376	\$ -	\$ 1,638,265
State revenue	16,954	-	-	16,954
Local revenue	74,816	-	-	74,816
Contributions	128,322	-	-	128,322
Penal and library fines	82,921	-	-	82,921
Other revenues	14,427	-	-	14,427
Interest income	45,717	152	269	46,138
Total revenues	1,658,046	343,528	269	2,001,843
Expenditures				
Current:				
Library services	1,420,102	-	-	1,420,102
Debt service:				
Principal	-	320,000	-	320,000
Interest	-	34,842	-	34,842
Capital outlay	16,655	-	7,802	24,457
Total expenditures	1,436,757	354,842	7,802	1,799,401
Revenues over (under) expenditures	221,289	(11,314)	(7,533)	202,442
Other financing sources (uses)				
Transfers in	-	-	181,400	181,400
Transfers out	(181,400)	-	-	(181,400)
Total other financing sources (uses)	(181,400)	-	181,400	-
Net change in fund balances	39,889	(11,314)	173,867	202,442
Fund balances, beginning of year	1,755,006	62,369	181,000	1,998,375
Fund balances, end of year	\$ 1,794,895	\$ 51,055	\$ 354,867	\$ 2,200,817

The accompanying notes are an integral part of these financial statements.

SPRING LAKE DISTRICT LIBRARY

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2019

Net change in fund balances - total governmental funds	\$ 202,442
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased/constructed	127,244
Depreciation expense	(324,289)
Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but is reported as a decrease in long-term liabilities on the statement of net position.	
Principal payments on bonds and loans payable	320,000
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 statement of revenues, expenditures and changes in fund balances.	
Change in compensated absences payable	22,579
Change in net pension asset and related deferred amounts	(40,960)
Change in net other postemployment benefit asset and related deferred amounts	198,728
Amortization of premium on bonds payable	8,289
Amortization of deferred charge on bond refunding	(5,939)
Change in accrued interest on bonds payable	2,133
Change in net position of governmental activities	<u>\$ 510,227</u>

The accompanying notes are an integral part of these financial statements.

SPRING LAKE DISTRICT LIBRARY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 1,367,000	\$ 1,295,800	\$ 1,294,889	\$ (911)
State revenue	15,000	17,000	16,954	(46)
Local revenue	79,000	75,425	74,816	(609)
Contributions	100,000	128,000	128,322	322
Penal and library fines	76,000	76,000	82,921	6,921
Other revenues	12,075	14,075	14,427	352
Interest income	12,000	35,000	45,717	10,717
Total revenues	1,661,075	1,641,300	1,658,046	16,746
Expenditures				
Current:				
Salaries and wages	745,000	759,000	757,060	(1,940)
Employee benefits	263,500	219,500	215,970	(3,530)
Supplies	48,000	44,000	43,104	(896)
Library materials	149,500	142,000	145,511	3,511
Professional fees	211,000	189,000	186,225	(2,775)
Utilities	96,000	76,000	68,435	(7,565)
Miscellaneous	4,700	4,400	3,797	(603)
Contingency	427	-	-	-
Capital outlay	30,000	26,000	16,655	(9,345)
Total expenditures	1,548,127	1,459,900	1,436,757	(23,143)
Revenue over expenditures	112,948	181,400	221,289	39,889
Other financing uses				
Transfers out	(124,000)	(181,400)	(181,400)	-
Net change in fund balances	(11,052)	-	39,889	39,889
Fund balances, beginning of year	1,755,006	1,755,006	1,755,006	-
Fund balances, end of year	\$ 1,743,954	\$ 1,755,006	\$ 1,794,895	\$ 39,889

The accompanying notes are an integral part of these financial statements.

SPRING LAKE DISTRICT LIBRARY

Statement of Fiduciary Net Position

Fiduciary Funds
December 31, 2019

	Retiree Healthcare Trust
Assets	
Investments:	
MERS total market portfolio	<u>\$ 980,360</u>
Net position restricted for	
Other postemployment benefits	<u>\$ 980,360</u>

The accompanying notes are an integral part of these financial statements.

SPRING LAKE DISTRICT LIBRARY

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended December 31, 2019

	Retiree Healthcare Trust
Additions	
Investment income:	
Net appreciation in fair value of investments	<u>\$ 117,767</u>
Deductions	
Participant benefits	15,698
Administrative expense	<u>1,677</u>
Total deductions	<u>17,375</u>
Change in net position	100,392
Net position restricted for other postemployment benefits	
Beginning of year, as restated	<u>879,968</u>
End of year	<u><u>\$ 980,360</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Spring Lake District Library (the "Library") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Spring Lake District Library was established as the Warner Baird District Library on May 2, 1994, pursuant to Act No. 24 of the Public Acts of 1989 by participating municipalities of Spring Lake Township and the Village of Spring Lake. During 2003, the Library's name was changed to the Spring Lake District Library. The Library provides library services to the public.

Reporting Entity

The Library is governed by a seven-member Board, appointed in accordance with the Library bylaws. The Board has governance responsibilities over all activities related to the Spring Lake District Library. The Board receives funding from local and state government sources and must comply with commitment requirements of these funding entities. However, the Library is not included in any other governmental "reporting entity" as defined by the Government Accounting Standards Board since the Board members, who are appointed, have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Fiduciary Component Units

The *Retiree Healthcare Trust* has invested other post employment benefit assets in the MERS Retiree Health Funding Vehicle (RHFV). This vehicle allows the government to select the investment risk profile, while gaining the benefit of MERS' investment function. Any payments out of the RHFV are directed by the employer, only by supplying relevant evidence of the amount of retiree health costs incurred. The RHFV is included as a fiduciary component unit of the Library because (1) RHFV is a legally separate entity; (2) RHFV is governed by the Library's Board of Trustees; and, (3) the Library makes contributions to RHFV on behalf of its participants.

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 activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by charges for services and tax revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net position and statement of activities) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 government 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 not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State revenue, fees 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund.

The *debt service fund* is used to account for and report financial resources that are restricted, to expenditure for principal and interest. Revenue is provided through a dedicated property tax millage on ad valorem property in the Library's geographical area.

The *capital projects fund* is used to account for and report financial resources that are assigned to expenditure for improvements to the library's facility. Revenues were from an initial capital campaign when the Library's current facility was constructed. The unspent balance at completion of construction was released from restriction from a donor (whose contribution exceeded the remaining balance). However, the Board has determined that these resources will continue to be set aside for this purpose.

The *retiree healthcare trust fund* accounts for the accumulated resources for other postemployment benefit payments to qualified retirees.

Budgetary Data

The annual budget is prepared by the Library's management and adopted by the Library Board; subsequent amendments are approved by the Library Board. During the current year, the budget was amended in a legally permissible manner.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

The budget has been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenues, expenditures and changes in fund balances - budget and actual - general fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an object level; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Board is included in the financial statements.

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In September of each year, the Library submits to the general public a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. At the September board meeting, the budget is legally enacted through passage of a resolution.
4. The Library Director is authorized to transfer budgeted amounts within any activity.
5. Appropriations for the general fund lapse at the end of the fiscal year.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Cash and Cash Equivalents

The Library considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents partially consists of amounts set aside for future debt service payments on the Library's 2010 refunding bonds in accordance with the terms of the bond agreement. The remaining portion of restricted cash and cash equivalents is comprised of amounts set aside for services to be provided to Crockery Township based on the terms of a 10-year agreement.

Property Taxes Receivable

Property taxes are levied and attach as an enforceable lien of property on December 1. Property taxes are payable through February 14. The property taxes are billed and collected by Spring Lake Township, which then remits the Library's designated portion on a semi-monthly basis. During March of each year, uncollected real property taxes are transferred to Ottawa County which pays the Library for those balances and accepts responsibility for collection. Responsibility for the collection of unpaid personal property taxes remains with Spring Lake Township.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Prepays

The Library incurred expenses prior to year-end for services that will be performed in the next fiscal year. Those services that are expected to be received within one year are expensed when paid. Services covering a period of greater than one year are recorded as an asset to reflect the investment in future services.

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide statements (statement of net position). Capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of revenues, expenditures and changes in fund balances) and are subsequently capitalized on the government-wide statements.

Depreciation is recorded over the estimated useful lives of the assets, using the straight-line method as follows:

	Years
Furniture, fixtures and equipment	5-20
Building and improvements	15-50
Library collection (books and materials)	7

Deferred Outflows of Resources

The Library refunded certain bonds payable in a previous year in order to secure lower interest rates and reduce future expenditures. The difference between the carrying amount of the refunded debt and the amount placed in escrow for purposes of paying the remaining balance of refunded debt is reported as a deferred charge on refunding. This amount is being amortized using the straight-line method over the life of the related bonds. The Library also reports deferred outflows of resources for the difference between expected and actual investment returns, changes in assumptions, and changes in benefits provided to pension plan and other postemployment benefit plans.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Compensated Absences

Library employees earn vacation and personal leave in varying amounts based on length of service. Unused vacation of up to 40 hours and personal leave of up to 240 hours may accumulate and be carried over to a subsequent year. Carryover in excess of these amounts must be approved by management or the Board of Trustees. Compensated absences accrued at year-end, which are subject to payment upon termination, have been included as a liability on the statement of net position and not on the governmental funds balance sheet, as no amount has matured from resignations or retirements.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will 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.

Although the Library's 2019 ad valorem tax is levied and collectible on December 1, 2019, it is the Library's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the Library's operations. Therefore, the entire amount of the December 1, 2019, levy has been reported as a deferred inflow of resources at year-end.

The Library also reports deferred inflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension and other postemployment benefit plans.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Trustees. A formal resolution of the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. Assigned fund balance is reported for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board has retained the authority to assign fund balance. Unassigned fund balance is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted resources are utilized first when allowable costs are incurred where both restricted and unrestricted net position is available.

Pensions and Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net pension asset and net OPEB asset, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the 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.

2. DEPOSITS

Following is a reconciliation of deposit and investment balances as of December 31, 2019:

Financial statements

Statement of net position:

Cash and cash equivalents	\$ 763,815
Restricted cash and cash equivalents	143,200
Investments	1,464,997

Statement of fiduciary net position:

Cash and cash equivalents	<u>980,360</u>
---------------------------	----------------

Total \$ 3,352,372

Deposits are comprised of the following at year-end:

Petty cash	\$ 215
Checking/savings accounts	849,809
Certificates of deposit (due within one year)	1,521,988
Retiree healthcare trust fund	<u>980,360</u>

Total \$ 3,352,372

These deposits are in five (5) financial institutions located in Michigan. State policy limits the Library's investing options to financial institutions located in Michigan. All accounts are in the name of the Library and a specific fund or common account.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Deposit and Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for certificates of deposit have been summarized above.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year-end, \$351,823 of the Library's bank balance of \$2,372,012 was exposed to credit risk because it was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. Investments are exposed to custodial credit risk if the securities are uninsured, unregistered or held by a counterparty or its agency but not in the government's name. In accordance with the Library's investment policy, all investments are held in the name of the Library and are evidenced by a safekeeping receipt confirmation, and thus not exposed to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified under "statutory authority" above. The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

Fair Value Measurement

The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. As of December 31, 2019, the Library's investments in the various MERS funds are classified as level 1.

Statutory Authority

State statutes authorize the Library to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Beginning of Year	Additions	Disposals	Transfers	End of Year
Capital assets not being depreciated:					
Land	\$ 599,210	\$ -	\$ -	\$ -	\$ 599,210
Construction in progress	18,150	7,123	-	(25,273)	-
	<u>617,360</u>	<u>7,123</u>	<u>-</u>	<u>(25,273)</u>	<u>599,210</u>
Capital assets being depreciated:					
Building	5,856,483	-	-	25,273	5,881,756
Furniture and equipment	1,207,719	-	-	-	1,207,719
Library collection	749,761	120,121	(95,193)	-	774,689
	<u>7,813,963</u>	<u>120,121</u>	<u>(95,193)</u>	<u>25,273</u>	<u>7,864,164</u>
Less accumulated depreciation:					
Building	(1,664,462)	(144,262)	-	-	(1,808,724)
Furniture and equipment	(907,428)	(71,139)	-	-	(978,567)
Library collection	(361,046)	(108,888)	95,193	-	(374,741)
	<u>(2,932,936)</u>	<u>(324,289)</u>	<u>95,193</u>	<u>-</u>	<u>(3,162,032)</u>
Total capital assets being depreciated, net	<u>4,881,027</u>	<u>(204,168)</u>	<u>-</u>	<u>25,273</u>	<u>4,702,132</u>
Total capital assets, net	<u><u>\$ 5,498,387</u></u>	<u><u>\$ (197,045)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,301,342</u></u>

4. RECEIVABLES AND PAYABLES

Receivables of governmental activities are comprised of the following:

Taxes	\$ 1,489,501
Accrued interest	13,641
Total	<u><u>\$ 1,503,142</u></u>

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Payables and accrued liabilities of governmental activities are comprised of the following:

Accounts	\$ 21,947
Accrued liabilities	16,213
Accrued interest payable	<u>4,500</u>
Total	<u><u>\$ 42,660</u></u>

5. TRANSFERS

During the year ended December 31, 2019, the general fund made a transfer of \$181,400 to the capital projects fund in order to set aside resources for future improvements to the Library's facility.

6. LONG-TERM DEBT

Long-term debt of the Library consists of the following:

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
2010 refunding bonds; due in annual installments of \$10,000 to \$345,000; interest at 2.0-4.0%, due semi-annually through 2021	\$ 995,000	\$ -	\$ (320,000)	\$ 675,000	\$ 330,000
Unamortized bond premium	19,342	-	(8,289)	11,053	8,289
Compensated absences	<u>86,961</u>	<u>11,633</u>	<u>(34,212)</u>	<u>64,382</u>	<u>32,191</u>
Total long-term debt	<u><u>\$ 1,101,303</u></u>	<u><u>\$ 11,633</u></u>	<u><u>\$ (362,501)</u></u>	<u><u>\$ 750,435</u></u>	<u><u>\$ 370,480</u></u>

General obligation bonds are paid from the debt service fund millage, the energy improvement loan is being paid from capital projects fund reserves, and compensated absences are liquidated by the general fund.

The annual requirements to pay principal and interest on long-term debt outstanding (excluding compensated absences) at year-end are as follows:

Year Ending December 31,	Principal	Interest
2020	\$ 330,000	\$ 20,400
2021	<u>345,000</u>	<u>6,900</u>
Total	<u><u>\$ 675,000</u></u>	<u><u>\$ 27,300</u></u>

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

7. FUND BALANCES - GOVERNMENTAL FUNDS

The Library has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balance classifications are based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Debt Service	Capital Projects	Total
Nonspendable for:				
Prepays	\$ 37,909	\$ 625	\$ -	\$ 38,534
Restricted for:				
Debt service	-	50,430	-	50,430
Crockery Township services	56,911	-	-	56,911
	<u>56,911</u>	<u>50,430</u>	<u>-</u>	<u>107,341</u>
Assigned for:				
Capital improvements	-	-	354,867	354,867
Unassigned	<u>1,700,075</u>	<u>-</u>	<u>-</u>	<u>1,700,075</u>
Total fund balances - governmental funds	<u><u>\$ 1,794,895</u></u>	<u><u>\$ 51,055</u></u>	<u><u>\$ 354,867</u></u>	<u><u>\$ 2,200,817</u></u>

Amounts reported as fund balance in the capital project fund (exclusive of general fund transfers in) were initially related to a capital campaign to finance the construction of the Library's main facility. Subsequent to completion of the building, one of the donors (whose total contribution exceeded the remaining balance) notified the Library that these funds could be used at the discretion of the Library Board of Trustees. However, the Board of Trustees has continued to set aside these dollars for future capital improvements.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

8. NET POSITION

Net Investment in Capital Assets

The Library's net investment in capital assets was comprised of the following items at December 31, 2019:

Capital assets:	
Capital assets not being depreciated	\$ 599,210
Capital assets being depreciated, net	<u>4,702,132</u>
	<u>5,301,342</u>
Related debt:	
Installment debt	675,000
Net unamortized bond premium	11,053
Deferred charge on refunding	<u>(7,918)</u>
	<u>678,135</u>
Net investment in capital assets	<u>\$ 4,623,207</u>

Restricted Net Position

The amount restricted for pension and OPEB benefits represents the value of assets held in trust for pension and OPEB benefits in excess of the total pension and OPEB liability net of the related deferred amounts. The excess is legally restricted to providing pension and OPEB benefits to plan participants and cannot be used for any other purpose.

9. DEFINED BENEFIT PENSION PLAN

General Information About the Plan

Plan Description. The Library participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. 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. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. 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. Pension benefits are calculated as final average compensation (based on a 3 year period) and a multiplier of 2.5%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or age 55 with 15 years of service. Cost of living adjustments are provided at a rate of 2.50% (non-compound).

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Employees Covered by Benefit Terms. At December 31, 2018, the date of the most recent actuarial valuation, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	3
Active employees	6
Total membership	11

Contributions. The employer 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. In addition, the employer may establish contribution rates to be paid by its covered employees.

Division/Bargaining Unit	Employer Contribution	Employee Contribution	Status
07 - Library before 12/1/2018	\$538/month	3.00%	Closed
70 - Library after 12/1/2018	3.40%	5.00%	Open

Net Pension Asset. The Library's net pension asset was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018.

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

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment expense and including inflation

Although no explicit price inflation assumption is used in the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.50%.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% male, 50% female blend of the following tables:

- The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
- The RP-2014 Employee Mortality Tables
- The RP-2014 Juvenile Mortality Tables

The mortality table used to project the mortality experience of disabled plan members is 50% Male, 50% Female blend of RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Long-term Expected Rate of Return. 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	Expected Money-Weighted Rate of Return
Global equity	55.5%	6.15%	3.41%
Global fixed income	18.5%	1.26%	0.23%
Real Assets	13.5%	7.22%	0.98%
Diversifying strategies	12.5%	5.00%	0.63%
	100.00%		
Inflation			2.50%
Administrative expenses netted above			0.25%
Investment rate of return			8.00%

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2019 was 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these 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.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Changes in Net Pension (Asset) / Liability

The components of the change in the net pension (asset) liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) / Liability (a) - (b)
Balances at December 31, 2018	\$ 2,112,432	\$ 2,029,195	\$ 83,237
Changes for the year:			
Service cost	38,208	-	38,208
Interest	165,853	-	165,853
Differences between expected and actual experience	(71,382)	-	(71,382)
Employer contributions	-	38,898	(38,898)
Employee contributions	-	14,859	(14,859)
Net investment income	-	274,693	(274,693)
Benefit payments, including refunds of employee contributions	(116,738)	(116,738)	-
Administrative expense	-	(4,733)	4,733
Other changes	43,540	-	43,540
Net changes	<u>59,481</u>	<u>206,979</u>	<u>(147,498)</u>
Balances at December 31, 2019	<u>\$ 2,171,913</u>	<u>\$ 2,236,174</u>	<u>\$ (64,261)</u>

Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate. The following presents the net pension asset of the Library calculated using the discount rate of 8.0%, as well as what the Library's net pension (asset) or liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension (asset) liability	\$ 137,451	\$ (64,261)	\$ (238,534)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

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

For the year ended December 31, 2019, the Library recognized pension expense of \$79,858. The Library reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between expected and actual experience	\$ -	\$ 80,421	\$ (80,421)
Changes in assumptions	47,003	-	47,003
Net difference between projected and actual earnings on pension plan investments	9,358	-	9,358
Total	<u>\$ 56,361</u>	<u>\$ 80,421</u>	<u>\$ (24,060)</u>

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

Year Ended December 31,	Amount
2020	\$ (28,366)
2021	17,895
2022	15,453
2023	<u>(29,042)</u>
Total	<u>\$ (24,060)</u>

Payable to the Pension Plan. At December 31, 2019, the Library had no liability for outstanding contributions to the pension plan.

For the governmental activities, the pension liability is generally liquidated by the general fund.

10. DEFERRED COMPENSATION PLAN

The Library offers a supplemental retirement program in accordance with Section 457 of the Internal Revenue Code (IRC) that will provide for payments on retirement, as well as death benefits in the event of death prior to retirement. The benefits of the Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and are managed by these individuals. As such, and as the Plan is not considered a fiduciary activity of the Library under GASB Statement No. 84, these amounts have not been included in the accompanying financial statements.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

11. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The Library administers a single-employer defined benefit healthcare plan (the “Plan”). The Plan was established and may be amended by the Library Board of Trustees. In addition to the retirement benefits described above, the Plan provides health, dental and vision insurance benefits to certain retirees and their beneficiaries and is closed to new hires. The Plan is advance-funded on a discretionary basis.

The MERS Retiree Health Funding Vehicle became operational in the fall of 2004, and was made available to all municipalities in Michigan. Participating municipalities can contribute monies to the Trust as desired and no contribution method is imposed. These funds constitute a health care fund, which enable municipalities to accumulate monies to provide or subsidize health benefits for retirees and beneficiaries as defined by Code Section 213. The Retiree Health Funding Vehicle accounts are invested in the MERS portfolio choices and earnings are tax exempt as a result of the MERS Private Letter Ruling. Plan provisions and requirements are specified in the MERS Health Care Savings Program and Retiree Health Funding Vehicle Plan Document and Trust.

Plan Membership. At December 31, 2019, OPEB Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	2
---	---

Benefits Provided. The Library provides eligible retirees, their spouses and eligible dependents healthcare benefits matching those received at the time of retirement until they are eligible for Medicare at no incremental cost, at which time the healthcare will become a supplemental insurance.

Contributions. The contribution requirements of Plan members and the Library are established and may be amended by the Library Board of Trustees. The required contribution is determined based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Library Board of Trustees. For the year ended December 31, 2019, the Library was not required to make a contribution to the Plan, based on an actuarial valuation performed as of that date. Accordingly, no contribution was made. Employees are not required to contribute to the plan, nor are eligible retirees required to contribute to the Plan.

Investments

Investment Policy. The OPEB Plan's policy in regard to the allocation of invested assets is established and may be amended by the Library Board of Trustees. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment processes that the Library Board of Trustees deems appropriate. The OPEB Plan's asset allocation policy is shown on the following pages.

Concentrations. At December 31, 2019, the OPEB Plan's investments were fully invested in the MERS Retiree Health Funding Vehicle.

Rate of Return. For the year ended December 31, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 13.51 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

The long-term expected rate of return on OPEB Plan investments was determined using a forward looking estimate of capital market returns model for each investment major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and investment expenses. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global Equity	55.5%	6.15%	3.41%
Global Fixed Income	18.5%	1.26%	0.23%
Private Assets	26.0%	7.22%	1.88%
	100.0%		
Inflation			2.50%
Risk factor adjustment			-1.02%
Investment rate of return			7.00%

Discount Rate. Based on the historical and expected returns of the Library's short-term investment portfolio, a discount rate of 7.00% was used. The projection of cash flows used to determine the discount rate assumed that Library contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2019, was one year, based on the estimated remaining service period of the plan participant.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation (using the alternative measurement method) as of December 31, 2019, using the following actuarial assumptions (which were determined by management utilizing the best information available), applied to all periods included in the measurement, unless otherwise specified:

Inflation – 2.5%

Salary increases – 3.0%

Investment rate of return – 7.0%, net of OPEB Plan investment expense, including inflation

Healthcare cost trend rates – The expected rate of increase in healthcare insurance premiums was based on projections by the Library's management. A rate of 8.5% was used for 2019 decreasing to 4.5% in year 2035.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Marital status – Marital status of members at the valuation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on mortality tables from the National Vital Statistics Report. The 2012 United States Life Tables for Males and for Females were used.

Health insurance premiums – 2019 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Net OPEB Asset of the Library

The components of the net OPEB asset of the Library at December 31, 2019, were as follows:

Total OPEB liability	\$ 288,886
Plan fiduciary net position	<u>980,360</u>
Library's net OPEB asset	<u>\$ (691,474)</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 339.4%

Changes in Net OPEB Asset

The components of the change in the net OPEB asset are summarized as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
Balances at December 31, 2018	<u>\$ 361,250</u>	<u>\$ 879,968</u>	<u>\$ (518,718)</u>
Changes for the year:			
Interest	18,899	-	18,899
Differences between expected and actual experience	(75,565)	-	(75,565)
Net investment income	-	117,767	(117,767)
Benefit payments	(15,698)	(15,698)	-
Administrative expense	-	(1,677)	1,677
Net changes	<u>(72,364)</u>	<u>100,392</u>	<u>(172,756)</u>
Balances at December 31, 2019	<u>\$ 288,886</u>	<u>\$ 980,360</u>	<u>\$ (691,474)</u>

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

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 7.0%, as well as what the Library’s net OPEB asset would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate:

1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
\$ (666,124)	\$ (691,474)	\$ (713,939)

Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB asset of the Library, calculated using the healthcare cost trend rate of 7.0%, as well as what the Library’s net OPEB asset would be if it were calculated using a healthcare cost trend rate that is 1% lower (7.5%) or 1% higher (9.5%) than the current rate:

1% Decrease (7.5%)	Current Healthcare Trent Rate (8.5%)	1% Increase (9.5%)
\$ (715,158)	\$ (691,474)	\$ (666,338)

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

For the year ended December 31, 2019, the Library recognized OPEB expense of \$(115,979). The Library reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 103,773

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

Year Ended December 31,	Amount
2020	\$ 30,805
2021	30,805
2022	30,806
2023	11,357
Total	\$ 103,773

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

Payable to the OPEB Plan. At December 31, 2019, the Library had no amounts payable for contributions to the OPEB plan.

The OPEB liability is generally liquidated by the general fund.

12. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage during the past year.

13. COMMUNITY FOUNDATION

The Grand Haven Area Community Foundation maintains two separate funds (Endowment and Restricted funds) which have not been included in the accompanying financial statements. Resources of the restricted fund can be obtained and expended by the Library under provisions of the individual fund agreement and upon approval by the Foundation. Earnings on the endowment after specific annual additions to the endowment corpus can also be obtained and expended by the Library upon request by the Library Board and approval by the Foundation. At December 31, 2019, balances of the endowment and restricted funds held by the Grand Haven Area Community Foundation were \$2,946,263 and \$199,684, respectively.

14. TAX ABATEMENTS

Industrial property tax abatements are granted in the State of Michigan under Public Act 198, as amended, to promote economic development, creation of jobs, and new or improvement facilities. The industrial facilities tax (IFT) exemption must be approved by both the local unit (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the local unit. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for a period of 1 to 12 years. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. Property taxes abated by the Library (all through agreements approved by other local governments) in 2019 amounted to \$8,971 (\$7,154 related to the operating millage and \$1,817 for the debt millage).

15. RESTATEMENT

The Library adopted the provisions of GASB Statement No. 84 *Fiduciary Activities*, in the current year. As a result of this change beginning net position of the fiduciary funds was increased by \$879,968.

SPRING LAKE DISTRICT LIBRARY

Notes to Financial Statements

16. SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the Library’s operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the government for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the Library’s financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.



REQUIRED SUPPLEMENTARY INFORMATION

SPRING LAKE DISTRICT LIBRARY

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in Library's Net Pension Liability (Asset) and Related Ratios

	Year Ended December 31,				
	2015	2016	2017	2018	2019
Total pension liability					
Service cost	\$ 51,541	\$ 54,586	\$ 59,095	\$ 49,622	\$ 38,208
Interest	121,509	133,343	152,421	161,162	165,853
Differences between expected and actual experience	-	(7,563)	(36,192)	(36,173)	(71,382)
Changes in assumptions	-	141,015	-	-	-
Benefit payments, including refunds of employee contributions	(11,563)	(11,820)	(12,077)	(62,206)	(116,738)
Other changes	(19,440)	(22,702)	(24,190)	(20,787)	43,540
Net change in total pension liability	142,047	286,859	139,057	91,618	59,481
Total pension liability, beginning of year	1,452,851	1,594,898	1,881,757	2,020,814	2,112,432
Total pension liability, end of year	1,594,898	1,881,757	2,020,814	2,112,432	2,171,913
Plan fiduciary net position					
Employer contributions	23,263	101,483	45,549	58,556	38,898
Employee contributions	12,119	12,601	12,325	11,428	14,859
Net investment income (loss)	(23,859)	183,882	246,364	(83,759)	274,693
Benefit payments, including refunds of employee contributions	(11,563)	(11,820)	(12,077)	(62,206)	(116,738)
Administrative expense	(3,438)	(3,611)	(3,889)	(4,117)	(4,733)
Net change in plan fiduciary net position	(3,478)	282,535	288,272	(80,098)	206,979
Plan fiduciary net position, beginning of year	1,541,964	1,538,486	1,821,021	2,109,293	2,029,195
Plan fiduciary net position, end of year	1,538,486	1,821,021	2,109,293	2,029,195	2,236,174
Library's net pension liability (asset)	\$ 56,412	\$ 60,736	\$ (88,479)	\$ 83,237	\$ (64,261)
Plan fiduciary net position as a percentage of total pension liability	96.5%	96.8%	104.4%	96.1%	103.0%
Covered payroll	\$ 386,322	\$ 420,050	\$ 410,759	\$ 348,345	\$ 307,946
Library's net pension liability (asset) as a percentage of covered payroll	14.6%	14.5%	-21.5%	23.9%	-20.9%

Note:

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Changes in assumptions. In 2016, amounts reported as changes of assumptions resulted primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return, and changes in asset smoothing.

SPRING LAKE DISTRICT LIBRARY

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability (Asset)

Year Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability (Asset) as Percentage of Covered Payroll
2015	\$ 1,594,898	\$ 1,538,486	\$ 56,412	96.5%	\$ 386,322	14.6%
2016	1,881,757	1,821,021	60,736	96.8%	420,050	14.5%
2017	2,020,814	2,109,293	(88,479)	104.4%	410,759	-21.5%
2018	2,112,432	2,029,195	83,237	96.1%	348,345	23.9%
2019	2,171,913	2,236,174	(64,261)	103.0%	307,946	-20.9%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SPRING LAKE DISTRICT LIBRARY

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 23,263	\$ 23,263	\$ -	\$ 386,322	6.0%
2016	45,483	101,483	(56,000)	420,050	24.2%
2017	45,549	45,549	-	410,759	11.1%
2018	58,556	58,556	-	348,345	16.8%
2019	38,898	38,898	-	307,946	12.6%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of the December that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2019, based on the 12/31/2016 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	20 years
Asset valuation method	5 year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation.
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables

SPRING LAKE DISTRICT LIBRARY

Required Supplementary Information

Single-Employer Defined Benefit Other Postemployment Benefits Plan

Schedule of Changes in the Library's Net OPEB Asset and Related Ratios

	Year Ended December 31,	
	2018	2019
Total OPEB liability		
Service cost	\$ 9,040	\$ -
Interest	24,126	18,899
Differences between expected and actual experience	(31,086)	(75,565)
Benefit payments	(9,622)	(15,698)
Net change in total OPEB liability	<u>(7,542)</u>	<u>(72,364)</u>
Total OPEB liability, beginning of year	<u>368,792</u>	<u>361,250</u>
Total OPEB liability, end of year	<u>361,250</u>	<u>288,886</u>
Plan fiduciary net position		
Net investment income	(32,933)	117,767
Benefit payments	(9,622)	(15,698)
Administrative expense	(2,241)	(1,677)
Net change in plan fiduciary net position	<u>(44,796)</u>	<u>100,392</u>
Plan fiduciary net position, beginning of year	<u>924,764</u>	<u>879,968</u>
Plan fiduciary net position, end of year	<u>879,968</u>	<u>980,360</u>
Library's net OPEB asset	<u>\$ (518,718)</u>	<u>\$ (691,474)</u>
Plan fiduciary net position as a percentage of total OPEB liability	243.6%	339.4%
Covered-employee payroll	\$ 87,672	\$ 48,900
City's net OPEB asset as a percentage of covered-employee payroll	-591.7%	-1414.1%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SPRING LAKE DISTRICT LIBRARY

Required Supplementary Information

Single-Employer Defined Benefit Other Postemployment Benefits Plan

Schedule of the Net OPEB Asset

Year Ended December 31,	Total OPEB Liability	Plan Net Position	Net OPEB Asset	Plan Net Position as Percentage of Total OPEB Liability	Covered-Employee Payroll	Net OPEB Asset as Percentage of Covered-Employee Payroll
2018	\$ 361,250	\$ 879,968	\$ (518,718)	243.6%	\$ 87,672	-591.7%
2019	288,886	980,360	(691,474)	339.4%	48,900	-1414.1%

Notes: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SPRING LAKE DISTRICT LIBRARY

Required Supplementary Information

Single-Employer Defined Benefit Other Postemployment Benefits Plan

Schedule of Contributions

Fiscal Year Ending December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution (Deficiency) Excess	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2018	\$ -	\$ -	\$ -	\$ 87,672	0.0%
2019	-	-	-	48,900	0.0%

Notes: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SPRING LAKE DISTRICT LIBRARY

Required Supplementary Information

Single-Employer Defined Benefit Other Postemployment Benefits Plan

Schedule of Investment Returns

Fiscal Year Ended September	Annual Return ⁽¹⁾
2018	-4.87%
2019	13.51%

⁽¹⁾ Annual money-weighted rate of return, net of investment expenses

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

INTERNAL CONTROL AND COMPLIANCE

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

April 10, 2020

Board of Trustees
Spring Lake District Library
Spring Lake, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Spring Lake District Library** (the "Library"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated April 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Spring Lake District Library's Response to Findings

The Library's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Rehmann Robson LLC".

SPRING LAKE DISTRICT LIBRARY

Schedule of Findings and Responses

For the Year Ended December 31, 2019

2019-001 - Material Audit Adjustments

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the Library's accounting records. These adjustments included entries to present the financial statements on the accrual method for taxes receivable, deferred inflows related to taxes levied for a subsequent period, and December 2019 tax collections.

Cause. This condition was the result of dependence on external auditors, who by definition cannot be a part of the Library's internal control, to make adjustments to the general ledger and reconcile certain balance sheet accounts to their underlying detail.

Effect. As a result of this condition, the Library's accounting records were initially misstated by amounts material to the financial statements.

Recommendation. We recommend that the Library reconcile all general ledgers to subsidiary detail at least on an annual basis in order to have a more accurate financial picture throughout the year.

View of Responsible Officials. Management has evaluated the cost vs. benefit of establishing internal controls over the preparation of year-end closing adjustments, and determined that it is in the best interests of the Library to outsource this task to its external auditors, and to carefully review the adjusting entries prior to approving them and accepting responsibility for their content and presentation.

