

**Traverse Area District Library**

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT

December 31, 2021

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**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2021**

As management of the Traverse Area District Library (the “Library” or “TADL”), 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, 2021. 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. TADL approached 2021 with a hope to return to business as usual. With the pandemic reaching new levels of infection rates, the library again closed it's doors in November 2020 until March 2021 but the library did provide curbside services to patrons during this time.
2. During this time, we began our strategic planning process which involved input from direct interviews and survey results from over 480 citizens. This Plan was adopted by the Board of Trustees in June 2021. While always keeping our patrons and community our top priority, we met the challenges of 2021, with renewed vigor from the input we received during the strategic planning process which will guide our collection, programs and budgets for the next three years.
3. The main source of operating revenue for the library is generated by a millage. Taxes collected in 2021 were based on 2020 property tax values. The amount collected for 2021 increased 3.97% over the previous year. The 2021 taxable values, which determine what the Library receives in 2022, increased 7.38%.
4. 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, .9382 in 2019, .9292 in 2020 and .9202 in 2021. We expect another rollback this year but we are unsure what to expect in the years following due to the pandemic.
5. The overall operating revenue in 2021 increased from the prior year by 5.03% due mainly to the return to more normal activity. While Penal fines were down due to the pandemic shut down of the prior year, overdue fines were mostly eliminated by the Board, meeting room rentals were not allowed, and investments were off, property taxes increased along with a significant increase in grants. Sales and contributions also rebounded from the prior year. Our expenses also remained down as the library hours did not return to the full pre-pandemic schedule, employees did not travel to conferences, and there was just an overall hesitancy on some spending. The revenue total does not take into account the \$200,000 transfer in for an additional payment to MERS although the expense total does include the disbursement.
6. In addition to the \$120,000 in monthly payments to the Municipal Employees’ Retirement System (MERS), we also remitted an additional amount of \$200,000 in 2021. 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 97% versus 91% last year based on an adjustment to life expectancy and rates of return on investments

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2021**

7. Overall personnel expenses went up 8.11% in 2021 with wages increasing 5.68%. This was due to the library returning to more normal hours, staffing levels, and the Union and most salaried staff receiving a 3% increase. There were also two employee retirements last year that required significant payouts of PTO and reserve sick leave bank hours. Employee insurance premiums, which include employer contributions toward employee HSA accounts, were up over 2020 by 8%. This difference can be attributed to many insurance carriers giving discounts in 2020 along with changes in employee demographics. The actual increase in our medical plan premiums was 4.9%.
8. Of the six TADL locations, three are Member libraries with service contracts. Funding is based on the percentage of increase or decrease in the collection of Property Taxes, Penal Fines and State Aid from the prior year. The total of these revenue sources increased in 2020, resulting in an increase in member library funding of 3.55% in 2021. In December of 2021 the Fife Lake Public Library, Interlochen Public Library and Peninsula Community Library contracts were re-negotiated and a 10 year contract was signed with each library.
9. Our Teamsters Union labor contract was also re-negotiated in 2021 and a 3 year contract was signed. The new contract will expire at the end of 2024. This contract continued a 3% annual wage increase each year of the three-year contract.
10. The Unassigned General Fund Balance increased by \$18,250 from last year's audit, bringing the total to \$958,480. This increase preserves a balance equal to two months of operating expenses.
11. By adapting to the ever changing pandemic and financial landscapes in 2021, the Library continues to operate well within current revenue collections.

### **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.

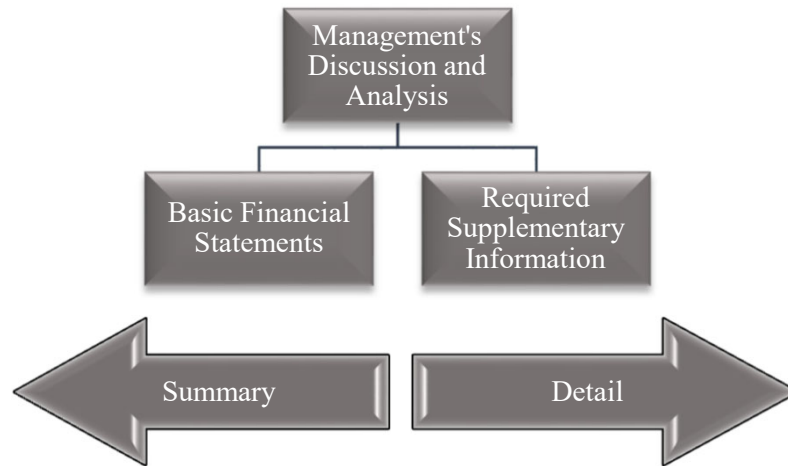
- The first two statements are *Library-wide financial statements* that provide both *short-term* and *long-term* information about the Library's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Library, reporting the Library's 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.

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.

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2021**

**Figure A-1**

***Organization of Traverse Area District Library Annual Financial Report***



**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.

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2021**

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.

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

*Net position* . The Library’s combined total net position was \$9,316,581 on December 31, 2021, an increase of 3.9% from the prior year. Figure A-2 illustrates the net position for years ended December 31.

**Figure A-2**

*Condensed Statement of Net Position*

|  | <u>2021</u>                 | <u>2020</u>                 |
|--|-----------------------------|-----------------------------|
| <b>Assets</b>                                    |                             |                             |
| Current assets                                   | \$ 8,718,473                | \$ 8,601,262                |
| Non-current assets                               | <u>6,928,761</u>            | <u>6,818,692</u>            |
| <b>Deferred outflows of resources</b>            | <u>249,167</u>              | <u>169,532</u>              |
| Total assets and deferred outflows of resources  | <u><u>15,896,401</u></u>    | <u><u>15,589,486</u></u>    |
| <b>Liabilities</b>                               |                             |                             |
| Current liabilities                              | 205,122                     | 173,066                     |
| Non-current liabilities                          | <u>573,139</u>              | <u>995,536</u>              |
| Total liabilities                                | <u>778,261</u>              | <u>1,168,602</u>            |
| <b>Deferred inflows of resources</b>             | <u>5,801,559</u>            | <u>5,455,421</u>            |
| <b>Net position</b>                              |                             |                             |
| Invested in capital assets                       | 6,928,761                   | 6,818,692                   |
| Restricted                                       | 1,512,461                   | 1,624,931                   |
| Unrestricted                                     | <u>875,359</u>              | <u>521,840</u>              |
| <b>Total net position</b>                        | <u>9,316,581</u>            | <u>8,965,463</u>            |
| Total liabilities, deferred inflows of resources | <u><u>\$ 15,896,401</u></u> | <u><u>\$ 15,589,486</u></u> |

*Changes in net assets* . The Library’s total revenue of \$5,358,333 was more than expenditures; increasing net assets by \$351,118. This increase was primarily due to increases in property tax revenues, grants, and contributions.

Of the Library’s \$5,412,591 in expenditures, approximately 57% is related to personnel costs.

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2021**

**Figure A-3**

*Changes in Net Position from Operating Results*

|  | <b>2021</b>  | <b>2020</b>  |
|--|--------------|--------------|
| <b>Revenue</b>                             |              |              |
| Program revenue                            |              |              |
| Charges for services                       | \$ 70,943    | \$ 57,881    |
| Operating grants and contributions         | 334,433      | 200,705      |
| Total program revenue                      | 405,376      | 258,586      |
| General revenue                            |              |              |
| Property taxes                             | 5,171,504    | 4,988,837    |
| Fines and forfeitures                      | 192,102      | 224,147      |
| Unrestricted investment earnings           | (5,273)      | 70,613       |
| Total general revenue                      | 5,358,333    | 5,283,597    |
| Total revenue                              | 5,763,709    | 5,542,183    |
| <b>Expenditures</b>                        |              |              |
| Library services                           | 4,792,739    | 4,527,861    |
| Depreciation - unallocated                 | 619,852      | 599,601      |
| Total expenditures                         | 5,412,591    | 5,127,462    |
| <b>Increase (decrease) in net position</b> | 351,118      | 414,721      |
| Net position - beginning of year           | 8,965,463    | 8,550,742    |
| Net position - end of year                 | \$ 9,316,581 | \$ 8,965,463 |

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

The strong financial performance of the Library as a whole is reflected in its governmental funds. As the Library completed the year, its governmental funds reported a fund balance of \$3,142,885.

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2021**

**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.

- While there was a 12% drop in Penal Fines again this year, a loss in Overdue fines due to going fine free, and low returns on our investments, there were also significant increases in grants and donations to offset those losses and increase our overall revenue by \$125,000.
- Along with an increase in Revenues due to grants, we also had adjustments to our expenditures as we put those grants and donations to work. Expenditures were adjusted as follows:
  - Personnel was initially adjusted upward to account for an extra \$200,000 payment to the MERS Unfunded Pension Liability. However, at year end it was adjusted back down \$100,000 as the library had not yet returned completely to pre-Covid hours or full staffing.
  - Supplies was increased \$100,000 due to additional spending created by various grants and donations and also due to a switch from in person programs to more craft kits to go.
  - Other Services and Charges was adjusted down a total of \$52,000 due to a number of programs, services and training still not being used due to Covid.
  - Capital Improvements budgets were adjusted upward for some year-end purchases also made possible by grants and donations.
  - Remaining donations were moved into the Public Improvement Fund at the end of the year in the following amounts: Bookmobile - \$62,000, Accounting Program - \$80,000, and Unrestricted Donations - \$15,000.

**Figure A-4**

|                                       | <u>Final Budget</u> | <u>Actual</u>    | <u>Variance</u> |
|---------------------------------------|---------------------|------------------|-----------------|
| <i>General Fund Revenues</i>          |                     |                  |                 |
| Property taxes                        | \$ 5,164,735        | \$ 5,171,504     | \$ 6,769        |
| State grants                          | 124,825             | 125,544          | 719             |
| Other grants                          | 56,300              | 112,284          | 55,984          |
| Charges for services                  | 64,350              | 70,943           | 6,593           |
| Fines and forfeitures                 | 228,000             | 192,102          | (35,898)        |
| Investment income                     | 15,000              | 2,050            | (12,950)        |
| Contributions and other income        | 113,170             | 96,580           | (16,590)        |
| Total revenues                        | <u>5,766,380</u>    | <u>5,771,007</u> | <u>4,627</u>    |
| <i>General Fund Expenditures</i>      |                     |                  |                 |
| Personnel                             | 3,426,968           | 3,409,206        | 17,762          |
| Supplies                              | 859,645             | 789,576          | 70,069          |
| Other services and charges            | 1,409,842           | 1,254,015        | 155,827         |
| Capital outlay                        | 112,925             | 112,781          | 144             |
| Total expenditures                    | <u>5,809,380</u>    | <u>5,565,578</u> | <u>243,802</u>  |
| <i>Other Financing Sources (uses)</i> |                     |                  |                 |
| Operating transfers in                | 200,000             | 200,000          | -               |
| Operating transfers out               | (365,172)           | (365,172)        | -               |
| Total other financing sources (uses)  | <u>(165,172)</u>    | <u>(165,172)</u> | <u>-</u>        |
| Net change in fund balance            | <u>(208,172)</u>    | <u>40,257</u>    | <u>248,429</u>  |



**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2021**

**Capital Asset and Debt Administration**

**Capital Assets**

By the end of 2021, the Library had invested approximately \$14.6 million in a broad range of capital assets, including building improvements, books, computer and audio-visual equipment. Total depreciation expense for the year was \$619,852. Figure A-5 details the historical costs, accumulated depreciation, and book value of the Library's capital assets.

**Figure A-5**

|                          | <b>2021</b>  | <b>2020</b>  |
|--------------------------|--------------|--------------|
| Land                     | \$ 345,545   | \$ 345,545   |
| Building                 | 8,565,421    | 8,411,388    |
| Collections              | 3,920,050    | 3,749,783    |
| Furniture & equipment    | 1,793,509    | 2,110,503    |
| Total capital assets     | 14,624,525   | 14,617,219   |
| Accumulated depreciation | 7,695,764    | 7,798,527    |
| Net capital assets       | \$ 6,928,761 | \$ 6,818,692 |

**Debt Administration**

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

**Figure A-6**

|                          | <b>2021</b> | <b>2020</b> |
|--------------------------|-------------|-------------|
| Governmental activities: |             |             |
| Compensated absences     | \$ 374,287  | \$ 357,238  |

**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 the total library funding this year. Taxable values have increased each year of the last decade with the increases as follows according to annual county equalization reports:

- 2013 2.578%
- 2014 1.762%
- 2015 3.273%
- 2016 1.683%
- 2017 3.622%
- 2018 4.896%
- 2019 5.128%
- 2020 5.24%
- 2021 4.66%
- 2022 7.38%

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2021**

Due to the increasing value of taxable properties, TADL has had Headlee Millage reductions for the past five years and will have another reduction in 2022. Our tax receipts will, of course, increase overall, but the lower millage rate will prevent us from collecting the full voter approved amount.

2. We are continuing to monitor discussions of extending the duration of TIF97 and expansion of borders without a tax capture component. If this should occur, in accordance with Board policy, we will opt out to preserve library funding.
3. In 2021, TADL received a Local Community Stabilization payment of \$34,172 from the state as a result of Personal Property tax legislation. This was down again from the previous year by 11.6% and we foresee this trend continuing.
4. In 2021, the Library was required to reimburse the county and/or townships due to Board of Review and Tax Tribunal judgments for a total of \$8679. The possibility of adverse Board of Review and Tax Tribunal rulings remains a threat that can vary tremendously from year to year and is not within the control of the library.
5. State Aid receipts increased 7.69% in 2021. With the 2020 Census now complete, we are looking at a population increase of 8874 in Grand Traverse County upon which State Aid is based. With this population increase we are looking at a 18.9% increase in State Aid for 2022. We continue to appreciate the efforts by the Michigan Library Association to advocate for increased library funding to the legislature, and we hope that funding will be continue to be prioritized for libraries.
6. Penal fine receipts have continued to decline since 2015. This is of great concern to us as this is our second largest funding source. It remains 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. Fines decreased 12.26% in Grand Traverse County and 5.98% in Benzie County, but increased 10.84% in Leelanau County in 2021. In all the receipts totaled \$174,765 and had an overall decrease of 10.83% from 2020. We do not foresee this trend reversing in the near future.
7. A new labor contract was negotiated in 2021 with an effective date of January 1, 2022 and ending on December 31, 2024. While this provides stabilization of wage and retirement costs for the next three years, rising inflation rates make health insurance expenditures unpredictable.
8. A committee of the Board of Trustees also negotiated a new ten year contract with each of our three Member libraries in 2021 to continue a stable funding source for our Members to be able to provide library services in their communities.
9. We continued the practice of contributing extra funds toward our unfunded pension liability for our frozen MERS Defined Benefit plan in 2021. An additional \$200,000 was paid on top of the required annual contribution of \$120,000. While we expect to continue this practice of additional payments, our future required contributions are based in part on investment earnings and we do not know the effect of the current fluctuating markets on those investments.
10. While we continued to monitor our roof and the effects of the work that had been completed, it was decided that the completion of the project would once again be delayed until late 2022 or 2023 due to supply chain issues, material price increases and a lack of contractors as a result of the pandemic. We will continue to monitor and make additional improvements where it is possible and position ourselves to be ready to move when the time is right.

**Traverse Area District Library  
Management Discussion and Analysis  
For the year ended December 31, 2021**

11. While the roof project is on hold, the Main library still requires regular maintenance and upgrades. In 2021, the Board approved funding to upgrade to energy efficient lighting. This was a large project that we hope will bring future savings in our electric costs. We also installed a new book sorter and made some more upgrades to the McGuire room in 2021. Topping the list for 2022 is more painting, a renovation of the restrooms and the installation of a new sign for the Main Library with 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.

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Traverse Area District Library  
Traverse City, Michigan

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

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, 2021, and the related notes to the financial statements, which collectively comprise Traverse Area District Library's basic financial statements as listed in the table on contents.

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 Library, as of December 31, 2021 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.

#### ***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Library and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 2 through 10, and pension schedules and budgetary comparison information, on pages 39 - 41, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2022 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 the effectiveness of the Library's 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 Traverse Area District Library's internal control over financial reporting and compliance.

*Dennis, Gartland & Niergarth*

Certified Public Accountants  
Traverse City, Michigan

June 7, 2022

# Traverse Area District Library

## STATEMENT OF NET POSITION

December 31, 2021

Governmental  
Activities

### ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

#### ASSETS

##### Current assets

|                      |                |
|----------------------|----------------|
| Cash and equivalents | \$ 1,270,083   |
| Investments          | 2,656,884      |
| Accounts receivable  | 4,619,979      |
| Prepaid expenses     | <u>171,527</u> |

Total current assets 8,718,473

Capital assets, net of accumulated depreciation 6,928,761

#### DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources for net pension obligation 249,167

Total assets and deferred outflows of resources \$ 15,896,401

### LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

#### LIABILITIES

##### Current liabilities

|                                   |               |
|-----------------------------------|---------------|
| Accounts payable                  | \$ 70,951     |
| Accrued liabilities               | 96,743        |
| Current portion of long-term debt | <u>37,429</u> |

Total current liabilities 205,123

Long-term debt 336,858

Net pension liability 236,280

Total liabilities 778,261

#### DEFERRED INFLOWS OF RESOURCES

Taxes levied but intended for subsequent period 5,292,947

Deferred inflows of resources for net pension obligation 508,612

Total deferred inflows of resources 5,801,559

#### NET POSITION

Invested in capital assets 6,928,761

##### Restricted for

|                           |                |
|---------------------------|----------------|
| Sight and sound           | 3,355          |
| Youth services            | 6,615          |
| Local history collections | 14,121         |
| Teen services             | 5,037          |
| Talking Book Library      | 10,261         |
| Bookmobile                | 62,000         |
| Public improvement        | 1,385,466      |
| Permanent fund            |                |
| Expendable                | 5,803          |
| Nonspendable              | 19,803         |
| Unrestricted              | <u>875,359</u> |

Total net position 9,316,581

Total liabilities, deferred inflows of resources and net position \$ 15,896,401

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

# Traverse Area District Library

## STATEMENT OF ACTIVITIES

Year Ended December 31, 2021

| Functions                       | Expenses            | Program Revenues        |  |  | Net Revenue<br>(Expense) and<br>Changes in Net<br>Position |
|---------------------------------|---------------------|-------------------------|--|--|--|
|                                 |                     | Charges For<br>Services | Operating<br>Grants and<br>Contributions | Capital Grants<br>and<br>Contributions | Total  |
| Governmental activities         |                     |                         |  |  |  |
| Library services                | \$ 4,792,739        | \$ 70,943               | \$ 334,433                               | \$ -                                   | \$ (4,387,363)   |
| Depreciation - unallocated      | <u>619,852</u>      | <u>-</u>                | <u>-</u>                                 | <u>-</u>                               | <u>(619,852)</u>   |
| Total governmental activities   | <u>\$ 5,412,591</u> | <u>\$ 70,943</u>        | <u>\$ 334,433</u>                        | <u>\$ -</u>                            | <u>(5,007,215)</u>   |
| General revenues                |                     |                         |  |  |  |
| Property taxes                  |                     |                         |  |  |  |
| Levied for general purposes     |                     |                         |  |  | 5,171,504  |
| Fines and forfeitures           |                     |                         |  |  | 192,102  |
| Investment earnings             |                     |                         |  |  | <u>(5,273)</u>   |
| Total general revenues          |                     |                         |  |  | <u>5,358,333</u>   |
| Change in net position          |                     |                         |  |  | 351,118  |
| Net position, beginning of year |                     |                         |  |  | <u>8,965,463</u>   |
| Net position, end of year       |                     |                         |  |  | <u>\$ 9,316,581</u>  |

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



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

December 31, 2021

|   | General<br>Fund     | Public<br>Improvement | Non-Major<br>Permanent<br>Fund | Total<br>Governmental<br>Funds |
|---|---------------------|-----------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>   |                     |                       |                                |                                |
| Cash and cash equivalents   | \$ 1,270,083        | \$ -                  | \$ -                           | \$ 1,270,083                   |
| Investments   | 1,164,430           | 1,456,091             | 25,533                         | 2,646,054                      |
| Receivables   |                     |                       |                                |                                |
| Property taxes  | 4,594,440           | -                     | -                              | 4,594,440                      |
| Interest  | 3,167               | 3,718                 | -                              | 6,885                          |
| Accounts  | 1,173               | 17,377                | 73                             | 18,623                         |
| Due from other funds  | -                   | 104,086               | -                              | 104,086                        |
| Prepaid expenditures  | 171,527             | -                     | -                              | 171,527                        |
|   | <u>\$ 7,204,820</u> | <u>\$ 1,581,272</u>   | <u>\$ 25,606</u>               | <u>\$ 8,811,698</u>            |
| <b>LIABILITIES</b>  |                     |                       |                                |                                |
| Accounts payable  | \$ 70,951           | \$ -                  | \$ -                           | \$ 70,951                      |
| Accrued liabilities   | 96,743              | -                     | -                              | 96,743                         |
| Due to other funds  | 208,172             | -                     | -                              | 208,172                        |
|   | <u>375,866</u>      | <u>-</u>              | <u>-</u>                       | <u>375,866</u>                 |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                              |                     |                       |                                |                                |
| Taxes levied intended for subsequent period                       | 5,292,947           | -                     | -                              | 5,292,947                      |
| <b>FUND BALANCE</b>   |                     |                       |                                |                                |
| Nonspendable  | 171,527             | -                     | 19,803                         | 191,330                        |
| Restricted  |                     |                       |                                |                                |
| Sight and sound   | -                   | 3,355                 | -                              | 3,355                          |
| Youth services  | -                   | 6,615                 | -                              | 6,615                          |
| Local history collection  | -                   | 14,121                | -                              | 14,121                         |
| Teen services   | -                   | 5,037                 | -                              | 5,037                          |
| Talking Book Library  | -                   | 10,261                | -                              | 10,261                         |
| Bookmobile  | -                   | 62,000                | -                              | 62,000                         |
| Fund use  | -                   | 1,385,466             | 5,803                          | 1,391,269                      |
| Committed   |                     |                       |                                |                                |
| Children's programming endowment                                  | 81,000              | -                     | -                              | 81,000                         |
| Employee benefit obligations                                      | 325,000             | -                     | -                              | 325,000                        |
| Assigned  |                     |                       |                                |                                |
| Public improvements   | -                   | 14,417                | -                              | 14,417                         |
| Accounting software   | -                   | 80,000                | -                              | 80,000                         |
| Unassigned  | 958,480             | -                     | -                              | 958,480                        |
|   | <u>1,536,007</u>    | <u>1,581,272</u>      | <u>25,606</u>                  | <u>3,142,885</u>               |
| Total fund balance  | <u>1,536,007</u>    | <u>1,581,272</u>      | <u>25,606</u>                  | <u>3,142,885</u>               |
| Total liabilities, deferred inflows of resources and fund balance | <u>\$ 7,204,820</u> | <u>\$ 1,581,272</u>   | <u>\$ 25,606</u>               |                                |

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$14,624,525 and the accumulated depreciation is \$7,695,764. 6,928,761

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. 114,947

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. (259,445)

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 (236,280)  
Compensated absences (374,287)

Total net position - governmental activities \$ 9,316,581

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, 2021

|                                       | General<br>Fund     | Public<br>Improvement | Non-Major<br>Permanent<br>Fund | Total<br>Governmental<br>Funds |
|---------------------------------------|---------------------|-----------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>                       |                     |                       |                                |                                |
| Property taxes                        | \$ 5,171,504        | \$ -                  | \$ -                           | \$ 5,171,504                   |
| State grants                          | 125,544             | -                     | -                              | 125,544                        |
| Other grants                          | 112,284             | -                     | -                              | 112,284                        |
| Charges for services                  | 70,943              | -                     | -                              | 70,943                         |
| Fines and forfeitures                 | 192,102             | -                     | -                              | 192,102                        |
| Investment income (loss)              | 2,050               | (7,745)               | (134)                          | (5,829)                        |
| Contributions and other income        | 96,580              | 26                    | -                              | 96,606                         |
|                                       | <u>5,771,007</u>    | <u>(7,719)</u>        | <u>(134)</u>                   | <u>5,763,154</u>               |
| <b>EXPENDITURES</b>                   |                     |                       |                                |                                |
| Current                               |                     |                       |                                |                                |
| Personnel                             | 3,209,206           | -                     | -                              | 3,209,206                      |
| Additional retirement contribution    | 200,000             | -                     | -                              | 200,000                        |
| Supplies and collection additions     | 789,576             | -                     | -                              | 789,576                        |
| Other services and charges            | 1,254,015           | 3,543                 | 63                             | 1,257,621                      |
| Capital outlay                        | 112,781             | 282,097               | -                              | 394,878                        |
|                                       | <u>5,565,578</u>    | <u>285,640</u>        | <u>63</u>                      | <u>5,851,281</u>               |
| <b>REVENUES OVER EXPENDITURES</b>     | <u>205,429</u>      | <u>(293,359)</u>      | <u>(197)</u>                   | <u>(88,127)</u>                |
| <b>OTHER FINANCING SOURCES (USES)</b> |                     |                       |                                |                                |
| Operating transfers in                | 200,000             | 261,086               | -                              | 461,086                        |
| Operating transfers out               | (365,172)           | -                     | -                              | (365,172)                      |
|                                       | <u>(165,172)</u>    | <u>261,086</u>        | <u>-</u>                       | <u>95,914</u>                  |
| <b>NET CHANGE IN FUND BALANCE</b>     | 40,257              | (32,273)              | (197)                          | 7,787                          |
| Fund balance, beginning of year       | <u>1,495,750</u>    | <u>1,613,545</u>      | <u>25,803</u>                  | <u>3,135,098</u>               |
| Fund balance, end of year             | <u>\$ 1,536,007</u> | <u>\$ 1,581,272</u>   | <u>\$ 25,606</u>               | <u>\$ 3,142,885</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, 2021

**Total net change in fund balance - governmental funds** \$ 7,787

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 is less than capital outlays during the period.

|                      |                  |         |
|----------------------|------------------|---------|
| Capital outlays      | \$ 729,921       |         |
| Depreciation expense | <u>(619,852)</u> | 110,069 |

Change in deferred outflows of resources, net of the change in deferred inflows of resources for pension obligations. (100,291)

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 earned was more than the accrued leave paid. (17,049)

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. (96,018)

Decrease in net pension liability 446,620

**Change in net position of governmental activities** \$ 351,118

# Traverse Area District Library

## STATEMENT OF NET POSITION - INTERNAL SERVICE FUND

December 31, 2021

| <b>ASSETS</b>                   |                          |
|---------------------------------|--------------------------|
| <b>CURRENT ASSETS</b>           |                          |
| Investments                     | \$ 10,830                |
| Due from other funds            | 104,086                  |
| Interest receivable             | <u>31</u>                |
| Total current assets            | <u><u>\$ 114,947</u></u> |
| <b>NET POSITION</b>             |                          |
| Committed for pension liability | <u><u>\$ 114,947</u></u> |

## Traverse Area District Library

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

Year Ended December 31, 2021

|  |                          |
|--|--------------------------|
| <b>NONOPERATING REVENUES</b>           |                          |
| Gain (loss) on investments             | \$ (659)                 |
| Interest income                        | <u>555</u>               |
| <b>INCOME BEFORE TRANSFERS</b>         | <u>(104)</u>             |
| <b>OTHER FINANCING SOURCES (USES)</b>  |                          |
| Transfers from other funds             | 104,086                  |
| Transfers to other funds               | <u>(200,000)</u>         |
| Total other financing sources (uses)   | <u>(95,914)</u>          |
| <b>CHANGE IN NET POSITION</b>          | (96,018)                 |
| <b>NET POSITION, beginning of year</b> | <u>210,965</u>           |
| <b>NET POSITION, end of year</b>       | <u><u>\$ 114,947</u></u> |

# Traverse Area District Library

## STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND

Year Ended December 31, 2021

|   |                    |
|---|--------------------|
| Change in net position                          | \$ (96,018)        |
| Adjustments to reconcile change in net position |                    |
| Change in amounts due from other funds          | 90,116             |
| Change in interest receivable                   | <u>25</u>          |
| Net cash from operating activities              | <u>(5,877)</u>     |
| Investing activities                            |                    |
| Sale of investments                             | <u>5,877</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.



### ***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.

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

- a. On or about December 1st, the 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 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 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 2021 ad valorem tax is levied and collectible on December 1, 2021, 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 \$5,000 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                 | 15-40 years |
| Collections-books, DVD's, videotapes, etc. | 6 years     |

***Deferred Inflows and Outflows of Resources***

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

|                 |                     |
|-----------------|---------------------|
| Property taxes: |                     |
| General Fund    | <u>\$ 5,292,947</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***

The Library's 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 set forth in the governmental funds' balance sheet.

***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 7, 2022, the date the financial statements were available to be issued.

**NOTE B - CASH AND INVESTMENTS**

At December 31, 2021, the Library's cash and investments include the following:

|       | <u>Balance Sheet Classification</u> |                     |                     |
|-------|-------------------------------------|---------------------|---------------------|
|       | <u>Cash</u>                         | <u>Investments</u>  | <u>Total</u>        |
| Total | <u>\$ 1,270,083</u>                 | <u>\$ 2,656,884</u> | <u>\$ 3,926,967</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, \$1,075,297 of the Library's bank balance of \$1,325,297 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

NOTES TO FINANCIAL STATEMENTS - Continued

***Statutory Authority***

State statutes authorize the Library to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Banker's acceptance of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Library has the following recurring fair value measurements as of December 31, 2021:

| 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                 |
| Government backed bonds         | \$ -   | \$ 1,198,306                                  | \$ -                                      | \$ 70,906                        | \$ 1,127,400        |
| Treasury bonds                  | -  | 1,093,734                                     | -   | 65,524                           | 1,028,210           |
| Certificates of deposit         | 194,480  | -   | -   | 194,480                          | -                   |
| Money market funds              | 170,364  | -   | -   | 170,364                          | -                   |
| Total                           | <u>\$ 364,844</u>  | <u>\$ 2,292,040</u>                           | <u>\$ -</u>                               | <u>\$ 501,274</u>                | <u>\$ 2,155,610</u> |

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

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

There have been no changes in the methodologies used at December 31, 2021.

*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.

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2021:

|                               | <u>Beginning</u>    | Capital<br><u>Acquisitions</u> | <u>Disposals</u> | <u>Ending</u>       |
|-------------------------------|---------------------|--------------------------------|------------------|---------------------|
| Buildings                     | \$ 8,411,388        | \$ 154,033                     | \$ -             | \$ 8,565,421        |
| Collections                   | 3,749,782           | 385,942                        | (215,674)        | 3,920,050           |
| Furniture and equipment       | <u>2,110,504</u>    | <u>189,946</u>                 | <u>(506,941)</u> | <u>1,793,509</u>    |
| Total depreciable assets      | 14,271,674          | 729,921                        | (722,615)        | 14,278,980          |
| Less accumulated depreciation | (7,798,527)         | (619,852)                      | 722,615          | (7,695,764)         |
| Land                          | <u>345,545</u>      | <u>-</u>                       | <u>-</u>         | <u>345,545</u>      |
| Total capital assets, net     | <u>\$ 6,818,692</u> | <u>\$ 110,069</u>              | <u>\$ -</u>      | <u>\$ 6,928,761</u> |

Total depreciation expense for the year ended December 31, 2021, was \$619,852.

**NOTE D - LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended December 31, 2021:

|                      | <u>Beginning<br/>Balance</u> | <u>New Debt</u>  | <u>Payments</u> | <u>Ending<br/>Balance</u> | <u>Current<br/>Portion</u> |
|----------------------|------------------------------|------------------|-----------------|---------------------------|----------------------------|
| Compensated absences | <u>\$ 357,238</u>            | <u>\$ 17,049</u> | <u>\$ -</u>     | <u>\$ 374,287</u>         | <u>\$ 37,429</u>           |

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, 2021:

|                         | <u>Receivables</u> | <u>Payables</u>   |
|-------------------------|--------------------|-------------------|
| Major Funds:            |                    |                   |
| General Fund            | \$ -               | \$ 208,172        |
| Public Improvement Fund | 104,086            | -                 |
| Internal Service Fund   | <u>104,086</u>     | <u>-</u>          |
|                         | <u>\$ 208,172</u>  | <u>\$ 208,172</u> |

*Operating Transfers*

Operating transfers in and out of individual funds are summarized as follows during the year ended December 31, 2021:

| <u>Fund</u>             | <u>Transfers In</u> | <u>Transfers Out</u> |
|-------------------------|---------------------|----------------------|
| Major Funds:            |                     |                      |
| General Fund            | \$ 200,000          | \$ 365,172           |
| Public Improvement Fund | 261,086             | -                    |
| Internal Service Fund   | <u>104,086</u>      | <u>200,000</u>       |
| Total                   | <u>\$ 565,172</u>   | <u>\$ 565,172</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.



**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 \$107,783 and \$150,846, respectively. The employee contributions totaled \$178,429 and \$56,265, 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, 2020 valuation date, the following employees were covered by the benefit terms:

|  |                  |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefits | 38               |
| Inactive employees entitled to but not yet receiving benefits    | 7                |
| Active employees   | <u>24</u>        |
|  | <u><u>69</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 \$120,000 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, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of December 31, 2020.

### ***Actuarial Assumptions***

The total pension liability in the December 31, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary increases: 3.0% in the long-term.

Investment rate of return: 7.35%, 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 in 2018 and 2020.

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       | 60.0 %            | 3.15 %                                 |
| Global fixed income | 20.0 %            | 0.25 %                                 |
| Private investments | 20.0 %            | 1.45 %                                 |

***Discount Rate***

The discount rate used to measure the total pension liability is 7.60% for 2020. 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 Liability**

|   | Increase (Decrease)        |                                |                                      |
|---|----------------------------|--------------------------------|--------------------------------------|
|   | Total Pension<br>Liability | Plan Fiduciary<br>Net Position | Net Pension<br>Liability/<br>(Asset) |
|   | (a)                        | (b)                            | (a)-(b)                              |
| <b>Balances at December 31, 2020</b>              | <u>\$ 7,279,540</u>        | <u>\$ 6,596,640</u>            | <u>\$ 682,900</u>                    |
| Changes for the year                              |                            |                                |                                      |
| Service cost                                      | 990                        | -                              | 990                                  |
| Interest on total pension liability               | 533,181                    | -                              | 533,181                              |
| Changes in benefits                               | -                          | -                              | -                                    |
| Difference between expected and actual experience | 21,472                     | -                              | 21,472                               |
| Changes in assumptions                            | 244,014                    | -                              | 244,014                              |
| Employer contributions                            | -                          | 320,000                        | (320,000)                            |
| Net investment income                             | -                          | 921,234                        | (921,234)                            |
| Benefit payments, including employee refunds      | (528,986)                  | (528,986)                      | -                                    |
| Administrative expense                            | -                          | (10,561)                       | 10,561                               |
| Other changes                                     | (15,604)                   | -                              | (15,604)                             |
| Net changes                                       | <u>255,067</u>             | <u>701,687</u>                 | <u>(446,620)</u>                     |
| <b>Balances as of December 31, 2021</b>           | <u><u>\$ 7,534,607</u></u> | <u><u>\$ 7,298,327</u></u>     | <u><u>\$ 236,280</u></u>             |

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

The following presents the Net Pension Liability of the Library, calculated using the discount rate of 7.60%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.60%) or 1% higher (8.60%) than the current rate.

|                       | 1% Decrease<br>6.60% | Current<br>Discount<br>Rate<br>7.60% | 1% Increase<br>8.60% |
|-----------------------|----------------------|--------------------------------------|----------------------|
| Net pension liability | \$ 1,000,957         | \$ 236,280                           | \$ (411,734)         |

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, 2021, the Library recognized pension benefit of \$0. The Library reported deferred outflows and inflows of resources related to pensions from the following sources:

|                                     | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|-------------------------------------|---|--|
| Difference in experience            | \$ 1,725                                      | \$ -   |
| Difference in assumptions           | 247,442                                       | -  |
| Excess (deficit) investment returns | <u>-</u>                                      | <u>(508,612)</u>                             |
| Total                               | <u>\$ 249,167</u>                             | <u>\$ (508,612)</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> |                     |
|--------------------|---------------------|
| 2022               | \$ 92,091           |
| 2023               | (120,023)           |
| 2024               | (145,866)           |
| 2025               | <u>(85,647)</u>     |
|                    | <u>\$ (259,445)</u> |

**NOTE G - DEFERRED COMPENSATION PLAN**

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all Library employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In complying with the amended Section 457 requirements, these assets are for the exclusive benefit of participants and not subject to the claims of the Library's general creditors. As such, they are not included in a custodial fund of the Library.

**NOTE H - 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, 2021.

The minimum annual payments under this lease are as follows:

| <u>Years Ended</u> |                  |
|--------------------|------------------|
| 2024               | \$ 22,909        |
| 2025               | <u>15,273</u>    |
|                    | <u>\$ 38,182</u> |

**NOTE I - RISKS AND UNCERTAINTIES**

***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.

***COVID-19***

On March 10, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The Library believes it understands the risks associated with COVID-19. The Library is continuously implementing risk mitigation tactics as to the risk of the impact of COVID-19 related to their operations within and outside the Library. The extent to which the pandemic impacts operations will depend on future developments, which are highly uncertain at this time and cannot be predicted.

**NOTE J - 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 January 1, 2022 through December 31, 2024.

**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>2021</u>                | <u>2020</u>                | <u>2019</u>                | <u>2018</u>                | <u>2017</u>                | <u>2016</u>                | <u>2015</u>                |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>Total Pension Liability</b>   |                            |                            |                            |                            |                            |                            |                            |
| Service cost   | \$ 990                     | \$ 1,100                   | \$ 1,515                   | \$ 1,950                   | \$ 199,446                 | \$ 215,673                 | \$ 197,882                 |
| Interest   | 533,181                    | 514,941                    | 559,529                    | 554,612                    | 668,004                    | 603,264                    | 574,593                    |
| Changes in benefit terms   | -                          | -                          | -                          | -                          | (1,603,158)                | -                          | -                          |
| Difference between expected and actual experience                            | 21,472                     | (37,768)                   | (271,179)                  | (30,107)                   | (117,979)                  | 242,089                    | -                          |
| Changes in assumption  | 244,014                    | 254,298                    | -                          | -                          | -                          | 450,014                    | -                          |
| Benefit payments, including employee refunds                                 | (528,986)                  | (505,221)                  | (448,086)                  | (451,825)                  | (431,735)                  | (429,433)                  | (389,185)                  |
| Other  | (15,604)                   | 24,596                     | (31,582)                   | (14,823)                   | (23,177)                   | (34,593)                   | (24,527)                   |
| Net change in total pension liability  | 255,067                    | 251,946                    | (189,803)                  | 59,807                     | (1,308,599)                | 1,047,014                  | 358,763                    |
| Total pension liability, beginning   | <u>7,279,540</u>           | <u>7,027,594</u>           | <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>\$ 7,534,607</u></b> | <b><u>\$ 7,279,540</u></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   | \$ 320,000                 | \$ 230,000                 | \$ 299,528                 | \$ 299,372                 | \$ 299,900                 | \$ 654,923                 | \$ 265,502                 |
| Contributions - employee   | -                          | -                          | -                          | -                          | (123)                      | 68,879                     | 83,538                     |
| Net investment income  | 921,234                    | 755,913                    | 749,972                    | (231,447)                  | 707,090                    | 555,932                    | (70,448)                   |
| Benefit payments, including employee refunds                                 | (528,986)                  | (505,221)                  | (448,086)                  | (451,825)                  | (431,735)                  | (429,433)                  | (389,185)                  |
| Administrative expense   | (10,561)                   | (12,147)                   | (12,930)                   | (11,492)                   | (11,182)                   | (10,910)                   | (10,244)                   |
| Net change in plan fiduciary net position                                    | 701,687                    | 468,545                    | 588,484                    | (395,392)                  | 563,950                    | 839,391                    | (120,837)                  |
| Plan fiduciary net position, beginning                                       | <u>6,596,640</u>           | <u>6,128,095</u>           | <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>\$ 7,298,327</u></b> | <b><u>\$ 6,596,640</u></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>\$ 236,280</u></b>   | <b><u>\$ 682,900</u></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       | 97 %                       | 91 %                       | 87 %                       | 77 %                       | 83 %                       | 63 %                       | 61 %                       |
| Covered employee payroll   | <u>\$ 1,113,703</u>        | <u>\$ 1,236,453</u>        | <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 | 21 %                       | 55 %                       | 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>2021</u>        | <u>2020</u>        | <u>2019</u>        | <u>2018</u>        | <u>2017</u>        | <u>2016</u>        | <u>2015</u>        |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Actuarial determined contributions                                   | \$ 120,000         | \$ 120,000         | \$ 99,528          | \$ 99,372          | \$ 99,777          | \$ 304,734         | \$ 265,502         |
| Contribution in relation to the actuarially determined contributions | <u>320,000</u>     | <u>230,000</u>     | <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>\$ 110,000</u>  | <u>\$ 200,000</u>  | <u>\$ 200,000</u>  | <u>\$ 200,000</u>  | <u>\$ 375,000</u>  | <u>\$ -</u>        |
| Covered employee payroll   | <u>\$1,113,703</u> | <u>\$1,236,453</u> | <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            | 29 %               | 19 %               | 21 %               | 18 %               | 17 %               | 38 %               | 16 %               |

**Notes to Schedule**

|                               |  |
|-------------------------------|--|
| Actuarial cost method         | Entry age  |
| Amortization method           | Level percentage of payroll, closed                        |
| Remaining amortization period | 16 years   |
| Asset valuation method        | 5 year smoothed  |
| Inflation                     | 2.5%   |
| Salary increases              | 3.0%   |
| Investment rate of return     | 7.35%  |
| 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 2015 through 2018. Inflation and salary increases were expected to be 3.5% and 4.5%, respectively, for 2015. Salary increases were expected to be 3.75% for the time period of 2016 through 2019. Investment rate of return was expected to be 7.75% for the time period of 2016 through 2019.

## Traverse Area District Library

### BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2021

|   | Budgeted Amounts    |                     | Actual<br>(GAAP Basis) | Variances - Positive<br>(Negative) |                          |
|---|---------------------|---------------------|------------------------|------------------------------------|--------------------------|
|   | Original            | Final               |                        | Original to<br>Final               | Final to Actual<br>Total |
|   | <b>REVENUES</b>     |                     |                        |                                    |                          |
| Property taxes                                  | \$ 5,164,735        | \$ 5,164,735        | \$ 5,171,504           | \$ -                               | \$ 6,769                 |
| State grants                                    | 124,825             | 124,825             | 125,544                | -                                  | 719                      |
| Other grants                                    | 18,400              | 56,300              | 112,284                | 37,900                             | 55,984                   |
| Charges for services                            | 64,350              | 64,350              | 70,943                 | -                                  | 6,593                    |
| Fines and forfeitures                           | 228,000             | 228,000             | 192,102                | -                                  | (35,898)                 |
| Interest income                                 | 15,000              | 15,000              | 2,050                  | -                                  | (12,950)                 |
| Contributions and other income                  | 26,070              | 113,170             | 96,580                 | 87,100                             | (16,590)                 |
| <b>Total revenues</b>                           | <u>5,641,380</u>    | <u>5,766,380</u>    | <u>5,771,007</u>       | <u>125,000</u>                     | <u>4,627</u>             |
| <b>EXPENDITURES</b>                             |                     |                     |                        |                                    |                          |
| Current   |                     |                     |                        |                                    |                          |
| Personnel                                       | 3,326,968           | 3,426,968           | 3,409,206              | (100,000)                          | 17,762                   |
| Supplies  | 759,645             | 859,645             | 789,576                | (100,000)                          | 70,069                   |
| Other services and charges                      | 1,461,842           | 1,409,842           | 1,254,015              | 52,000                             | 155,827                  |
| Capital outlay                                  | 92,925              | 112,925             | 112,781                | (20,000)                           | 144                      |
| <b>Total expenditures</b>                       | <u>5,641,380</u>    | <u>5,809,380</u>    | <u>5,565,578</u>       | <u>(168,000)</u>                   | <u>243,802</u>           |
| <b>REVENUES OVER (UNDER)<br/>EXPENDITURES</b>   | <u>-</u>            | <u>(43,000)</u>     | <u>205,429</u>         | <u>(43,000)</u>                    | <u>248,429</u>           |
| <b>OTHER FINANCING SOURCES (USES)</b>           |                     |                     |                        |                                    |                          |
| Operating transfers in                          | -                   | 200,000             | 200,000                | 200,000                            | -                        |
| Operating transfers out                         | -                   | (365,172)           | (365,172)              | (365,172)                          | -                        |
| <b>Total other financing<br/>sources (uses)</b> | <u>-</u>            | <u>(165,172)</u>    | <u>(165,172)</u>       | <u>(165,172)</u>                   | <u>-</u>                 |
| <b>NET CHANGE IN FUND<br/>BALANCE</b>           | <u>-</u>            | <u>(208,172)</u>    | <u>40,257</u>          | <u>(208,172)</u>                   | <u>248,429</u>           |
| Fund balance, beginning of year                 | <u>1,495,750</u>    | <u>1,495,750</u>    | <u>1,495,750</u>       | <u>-</u>                           | <u>-</u>                 |
| Fund balance, end of year                       | <u>\$ 1,495,750</u> | <u>\$ 1,287,578</u> | <u>\$ 1,536,007</u>    | <u>\$ (208,172)</u>                | <u>\$ 248,429</u>        |



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*Business Advisors Since 1973*

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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, 2021, 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 7, 2022.

***Report on 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 2021-001 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.

### ***Report on Compliance and Other Matters***

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

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 compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

June 7, 2022



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## AUDIT-RELATED COMMUNICATIONS

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, 2021. 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 25, 2022. 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 tests 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 7, 2022.

***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 during 2021. 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 per Internal Revenue Service guidelines.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are 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 \$112,000).
- Record transfer of General Fund balance to Public Improvement and Internal Service Funds (approximately \$208,000).

### ***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 7, 2022.

### ***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. The standard may have an effect on any future debt covenants compliance.

*Subscription Based Technology Arrangements*

Governmental Accounting Standards Board Statement No. 96, *Subscription Based Technology Arrangements*, was issued March 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

*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.

*Restriction on Use*

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 7, 2022