

Spring Lake  
District Library



Year Ended  
December 31,  
2018

Financial  
Statements

# SPRING LAKE DISTRICT LIBRARY

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**INDEPENDENT AUDITORS' REPORT**

March 15, 2019

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 and each major fund of the *Spring Lake District Library* (the "Library") 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.

*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 and each major fund of the Spring Lake District Library as of December 31, 2018, 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. 75*

As described in Note 15, the Library implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. Accordingly, beginning net position of governmental activities 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 March 15, 2019 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, 2018. 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 \$7,080,363 (*net position*).
- . The Library's total net position increased by \$308,658.
- . As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$1,998,375, an increase of \$195,768 in comparison with the prior year.
- . At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,644,579, or 103% 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, 2018.

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.

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 \$7,080,363 at the close of the most recent fiscal year.

# SPRING LAKE DISTRICT LIBRARY

## Management's Discussion and Analysis

	Net Position	
	Governmental Activities	
	2018	2017
<b>Assets</b>		
Current and other assets	\$ 4,180,645	\$ 3,551,254
Capital assets, net	5,498,387	5,694,242
<b>Total assets</b>	<b>9,679,032</b>	<b>9,245,496</b>
<b>Deferred outflows of resources</b>	<b>314,108</b>	<b>113,805</b>
<b>Liabilities</b>		
Other liabilities	124,837	65,394
Long-term debt	1,101,303	1,389,997
<b>Total liabilities</b>	<b>1,226,140</b>	<b>1,455,391</b>
<b>Deferred inflows of resources</b>	<b>1,686,637</b>	<b>1,688,177</b>
<b>Net position</b>		
Net investment in capital assets	4,497,902	4,361,407
Restricted	799,731	203,956
Unrestricted	1,782,730	1,650,370
<b>Total net position</b>	<b>\$ 7,080,363</b>	<b>\$ 6,215,733</b>

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	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 36,853	\$ 35,255
Operating grants and contributions	187,499	216,044
General revenues:		
Property taxes	1,684,329	1,651,167
Penal fines	59,223	72,682
State revenue	15,511	13,837
Unrestricted investment earnings	32,490	17,903
Total revenues	<u>2,015,905</u>	<u>2,006,888</u>
Expenses		
Library services	1,665,177	1,553,887
Interest on long-term debt	42,070	50,673
Total expenses	<u>1,707,247</u>	<u>1,604,560</u>
Change in net position	308,658	402,328
Net position, beginning of year	6,215,733	5,813,405
Restatement for implementation of GASB 75	555,972	-
Net position, end of year	<u>\$ 7,080,363</u>	<u>\$ 6,215,733</u>

Governmental activities. Net position increased by \$308,658. This was largely due to an increase of \$240,384 in the general fund before transfers out to the capital projects fund which is set aside for future Library improvements.

### *Financial Analysis of the Library's Funds*

The fund balance of the Library's general fund increased by \$38,384 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 increased by \$24,866 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 \$132,518 primarily due to a transfer in from the general fund of \$202,000 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 2.9% 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, 2018 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	
	2018	2017
Land	\$ 599,210	\$ 599,210
Construction in progress	18,150	6,950
Building	4,192,021	4,335,019
Office equipment and furniture	300,291	372,387
Library collection	388,715	380,676
Total	<u>\$ 5,498,387</u>	<u>\$ 5,694,242</u>

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	
	2018	2017
General obligation bonds	\$ 1,014,342	\$ 1,327,631
Energy improvement loan	-	25,000
Compensated absences	86,961	37,366
<b>Total</b>	<b>\$ 1,101,303</b>	<b>\$ 1,389,997</b>

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, 2019:

- . 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, 2018

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 309,381
Restricted cash and cash equivalents	128,089
Investments	1,541,850
Receivables	1,637,870
Prepays	44,737
Net other postemployment benefit asset	518,718
Capital assets not being depreciated	617,360
Capital assets being depreciated, net	<u>4,881,027</u>
<b>Total assets</b>	<u>9,679,032</u>
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	13,857
Deferred pension amounts	222,450
Deferred other postemployment benefit amounts	<u>77,801</u>
<b>Total deferred outflows of resources</b>	<u>314,108</u>
<b>Liabilities</b>	
Payables and accrued liabilities	41,600
Net pension liability (due in more than one year)	83,237
Long-term debt:	
Due within one year	371,770
Due in more than one year	<u>729,533</u>
<b>Total liabilities</b>	<u>1,226,140</u>
<b>Deferred inflows of resources</b>	
Taxes levied but intended for subsequent period	1,628,585
Deferred pension amounts	<u>58,052</u>
<b>Total deferred inflows of resources</b>	<u>1,686,637</u>
<b>Net position</b>	
Net investment in capital assets	4,497,902
Restricted:	
Crockery township services	66,315
Debt service	55,736
Pension benefits	81,161
Other postemployment benefits	596,519
Unrestricted	<u>1,782,730</u>
<b>Total net position</b>	<u>\$ 7,080,363</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, 2018

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Library services	\$ 1,665,177	\$ 36,853	\$ 187,499	\$ (1,440,825)
Interest on long-term debt	42,070	-	-	(42,070)
<b>Total governmental activities</b>	<b>\$ 1,707,247</b>	<b>\$ 36,853</b>	<b>\$ 187,499</b>	<b>(1,482,895)</b>
General revenues				
Property taxes				1,684,329
Penal fines				59,223
State revenue				15,511
Unrestricted investment earnings				32,490
<b>Total general revenues</b>				<b>1,791,553</b>
Change in net position				308,658
Net position, beginning of year, as restated				6,771,705
<b>Net position, end of year</b>				<b>\$ 7,080,363</b>

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

# SPRING LAKE DISTRICT LIBRARY

## Balance Sheet

Governmental Funds

December 31, 2018

	General	Debt Service	Capital Projects	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 128,381	\$ -	\$ 181,000	\$ 309,381
Restricted cash and cash equivalents	66,315	61,774	-	128,089
Investments	1,541,850	-	-	1,541,850
Accounts receivable	953	-	-	953
Taxes receivable	1,298,679	329,906	-	1,628,585
Accrued interest receivable	8,332	-	-	8,332
Prepays	44,112	625	-	44,737
<b>Total assets</b>	<b>\$ 3,088,622</b>	<b>\$ 392,305</b>	<b>\$ 181,000</b>	<b>\$ 3,661,927</b>
<b>Liabilities</b>				
Accounts payable	\$ 24,817	\$ 30	\$ -	\$ 24,847
Accrued liabilities	10,120	-	-	10,120
<b>Total liabilities</b>	<b>34,937</b>	<b>30</b>	<b>-</b>	<b>34,967</b>
<b>Deferred inflows of resources</b>				
Taxes levied but intended for subsequent period	1,298,679	329,906	-	1,628,585
<b>Fund balances</b>				
Nonspendable	44,112	625	-	44,737
Restricted	66,315	61,744	-	128,059
Assigned	-	-	181,000	181,000
Unassigned	1,644,579	-	-	1,644,579
<b>Total fund balances</b>	<b>1,755,006</b>	<b>62,369</b>	<b>181,000</b>	<b>1,998,375</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 3,088,622</b>	<b>\$ 392,305</b>	<b>\$ 181,000</b>	<b>\$ 3,661,927</b>

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, 2018

Fund balances - total governmental funds \$ 1,998,375

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	617,360
Capital assets being depreciated, net	4,881,027

Certain pension and other postemployment benefit-related amounts, such as the net pension liability, 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 liability	(83,237)
Deferred outflows related to the net pension liability	222,450
Deferred inflows related to the net pension liability	(58,052)
Net other postemployment benefit asset	518,718
Deferred outflows related to the net other postemployment benefit asset	77,801

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	13,857
Compensated absences payable	(86,961)
Bonds and loans payable	(995,000)
Unamortized premium on bonds payable	(19,342)
Accrued interest on bonds payable	(6,633)

Net position of governmental activities \$ 7,080,363

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, 2018

	General	Debt Service	Capital Projects	Total
<b>Revenues</b>				
Property taxes	\$ 1,308,839	\$ 375,490	\$ -	\$ 1,684,329
State revenue	15,511	-	-	15,511
Local revenue	76,667	-	-	76,667
Contributions	108,938	-	-	108,938
Penal and library fines	80,529	-	-	80,529
Other revenues	17,048	-	-	17,048
Interest income	32,490	194	199	32,883
<b>Total revenues</b>	<b>1,640,022</b>	<b>375,684</b>	<b>199</b>	<b>2,015,905</b>
<b>Expenditures</b>				
Current:				
Library services	1,375,938	-	-	1,375,938
Debt service:				
Principal	-	305,000	25,000	330,000
Interest	-	45,818	-	45,818
Capital outlay	23,700	-	44,681	68,381
<b>Total expenditures</b>	<b>1,399,638</b>	<b>350,818</b>	<b>69,681</b>	<b>1,820,137</b>
Revenues over (under) expenditures	240,384	24,866	(69,482)	195,768
<b>Other financing sources (uses)</b>				
Transfers in	-	-	202,000	202,000
Transfers out	(202,000)	-	-	(202,000)
<b>Total other financing sources (uses)</b>	<b>(202,000)</b>	<b>-</b>	<b>202,000</b>	<b>-</b>
Net change in fund balances	38,384	24,866	132,518	195,768
Fund balances, beginning of year	1,716,622	37,503	48,482	1,802,607
Fund balances, end of year	\$ 1,755,006	\$ 62,369	\$ 181,000	\$ 1,998,375

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, 2018

Net change in fund balances - total governmental funds	\$ 195,768
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>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.</p>	
Capital assets purchased/constructed	125,708
Depreciation expense	(321,563)
<p>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.</p>	
Principal payments on bonds and loans payable	330,000
<p>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.</p>	
Change in compensated absences payable	(49,595)
Change in net liability and related deferred amounts	(15,955)
Change in net other postemployment benefit asset and related deferred amounts	40,547
Amortization of premium on bonds payable	8,289
Amortization of deferred charge on bond refunding	(5,939)
Change in accrued interest on bonds payable	1,398
	<hr/>
Change in net position of governmental activities	<u>\$ 308,658</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, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 1,242,756	\$ 1,308,947	\$ 1,308,839	\$ (108)
State revenue	14,000	15,511	15,511	-
Local revenue	92,052	87,752	76,667	(11,085)
Contributions	80,000	108,000	108,938	938
Penal and library fines	76,850	79,223	80,529	1,306
Other revenues	13,275	15,917	17,048	1,131
Interest income	10,000	37,000	32,490	(4,510)
<b>Total revenues</b>	<b>1,528,933</b>	<b>1,652,350</b>	<b>1,640,022</b>	<b>(12,328)</b>
<b>Expenditures</b>				
Current:				
Salaries and wages	715,000	710,000	694,725	(15,275)
Employee benefits	276,700	224,300	220,837	(3,463)
Supplies	43,000	42,000	39,455	(2,545)
Library materials	147,600	145,100	146,769	1,669
Professional fees	223,100	209,700	185,772	(23,928)
Utilities	95,000	90,000	84,078	(5,922)
Miscellaneous	4,650	4,750	4,302	(448)
Contingency	833	-	-	-
Capital outlay	16,000	24,500	23,700	(800)
<b>Total expenditures</b>	<b>1,521,883</b>	<b>1,450,350</b>	<b>1,399,638</b>	<b>(50,712)</b>
Revenue over expenditures	7,050	202,000	240,384	38,384
<b>Other financing uses</b>				
Transfers out	(7,050)	(202,000)	(202,000)	-
Net change in fund balances	-	-	38,384	38,384
Fund balances, beginning of year	1,716,622	1,716,622	1,716,622	-
Fund balances, end of year	\$ 1,716,622	\$ 1,716,622	\$ 1,755,006	\$ 38,384

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.

#### *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.

#### *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.

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

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.

### *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.

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.

# SPRING LAKE DISTRICT LIBRARY

## Notes to 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.

### *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.

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

### *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.

### *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.

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

### *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 2018 ad valorem tax is levied and collectible on December 1, 2018, 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, 2018, 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.

### *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.

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

### *Pensions and Postemployment Benefits Other than Pensions (OPEB)*

For purposes of measuring the net pension liability 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

Deposits are reported on the statement of net position as follows:

Cash and cash equivalents	\$ 309,381
Restricted cash and cash equivalents	128,089
Investments	<u>1,541,850</u>
Total	<u>\$ 1,979,320</u>

Deposits are comprised of the following at year-end:

Petty cash	\$ 52
Checking/savings accounts	369,375
Certificates of deposit (due within one year)	<u>1,609,893</u>
Total	<u>\$ 1,979,320</u>

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.

### *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.

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

*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, \$305,382 of the Library's bank balance of \$2,010,264 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.

### *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.
- 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.

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

### 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	6,950	11,200	-	-	18,150
	<u>606,160</u>	<u>11,200</u>	<u>-</u>	<u>-</u>	<u>617,360</u>
Capital assets being depreciated:					
Building	5,856,483	-	-	-	5,856,483
Furniture and equipment	1,221,804	-	(14,085)	-	1,207,719
Library collection	740,832	114,508	(105,579)	-	749,761
	<u>7,819,119</u>	<u>114,508</u>	<u>(119,664)</u>	<u>-</u>	<u>7,813,963</u>
Less accumulated depreciation:					
Building	(1,521,464)	(142,998)	-	-	(1,664,462)
Furniture and equipment	(849,417)	(72,096)	14,085	-	(907,428)
Library collection	(360,156)	(106,469)	105,579	-	(361,046)
	<u>(2,731,037)</u>	<u>(321,563)</u>	<u>119,664</u>	<u>-</u>	<u>(2,932,936)</u>
Total capital assets being depreciated, net	<u>5,088,082</u>	<u>(207,055)</u>	<u>-</u>	<u>-</u>	<u>4,881,027</u>
Total capital assets, net	<u>\$ 5,694,242</u>	<u>\$ (195,855)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,498,387</u>

### 4. RECEIVABLES AND PAYABLES

Receivables of governmental activities are comprised of the following:

Taxes	\$ 1,628,585
Accounts	953
Accrued interest	<u>8,332</u>
Total	<u>\$ 1,637,870</u>

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

Accounts	\$ 24,847
Accrued liabilities	10,120
Accrued interest payable	<u>6,633</u>
Total	<u>\$ 41,600</u>

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

### 5. TRANSFERS

During the year ended December 31, 2018, the general fund made a transfer of \$202,000 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	\$ 1,300,000	\$ -	\$ (305,000)	\$ 995,000	\$ 320,000
2016 energy improvement loan; due in monthly installments of \$2,083 through 2018; interest free	25,000	-	(25,000)	-	-
Total installment debt	1,325,000	-	(330,000)	995,000	320,000
Unamortized bond premium	27,631	-	(8,289)	19,342	8,289
Compensated absences	37,366	82,919	(33,324)	86,961	43,481
<b>Total long-term debt</b>	<b>\$ 1,389,997</b>	<b>\$ 82,919</b>	<b>\$ (371,613)</b>	<b>\$ 1,101,303</b>	<b>\$ 371,770</b>

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
2019	\$ 320,000	\$ 33,400
2020	330,000	20,400
2021	345,000	6,900
<b>Total</b>	<b>\$ 995,000</b>	<b>\$ 60,700</b>

# 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	\$ 44,112	\$ 625	\$ -	\$ 44,737
Restricted for:				
Debt service	-	61,744	-	61,744
Crockery Township services	66,315	-	-	66,315
	<u>66,315</u>	<u>61,744</u>	<u>-</u>	<u>128,059</u>
Assigned for:				
Capital improvements	-	-	181,000	181,000
Unassigned	<u>1,644,579</u>	<u>-</u>	<u>-</u>	<u>1,644,579</u>
Total fund balances - governmental funds	<u>\$ 1,755,006</u>	<u>\$ 62,369</u>	<u>\$ 181,000</u>	<u>\$ 1,998,375</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, 2018:

Capital assets:	
Capital assets not being depreciated	\$ 617,360
Capital assets being depreciated, net	<u>4,881,027</u>
	<u>5,498,387</u>
Related debt:	
Installment debt	995,000
Net unamortized bond premium	19,342
Deferred charge on refunding	<u>(13,857)</u>
	<u>1,000,485</u>
Net investment in capital assets	<u>\$ 4,497,902</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](http://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, 2017, the date of the most recent actuarial valuation, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	2
Active employees	<u>8</u>
Total membership	<u>10</u>

*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. The employer may establish contribution rates to be paid by its covered employees. Member contributions are equal to 3% of covered payroll. Employer contributions represent 11.10% of covered payroll.

*Net Pension Liability.* The Library's net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017, rolled forward to that date.

*Actuarial Assumptions.* The total pension Library in the December 31, 2017 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 specific price inflation assumptions are needed for the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.5%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the 2017 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

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	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real Assets	12.50%	4.23%	0.51%
Diversifying strategies	<u>10.00%</u>	6.56%	0.66%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

*Discount Rate.* The discount rate used to measure the total pension liability is 8.00%. 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, 2017	\$ 2,020,814	\$ 2,109,293	\$ (88,479)
Changes for the year:			
Service cost	49,622	-	49,622
Interest	161,162	-	161,162
Differences between expected and actual experience	(36,173)	-	(36,173)
Employer contributions	-	58,556	(58,556)
Employee contributions	-	11,428	(11,428)
Net investment income	-	(83,759)	83,759
Benefit payments, including refunds of employee contributions	(62,206)	(62,206)	-
Administrative expense	-	(4,117)	4,117
Other changes	(20,787)	-	(20,787)
Net changes	<u>91,618</u>	<u>(80,098)</u>	<u>171,716</u>
Balances at December 31, 2018	<u>\$ 2,112,432</u>	<u>\$ 2,029,195</u>	<u>\$ 83,237</u>

*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 8.00%, 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 (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension (asset) liability	\$ 297,368	\$ 83,237	\$ (101,512)

*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, 2018, the Library recognized pension expense of \$74,511. 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	\$ -	\$ 58,052	\$ (58,052)
Changes in assumptions	70,506	-	70,506
Net difference between projected and actual earnings on pension plan investments	151,944	-	151,944
Total	<u>\$ 222,450</u>	<u>\$ 58,052</u>	<u>\$ 164,398</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
2019	\$ 60,714
2020	30,338
2021	40,908
2022	38,466
2023	<u>(6,028)</u>
Total	<u>\$ 164,398</u>

*Payable to the Pension Plan.* At December 31, 2018, the Library had no liability for outstanding contributions to the pension plan.

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, 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, 2018, OPEB Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	<u>1</u>
Total membership	<u><u>2</u></u>

*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 2018, 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, 2018, the OPEB Plan's investments were fully invested in the MERS Retiree Health Funding Vehicle.

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

*Rate of Return.* For the year ended December 31, 2018, the annual money-weighted rate of return on investments, net of investment expense, was -4.87 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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%
Real Assets	13.5%	7.22%	0.97%
Diversifying Strategies	12.5%	5.00%	0.63%
	100.0%		
Inflation			2.50%
Risk factor adjustment			-0.74%
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 7.0% 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, 2018, 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, 2018, 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%

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

*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 7.0% was used for 2019 and each year following.

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active OPEB Plan members were assumed to retire at age 65.

*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, 2018, were as follows:

Total OPEB liability	\$ 361,250
Plan fiduciary net position	<u>879,968</u>
Library's net OPEB asset	<u>\$ (518,718)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	243.6%

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

### 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, 2017	\$ 368,792	\$ 924,764	\$ (555,972)
Changes for the year:			
Service cost	9,040	-	9,040
Interest	24,126	-	24,126
Differences between expected and actual experience	(31,086)	-	(31,086)
Net investment income	-	(32,933)	32,933
Benefit payments	(9,622)	(9,622)	
Administrative expense	-	(2,241)	2,241
Net changes	(7,542)	(44,796)	37,254
Balances at December 31, 2018	\$ 361,250	\$ 879,968	\$ (518,718)

*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%)
\$ (508,834)	\$ (518,718)	\$ (527,051)

*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 (6.0%) or 1% higher (8.0%) than the current rate:

1% Decrease (6.0%)	Current Healthcare Trent Rate (7.0%)	1% Increase (8.0%)
\$ (527,624)	\$ (518,718)	\$ (508,490)

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

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

For the year ended December 31, 2018, the Library recognized OPEB expense of \$(40,547). 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	\$ 77,801

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
2019	\$ 19,450
2020	19,450
2021	19,450
2022	<u>19,451</u>
Total	<u>\$ 77,801</u>

*Payable to the OPEB Plan.* At December 31, 2018, 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, 2018, balances of the endowment and restricted funds held by the Grand Haven Area Community Foundation were \$2,458,278 and \$167,738, respectively.

# SPRING LAKE DISTRICT LIBRARY

## Notes to Financial Statements

### 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 2018 amounted to \$11,350 (\$8,905 related to the operating millage and \$2,445 for the debt millage).

### 15. RESTATEMENT

The District adopted the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result of this change beginning net position of governmental activities was increased by \$555,972.



## 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 and Related Ratios

	Year Ended December 31,			
	2015	2016	2017	2018
<b>Total pension liability</b>				
Service cost	\$ 51,541	\$ 54,586	\$ 59,095	\$ 49,622
Interest	121,509	133,343	152,421	161,162
Differences between expected and actual experience	-	(7,563)	(36,192)	(36,173)
Changes in assumptions	-	141,015	-	-
Benefit payments, including refunds of employee contributions	(11,563)	(11,820)	(12,077)	(62,206)
Other changes	(19,440)	(22,702)	(24,190)	(20,787)
<b>Net change in total pension liability</b>	<u>142,047</u>	<u>286,859</u>	<u>139,057</u>	<u>91,618</u>
<b>Total pension liability, beginning of year</b>	<u>1,452,851</u>	<u>1,594,898</u>	<u>1,881,757</u>	<u>2,020,814</u>
<b>Total pension liability, end of year</b>	<u>1,594,898</u>	<u>1,881,757</u>	<u>2,020,814</u>	<u>2,112,432</u>
<b>Plan fiduciary net position</b>				
Employer contributions	23,263	101,483	45,549	58,556
Employee contributions	12,119	12,601	12,325	11,428
Net investment income (loss)	(23,859)	183,882	246,364	(83,759)
Benefit payments, including refunds of employee contributions	(11,563)	(11,820)	(12,077)	(62,206)
Administrative expense	(3,438)	(3,611)	(3,889)	(4,117)
<b>Net change in plan fiduciary net position</b>	<u>(3,478)</u>	<u>282,535</u>	<u>288,272</u>	<u>(80,098)</u>
<b>Plan fiduciary net position, beginning of year</b>	<u>1,541,964</u>	<u>1,538,486</u>	<u>1,821,021</u>	<u>2,109,293</u>
<b>Plan fiduciary net position, end of year</b>	<u>1,538,486</u>	<u>1,821,021</u>	<u>2,109,293</u>	<u>2,029,195</u>
<b>Library's net pension liability (asset)</b>	<u>\$ 56,412</u>	<u>\$ 60,736</u>	<u>\$ (88,479)</u>	<u>\$ 83,237</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	96.5%	96.8%	104.4%	96.1%
<b>Covered payroll</b>	\$ 386,322	\$ 420,050	\$ 410,759	\$ 348,345
<b>Library's net pension liability as a percentage of covered payroll</b>	14.60%	14.46%	-21.54%	23.89%

**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 the Net Pension Liability

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 as Percentage of Covered Payroll
2015	\$ 1,594,898	\$ 1,538,486	\$ 56,412	96.5%	\$ 386,322	14.60%
2016	1,881,757	1,821,021	60,736	97.0%	420,050	14.46%
2017	2,020,814	2,109,293	(88,479)	104.38%	410,759	-21.54%
2018	2,112,432	2,029,195	83,237	96.06%	348,345	23.89%

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%

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:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	21 years
Asset valuation method	10 year smooth market
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation.
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

# 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
Total OPEB liability	
Service cost	\$ 9,040
Interest	24,126
Differences between expected and actual experience	(31,086)
Benefit payments	<u>(9,622)</u>
Net change in total OPEB liability	(7,542)
Total OPEB liability, beginning of year	<u>368,792</u>
Total OPEB liability, end of year	<u>361,250</u>
Plan fiduciary net position	
Net investment income	(32,933)
Benefit payments	(9,622)
Administrative expense	<u>(2,241)</u>
Net change in plan fiduciary net position	(44,796)
Plan fiduciary net position, beginning of year	<u>924,764</u>
Plan fiduciary net position, end of year	<u>879,968</u>
Library's net OPEB asset	<u><u>\$ (518,718)</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	243.6%
Covered-employee payroll	\$ 87,672
City's net OPEB asset as a percentage of covered-employee payroll	-591.7%

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%

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%

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 <sup>(1)</sup>
2018	-4.87%

<sup>(1)</sup> 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*

March 15, 2019

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 and each major fund of the *Spring Lake District Library* (the "Library"), 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, and have issued our report thereon dated March 15, 2019.

#### 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## 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*.

## 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.

*Rehmann Johnson LLC*