

Traverse Area District Library

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2017

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**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2017**

As management of the Traverse Area District Library (the “Library”), we offer readers of the Traverse Area District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended December 31, 2017. 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

1. Taxes collected in 2017 were based on 2016 taxable values, which increased 2.331% over the previous year. 2017 taxable values, which determine what the Library receives in 2018, increased 3.766%. Operating revenue generated by 2016 taxes collected in 2017 increased 4.581%.
2. The Library once again made a large payment of \$200,000 to the Municipal Employees’ Retirement System (MERS) toward its unfunded pension liability in 2017. This was funded by a transfer from the Internal Service Fund. Because of the extra payments and the freezing of our Defined Benefit plan, the plan is now funded at 83% versus 63% for the prior year.
3. We are pleased to report that total general fund revenue increased by approximately 5.699%. Expenses increased 0.825% over 2016.
4. The Unassigned General Fund Balance decreased by \$207,508 from last year’s audit, bringing the total to \$868,150. This decrease resulted from transfers to the Public Improvement Fund and Internal Service Fund to comply with the TADL Board’s 2017 year-end budget resolution. This resolution required the transfer to these funds to preserve a balance equal to two months of operating expenses.
5. Member library contracts with Fife Lake Public Library, Interlochen Public Library and Peninsula Community Library, which were renewed for five years, will expire on December 31, 2021. Funding is currently based on the percentage of increase or decrease in collections of Property Taxes, Penal Fines and State Aid in the prior year. These revenue sources increased in 2016, resulting in an increase in member library funding of 3% in 2017.
6. We continue to operate under the Teamsters Union labor contract that was ratified in October, 2016 by our employees and continues until the end of 2019. Highlights of the settlement included the transition from the MERS Defined Benefit plan to a Defined Contribution plan and 3% annual wage increases each year of the three year contract. This allows management staff and the board to address the unfunded pension liability while still ensuring a good benefit package for employees.
7. Personnel expenses were up 2.892% in 2017 when the extra payments toward the MERS unfunded liability are excluded. Wages increased 4.979%. Employee insurance premiums, which include employer contributions toward employee HSA accounts, were up 7.676% in total.
8. On August 2, 2016, voters approved the renewal of our millage at .9548 mills by a greater than 75% margin. Subsequent Headlee Millage Rollbacks have resulted in the levy being reduced to .9544 mills in 2017 and .9467 in 2018.
9. The Library continues to operate well within current revenue collections.
10. The final payment on the library’s debt service bond to build the library on Woodmere was made in May, 2017. This millage was first levied in December, 1996, and will no longer appear on county residents’ tax bills.

Overview of the Financial Statements

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Library.

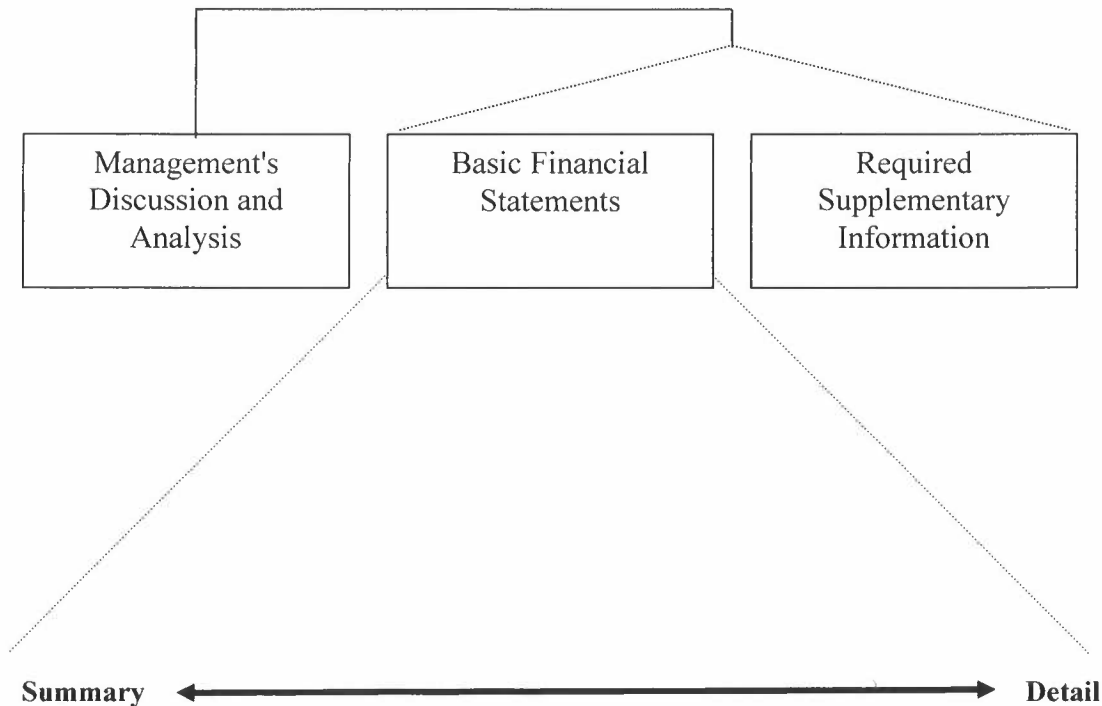
**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2017**

- The first two statements are *Library-wide financial statements* that provide both *short-term* and *long-term* information about the Library's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Library, reporting the Library's operations in more detail than the Library-wide statements
- The *governmental funds statements* tell how basic services were financed in the short term as well as what remains for future spending.
- Capital Projects Funds statements provide information about capital projects during the year.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Library's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1

Organization of Traverse Area District Library Annual Financial Report



**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2017**

Library-wide Statements

The Library-wide statements report information about the Library as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Library-wide statements report the Library's *net position* and how it has changed. Net position - the difference between the Library's assets and liabilities - is one way to measure the Library's financial health or *position*.

- Over time, increases or decreases in the Library's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Library's overall health, you need to consider additional non-financial factors such as changes in the Library's property tax base and the condition of buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Library's funds, focusing on its most significant or "major" funds: not the Library as a whole. Funds are accounting devices the Library uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law.
- The Library establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The Library has one kind of fund:

- *Governmental funds*: Most of the Library's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. Because this information does not encompass the additional long-term focus of the Library-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the Library-wide Statements and the Fund Financial Statements.

**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2017**

Financial Analysis of the Library as a Whole

Net position. The Library's combined total net position was \$8,494,245 on December 31, 2017, an increase of 3.1% from the prior year. Figure A-2 illustrates the net position on December 31, 2017 and 2016.

Figure A-2

Condensed Statement of Net Position

| | <u>12/31/17</u> | <u>12/31/16</u> |
|--|---------------------------------|---------------------------------|
| Assets | | |
| Current | \$ 8,322,828 | \$ 8,594,223 |
| Non-Current | 6,361,573 | 6,497,019 |
| Deferred outflows of resources | <u>105,089</u> | <u>647,155</u> |
| Total Assets and Deferred outflows of resources | <u>\$ 14,789,490</u> | <u>\$ 15,738,397</u> |
| Liabilities | | |
| Current | \$ 185,949 | \$ 801,498 |
| Non-Current | <u>1,490,981</u> | <u>3,356,536</u> |
| Total Liabilities | <u>1,676,930</u> | <u>4,158,034</u> |
| Deferred Inflows of Resources | <u>4,618,315</u> | <u>5,110,310</u> |
| Net Position | | |
| Invested in capital assets, net of related debt | 6,361,573 | 5,862,019 |
| Restricted | 1,613,150 | 1,577,156 |
| Unrestricted | <u>519,522</u> | <u>(969,122)</u> |
| Total Net Position | <u>8,494,245</u> | <u>6,470,053</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 14,789,490</u> | <u>\$ 15,738,397</u> |

Changes in net assets. The Library's total revenue of approximately \$5,888,974 was more than expenditures; increasing net assets by \$2,024,192. This increase was primarily due to increases in property tax revenues.

Of the Library's \$5,668,881 in expenditures, approximately 51.15% is related to personnel costs.

**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2017**

Figure A-3

Changes in Net Position from Operating Results

| | 2017 | 2016 |
|-------------------------------------|--------------|--------------|
| REVENUE: | | |
| Program revenue: | | |
| Charges for services | \$ 137,280 | \$ 40,905 |
| Operating grants and contributions | 190,946 | 153,942 |
| Total program revenue | 328,226 | 194,847 |
| General revenue: | | |
| Property Taxes | 5,167,200 | 4,997,971 |
| Fines and forfeitures | 376,111 | 411,247 |
| Unrestricted investment earnings | 17,437 | 52,226 |
| Loss on disposal of assets | - | - |
| Total general revenues | 5,560,748 | 5,461,444 |
| Total Revenues | 5,888,974 | 5,656,291 |
| EXPENDITURES: | | |
| Library services | 3,285,301 | 4,600,387 |
| Depreciation - unallocated | 571,013 | 573,560 |
| Interest on long-term debt | 8,467 | 33,533 |
| Total expenditures | 3,864,781 | 5,207,480 |
| Increase (decrease) in net position | 2,024,192 | 448,811 |
| Net Position-beginning of year | 6,470,053 | 6,086,862 |
| Prior period adjustments | - | (65,620) |
| Net Position-end of year | \$ 8,494,245 | \$ 6,470,053 |

Financial Analysis of the Library's Funds

The strong financial performance of the Library as a whole is reflected in its governmental funds. As the Library completed the year, its governmental funds reported a fund balance of \$3,283,477.

**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2017**

General Fund Budgetary Highlights

Over the course of the year, the Library revised the annual operating budget twice. Budget items that were significantly different from original budgeted amounts and items causing budget adjustments are enumerated below.

- Property taxes received were \$69,611 over budget due primarily to increasing taxable values in the county and an unexpectedly higher Personal Property Tax reimbursement from the state.
- The final budget amendment revised contributions upward due to a bequest and a contribution from the Friends of TADL that would fund potential expenses for the Preschool Interactive Learning Area, for which the expense budget was also amended upward. Under expenses, salaries and wages were revised downward along with repair and maintenance and education and travel. Correspondingly, capital improvements budgets were adjusted upward for some year-end purchases. The largest budget amendment was to the MERS Unfunded Pension Liability account to adjust for the \$200,000 payment.
- Budget categories with the largest variances include salaries and wages, retirement contributions, office supplies, contractual services, repair and maintenance, property tax reimbursement, and fines and forfeitures. Many of these variances are the result of efforts by staff to reduce costs through efficiencies and upgrades or because of certain planned projects were deferred. Property tax reimbursement varies considerably from year to year, so it is difficult to budget accurately for it.

Figure A-4

| | Budget | Actual | Variance |
|----------------------------------|---------------------|---------------------|-------------------|
| <i>General Fund Revenues</i> | | | |
| Property taxes | \$ 4,462,500 | \$ 4,532,111 | \$ 69,611 |
| State grants | 104,725 | 107,390 | 2,665 |
| Other grants | 10,000 | 8,940 | (1,060) |
| Charges for services | 87,500 | 137,280 | 49,780 |
| Fines and forfeitures | 404,000 | 376,111 | (27,889) |
| Investment income | 20,000 | 11,208 | (8,792) |
| Contributions and other income | 141,000 | 74,616 | (66,384) |
| Total revenues | \$ 5,229,725 | \$ 5,247,656 | \$ 17,931 |
| <i>General Fund Expenditures</i> | | | |
| Personnel | \$ 3,168,980 | \$ 3,094,171 | \$ 74,809 |
| Supplies | 660,640 | 629,743 | 30,897 |
| Other services and charges | 1,332,340 | 1,150,329 | 182,011 |
| Capital outlay | 267,765 | 130,283 | 137,482 |
| | \$ 5,429,725 | \$ 5,004,526 | \$ 425,199 |

**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2017**

Capital Asset and Debt Administration

Capital Assets

By the end of 2017, the Library had invested approximately \$13.2 million in a broad range of capital assets, including building improvements, books, computer and audio-visual equipment. Total depreciation expense for the year was \$571,013. Figure A-5 details the historical costs, accumulated depreciation, and book value of the Library's capital assets.

Figure A-5

Statement of Capital Assets

| | Beginning of year | End of year |
|--------------------------|----------------------|----------------|
| Land | \$ 345,545 | \$ 345,545 |
| Building | 7,615,301 | 7,615,301 |
| Collections | 3,429,596 | 3,374,456 |
| Furniture and equipment | 2,127,712 | 2,188,558 |
| | 13,518,154 | 13,523,860 |
| Accumulated Depreciation | 7,021,135 | 7,162,287 |
| Net capital assets | \$ 6,497,019 | \$ 6,361,573 |

Debt administration

The following (Figure A-6) is a summary of the outstanding debt at December 31, 2016 and December 31, 2017:

Figure A-6

| | Beginning of year | End of year |
|-----------------------------|----------------------|----------------|
| Governmental Activities: | | |
| Compensated absences | \$ 290,444 | \$ 320,190 |
| General obligation bonds | 635,000 | - |
| Total long-term liabilities | \$ 925,444 | \$ 320,190 |

**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2017**

Factors Bearing on the Library's Future

At the time these financial statements were prepared and audited, the Library was aware of circumstances that could significantly affect its financial health in the future.

1. Local property taxes represent the largest portion of the Library's revenue providing 86% of total funding. Taxable value increases through 2007, 2008 and 2009 were followed by increases/decreases as follows according to annual county equalization reports:

- 2010 (1.93%)
- 2011 (2.13%)
- 2102 (.286%)
- 2013 2.578%
- 2014 1.762%
- 2015 3.273%
- 2016 1.683%
- 2017 3.622%
- 2018 4.896%

Due to increasing the increasing value of taxable properties, TADL has experienced Headlee Millage reductions for the past two years and will have another reduction in 2018 from .9467 mills to .9431. Our tax receipts will, of course, increase overall, but the lower millage rate will cause a deduction of about \$18,000.

2. The legislation that was passed in 2016 to exempt libraries from certain tax captures allowed us to request an exemption from a newly revived TIF district in old town Traverse City. Fortunately, we were successful and received widespread community support for our efforts. There is currently legislation under consideration that would clarify certain language in the original legislation to ensure that legislation's intent is clearly understood by all. We are monitoring these issues both on the state and local level.
3. We are pleased to report that TADL received reimbursements of \$86,073 toward general fund taxes and \$12,489 for debt service taxes in February 2018 from the state as a result of Personal Property tax legislation.
4. In 2017, the Library reimbursed the county and various townships approximately \$6,227 due to Board of Review and Tax Tribunal judgments, which is about \$1,200 more than in 2016. These payments were from both the General and Debt Retirement Funds and were paid from Property Tax Reimbursement lines if they were from prior years, and directly refunded from our revenue accounts if they were from the current year tax receipts. The possibility of adverse Board of Review and Tax Tribunal rulings remains a threat, and we are keeping a close eye on this issue. The amounts we must reimburse vary tremendously from year to year, ranging from a high of \$49,000 in 2011 to a low of \$5,000 in 2016. Fortunately, in 2018 so far, we have paid back a total of \$60.
5. State Aid receipts increased less than a percent in 2017. We are on track for about an 11% increase in 2018, for which we are very grateful. These funds are always at risk when the economy experiences a downturn and legislators look for ways to balance the state budget. We continue to appreciate the efforts of the Michigan Library Association and state legislators to fund libraries at a higher rate.

**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2017**

6. Penal fines receipts continue their roller coaster ride, but have been mostly on a downward trajectory. While fines decreased 15.5% in Grand Traverse and 4% Leelanau counties, Benzie county fines went up 21% in 2017 with receipts totaling \$213,848 for all. In contrast, we received \$387,937 in 2007. We continue to be concerned about Penal fines as it is our second largest funding source. The amount can vary widely and is also always a target of legislative activity at the state level as well as potential local ordinances that are passed to capture fines for the municipalities in which the offenses take place. We have received word that 2017-2018 Penal fine receipts are down, so we do not expect to receive as much this July when these funds are normally disbursed.
7. Our labor contract with the Teamsters remains in effect until December 31, 2019. Though this provides some assurance of wage and retirement costs, expenses for insurance are unpredictable.
8. The funding status of our Municipal Employees Retirement System pension remains a serious concern for our Board and staff, but much progress was made to address this in 2017. Not only did we pay \$200,000 to MERS from the Internal Service Fund, our switch from a Defined Benefit Plan to a Defined Contribution Plan changed our employer contribution on payroll from a variable percentage each year to a flat 8%. We will make another large contribution this year in addition to our actuarially determined payments for the unfunded liability.
9. We are currently working with an architect and a project manager to determine the best course of action to remedy ventilation and insulation problems over the third floor which have contributed to ice damming on the roof and resultant water damage. In addition, as noted last year, our roof was installed incorrectly with unsuitable materials and will need to be replaced. Our Board and staff will continue to work toward the best solution to ensure a quality solution at the most reasonable cost. We hope to begin the bidding process soon for at least the ventilation and insulation work.
10. We are very pleased to report that the tax levy in December, 2017 was the first without a debt levy since 1996. Thanks to all of our county residents for the support that has made our wonderful main library possible.
11. Last year, we reported that we were beginning a fund raising campaign for a Preschool Interactive Learning Area in our Youth Services Department at the main library and for new shelving for the Local History Collection. Thanks to a generous bequest from the William Engle estate and funds raised at our "Raising Future Readers" event in April, 2017, the Youth Services project began in earnest. The area was painted, a mural was completed by Glenn Wolff and new lighting was installed. Plans were developed for construction of a lighthouse, boat and kitchen area and should be complete sometime in 2018. We are also considering other fund raising options to complete the shelving project in the Local History Collection and for a potential move of our Teen Services Department from its current location on the first floor to the space now occupied by the Public Computing Center. The PCC would then be housed in the space vacated by Teen Services and would focus more on business services.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Traverse Area District Library, 610 Woodmere, Traverse City, Michigan 49686.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Traverse Area District Library
Traverse City, 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 **Traverse Area District Library** (the "Library") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Library'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 Library'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.

Opinion

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 Traverse Area District Library as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through ix and the required supplementary information on page 30 - 32 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Traverse Area District Library's basic financial statements. The combining non-major fund financial statements and detail schedule of revenue, expenditures and changes in fund balance - budget and actual - general fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund financial statements and detail schedule of revenue, expenditures and changes in fund balance - budget and actual - general fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements and detail schedule of revenue, expenditures and changes in fund balance - budget and actual - general fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2018, on our consideration of the 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 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.

Dennis, Gartland & Niergarth

June 12, 2018

Traverse Area District Library
STATEMENT OF NET POSITION
December 31, 2017

Governmental
Activities

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS

| | |
|---|----------------|
| Current assets | |
| Cash and equivalents | \$ 1,651,000 |
| Investments | 2,489,198 |
| Accounts receivable | 4,067,647 |
| Prepaid expenses | <u>114,983</u> |
| Total current assets | 8,322,828 |
| Capital assets, net of accumulated depreciation | 6,361,573 |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|---|----------------------|
| Deferred outflows of resources for net pension obligation | <u>105,089</u> |
| Total assets and deferred outflows of resources | <u>\$ 14,789,490</u> |

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

| | |
|-----------------------------------|------------------|
| Current liabilities | |
| Accounts payable | \$ 67,852 |
| Accrued liabilities | 66,301 |
| Current portion of long-term debt | <u>51,796</u> |
| Total current liabilities | 185,949 |
| Long-term debt | 268,394 |
| Net pension liability | <u>1,222,587</u> |
| Total liabilities | <u>1,676,930</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|---|------------------|
| Taxes levied but intended for subsequent period | <u>4,618,315</u> |
|---|------------------|

NET POSITION

| | |
|---|----------------------|
| Invested in capital assets, net of related debt | 6,361,573 |
| Restricted for: | |
| Youth Services | 52,846 |
| Local History Collections | 2,500 |
| Debt service | 72,549 |
| Public improvement | 1,355,461 |
| Capital projects | 101,150 |
| Permanent fund: | |
| Expendable | 8,644 |
| Nonexpendable | 20,000 |
| Unrestricted | <u>519,522</u> |
| Total net position | <u>8,494,245</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 14,789,490</u> |

Traverse Area District Library

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

| Functions | Expenses | Program Revenues | | | Net Revenue (Expense) and Changes in Net Position |
|---------------------------------|------------------|-------------------------|---|--|--|
| | | Charges For Services | Operating Grants and Contribution | Capital Grants and Contributions | Total |
| Governmental activities | | | | | |
| Library services | \$ 3,285,302 | \$ 137,280 | \$ 190,946 | \$ - | \$ (2,957,076) |
| Depreciation - unallocated | 571,013 | - | - | - | (571,013) |
| Interest on long-term debt | 8,467 | - | - | - | (8,467) |
| Total governmental activities | <u>3,864,782</u> | <u>137,280</u> | <u>190,946</u> | <u>-</u> | (3,536,556) |
| General revenues | | | | | |
| Property taxes | | | | | |
| Levied for general purposes | | | | | 4,532,111 |
| Levied for debt service | | | | | 635,089 |
| Fines and forfeitures | | | | | 376,111 |
| Investment earnings | | | | | <u>17,437</u> |
| Total general revenues | | | | | <u>5,560,748</u> |
| Change in net position | | | | | 2,024,192 |
| Net position, beginning of year | | | | | <u>6,470,053</u> |
| Net position, end of year | | | | | <u>\$ 8,494,245</u> |

Traverse Area District Library
GOVERNMENTAL FUNDS - BALANCE SHEETS

December 31, 2017

| | General Fund | Public Improvement | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------|------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,477,256 | \$ - | \$ 72,594 | \$ 101,150 | \$ 1,651,000 |
| Investments | 826,938 | 1,522,310 | - | 28,547 | 2,377,795 |
| Receivables | | | | | |
| Property taxes | 4,058,072 | - | - | - | 4,058,072 |
| Interest | 2,663 | 4,941 | - | - | 7,604 |
| Accounts | 1,500 | - | - | 97 | 1,597 |
| Due from other funds | 2,445 | 175,106 | - | - | 177,551 |
| Prepaid expenditures | 114,983 | - | - | - | 114,983 |
| | <u>\$ 6,483,857</u> | <u>\$ 1,702,357</u> | <u>\$ 72,594</u> | <u>\$ 129,794</u> | <u>\$ 8,388,602</u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ 59,896 | \$ 7,956 | \$ - | \$ - | \$ 67,852 |
| Accrued liabilities | 66,301 | - | - | - | 66,301 |
| Due to other funds | 350,212 | 2,400 | 45 | - | 352,657 |
| | <u>476,409</u> | <u>10,356</u> | <u>45</u> | <u>-</u> | <u>486,810</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Taxes levied intended for subsequent period | 4,618,315 | - | - | - | 4,618,315 |
| FUND BALANCE | | | | | |
| Nonspendable | 114,983 | - | - | 20,000 | 134,983 |
| Restricted: | | | | | |
| Youth Services | - | 52,846 | - | - | 52,846 |
| Local History Collection | - | 2,500 | - | - | 2,500 |
| Fund use | - | 1,636,655 | 72,549 | 109,794 | 1,818,998 |
| Committed: | | | | | |
| Children's programming endowment | 81,000 | - | - | - | 81,000 |
| Employee benefit obligations | 325,000 | - | - | - | 325,000 |
| Unassigned | 868,150 | - | - | - | 868,150 |
| | <u>1,389,133</u> | <u>1,692,001</u> | <u>72,549</u> | <u>129,794</u> | <u>3,283,477</u> |
| Total liabilities, deferred inflows of resources and fund balance | <u>\$ 6,483,857</u> | <u>\$ 1,702,357</u> | <u>\$ 72,594</u> | <u>\$ 129,794</u> | |

Reconciliation of Governmental Fund Balance to District-Wide Governmental Activities Net Position

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 as assets in governmental funds. The cost of the assets is \$13,523,860 and the accumulated depreciation is \$(7,162,287). | 6,361,573 |
| Internal service funds are used by management to accumulate funds for the purpose of paying retirement obligations. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. | 286,883 |
| Deferred inflows of resources net of deferred outflows of resources for pension obligations is not a financial resource and, therefore, is not reported in governmental funds. | 105,089 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | |

| | |
|-----------------------|-------------|
| Net pension liability | (1,222,587) |
| Compensated absences | (320,190) |

| | |
|--|---------------------|
| Total net position - governmental activities | <u>\$ 8,494,245</u> |
|--|---------------------|

Traverse Area District Library

**GOVERNMENTAL FUNDS - STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

Year Ended December 31, 2017

| | General Fund | Public Improvement | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|---------------------|-----------------------|------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | |
| Property taxes | \$ 4,532,111 | \$ - | \$ 635,089 | \$ - | \$ 5,167,200 |
| State grants | 107,390 | - | - | - | 107,390 |
| Other grants | 8,940 | - | - | - | 8,940 |
| Charges for services | 137,280 | - | - | - | 137,280 |
| Fines and forfeitures | 376,111 | - | - | - | 376,111 |
| Investment income | 11,208 | 5,249 | - | 433 | 16,890 |
| Contributions and other income | 74,616 | - | - | - | 74,616 |
| | <u>5,247,656</u> | <u>5,249</u> | <u>635,089</u> | <u>433</u> | <u>5,888,427</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Personnel | 2,894,171 | - | - | - | 2,894,171 |
| Additional retirement contribution | 200,000 | - | - | - | 200,000 |
| Supplies and collection additions | 629,743 | - | - | - | 629,743 |
| Other services and charges | 1,150,329 | 16,052 | 557 | 47 | 1,166,985 |
| Debt service | | | | | |
| Principal | - | - | 635,000 | - | 635,000 |
| Interest and fiscal charges | - | - | 12,700 | - | 12,700 |
| Capital outlay | 130,283 | - | - | - | 130,283 |
| | <u>5,004,526</u> | <u>16,052</u> | <u>648,257</u> | <u>47</u> | <u>5,668,882</u> |
| REVENUES OVER EXPENDITURES | <u>243,130</u> | <u>(10,803)</u> | <u>(13,168)</u> | <u>386</u> | <u>219,545</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating transfers in | 200,000 | 336,540 | - | - | 536,540 |
| Operating transfers out | (621,581) | - | - | - | (621,581) |
| | <u>(421,581)</u> | <u>336,540</u> | <u>-</u> | <u>-</u> | <u>(85,041)</u> |
| NET CHANGE IN FUND BALANCE | <u>(178,451)</u> | <u>325,737</u> | <u>(13,168)</u> | <u>386</u> | <u>134,504</u> |
| Fund balance, beginning of year | 1,567,584 | 1,366,264 | 85,717 | 129,408 | 3,148,973 |
| Fund balance, end of year | <u>\$ 1,389,133</u> | <u>\$ 1,692,001</u> | <u>\$ 72,549</u> | <u>\$ 129,794</u> | <u>\$ 3,283,477</u> |

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

Traverse Area District Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE WITH
THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

Total net change in fund balance - governmental funds \$ 134,504

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

Capital outlays to purchase or build capital assets are reported in the governmental funds expenditures. However, those costs are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense exceeds capital outlays during the period.

| | | |
|----------------------|------------------|-----------|
| Capital outlays | \$ 435,567 | |
| Depreciation expense | <u>(571,013)</u> | (135,446) |

| | |
|---|-----------|
| Change in deferred outflows of resources, net of the change in deferred inflows of resources for pension obligations. | (542,066) |
|---|-----------|

| | |
|--|----------|
| In the statement of activities, certain operating expenses - accrued leave - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year, the accrued leave earned was more than the amount paid by \$29,746. | (29,746) |
|--|----------|

| | |
|--|--------|
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service funds are reported with governmental activities. | 85,164 |
|--|--------|

| | |
|--|---------|
| Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position and does not affect the statement of activities. | 635,000 |
|--|---------|

| | |
|-----------------------------------|-----------|
| Decrease in net pension liability | 1,872,549 |
|-----------------------------------|-----------|

| | |
|---|--------------|
| Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is the net results of the decrease in accrued interest on bonds payable. | <u>4,233</u> |
|---|--------------|

| | |
|--|---------------------------|
| Change in net position of governmental activities | <u><u>\$2,024,192</u></u> |
|--|---------------------------|

Traverse Area District Library

STATEMENT OF NET POSITION - INTERNAL SERVICE FUND

December 31, 2017

| ASSETS | |
|---------------------------------|-------------------|
| CURRENT ASSETS | |
| Investments | \$ 111,403 |
| Due from other funds | 175,106 |
| Interest receivable | <u>374</u> |
| Total current assets | <u>\$ 286,883</u> |
| NET POSITION | |
| Committed for pension liability | <u>\$ 286,883</u> |

Traverse Area District Library

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - INTERNAL
SERVICE FUND**

Year Ended December 31, 2017

| | |
|---|-------------------|
| Operating expenses | |
| Bank Fees | \$ 424 |
| | <u> </u> |
| Operating income (loss) | (424) |
| | <u> </u> |
| Nonoperating revenues | |
| Interest income | 547 |
| | <u> </u> |
| INCOME BEFORE TRANSFERS | 123 |
| | <u> </u> |
| Transfers from other funds | 285,041 |
| Transfers to other funds | (200,000) |
| | <u> </u> |
| CHANGE IN NET POSITION | 85,164 |
| | <u> </u> |
| NET POSITION , beginning of year | 201,719 |
| | <u> </u> |
| NET POSITION , end of year | <u>\$ 286,883</u> |

Traverse Area District Library

STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND

Year Ended December 31, 2017

| | |
|---|--------------------|
| Change in net position | \$ 85,164 |
| Adjustments to reconcile change in net position | |
| Increase in amounts due from other funds | (175,106) |
| Decrease in interest receivable | <u>458</u> |
| Net cash provided by operating activities | <u>(89,484)</u> |
| Investing activities | |
| Sale of investments | <u>89,484</u> |
| Net cash used by investing activities | <u>89,484</u> |
| NET INCREASE IN CASH | - |
| Cash, beginning of year | <u>-</u> |
| Cash, end of year | <u><u>\$ -</u></u> |

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

Traverse Area District Library

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

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

Traverse Area District Library was established on January 1, 1983 pursuant to the Library Act of Michigan by participating municipalities of the City of Traverse City and Grand Traverse County. The Library provides library services to the public.

The Financial Reporting Entity

As a district Library, the Library is governed by a Board of Trustees, appointed in accordance with the Library bylaws. The Board has governance responsibilities over all activities related to the Traverse Area District Library. The Board receives funding from local and State government sources and must comply with concomitant requirements of these funding entities. However, the Board 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 the financial statements.

The Traverse Area District Library maintains associate library relationships with the Peninsula Community, Fife Lake Public, and Interlochen Public Libraries. These contractual relationships provide for an exchange of library services. The agreements also provide for payments to the associate members of the amounts based on varying factors. Supplemental payments may also be made to the associate members at the discretion of the Board of Trustees. The Library operates branches in the Village of Kingsley and East Bay Township.

The Traverse Area District Library also provides services for eligible blind and physically handicapped residents to an eight-county region by means of the TADL Talking Book Library. Part of the Michigan Braille and Talking Book Library Network of Regional and Subregional Libraries, expenditures related to this program are partially funded through State and Federal grants and in-kind support.

Government-Wide and Fund Financial Statements

Government-Wide 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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 the 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.

Fund Financial Statements

The balance sheets and statements of revenues, expenditures and changes in fund balance (i.e. fund financial statements) for the Library's governmental and internal service funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund type's assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, property taxes and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used 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. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued compensated absences, which is recorded when payable from current available financial resources.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Types and Major Funds

Activities in Major Funds

General Fund - This fund is used to account for all financial resources except those provided for in other funds. The fund includes the general operating expenditures of the Library.

Public Improvement Special Revenue Fund - This fund is used to accumulate money for acquiring, constructing, extending, altering, repairing, or equipping public improvements or buildings.

Debt Service Fund - This fund is used to account for the accumulation and disbursement of funds to provide for the debt service on Library debts.

Activities in Non-Major Funds

Permanent Fund - This fund is used to account for the corpus and earnings of a trust of which the earnings can be spent.

Blair Library Capital Fund - This fund was established in 2013 to account for a one time bequest received that was to be used only for the establishment or enhancement of a community library in Blair Township.

Internal Service Fund - This fund is used to account for operations that provide services to the Library. Specifically, this fund is used to service the net pension liability of the Library.

Budgeting Data

The annual budgets are 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 budgets have been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenue, expenditures and change in fund balance - budget and actual) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; 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 District Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or about December 1st, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following January 1. The operation budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. On or about December 31st, the budget is legally enacted through passage of a resolution.

NOTES TO FINANCIAL STATEMENTS - Continued

- d. The District Library Director is authorized to transfer budgeted amounts within the four budgeted categories.
- e. Appropriations for the funds lapse at the end of the fiscal year.

P.A. 621 OF 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2017, the Library did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

Cash and Investments

The Library considers all cash, demand deposits and short-term investments with an original maturity of three months or less to be cash equivalents.

Cash deposits are reported at carrying amounts that reasonably estimate fair value. Investments are reported at fair value.

Property Tax Receivable

Property taxes are levied and attach as an enforceable lien on property on December 1st on the taxable valuation of property as of the preceding December 31st. The property taxes are billed and collected by local units of government within the Library District, which then remit the District Library's designated portion on a semi-monthly basis. During March of each year, uncollected real property taxes are transferred to the respective County which pays the Library for those balances and accepts responsibility for collection. Responsibility for the collection of unpaid personal property taxes remains with the local units of government.

Although the Library's 2017 ad valorem tax is levied and collectible on December 1, 2017, 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.

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net position) and are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Library generally capitalizes assets with costs of \$500 or more and an estimated life in excess of one year. Collection assets are recorded as group additions and deletions each year. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives, in years, for depreciable assets are as follows:

| | |
|--|------------|
| Furniture, fixtures and equipment | 3-40 years |
| Buildings and improvements | 40 years |
| Collections-books, DVD's, videotapes, etc. | 6 years |

Deferred Inflows and Outflows of Resources

Government-wide financial statements report *deferred inflows of resources* in connection with the net pension obligation. Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows for receivables and revenues:

| | |
|-----------------|---------------------|
| Property taxes: | |
| General Fund | <u>\$ 4,618,315</u> |

Government-wide financial statements report *deferred outflows of resources* in connection with consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources are related to recording the net pension obligation.

Compensated Absences

District Library employees earn leave in varying amounts based on length of service. Unused leave may accumulate and be carried over to a subsequent year, subject to restrictions. Leave accrued at year end which is subject to payment upon termination has been included as a liability on the statement of Net Position and not on the fund balance sheet as the balance has not yet matured from resignations or retirements.

Fund Balance

In the fund financial statements, governmental funds classify fund balance as nonspendable for amounts that are not in a spendable form, such as inventory and prepaid expenses, or are required to be maintained intact. Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers, such as grant providers, constitutionally, or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers. Committed fund balance includes amounts that can be used only for the specific purpose determined by a formal action of government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. Assigned fund balance comprises amounts intended to be used by the government for a specific purpose. Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

When both restricted and unrestricted fund balances are available for use, it is the Library's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

NOTES TO FINANCIAL STATEMENTS - Continued

It is the Board of Trustees intent to utilize the Public Improvement Fund's restricted balance as follows:

| | | |
|---|----|-------------------------|
| Replacements | \$ | 500,000 |
| Service improvement | | 225,000 |
| Youth services and local history collection | | 55,346 |
| Undesignated | | <u>911,655</u> |
| Total restricted fund balance | \$ | <u><u>1,692,001</u></u> |

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Pensions

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net pension of the Municipal Employees Retirement System ("MERS") of Michigan, and additions to/deductions from MERS fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

At December 31, 2017, the Library's cash and investments include the following:

| | Balance Sheet Classification | | Total |
|-------|------------------------------|---------------------|---------------------|
| | Cash | Investments | |
| Total | <u>\$ 1,651,000</u> | <u>\$ 2,489,198</u> | <u>\$ 4,140,198</u> |

These deposits are in two (2) financial institutions located in Michigan. State policy limits the Library's investing options to financial institutions located in Michigan.

NOTES TO FINANCIAL STATEMENTS - Continued

Deposits 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. The maturity dates for each investment are identified below for investments held at year-end.

Credit Risk - State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Library's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the following listing. The Library's investment policy does not have specific limits in excess of State law on investment credit risk. The rating for each investment (not including money market investments) is AA+.

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. The Library minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the Library's investment policy. As of year-end, \$1,317,439 of the Library's bank balance of \$1,668,563 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the Library's investment policy. The custodial risk for money market mutual funds cannot be determined because the mutual fund does not consist of specifically identifiable securities. The Library is exposed to custodial credit risk for the remaining securities because they are uninsured and unregistered with securities held by the counter party or the counter party's trust department or agent, but not in the Library's name.

NOTES TO FINANCIAL STATEMENTS - Continued

Statutory Authority

State statutes authorize the Library to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. 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.
- d. Banker's acceptance of United States banks.
- e. 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.
- f. 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.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Library has the following recurring fair value measurements as of December 31, 2017:

| Investments by Fair Value Level | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investment Maturities (in years) | | | |
|---------------------------------|--|---|---|----------------------------------|---------------------|-----------------|--------------|
| | | | | Current | 1-5 | 6-10 | More than 10 |
| Government Backed Bonds | \$ - | \$ 1,614,503 | \$ - | \$ 228,138 | \$ 1,379,975 | \$ 6,390 | \$ - |
| Treasury Bonds | - | 583,910 | - | 59,707 | 524,203 | - | - |
| Certificates of Deposit | 248,692 | - | - | 248,692 | - | - | - |
| Money Market Funds | 42,093 | - | - | 42,093 | - | - | - |
| Total | \$ 290,785 | \$ 2,198,413 | \$ - | \$ 578,630 | \$ 1,904,178 | \$ 6,390 | \$ - |

The Library's investments in money market mutual funds and cash equivalents are not required to be classified by fair value.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

There have been no changes in the methodologies used at December 31, 2017.

U.S. government bonds, municipal bonds and corporate bonds: Valued at fair value using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

NOTES TO FINANCIAL STATEMENTS - Continued

Certificates of Deposit: Valued at the fair value based on quoted prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Library believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE C - INVESTMENT IN CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended December 31, 2017:

| | <u>Beginning</u> | <u>Capital Acquisitions</u> | <u>Sales and Adjustments</u> | <u>Ending</u> |
|-------------------------------|---------------------|-----------------------------|------------------------------|---------------------|
| Buildings | \$ 7,615,301 | \$ - | \$ - | \$ 7,615,301 |
| Collections | 3,429,596 | 363,732 | (418,872) | 3,374,456 |
| Furniture and equipment | <u>2,127,712</u> | <u>71,835</u> | <u>(10,989)</u> | <u>2,188,558</u> |
| Total depreciable assets | 13,172,609 | 435,567 | (429,861) | 13,178,315 |
| Less accumulated depreciation | (7,021,135) | (571,013) | 429,861 | (7,162,287) |
| Land | <u>345,545</u> | <u>-</u> | <u>-</u> | <u>345,545</u> |
| Total capital assets, net | <u>\$ 6,497,019</u> | <u>\$ (135,446)</u> | <u>\$ -</u> | <u>\$ 6,361,573</u> |

Total depreciation expense for the year ended December 31, 2017, was \$571,013.

NOTE D - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

| | <u>Beginning Balance</u> | <u>New Debt</u> | <u>Payments</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|--------------------------|--------------------------|------------------|---------------------|-----------------------|------------------------|
| General Obligation Bonds | \$ 635,000 | \$ - | \$ (635,000) | \$ - | \$ - |
| Compensated absences | <u>290,444</u> | <u>29,746</u> | <u>-</u> | <u>320,190</u> | <u>51,796</u> |
| | <u>\$ 925,444</u> | <u>\$ 29,746</u> | <u>\$ (635,000)</u> | <u>\$ 320,190</u> | <u>\$ 51,796</u> |

Bonds are paid from the debt service fund millage. Compensated absences are liquidated in the general fund.

NOTES TO FINANCIAL STATEMENTS - Continued

Interest expense for the year ended December 31, 2017 was \$8,467, and interest paid for the year ended December 31, 2017 was \$12,700.

NOTE E - INTERFUND TRANSACTIONS

Interfund Receivable/Payables

Interfund receivables/payables consists of the following:

| | <u>Receivables</u> | <u>Payables</u> |
|-------------------------|--------------------|-------------------|
| Major Funds: | | |
| General Fund | \$ 2,445 | \$ 350,212 |
| Public Improvement Fund | 175,106 | 2,400 |
| Debt Service Fund | - | 45 |
| Internal Service Fund | <u>175,106</u> | <u>-</u> |
| | <u>\$ 352,657</u> | <u>\$ 352,657</u> |

Operating Transfers

A summary of operating transfers in and out of individual funds follows:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|-------------------------|---------------------|----------------------|
| Major Funds: | | |
| General Fund | \$ 200,000 | \$ 621,581 |
| Public Improvement Fund | 336,540 | - |
| Internal Service Fund | <u>285,041</u> | <u>200,000</u> |
| Total | <u>\$ 821,581</u> | <u>\$ 821,581</u> |

NOTE F - PENSION PLAN

The Library participates in two retirement programs as detailed below:

Defined Contribution Plan - Employee Investment Plan and Trust

The Library participates in a self-administered defined contribution pension plan established on June 1, 1985. There are two types of contributions that the Library may make: discretionary matching and discretionary profit sharing. Employees are eligible to participate in the plan after reaching 21 years of age and providing three months of service. As authorized by the plan document, each participant may contribute from 1% to 15% of compensation of this plan. The Library may contribute each year, depending on its funding. Participants in the plan are vested depending on their years of service. The employee will be credited with one year of service for each plan year in which at least 1,000 hours of service were completed. All employee contributions are 100% vested at all times.

The Library opened a MERS Defined Contribution plan as of November 1, 2016. As authorized by the plan document, each participant will contribute 3% of compensation to this plan. The Library contributes 8% of the employee's compensation. All employees are 100% vested after 5 years of service. The employee will be credited with one vesting year for each 12 months of continuous employment from the date of hire.

The employer contribution to the self-administered defined contribution plan and the MERS defined contribution plan for the year totaled \$101,954 and \$144,092, respectively. The employee contributions totaled \$163,436 and \$54,379, respectively. Plan provisions and contribution requirements are established and may be amended by the Library board.

Defined Benefit Plan - Municipal Employees Retirement System of Michigan

The Library participates in the Municipal Employees Retirement System of Michigan ("MERS") defined benefit plan. The defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, State-wide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.gov.

In October 2016, the Library and the Teamsters Union reached an agreement on the labor contract that had expired on December 31, 2015. The settlement included the transition from the MERS Defined Benefit plan to a MERS Defined Contribution plan. The MERS Defined Benefit plan was frozen as of November 1, 2016. Employees will maintain their benefits pursuant to the MERS Defined Benefit plan.

Benefits Provided

Benefits were frozen as of November 1, 2016.

The vesting period is 6 years.

NOTES TO FINANCIAL STATEMENTS - Continued

Normal retirement age is 60 with early retirement at 55 with 15 years of service, or 50 with 25 years of service.

Final average compensation is calculated based on 5 years. Members contributions are 0% because the plan is closed.

Employees Covered by Benefit Terms

At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

| | |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefits | 31 |
| Inactive employees entitled to but not yet receiving benefits | 2 |
| Active employees | <u>37</u> |
| | <u><u>70</u></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 any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions were \$99,777 based on the annual required contribution. The Library contributed \$200,000 in excess of the annual required contribution.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of December 31, 2016.

Actuarial Assumptions

The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary increases: 3.75% in the long-term.

Investment rate of return: 7.75%, net of investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

NOTES TO FINANCIAL STATEMENTS - Continued

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 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

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

Discount Rate

The discount rate used to measure the total pension liability is 8.0% for 2016. 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.

NOTES TO FINANCIAL STATEMENTS - Continued

Changes in Net Pension Asset

| | Increase (Decrease) | | |
|---|-----------------------------------|---------------------------------------|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability/ (Asset) (a)-(b) |
| Balances at December 31, 2016 | <u>\$ 8,466,189</u> | <u>\$ 5,371,053</u> | <u>\$ 3,095,136</u> |
| Changes for the year | | | |
| Service cost | 199,446 | - | 199,446 |
| Interest on total pension liability | 668,004 | - | 668,004 |
| Changes in benefits | (1,603,158) | - | (1,603,158) |
| Difference between expected and actual experience | (117,979) | - | (117,979) |
| Employer contributions | - | 299,900 | (299,900) |
| Employee contributions | - | (123) | 123 |
| Net investment income | - | 707,090 | (707,090) |
| Benefit payments, including employee refunds | (431,735) | (431,735) | - |
| Administrative expense | - | (11,182) | 11,182 |
| Other changes | (23,177) | - | (23,177) |
| Net changes | <u>(1,308,599)</u> | <u>563,950</u> | <u>(1,872,549)</u> |
| Balances as of December 31, 2017 | <u>\$ 7,157,590</u> | <u>\$ 5,935,003</u> | <u>\$ 1,222,587</u> |

Sensitivity of 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 employer's Net Pension Liability would be using a discount rate that is 1 percentage point 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) | \$ (1,959,252) | \$ (1,222,587) | \$ (600,296) |

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

NOTES TO FINANCIAL STATEMENTS - Continued

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

For the year ended December 31, 2017, the Library recognized pension expense (benefit) of \$(1,030,583). The Library reported deferred outflows and inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|-------------------------------------|---|--|
| Difference in experience | \$ 121,044 | \$ (88,484) |
| Difference in assumptions | 225,007 | - |
| Excess (deficit) investment returns | <u>176,253</u> | <u>(328,731)</u> |
| Total | <u>\$ 522,304</u> | <u>\$ (417,215)</u> |

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

| <u>Year Ended</u> | |
|-------------------|-------------------|
| 2018 | \$ 140,956 |
| 2019 | 140,956 |
| 2020 | (120,197) |
| 2021 | <u>(56,626)</u> |
| | <u>\$ 105,089</u> |

Payable to the Pension Plan

The Library reported \$0 payable to the pension plan required for the year ended December 31, 2017.

NOTE G - RISK MANAGEMENT

The Library is exposed to various risks of loss related to property, torts, errors and omissions, 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 four fiscal years. There were no significant reductions in insurance coverage during the past year.

NOTE H - COMMITMENTS AND CONTINGENCIES

Collectively Bargained Employment Agreement

The employees of the Library are organized under the Teamsters State, county and municipal workers local 214 (the "Union"). The Board of Trustees and the Union have a contract for October 20, 2016 through December 31, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

Traverse Area District Library

SCHEDULE OF CHANGES IN THE MERS NET PENSION ASSET AND RELATED RATIOS

For the years ended December 31:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|----------------------------|
| Total Pension Liability | | | |
| Service cost | \$ 199,446 | \$ 215,673 | \$ 197,882 |
| Interest | 668,004 | 603,264 | 574,593 |
| Changes in benefit terms | (1,603,158) | - | - |
| Difference between expected and actual experience | (117,979) | 242,089 | - |
| Changes in assumption | - | 450,014 | - |
| Benefit payments, including employee refunds | (431,735) | (429,433) | (389,185) |
| Other | <u>(23,177)</u> | <u>(34,593)</u> | <u>(24,527)</u> |
| Net change in total pension liability | (1,308,599) | 1,047,014 | 358,763 |
| Total pension liability, beginning | <u>8,466,189</u> | <u>7,419,175</u> | <u>7,060,412</u> |
| Total pension liability, ending | <u>\$ 7,157,590</u> | <u>\$ 8,466,189</u> | <u>\$ 7,419,175</u> |
| Plan Fiduciary Net Position | | | |
| Contributions - employer | \$ 299,900 | \$ 654,923 | \$ 265,502 |
| Contributions - employee | (123) | 68,879 | 83,538 |
| Net investment income | 707,090 | 555,932 | (70,448) |
| Benefit payments, including employee refunds | (431,735) | (429,433) | (389,185) |
| Administrative expense | <u>(11,182)</u> | <u>(10,910)</u> | <u>(10,244)</u> |
| Net change in plan fiduciary net position | 563,950 | 839,391 | (120,837) |
| Plan fiduciary net position, beginning | <u>5,371,053</u> | <u>4,531,662</u> | <u>4,652,499</u> |
| Plan fiduciary net position, ending | <u>\$ 5,935,003</u> | <u>\$ 5,371,053</u> | <u>\$ 4,531,662</u> |
| Employer net pension (asset) liability | <u>\$ 1,222,587</u> | <u>\$ 3,095,136</u> | <u>\$ 2,887,513</u> |
| Plan fiduciary net position as a percentage of total pension liability | 83 % | 63 % | 61 % |
| Covered employee payroll | <u>\$ 1,733,192</u> | <u>\$ 1,785,090</u> | <u>\$ 1,673,876</u> |
| Employer's net pension liability as a percentage of covered employee payroll | 71 % | 173 % | 173 % |

Note to schedule:

The plan was closed October 31, 2016.

Traverse Area District Library

SCHEDULE OF MERS EMPLOYER'S CONTRIBUTIONS

For the years ended December 31,

| | 2017 | 2016 | 2015 |
|--|---------------------|---------------------|---------------------|
| Actuarial determined contributions | \$ 99,777 | \$ 304,734 | \$ 265,502 |
| Contribution in relation to the actuarially determined contributions | <u>299,777</u> | <u>265,502</u> | <u>265,502</u> |
| Contribution excess | <u>\$ 200,000</u> | <u>\$ 39,232</u> | <u>\$ -</u> |
| Covered employee payroll | <u>\$ 1,733,192</u> | <u>\$ 1,785,090</u> | <u>\$ 1,673,876</u> |
| Contributions as a percentage of covered employee payroll | 17 % | 15 % | 16 % |

Notes to Schedule

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 23 years |
| Asset valuation method | 5 year smoothed |
| Inflation | 2.5% |
| Salary increases | 3.75% |
| Investment rate of return | 7.75% |
| Retirement age | Varies depending on plan adoption |
| Mortality | 50% female/ 50% male RP-2014 Group Annuity Mortality Table |

Previous actuarial methods and assumptions:

A seven year smoothed asset valuation method was used for the time period of 2012 through 2018. Salary increases were expected to be 1% for the time period of 2015 through 2023.

Traverse Area District Library

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2017

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances - Positive (Negative) | |
|---|---------------------|---------------------|------------------------|------------------------------------|--------------------------|
| | | | | Original to Final | Final to Actual Total |
| | Original | Final | | | |
| REVENUES | | | | | |
| Property taxes | \$ 4,462,500 | \$ 4,462,500 | \$ 4,532,111 | \$ - | \$ 69,611 |
| State grants | 104,725 | 104,725 | 107,390 | - | 2,665 |
| Other grants | 5,000 | 10,000 | 8,940 | 5,000 | (1,060) |
| Charges for services | 87,500 | 87,500 | 137,280 | - | 49,780 |
| Fines and forfeitures | 404,000 | 404,000 | 376,111 | - | (27,889) |
| Interest income | 20,000 | 20,000 | 11,208 | - | (8,792) |
| Contributions and other income | 51,000 | 141,000 | 74,616 | 90,000 | (66,384) |
| Total revenues | <u>5,134,725</u> | <u>5,229,725</u> | <u>5,247,656</u> | <u>95,000</u> | <u>17,931</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Personnel | 2,987,455 | 3,168,980 | 3,094,171 | (181,525) | 74,809 |
| Supplies | 659,840 | 660,640 | 629,743 | (800) | 30,897 |
| Other services and charges | 1,356,010 | 1,332,340 | 1,150,329 | 23,670 | 182,011 |
| Capital outlay | 131,420 | 267,765 | 130,283 | (136,345) | 137,482 |
| Total expenditures | <u>5,134,725</u> | <u>5,429,725</u> | <u>5,004,526</u> | <u>(295,000)</u> | <u>425,199</u> |
| REVENUES OVER (UNDER) EXPENDITURES | - | (200,000) | 243,130 | (200,000) | 443,130 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating transfers in | - | 200,000 | 200,000 | 200,000 | - |
| Operating transfers out | - | - | (621,581) | - | (621,581) |
| Total other financing sources (uses) | <u>-</u> | <u>200,000</u> | <u>(421,581)</u> | <u>200,000</u> | <u>(621,581)</u> |
| NET CHANGE IN FUND BALANCE | - | - | (178,451) | - | (178,451) |
| Fund balance, beginning of year | <u>1,567,584</u> | <u>1,567,584</u> | <u>1,567,584</u> | <u>-</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,567,584</u> | <u>\$ 1,567,584</u> | <u>\$ 1,389,133</u> | <u>\$ -</u> | <u>\$ (178,451)</u> |

OTHER SUPPLEMENTARY INFORMATION

Traverse Area District Library

DETAIL SCHEDULE OF REVENUE, EXPENSE AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

Year Ended December 31, 2017

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances - Positive (Negative) | |
|---|---------------------|---------------------|------------------------|---------------------------------|--------------------------|
| | Original | Final | | Original to Final | Final to Actual Total |
| | REVENUES | | | | |
| Property taxes | \$ 4,462,500 | \$ 4,462,500 | \$ 4,532,111 | \$ - | \$ 69,611 |
| State grants | 104,725 | 104,725 | 107,390 | - | 2,665 |
| Other grants | 5,000 | 10,000 | 8,940 | 5,000 | (1,060) |
| Charges for services | 87,500 | 87,500 | 137,280 | - | 49,780 |
| Fines and forfeitures | 404,000 | 404,000 | 376,111 | - | (27,889) |
| Interest income | 20,000 | 20,000 | 11,208 | - | (8,792) |
| Contributions and other income | 51,000 | 141,000 | 74,616 | 90,000 | (66,384) |
| Total revenues | <u>5,134,725</u> | <u>5,229,725</u> | <u>5,247,656</u> | <u>95,000</u> | <u>17,931</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Personnel | | | | | |
| Salaries and wages | 2,187,725 | 2,170,000 | 2,139,422 | 17,725 | 30,578 |
| Payroll taxes | 54,600 | 54,600 | 50,700 | - | 3,900 |
| Medical insurance | 345,930 | 345,930 | 339,382 | - | 6,548 |
| Life insurance | 7,790 | 7,790 | 7,202 | - | 588 |
| Retirement contributions | 378,575 | 578,575 | 545,822 | (200,000) | 32,753 |
| Workers' Compensation insurance | 4,500 | 4,750 | 4,735 | (250) | 15 |
| Unemployment insurance | 1,000 | - | - | 1,000 | - |
| Disability insurance | 7,335 | 7,335 | 6,908 | - | 427 |
| Total personnel | <u>2,987,455</u> | <u>3,168,980</u> | <u>3,094,171</u> | <u>(181,525)</u> | <u>74,809</u> |
| Supplies | | | | | |
| Office supplies | 120,200 | 120,200 | 84,943 | - | 35,257 |
| Operating supplies | 533,940 | 533,940 | 538,610 | - | (4,670) |
| Repair and maintenance | 5,700 | 6,500 | 6,190 | (800) | 310 |
| Total supplies | <u>659,840</u> | <u>660,640</u> | <u>629,743</u> | <u>(800)</u> | <u>30,897</u> |
| Other services and charges | | | | | |
| Contract services | 259,430 | 259,430 | 202,248 | - | 57,182 |
| Communication | 25,100 | 25,100 | 17,121 | - | 7,979 |
| Education and travel | 48,045 | 42,000 | 31,735 | 6,045 | 10,265 |
| Printing and publishing | 31,500 | 31,500 | 15,442 | - | 16,058 |
| Insurance and bonds | 28,675 | 29,000 | 28,591 | (325) | 409 |
| Public utilities | 133,500 | 133,500 | 103,074 | - | 30,426 |
| Repair and maintenance | 309,650 | 290,000 | 237,895 | 19,650 | 52,105 |
| Aid to other units | 507,810 | 507,810 | 507,810 | - | - |
| Miscellaneous | 12,300 | 14,000 | 6,413 | (1,700) | 7,587 |
| Total other services and charges | <u>1,356,010</u> | <u>1,332,340</u> | <u>1,150,329</u> | <u>23,670</u> | <u>182,011</u> |
| Capital Outlay | 131,420 | 267,765 | 130,283 | (136,345) | 137,482 |
| Total expenditures | <u>5,134,725</u> | <u>5,429,725</u> | <u>5,004,526</u> | <u>(295,000)</u> | <u>425,199</u> |
| REVENUES OVER (UNDER) EXPENDITURES | - | (200,000) | 243,130 | (200,000) | 443,130 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating transfers in | - | 200,000 | 200,000 | 200,000 | - |
| Operating transfers out | - | - | (621,581) | - | (621,581) |
| NET CHANGE IN FUND BALANCE | - | - | (178,451) | - | (178,451) |
| Fund balance, beginning of year | 1,567,584 | 1,567,584 | 1,567,584 | - | - |
| Fund balance, end of year | <u>\$ 1,567,584</u> | <u>\$ 1,567,584</u> | <u>\$ 1,389,133</u> | <u>\$ -</u> | <u>\$ (178,451)</u> |

Traverse Area District Library

NON-MAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET

December 31, 2017

| | Permanent Fund | Blair Library Capital Fund | Total Other Non-Major Funds |
|--------------------------|-------------------|----------------------------------|--------------------------------------|
| ASSETS | | | |
| Cash | \$ - | \$ 101,150 | \$ 101,150 |
| Cash invested | 28,547 | - | 28,547 |
| Accounts receivable | 97 | - | 97 |
| | <u>28,644</u> | <u>-</u> | <u>97</u> |
| Total assets | <u>\$ 28,644</u> | <u>\$ 101,150</u> | <u>\$ 129,794</u> |
| FUND BALANCES | | | |
| Non-spendable | \$ 20,000 | \$ - | \$ 20,000 |
| Restricted | 8,644 | 101,150 | 109,794 |
| | <u>8,644</u> | <u>101,150</u> | <u>109,794</u> |
| Total fund balances | <u>\$ 28,644</u> | <u>\$ 101,150</u> | <u>\$ 129,794</u> |

Traverse Area District Library

NON-MAJOR GOVERNMENTAL FUNDS - COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended December 31, 2017

| | Permanent Fund | Blair Library Capital Fund | Total Other Non-Major Funds |
|---------------------------------------|-------------------|----------------------------------|--------------------------------------|
| REVENUES | | | |
| Interest income | \$ 104 | \$ 329 | \$ 433 |
| EXPENDITURES | | | |
| Other | 47 | - | 47 |
| REVENUES OVER EXPENDITURES | 57 | 329 | 386 |
| Fund balance, beginning of year | 28,587 | 100,821 | 129,408 |
| Fund balance, end of year | \$ 28,644 | \$ 101,150 | \$ 129,794 |



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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***

Board of Trustees
Traverse Area District Library
Traverse City, 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 **Traverse Area District Library** (the "Library") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements and have issued our report thereon dated June 12, 2018.

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 Library'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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as described below, we identified a deficiency in internal control that we consider to be a significant deficiency.

Finding 2017-001

Criteria: The preparation of financial statements is the responsibility of the Library management and requires internal controls over both (1) recording, processing and summarizing financial data (i.e., maintaining internal books and records) and (2) reporting this financial data in the form of financial statements, including all related note disclosures (i.e., external financial reporting).

Condition: As is the case with many small governments, the Library is relying on their independent external auditors to assist with the preparation of the financial statements and related note disclosures as part of its external financial reporting process.

Cause: This condition was caused by the Library's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Library to perform this task internally.

Effect: The Library's ability to adjust its books and records and prepare financial statements is based, in part, on its reliance on its external auditors who cannot, by definition, be considered a part of the Library's internal controls.

Management's Response: The Library has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, 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 draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of 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 and other matters that are required to be reported under *Government Auditing Standards*.