

**Traverse Area District Library**

**FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

December 31, 2019

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**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2019**

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, 2019. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

**Financial Highlights**

1. Taxes collected in 2019 were based on 2018 taxable values, which increased 4.896% over the previous year. 2019 taxable values, which determine what the Library receives in 2020, increased 5.128%. Operating revenue generated by 2018 taxes collected in 2019 increased 4.43%.
2. In addition to a supplemental payment of \$200,000 to the Municipal Employees’ Retirement System (MERS) toward our unfunded pension liability, we also remitted \$99,528 in monthly payments in 2019. The \$200,000 payment was funded by a transfer from the Internal Service Fund. With the extra payments and the freezing of our Defined Benefit plan, the plan is now funded at 87% versus 77% last year. Also adding to this funding level were investment gains during the fiscal year.
3. We are pleased to report that total general fund revenue increased by approximately 4.8%. Expenses increased .8% over 2018. The revenue total does not take into account the \$200,000 transfer in for the payment to MERS although the expense total does include the disbursement.
4. The Unassigned General Fund Balance increased by \$22,830 from last year’s audit, bringing the total to \$926,090. This increase preserves 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, will expire on December 31, 2021. Funding is based on the percentage of increase or decrease in collections of Property Taxes, Penal Fines and State Aid in the prior year. The total of these revenue sources increased in 2018, resulting in an increase in member library funding of 2.7% in 2019.
6. Our Teamsters Union labor contract, which was ratified in October 2016, was re-negotiated with no new changes for two years and will expire at the end of 2021. This still includes the 3% annual wage increases each year of the two-year extension.
7. Personnel expenses were up 1.2% in 2019 and wages increased 2.2%. Union staff received a 3% increase according to their contractual agreement, and salaried staff received the same amount. There were several retirements during the year which required significant payouts of PTO and reserve sick leave bank hours. Employee insurance premiums, which include employer contributions toward employee HSA accounts, were down 5.7% in total.
8. On August 2, 2016, voters approved the renewal of our millage at .9544 mills by a greater than 75% margin. Subsequent Headlee Millage Rollbacks have resulted in the levy being reduced to .9467 in 2017, .9431 in 2018, and .9382 in 2019. We expect another rollback this year but we are unsure what to expect in the years following due to the pandemic.
9. The Library continues to operate well within current revenue collections.

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2019**

**Overview of the Financial Statements**

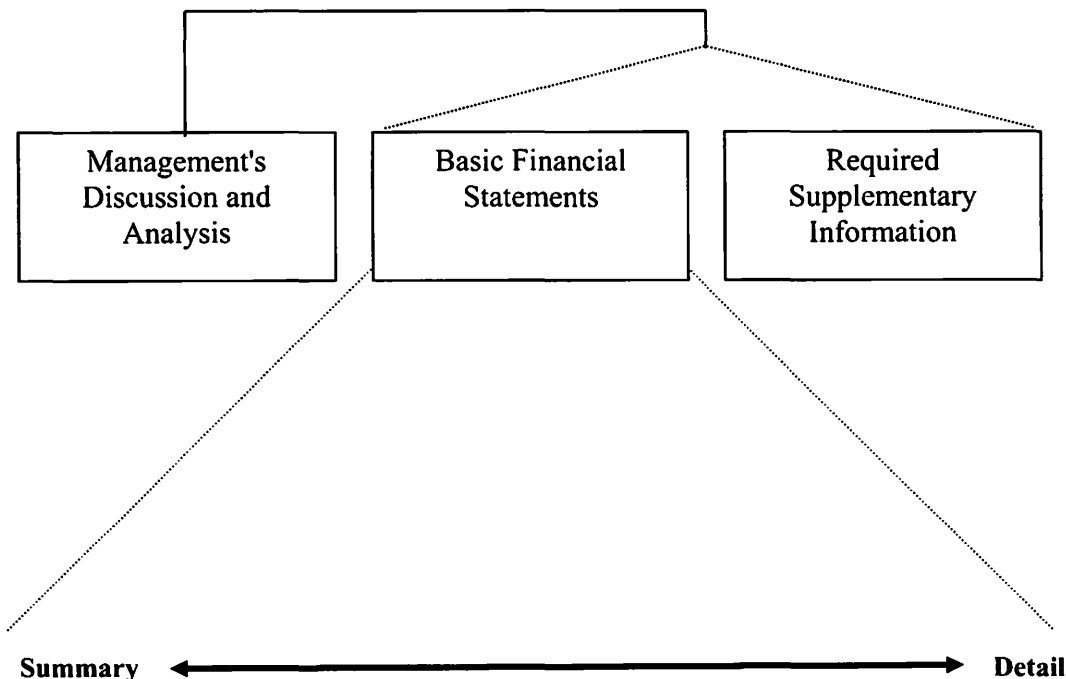
This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Library.

- 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, 2019**

**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, 2019**

**Financial Analysis of the Library as a Whole**

*Net position.* The Library's combined total net position was \$8,550,742 on December 31, 2019, an increase of 1.9% from the prior year. Figure A-2 illustrates the net position on December 31, 2019 and 2018.

**Figure A-2**

*Condensed Statement of Net Position*

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets	\$ 8,206,462	\$ 8,469,712
Non-current assets	6,817,606	6,354,198
<b>Deferred outflows of resources</b>	21,875	522,352
Total assets and deferred outflows of resources	\$ 15,045,943	\$ 15,346,262
<b>Liabilities</b>		
Current liabilities	\$ 206,510	\$ 171,590
Non-current liabilities	1,138,767	1,914,163
Total liabilities	1,345,277	2,085,753
<b>Deferred inflows of resources</b>	5,149,924	4,869,168
<b>Net position</b>		
Invested in capital assets	6,817,606	6,354,198
Restricted	1,537,136	1,897,143
Unrestricted	196,000	140,000
<b>Total net position</b>	8,550,742	8,391,341
Total liabilities, deferred inflows of resources and net position	\$ 15,045,943	\$ 15,346,262

*Changes in net assets.* The Library's total revenue of \$5,568,174 was more than expenditures; increasing net assets by \$159,401. This increase was primarily due to increases in property tax revenues and investment earnings.

Of the Library's \$5,408,773 in expenditures, approximately 60% is related to personnel costs.

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2019**

**Figure A-3**

**Changes in Net Position from Operating Results**

	<b>2019</b>	<b>2018</b>
<b>Revenue</b>		
Program revenue		
Charges for services	\$ 87,430	\$ 79,539
Operating grants and contributions	250,408	165,193
Total program revenue	337,838	244,732
General revenue		
Property taxes	4,774,253	4,647,690
Fines and forfeitures	345,362	363,461
Unrestricted investment earnings	110,721	47,436
Total general revenue	5,230,336	5,058,587
Total revenue	5,568,174	5,303,319
<b>Expenditures</b>		
Library services	4,856,685	4,863,518
Depreciation - unallocated	552,088	542,705
Total expenditures	5,408,773	5,406,223
<b>Increase (decrease) in net position</b>	159,401	(102,904)
Net position - beginning of year	8,391,341	8,494,245
Net position - end of year	\$ 8,550,742	\$ 8,391,341

**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 \$2,977,858.

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2019**

**General Fund Budgetary Highlights**

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

- Salaries and Wages, Medical Insurance, and Retirement Contributions were \$62,467, \$30,611, and \$17,586 under budget, respectively, due primarily to retirements of tenured employees and subsequent hiring of younger employees.
- There was one adjustment to the revenue budget this year. The original budget was adjusted upward for the Talbot Trust donation of \$81,000. Under expenses, Capital Improvements budgets were adjusted upward for some year-end purchases as well as Operating Supplies (books, etc.) budgets. Insurance and Bonds budgets were also adjusted upward. The largest budget amendment was to the MERS Unfunded Pension Liability account to adjust for the \$200,000 payment.

**Figure A-4**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<i>General Fund Revenues</i>			
Property taxes	\$ 4,786,000	\$ 4,774,201	\$ (11,799)
State grants	113,075	119,138	6,063
Other grants	10,000	14,670	4,670
Charges for services	81,000	87,430	6,430
Fines and forfeitures	365,000	345,362	(19,638)
Investment income	15,000	51,214	36,214
Contributions and other income	130,500	116,600	(13,900)
<b>Total revenues</b>	<u>5,500,575</u>	<u>5,508,615</u>	<u>8,040</u>
<i>General Fund Expenditures</i>			
Personnel	3,377,500	3,265,855	111,645
Supplies	778,890	771,135	7,755
Other services and charges	1,353,785	1,240,026	113,759
Capital outlay	167,400	152,839	14,561
<b>Total expenditures</b>	<u>5,677,575</u>	<u>5,429,855</u>	<u>247,720</u>
<i>Other Financing Sources (uses)</i>			
Operating transfers in	200,000	284,919	84,919
Operating transfers out	(319,273)	(319,273)	-
<b>Total other financing sources (uses)</b>	<u>(119,273)</u>	<u>(34,354)</u>	<u>84,919</u>
<b>Net change in fund balance</b>	<u>\$ (296,273)</u>	<u>\$ 44,406</u>	<u>\$ 340,679</u>



**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2019**

**Capital Asset and Debt Administration**

**Capital Assets**

By the end of 2019, the Library had invested approximately \$14.3 million in a broad range of capital assets, including building improvements, books, computer and audio-visual equipment. Total depreciation expense for the year was \$552,088. 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*

	<u>2019</u>	<u>2018</u>
Land	\$ 345,545	\$ 345,545
Construction in progress	525,038	-
Building	7,727,546	7,727,546
Collections	3,530,560	3,416,537
Furniture & equipment	<u>2,206,018</u>	<u>2,222,228</u>
 Total capital assets	 14,334,707	 13,711,856
 Accumulated depreciation	 <u>7,517,101</u>	 <u>7,357,658</u>
 Net capital assets	 <u>\$ 6,817,606</u>	 <u>\$ 6,354,198</u>

**Debt Administration**

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

**Figure A-6**

	<u>2019</u>	<u>2018</u>
Governmental activities:		
Compensated absences	<u>\$ 267,714</u>	<u>\$ 279,650</u>

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2019**

**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/decreases in the last decade are as follows according to annual county equalization reports:

- 2011 (2.13%)
- 2012 (.286%)
- 2013 2.578%
- 2014 1.762%
- 2015 3.273%
- 2016 1.683%
- 2017 3.622%
- 2018 4.896%
- 2019 5.128%
- 2020 5.266%

Due to the increasing value of taxable properties, TADL has had Headlee Millage reductions for the past three years and will have another reduction in 2020. Our tax receipts will, of course, increase overall, but the lower millage rate will prevent us from collecting the full voter approved amount.

2. Though we were successful in opting out of the renewed Old Town TIF capture because of the legislation passed in 2016, we are continuing to monitor developing plans of the DDA. There has recently been discussion of extending the duration of TIF97 and expansion of borders without a tax capture component. According to Board policy, we will make every effort to opt out of any captures or expansions to preserve library funding.
3. In February 2019, TADL received a Local Community Stabilization payment of \$36,769 from the state as a result of Personal Property tax legislation.
4. In 2019, the Library was not required to reimburse the county or townships due to Board of Review and Tax Tribunal judgments. However, 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 zero in 2019.
5. State Aid receipts increased 9% in 2019, unfortunately we are probably looking at a 50% reduction in 2020 due to the global pandemic. Advocacy efforts by the Michigan Library Association have quite successfully made the case for increased library funding to the legislature, and we hope funding will be prioritized for libraries.
6. Penal fine receipts continued their downward trend in 2019. Fines decreased 3.25% in Grand Traverse County, 14.8% in Leelanau County, and 7.8% in Benzie County in 2019 with receipts totaling \$230,067 for all. 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 2019-2020 Penal fine receipts are down because of the pandemic, so we do not expect to receive as much this July when these funds are normally disbursed.
7. Our labor contract with the Teamsters will expire December 31, 2021 after a successful negotiation to extend the current contract in 2019.

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2019**

8. We continue to contribute extra funds toward our unfunded pension liability for our frozen MERS Defined Benefit plan. MERS actuaries have lowered their projection on investment earnings from 7.75% to 7.35%, and their wage inflation assumption from 3.75% to 3%. These changes will have an effect on future contribution requirements for the library.
9. As noted in previous audit reports, the roof, ventilation and insulation at the Main Library have caused ongoing problems and work continues to develop a realistic solution. We have been working with an architect and construction manager and have settled on a plan to ensure that there is the right kind of ventilation in addition to sealing out heat sources in the attic and insulating where needed. Soffits have been replaced all around the building and new boilers and humidifiers have been installed. We will now monitor the situation, and if the expected results are achieved, a new roof will be installed in late 2020 or 2021.
10. The Main Library celebrated its 20<sup>th</sup> anniversary in January 2019, and after 20 years, the building is starting to need repairs and updating. Because of the need to ensure enough funding for the roof repairs, administration has held off on some projects that will need to be planned for soon but the pandemic has added an extra element of uncertainty to the planning. Chief among these are new carpet, painting and restroom remodeling. We are hoping to have a sign installed on the lawn of the Main Library with some of the funding provided by the Friends of TADL.

**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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*Business Advisors Since 1973*

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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, 2019, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***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.

Board of Trustees  
Traverse Area District Library

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, 2019, 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.

Board of Trustees  
Traverse Area District Library

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 revenues, expenditures and change 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, 2020, 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 solely 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, 2020

# Traverse Area District Library

## STATEMENT OF NET POSITION

December 31, 2019

	<u>Governmental Activities</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
<b>ASSETS</b>	
Current assets	
Cash and equivalents	\$ 1,149,822
Investments	2,603,309
Accounts receivable	4,362,699
Prepaid expenses	<u>90,632</u>
Total current assets	8,206,462
Capital assets, net of accumulated depreciation	6,817,606
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources for net pension obligation	<u>21,875</u>
Total assets and deferred outflows of resources	<u><u>\$ 15,045,943</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 109,369
Accrued liabilities	68,695
Current portion of long-term debt	<u>28,446</u>
Total current liabilities	206,510
Long-term debt	239,268
Net pension liability	<u>899,499</u>
Total liabilities	<u>1,345,277</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Taxes levied but intended for subsequent period	4,924,590
Deferred inflows of resources for net pension obligation	<u>225,334</u>
Total deferred inflows of resources	<u>5,149,924</u>
<b>NET POSITION</b>	
Invested in capital assets	6,817,606
Restricted for	
Sight and sound	2,280
Youth services	6,615
Local history collections	4,795
Teen services	5,037
Talking Book Library	5,261
Public improvement	1,483,086
Permanent fund	
Expendable	10,062
Nonspendable	20,000
Unrestricted	<u>196,000</u>
Total net position	<u>8,550,742</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 15,045,943</u></u>

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

# Traverse Area District Library

## STATEMENT OF ACTIVITIES

Year Ended December 31, 2019

Functions	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental activities					
Library services	\$ 4,856,685	\$ 87,430	\$ 250,408	\$ -	\$ (4,518,847)
Depreciation - unallocated	<u>552,088</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(552,088)</u>
Total governmental activities	<u>\$ 5,408,773</u>	<u>\$ 87,430</u>	<u>\$ 250,408</u>	<u>\$ -</u>	<u>(5,070,935)</u>
General revenues					
Property taxes					
Levied for general purposes					4,774,201
Levied for debt service					52
Fines and forfeitures					345,362
Investment earnings					<u>110,721</u>
Total general revenues					<u>5,230,336</u>
Change in net position					159,401
Net position, beginning of year					<u>8,391,341</u>
Net position, end of year					<u>\$ 8,550,742</u>

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



**Traverse Area District Library**  
**GOVERNMENTAL FUNDS - BALANCE SHEETS**

December 31, 2019

	General Fund	Public Improvement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,149,822	\$ -	\$ -	\$ 1,149,822
Investments	1,090,658	1,462,587	29,900	2,583,145
Receivables				
Property taxes	4,350,120	-	-	4,350,120
Interest	4,221	7,818	-	12,039
Accounts	268	-	162	430
Due from other funds	-	105,677	-	105,677
Prepaid expenditures	90,632	-	-	90,632
Total assets	\$ 6,685,721	\$ 1,576,082	\$ 30,062	\$ 8,291,865
<b>LIABILITIES</b>				
Accounts payable	\$ 58,360	\$ 51,008	\$ -	\$ 109,368
Accrued liabilities	68,695	-	-	68,695
Due to other funds	211,354	-	-	211,354
Total liabilities	338,409	51,008	-	389,417
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes levied intended for subsequent period	4,924,590	-	-	4,924,590
<b>FUND BALANCE</b>				
Nonspendable	90,632	-	20,000	110,632
Restricted				
Sight and sound	-	2,280	-	2,280
Youth services	-	6,615	-	6,615
Local history collection	-	4,795	-	4,795
Teen services	-	5,037	-	5,037
Talking Book Library	-	5,261	-	5,261
Fund use	-	1,483,086	10,062	1,493,148
Committed				
Children's programming endowment	81,000	-	-	81,000
Employee benefit obligations	325,000	-	-	325,000
Assigned				
Public improvements	-	18,000	-	18,000
Unassigned	926,090	-	-	926,090
Total fund balance	1,422,722	1,525,074	30,062	2,977,858
Total liabilities, deferred inflows of resources and fund balance	\$ 6,685,721	\$ 1,576,082	\$ 30,062	

**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 \$14,334,707 and the accumulated depreciation is \$(7,517,101).	6,817,606
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.	125,950
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.	(203,459)
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	(899,499)
Compensated absences	(267,714)

Total net position - governmental activities	\$ 8,550,742
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The accompanying notes are an integral part of these financial statements.

## Traverse Area District Library

### GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended December 31, 2019

	General Fund	Public Improvement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 4,774,201	\$ -	\$ -	\$ 4,774,201
State grants	119,138	-	-	119,138
Other grants	14,670	-	-	14,670
Charges for services	87,430	-	-	87,430
Fines and forfeitures	345,362	-	-	345,362
Investment income	51,214	57,399	1,051	109,664
Contributions and other income	116,600	-	52	116,652
	<u>5,508,615</u>	<u>57,399</u>	<u>1,103</u>	<u>5,567,117</u>
<b>Total revenues</b>				
<b>EXPENDITURES</b>				
Current				
Personnel	3,065,855	-	-	3,065,855
Additional retirement contribution	200,000	-	-	200,000
Supplies and collection additions	771,135	-	-	771,135
Other services and charges	1,240,026	4,075	73	1,244,174
Capital outlay	152,839	525,038	-	677,877
	<u>5,429,855</u>	<u>529,113</u>	<u>73</u>	<u>5,959,041</u>
<b>Total expenditures</b>				
<b>REVENUES OVER EXPENDITURES</b>	<u>78,760</u>	<u>(471,714)</u>	<u>1,030</u>	<u>(391,924)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	284,919	213,596	-	498,515
Operating transfers out	(319,273)	-	(84,919)	(404,192)
	<u>(34,354)</u>	<u>213,596</u>	<u>(84,919)</u>	<u>94,323</u>
<b>Total other financing sources (uses)</b>				
<b>NET CHANGE IN FUND BALANCE</b>	44,406	(258,118)	(83,889)	(297,601)
Fund balance, beginning of year	<u>1,378,316</u>	<u>1,783,192</u>	<u>113,951</u>	<u>3,275,459</u>
Fund balance, end of year	<u>\$ 1,422,722</u>	<u>\$ 1,525,074</u>	<u>\$ 30,062</u>	<u>\$ 2,977,858</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, 2019

**Total net change in fund balance - governmental funds** \$ (297,601)

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	\$1,015,496	
Depreciation expense	<u>(552,088)</u>	463,408

Change in deferred outflows of resources, net of the change in deferred inflows of resources for pension obligations. (704,763)

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 amount paid was more than the accrued leave earned by \$11,936. 11,936

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. (91,866)

Decrease in net pension liability 778,287

**Change in net position of governmental activities** \$ 159,401

**Traverse Area District Library**  
STATEMENT OF NET POSITION - INTERNAL SERVICE FUND  
December 31, 2019

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Investments	\$ 20,164
Due from other funds	105,677
Interest receivable	<u>109</u>
 Total current assets	 <u><u>\$ 125,950</u></u>
 <b>NET POSITION</b>	
Committed for pension liability	 <u><u>\$ 125,950</u></u>

## Traverse Area District Library

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

Year Ended December 31, 2019

<b>NONOPERATING REVENUES</b>	
Gain on investments	\$ 1,400
Interest income	<u>1,057</u>
<b>INCOME BEFORE TRANSFERS</b>	<u>2,457</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers from other funds	105,677
Transfers to other funds	<u>(200,000)</u>
Total other financing sources (uses)	<u>(94,323)</u>
<b>CHANGE IN NET POSITION</b>	(91,866)
<b>NET POSITION, beginning of year</b>	<u>217,816</u>
<b>NET POSITION, end of year</b>	<u><u>\$ 125,950</u></u>

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

**Traverse Area District Library**  
**STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND**  
Year Ended December 31, 2019

Change in net position	\$ (91,866)
Adjustments to reconcile change in net position	
Change in amounts due from other funds	23,999
Change in interest receivable	<u>293</u>
Net cash from operating activities	<u>(67,574)</u>
Investing activities	
Sale of investments	<u>67,574</u>
Net cash from investing activities	<u>67,574</u>
<b>NET CHANGE IN CASH</b>	-
Cash, beginning of year	<u>-</u>
Cash, end of year	<u><u>\$ -</u></u>

**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.

The 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.

#### *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.

**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.

**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 1st. 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.
- 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.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***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 2019 ad valorem tax is levied and collectible on December 1, 2019, it is the Library's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the Library's operations.

### ***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

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***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>\$ 4,924,590</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. However, the Library reserves the right to use unrestricted fund balance first. 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	\$ 498,106
Service improvement	225,000
Sight and sound	2,280
Youth services	6,615
Local history collections	4,795
Teen services	5,037
Talking Book Library	5,261
Undesignated	<u>759,980</u>
Total restricted fund balance	<u>\$ 1,507,074</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.

### ***Subsequent Events***

The Library has evaluated subsequent events and transactions for potential recognition and disclosure through June 12, 2020, the date the financial statements were available to be issued.

### ***Market Losses***

The economy has experienced a significant downturn subsequent to year-end, resulting in market losses on investments. Management is not currently able to determine if these market losses will be other than temporary. Investment fair values could change by significant amounts in the near-term.

NOTES TO FINANCIAL STATEMENTS - Continued

*COVID-19*

The Library believes it understands the risk associated with COVID-19. The Library is in the process of implementing risk mitigation tactics as to the risk of the impact of COVID-19 related to all aspects of the Library's business transactions with patrons and vendors and human interaction within and outside of the Library. The Library closed for a period of time in 2020 related to COVID-19, but digital resources remained available for patron use.

**NOTE B - CASH AND INVESTMENTS**

At December 31, 2019, the Library's cash and investments include the following:

	<u>Balance Sheet Classification</u>		<u>Total</u>
	<u>Cash</u>	<u>Investments</u>	
Total	<u>\$ 1,149,822</u>	<u>\$ 2,603,309</u>	<u>\$ 3,753,131</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.

*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, \$975,275 of the Library's bank balance of \$1,225,275 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

NOTES TO FINANCIAL STATEMENTS - Continued

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.

**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, 2019:

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	\$ -	\$ 1,447,467	\$ -	\$ 121,678	\$ 1,321,330	\$ 4,459	\$ -
Treasury bonds	-	791,386	-	-	791,386	-	-
Certificates of deposit	250,925	-	-	250,925	-	-	-
Money market funds	113,531	-	-	113,531	-	-	-
<b>Total</b>	<b>\$ 364,456</b>	<b>\$ 2,238,853</b>	<b>\$ -</b>	<b>\$ 486,134</b>	<b>\$ 2,112,716</b>	<b>\$ 4,459</b>	<b>\$ -</b>

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

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2019.

*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.

*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, 2019:

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Adjustments</u>	<u>Ending</u>
Buildings	\$ 7,727,546	\$ -	\$ -	\$ 7,727,546
Collections	3,416,537	409,589	(295,566)	3,530,560
Furniture and equipment	<u>2,222,228</u>	<u>80,869</u>	<u>(97,079)</u>	<u>2,206,018</u>
Total depreciable assets	<u>13,366,311</u>	<u>490,458</u>	<u>(392,645)</u>	<u>13,464,124</u>
Less accumulated depreciation	<u>(7,357,658)</u>	<u>(552,088)</u>	<u>392,645</u>	<u>(7,517,101)</u>
Land	345,545	-	-	345,545
Construction in progress	<u>-</u>	<u>525,038</u>	<u>-</u>	<u>525,038</u>
Total non-depreciable assets	<u>345,545</u>	<u>525,038</u>	<u>-</u>	<u>870,583</u>
Total capital assets, net	<u>\$ 6,354,198</u>	<u>\$ 463,408</u>	<u>\$ -</u>	<u>\$ 6,817,606</u>

Total depreciation expense for the year ended December 31, 2019, was \$552,088.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE D - LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended December 31, 2019:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$ 279,650	\$ -	\$ (11,936)	\$ 267,714	\$ 28,446

Compensated absences are liquidated in the general fund.

**NOTE E - INTERFUND TRANSACTIONS**

*Interfund Receivable/Payables*

Interfund receivables/payables consists of the following as of December 31, 2019:

	<u>Receivables</u>	<u>Payables</u>
Major Funds:		
General Fund	\$ -	\$ 211,354
Public Improvement Fund	105,677	-
Internal Service Fund	<u>105,677</u>	<u>-</u>
	<u>\$ 211,354</u>	<u>\$ 211,354</u>

*Operating Transfers*

A summary of operating transfers in and out of individual funds as follows during the year ended December 31, 2019:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Fund	\$ 284,919	\$ 319,273
Public Improvement Fund	213,596	-
Debt Service Fund	-	84,919
Internal Service Fund	<u>105,677</u>	<u>200,000</u>
Total	<u>\$ 604,192</u>	<u>\$ 604,192</u>

Transfers were used to move General Fund unrestricted excess revenues to finance various projects in the Public Improvement and Internal Service funds. The Internal Service fund transferred to the General Fund for an additional contribution to the Library's MERS plan.



## NOTES TO FINANCIAL STATEMENTS - Continued

### 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 to 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 \$104,163 and \$144,148, respectively. The employee contributions totaled \$203,457 and \$54,614, 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](http://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, 2018 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	6
Active employees	<u>30</u>
	<u><u>67</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 \$99,528 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, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of December 31, 2018.

### ***Actuarial Assumptions***

The total pension liability in the December 31, 2018 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 2008-2013.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	55.5 %	4.08 %
Global fixed income	18.5 %	0.70 %
Real assets	13.5 %	1.31 %
Diversifying strategies	12.5 %	0.94 %

***Discount Rate***

The discount rate used to measure the total pension liability is 8.0% for 2018. 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)
<b>Balances at December 31, 2018</b>	<b>\$ 7,217,397</b>	<b>\$ 5,539,611</b>	<b>\$ 1,677,786</b>
Changes for the year			
Service cost	1,515	-	1,515
Interest on total pension liability	559,529	-	559,529
Changes in benefits	-	-	-
Difference between expected and actual experience	(271,179)	-	(271,179)
Employer contributions	-	299,528	(299,528)
Net investment income	-	749,972	(749,972)
Benefit payments, including employee refunds	(448,086)	(448,086)	-
Administrative expense	-	(12,930)	12,930
Other changes	(31,582)	-	(31,582)
Net changes	<u>(189,803)</u>	<u>588,484</u>	<u>(778,287)</u>
<b>Balances as of December 31, 2019</b>	<b><u>\$ 7,027,594</u></b>	<b><u>\$ 6,128,095</u></b>	<b><u>\$ 899,499</u></b>

***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 liability	\$ 1,581,537	\$ 899,499	\$ 318,975

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, 2019, the Library recognized pension expense of \$226,004. 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	\$ -	\$ (225,334)
Difference in assumptions	-	-
Excess (deficit) investment returns	<u>21,875</u>	<u>-</u>
Total	<u>\$ 21,875</u>	<u>\$ (225,334)</u>

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

<u>Years Ended</u>	
2020	\$ (140,831)
2021	(77,261)
2022	77,285
2023	<u>(62,652)</u>
	<u>\$ (203,459)</u>

**NOTE G - OPERATING LEASES**

The Library leases equipment from a financial institution under a five year operating lease expiring in August 2023. The total rent expense was \$22,909 for the year ended December 31, 2019.

The minimum annual payments under this lease are as follows:

<u>Years Ended</u>	
2020	\$ 22,909
2021	22,909
2022	22,909
2023	<u>15,273</u>
	<u>\$ 84,000</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### **NOTE H - 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 I - 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, which has been extended through December 31, 2021.

**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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>					
Service cost	\$ 1,515	\$ 1,950	\$ 199,446	\$ 215,673	\$ 197,882
Interest	559,529	554,612	668,004	603,264	574,593
Changes in benefit terms	-	-	(1,603,158)	-	-
Difference between expected and actual experience	(271,179)	(30,107)	(117,979)	242,089	-
Changes in assumption	-	-	-	450,014	-
Benefit payments, including employee refunds	(448,086)	(451,825)	(431,735)	(429,433)	(389,185)
Other	(31,582)	(14,823)	(23,177)	(34,593)	(24,527)
Net change in total pension liability	(189,803)	59,807	(1,308,599)	1,047,014	358,763
Total pension liability, beginning	<u>7,217,397</u>	<u>7,157,590</u>	<u>8,466,189</u>	<u>7,419,175</u>	<u>7,060,412</u>
<b>Total pension liability, ending</b>	<b><u>\$ 7,027,594</u></b>	<b><u>\$ 7,217,397</u></b>	<b><u>\$ 7,157,590</u></b>	<b><u>\$ 8,466,189</u></b>	<b><u>\$ 7,419,175</u></b>
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	\$ 299,528	\$ 299,372	\$ 299,900	\$ 654,923	\$ 265,502
Contributions - employee	-	-	(123)	68,879	83,538
Net investment income	749,972	(231,447)	707,090	555,932	(70,448)
Benefit payments, including employee refunds	(448,086)	(451,825)	(431,735)	(429,433)	(389,185)
Administrative expense	(12,930)	(11,492)	(11,182)	(10,910)	(10,244)
Net change in plan fiduciary net position	588,484	(395,392)	563,950	839,391	(120,837)
Plan fiduciary net position, beginning	<u>5,539,611</u>	<u>5,935,003</u>	<u>5,371,053</u>	<u>4,531,662</u>	<u>4,652,499</u>
<b>Plan fiduciary net position, ending</b>	<b><u>\$ 6,128,095</u></b>	<b><u>\$ 5,539,611</u></b>	<b><u>\$ 5,935,003</u></b>	<b><u>\$ 5,371,053</u></b>	<b><u>\$ 4,531,662</u></b>
<b>Employer net pension liability</b>	<b><u>\$ 899,499</u></b>	<b><u>\$ 1,677,786</u></b>	<b><u>\$ 1,222,587</u></b>	<b><u>\$ 3,095,136</u></b>	<b><u>\$ 2,887,513</u></b>
Plan fiduciary net position as a percentage of total pension liability	87 %	77 %	83 %	63 %	61 %
Covered employee payroll	<u>\$ 1,401,775</u>	<u>\$ 1,646,335</u>	<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	64 %	102 %	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,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial determined contributions	\$ 99,528	\$ 99,372	\$ 99,777	\$ 304,734	\$ 265,502
Contribution in relation to the actuarially determined contributions	<u>299,528</u>	<u>299,372</u>	<u>299,777</u>	<u>679,734</u>	<u>265,502</u>
Contribution excess	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 375,000</u>	<u>\$ -</u>
Covered employee payroll	<u>\$1,401,775</u>	<u>\$1,646,335</u>	<u>\$1,733,192</u>	<u>\$1,785,090</u>	<u>\$1,673,876</u>
Contributions as a percentage of covered employee payroll	21 %	18 %	17 %	38 %	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, 2019

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	<b>REVENUES</b>				
Property taxes	\$ 4,786,000	\$ 4,786,000	\$ 4,774,201	\$ -	\$ (11,799)
State grants	113,075	113,075	119,138	-	6,063
Other grants	10,000	10,000	14,670	-	4,670
Charges for services	81,000	81,000	87,430	-	6,430
Fines and forfeitures	365,000	365,000	345,362	-	(19,638)
Interest income	15,000	15,000	51,214	-	36,214
Contributions and other income	49,500	130,500	116,600	81,000	(13,900)
<b>Total revenues</b>	<u>5,419,575</u>	<u>5,500,575</u>	<u>5,508,615</u>	<u>81,000</u>	<u>8,040</u>
<b>EXPENDITURES</b>					
Current					
Personnel	3,192,500	3,377,500	3,265,855	(185,000)	111,645
Supplies	727,890	778,890	771,135	(51,000)	7,755
Other services and charges	1,379,785	1,353,785	1,240,026	26,000	113,759
Capital outlay	119,400	167,400	152,839	(48,000)	14,561
<b>Total expenditures</b>	<u>5,419,575</u>	<u>5,677,575</u>	<u>5,429,855</u>	<u>(258,000)</u>	<u>247,720</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(177,000)</u>	<u>78,760</u>	<u>(177,000)</u>	<u>255,760</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	-	200,000	284,919	200,000	84,919
Operating transfers out	-	(319,273)	(319,273)	(319,273)	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(119,273)</u>	<u>(34,354)</u>	<u>(119,273)</u>	<u>84,919</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>-</u>	<u>(296,273)</u>	<u>44,406</u>	<u>(296,273)</u>	<u>340,679</u>
Fund balance, beginning of year	<u>1,378,316</u>	<u>1,378,316</u>	<u>1,378,316</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,378,316</u>	<u>\$ 1,082,043</u>	<u>\$ 1,422,722</u>	<u>\$ (296,273)</u>	<u>\$ 340,679</u>

**OTHER SUPPLEMENTARY INFORMATION**

## Traverse Area District Library

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

Year Ended December 31, 2019

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	<b>REVENUES</b>				
Property taxes	\$ 4,786,000	\$ 4,786,000	\$ 4,774,201	\$ -	\$ (11,799)
State grants	113,075	113,075	119,138	-	6,063
Other grants	10,000	10,000	14,670	-	4,670
Charges for services	81,000	81,000	87,430	-	6,430
Fines and forfeitures	365,000	365,000	345,362	-	(19,638)
Interest income	15,000	15,000	51,214	-	36,214
Contributions and other income	49,500	130,500	116,600	81,000	(13,900)
Total revenues	<u>5,419,575</u>	<u>5,500,575</u>	<u>5,508,615</u>	<u>81,000</u>	<u>8,040</u>
<b>EXPENDITURES</b>					
Current					
Personnel					
Salaries and wages	2,380,150	2,365,150	2,302,683	15,000	62,467
Payroll taxes	63,800	63,800	64,046	-	(246)
Medical insurance	359,450	359,450	328,839	-	30,611
Life insurance	8,100	8,100	7,749	-	351
Retirement contributions	365,425	565,425	547,839	(200,000)	17,586
Workers' Compensation insurance	5,700	5,700	7,357	-	(1,657)
Unemployment insurance	1,000	1,000	-	-	1,000
Disability insurance	8,875	8,875	7,342	-	1,533
Total personnel	<u>3,192,500</u>	<u>3,377,500</u>	<u>3,265,855</u>	<u>(185,000)</u>	<u>111,645</u>
Supplies					
Office supplies	135,625	135,625	134,072	-	1,553
Operating supplies	585,565	631,565	627,989	(46,000)	3,576
Repair and maintenance	6,700	11,700	9,074	(5,000)	2,626
Total supplies	<u>727,890</u>	<u>778,890</u>	<u>771,135</u>	<u>(51,000)</u>	<u>7,755</u>
Other services and charges					
Contract services	253,685	253,685	230,952	-	22,733
Communication	20,450	20,450	17,489	-	2,961
Education and travel	46,735	46,735	31,192	-	15,543
Printing and publishing	38,450	38,450	33,311	-	5,139
Insurance and bonds	29,360	33,360	29,889	(4,000)	3,471
Public utilities	117,300	117,300	100,180	-	17,120
Repair and maintenance	328,200	298,200	258,205	30,000	39,995
Aid to other units	535,605	535,605	535,605	-	-
Miscellaneous	10,000	10,000	3,203	-	6,797
Total other services and charges	<u>1,379,785</u>	<u>1,353,785</u>	<u>1,240,026</u>	<u>26,000</u>	<u>113,759</u>
Capital Outlay	119,400	167,400	152,839	(48,000)	14,561
Total expenditures	<u>5,419,575</u>	<u>5,677,575</u>	<u>5,429,855</u>	<u>(258,000)</u>	<u>247,720</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	-	(177,000)	78,760	(177,000)	255,760
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	-	200,000	284,919	200,000	84,919
Operating transfers out	-	(319,273)	(319,273)	(319,273)	-
<b>NET CHANGE IN FUND BALANCE</b>	-	(296,273)	44,406	(296,273)	340,679
Fund balance, beginning of year	1,378,316	1,378,316	1,378,316	-	-
Fund balance, end of year	<u>\$ 1,378,316</u>	<u>\$ 1,082,043</u>	<u>\$ 1,422,722</u>	<u>\$ (296,273)</u>	<u>\$ 340,679</u>

# Traverse Area District Library

## NON-MAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET

December 31, 2019

	<u>Permanent Fund</u>	<u>Debt Service</u>	<u>Total Other Non-Major Funds</u>
<b>ASSETS</b>			
Investments	\$ 29,900	\$ -	\$ 29,900
Accounts receivable	<u>162</u>	<u>-</u>	<u>162</u>
Total assets	<u><u>\$ 30,062</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 30,062</u></u>
<b>FUND BALANCES</b>			
Nonspendable	\$ 20,000	\$ -	\$ 20,000
Restricted	<u>10,062</u>	<u>-</u>	<u>10,062</u>
Total fund balances	<u><u>\$ 30,062</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 30,062</u></u>

## Traverse Area District Library

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

Year Ended December 31, 2019

	<u>Permanent Fund</u>	<u>Debt Service</u>	<u>Total Other Non-Major Funds</u>
<b>REVENUES</b>			
Intergovernmental revenues	\$ -	\$ 52	\$ 52
Interest income	<u>1,051</u>	<u>-</u>	<u>1,051</u>
Total revenues	1,051	52	1,103
<b>EXPENDITURES</b>			
Other	<u>73</u>	<u>-</u>	<u>73</u>
<b>REVENUES OVER EXPENDITURES</b>	978	52	1,030
<b>OTHER FINANCING SOURCES</b>			
Operating transfers out	-	(84,919)	(84,919)
Fund balance, beginning of year	<u>29,084</u>	<u>84,867</u>	<u>113,951</u>
Fund balance, end of year	<u><u>\$ 30,062</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 30,062</u></u>



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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, 2019, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements and have issued our report thereon dated June 12, 2020.

***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 2019-001 Preparation of Financial Statements**

**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.

**Recommendation:** The Library should perform a review of the draft financial statements and notes prior to approving them to accept responsibility for their content.

**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*.



Board of Trustees  
Traverse Area District Library

**Library's Response to Finding**

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

**Purpose of this Report**

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

*Dennis. Gartland & Niergarth*

June 12, 2020



DENNIS, GARTLAND & NIERGARTH  
*Business Advisors Since 1973*

Certified Public Accountants

Thomas E. Gartland, Retired  
Brad P. Niergarth, CPA  
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Michael D. Shaw, Retired  
Mary F. Krantz, CPA  
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Laurie A. Bamberg, CPA

## AUDIT-RELATED COMMUNICATIONS

To the Board of Trustees  
Traverse Area District Library

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Traverse Area District Library* (the "Library") for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 20, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### *Compliance and Internal Controls*

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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.

In planning and performing our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing 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.

We have issued our 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* thereon dated June 12, 2020.

The following additional matter is not considered to be a material weakness or significant deficiency in internal control, but is an opportunity to improve the Library's internal control procedures:

*Approval of Journal Entries*

During our audit, we noted journal entries did not have approval by a member of management that is separate from the entry postings. We recommend the adoption of a policy whereby all journal entries will be approved by a member of management that does not have access to posting journal entries. All entries should be initialed by the preparer and the individual approving them in order to document approval by the appropriate individuals. Additionally, we recommend all journal entries be accompanied by a description and adequate supporting data.

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Library are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed in the year. We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Net pension liability based on information provided by MERS.
- Management's estimate of depreciation expense was based on useful lives of capital assets.

We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Pension Plan
- Commitments and Contingencies

*No Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Below is a summary of corrected adjustments of the financial statements. There were no uncorrected misstatements.

#### ***Corrected Adjustments***

- Adjust General Fund taxes receivable and deferred taxes to actual (increase of approximately \$267,000).
- Record transfer of General Fund balance to Public Improvement and Internal Service Funds (approximately \$211,000).
- Accrue retainage payable for roof project to Public Improvement Fund and related construction in progress asset (approximately \$51,000).

### ***No Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated June 12, 2020.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Library's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Leases*

Governmental Accounting Standards Board Statement No. 87, *Leases*, will be effective for reporting periods beginning after June 15, 2021. This standard establishes revised standards on lease accounting and financial reporting requiring all capital and operating leases be recorded on the government-wide and proprietary fund statements as a right-to-use asset and offsetting lease liability. The standard does not apply to short-term leases under a year in length.

*New Auditor Reporting Standards*

In May 2019, the AICPA Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 134, *Auditing Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. The standard will significantly alter the content and layout of the auditor's report. SAS No. 134 will place the auditor's opinion at the front of the report to highlight the auditor's opinion and the responsibilities of both entity management and auditors. Additionally, the standard addresses the auditor's responsibility to communicate key audit matters (KAMs) in the auditor's report, when the auditor is engaged to do so. However, the communication of KAMs is not mandated. The standard is effective for periods ending on or after December 15, 2021.

*Other Matters*

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, which accompanies the financial statements but is not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the information and use of the Board of Trustees and management of the Traverse Area District Library, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth*

June 12, 2020