

KENT DISTRICT LIBRARY
REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)
YEAR ENDED DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Kent District Library,

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Kent District Library as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, a prior period adjustment was issued for the reallocation of prepaid expenses to the prior year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Maney Costeiran PC

July 13, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Kent District Library (the Library), we offer readers of the Kent District Library's financial statements this narrative overview and analysis of the financial activities of the Kent District Library for the fiscal year ended December 31, 2017.

FINANCIAL HIGHLIGHTS

Governmental-wide:

- The assets and deferred outflows of the Library exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$25,882,339 (net position). Of this amount, \$10,700,865 (unrestricted net position) may be used to meet the Library's ongoing obligations to citizens and creditors.
- The Library's total net position increased by \$3,367,939.

Fund-level:

- As of the close of the 2017 fiscal year, the Library's governmental funds reported ending fund balance of \$11,213,449, an increase of \$3,144,273 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,423,839 or 31% of total general fund expenditures, exceeding the Kent District Library Board's fund balance minimum of 15% to 20% of expenditures.
- The Library spent \$3,056,039 (14.5% of expenditures) for collection materials consisting of books, magazines, multimedia, downloadable books, and electronic access.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Library can be divided into two categories: governmental funds or fiduciary funds.

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

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

The Library maintains two individual governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund which is considered a major fund and the capital projects fund which is considered a nonmajor fund.

The Library adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund in the required supplementary information.

The basic governmental fund financial statements can be found on pages 16 through 19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Library's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 20 and 21 of this report.

Notes to the financial statements. The notes provide supplementary information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 41 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Library's progress in funding its obligation to provide retirement benefits to its employees and the general fund budget on pages 43 through 46.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the Library, assets and deferred outflows of resources exceeded liabilities and deferred inflow of resources by \$25,882,339 at the close of the most recent fiscal year.

\$7,719,922 of the Library's net position (30%) reflects its investment in capital assets (e.g., library books, furniture and equipment), less any related debt, none at year end, used to acquire those assets that is still outstanding. The Library uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

Kent District Library's Net Position

	<u>2017</u>	<u>2016</u>
Current assets	\$ 32,999,295	\$ 29,048,750
Pension assets	9,689,187	5,290,096
Capital assets	<u>7,719,922</u>	<u>7,347,662</u>
Total assets	<u>50,408,404</u>	<u>41,686,508</u>
Deferred outflows of resources	<u>492,164</u>	<u>2,913,280</u>
Long-term liabilities	165,175	170,324
Other liabilities	<u>634,463</u>	<u>436,965</u>
Total liabilities	<u>799,638</u>	<u>607,289</u>
Deferred inflow of resources	<u>24,218,591</u>	<u>21,574,454</u>
Net position:		
Net investment in capital assets	7,719,922	7,347,662
Restricted contributions	237,292	-
Restricted for pension	7,224,260	7,398,431
Unrestricted	<u>10,700,865</u>	<u>7,671,952</u>
Total net position	<u><u>\$ 25,882,339</u></u>	<u><u>\$ 22,418,045</u></u>

The 2016 numbers have not been restated for the prior period adjustment.

The unrestricted net position of \$10,700,865 may be used to meet the Library's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Library is able to report positive balances in all categories of net position for its governmental activities.

The Library's net position increased by \$3,367,939 during the current fiscal year. The majority of the increase can be attributed to increased E-Rate funding and a decrease in capital outlay expenditures.

Governmental activities. Governmental activities increased the Library’s net position by \$3,367,939, thus the governmental activities accounted for 100% of the total increase in the net position of the Library.

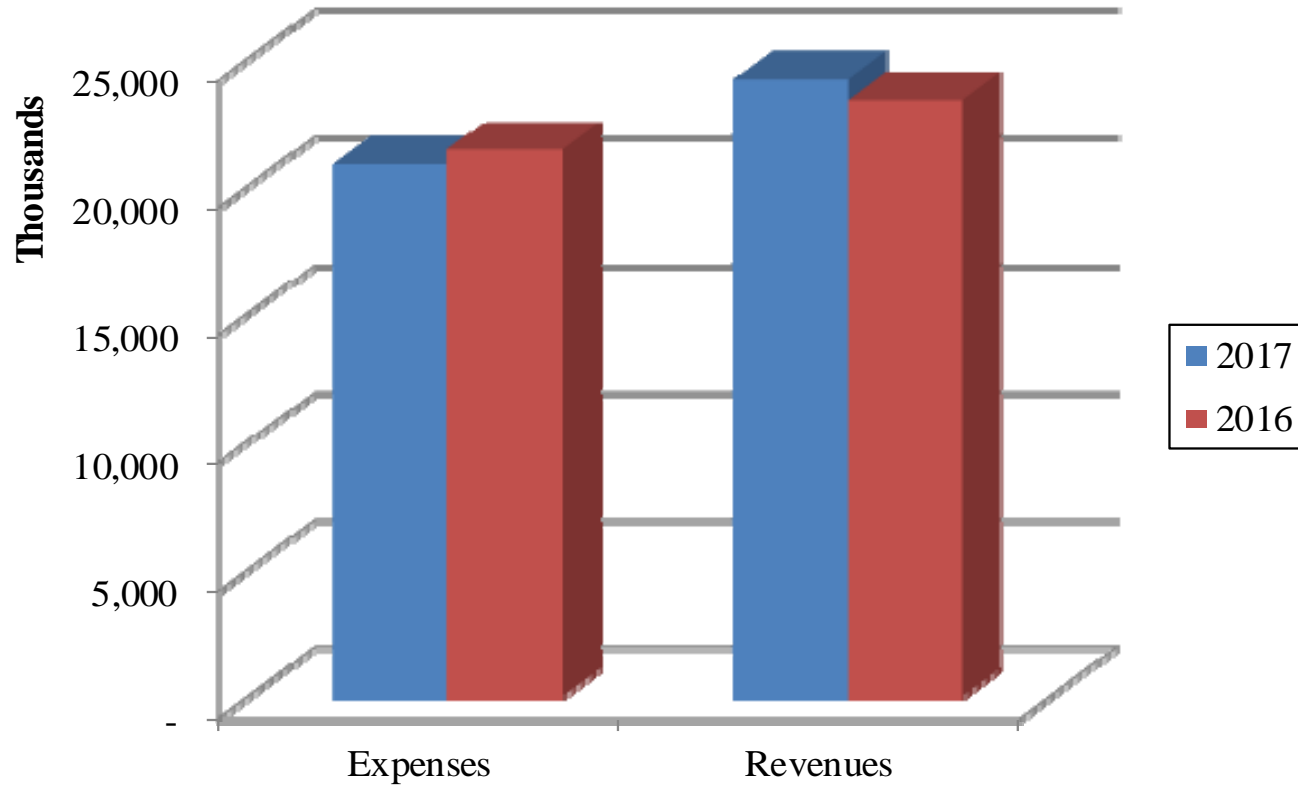
Kent District Library’s Changes in Net Position

	Governmental activities	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 417,058	\$ 297,046
Capital grants and contributions	104,000	-
General revenues:		
Property taxes	20,556,739	20,460,523
Penal fines	790,072	779,191
State aid	1,182,711	1,168,502
Investment income	155,499	85,163
Other	1,025,073	627,388
Total revenues	24,231,152	23,417,813
Expenses:		
Library services	20,863,213	21,437,592
Increase in net position	3,367,939	1,980,221
Net position, beginning of year (as restated)	22,514,400	20,437,824
Net position, end of year	\$ 25,882,339	\$ 22,418,045

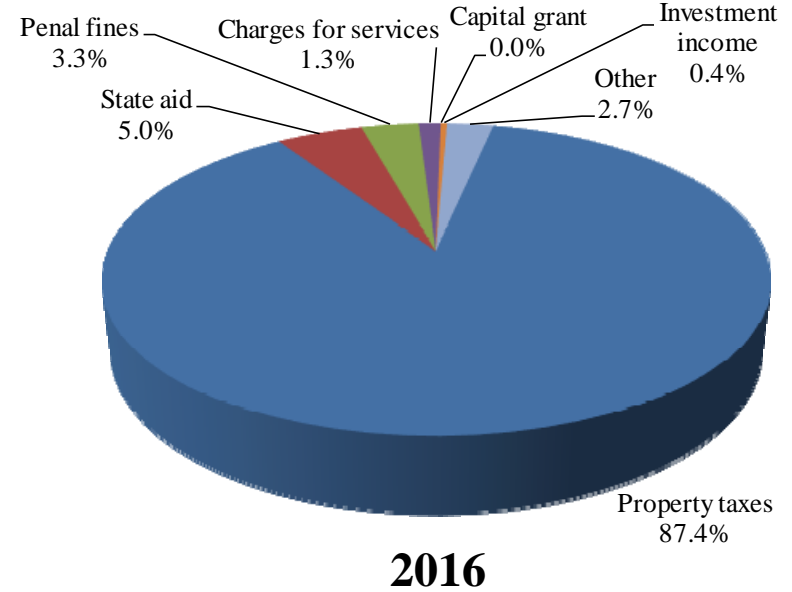
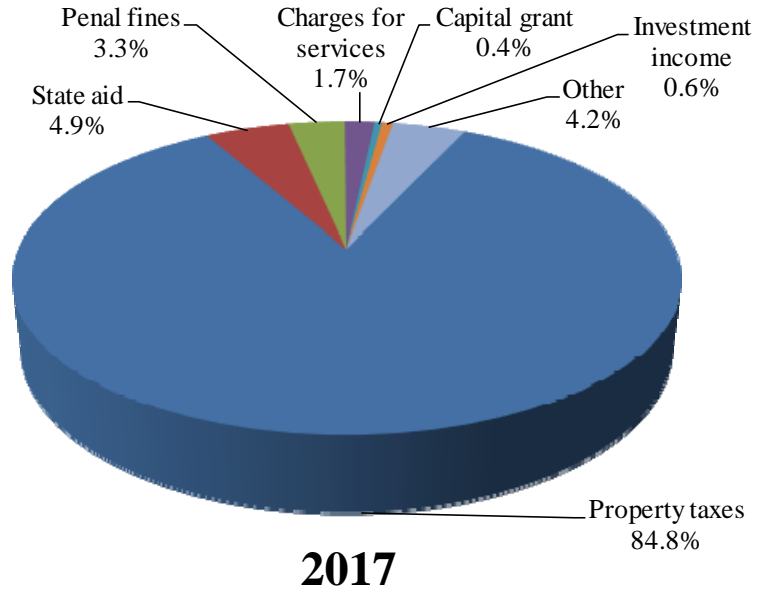
The 2016 numbers have not been restated for the prior period adjustment.

- Overall government activities revenue is up \$813,339 from the prior year. The majority of the increase is due to collecting more property tax and charges for services, in the form of personal property tax loss reimbursements, than in the previous year, and E-Rate funding applied for, and received, in the current year.
- Expenses decreased \$574,379. The decrease can primarily be attributed to a decrease in capital spending for library renovation projects.

**Kent District Library
Expenses and Revenues - Governmental Activities
December 31,**



**Kent District Library
Revenues by Source - Governmental Activities
December 31,**



Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Library's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Library's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balance of \$11,213,449, an increase of \$3,144,273 in comparison with the prior year. Approximately 57% of this total amount (\$6,423,839) constitutes *unassigned*, which is available for spending at the Library's discretion. The remainder of fund balance is restricted, non-spendable, committed, or assigned to indicate that it is not available for new spending because it has already been committed to 1) capital projects (\$4,310,463), 2) donations (\$237,292), or 3) prepaid expenses (\$241,855).

The general fund is the chief operating fund of the Library. At the end of the current fiscal year, unassigned fund balance of the general fund was \$6,423,839 while total fund balance was \$11,068,286. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31% of total general fund expenditures, while total fund balance represents 53% of that same amount.

The fund balance of the Library's general fund increased by \$2,999,110 during fiscal year 2017. A key factor in this increase is as follows:

- Decrease in total expenditures across all areas

Capital Asset and Debt Administration

Capital assets. The Library's net investment in capital assets for its governmental activities as of December 31, 2017, amounts to \$7,719,922 (net of accumulated depreciation). This investment in capital assets includes library books and materials, furniture and equipment, and building and building improvements.

Major capital asset events during the current fiscal year included the following:

- New library books and materials
- New computers and technology

Kent District Library's Capital Assets
(Net of depreciation)

	Governmental activities	
	2017	2016
Buildings	\$ 632,670	\$ 717,026
Building improvements	712,525	823,709
Land improvements	345,731	28,017
Library books and materials	4,421,164	4,166,177
Vehicles	30,134	42,187
Furniture and equipment	905,226	1,118,129
Land	440,000	440,000
Construction in progress	232,472	12,417
	\$ 7,719,922	\$ 7,347,662

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

Long-term debt. At the end of the current fiscal year, the Library had total debt outstanding of \$275,292. This represents compensated absences earned but not used as of year-end.

Kent District Library's Outstanding Debt

	Governmental activities	
	2017	2016
Compensated absences	\$ 275,292	\$ 300,869

The Library's total debt decreased by \$25,577 (8.5%) during the current fiscal year.

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

Economic Factors and Next Year's Budgets and Rates

Kent District Library's goal is to maintain and enhance the services that are provided to the public utilizing the most efficient and effective methods. The Library has a conservative and fiscally responsible budget for the fiscal year 2018 that will support the Library's activities and programs.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kent District Library, 814 W. River Center NE, Comstock Park, MI 49321.

BASIC FINANCIAL STATEMENTS

**KENT DISTRICT LIBRARY
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	<u>Governmental activities</u>
ASSETS:	
Cash	\$ 4,262
Investments	13,745,305
Receivables:	
Accounts	157,499
Taxes	18,848,803
Interest	1,571
Prepaid expenses	241,855
Net pension asset	9,689,187
Capital assets, not being depreciated	672,472
Capital assets, net of accumulated depreciation	<u>7,047,450</u>
TOTAL ASSETS	<u>50,408,404</u>
DEFERRED OUTFLOW OF RESOURCES:	
Pension related items	<u>492,164</u>
LIABILITIES:	
Accounts payable	288,643
Accrued payroll, taxes and withholding	234,603
Unearned revenue	1,100
Noncurrent liabilities:	
Due within one year	110,117
Due in more than one year	<u>165,175</u>
TOTAL LIABILITIES	<u>799,638</u>
DEFERRED INFLOWS OF RESOURCES:	
Unavailable revenue	21,261,500
Pension related items	<u>2,957,091</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>24,218,591</u>
NET POSITION:	
Net investment in capital assets	7,719,922
Restricted - contributions	237,292
Restricted - pension benefits	7,224,260
Unrestricted	<u>10,700,865</u>
TOTAL NET POSITION	<u><u>\$ 25,882,339</u></u>

**KENT DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Net (expense) revenue and changes in net position</u>
		<u>Charges for services</u>	<u>Capital grants and contributions</u>	
Governmental activities:				
Recreation and culture:				
Library	\$ 20,863,213	\$ 417,058	\$ 104,000	\$ (20,342,155)
General revenues				
Taxes:				
Property taxes, levied for general purposes				20,556,739
Penal fines				790,072
State sources				1,182,711
Investment income				155,499
Other				1,025,073
Total general revenues				<u>23,710,094</u>
Change in net position				3,367,939
Net position, beginning of year (as restated)				<u>22,514,400</u>
Net position, end of year				<u>\$ 25,882,339</u>

**KENT DISTRICT LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General	Nonmajor Capital projects	Total governmental funds
ASSETS			
ASSETS:			
Cash	\$ 4,262	\$ -	\$ 4,262
Investments	13,600,142	145,163	13,745,305
Receivables:			
Accounts	157,499	-	157,499
Taxes	18,848,803	-	18,848,803
Interest	1,571	-	1,571
Prepaid expenses	241,855	-	241,855
TOTAL ASSETS	\$ 32,854,132	\$ 145,163	\$ 32,999,295
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
LIABILITIES:			
Accounts payable	\$ 288,643	\$ -	\$ 288,643
Accrued payroll, taxes and withholding	234,603	-	234,603
Unearned revenue	1,100	-	1,100
TOTAL LIABILITIES	524,346	-	524,346
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue - property taxes	21,261,500	-	21,261,500

See notes to financial statements.

	<u>General</u>	<u>Nonmajor Capital projects</u>	<u>Total governmental funds</u>
FUND BALANCE:			
Nonspendable - prepaid expenditures	\$ 241,855	\$ -	\$ 241,855
Restricted - donations	237,292	-	237,292
Committed - capital projects	4,165,300	-	4,165,300
Assigned - capital projects	-	145,163	145,163
Unassigned	6,423,839	-	6,423,839
TOTAL FUND BALANCE	<u>11,068,286</u>	<u>145,163</u>	<u>11,213,449</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 32,854,132</u>	<u>\$ 145,163</u>	<u>\$ 32,999,295</u>
Total governmental fund balances			\$ 11,213,449
Amounts reported for governmental activities in the statement of net position are difference because:			
Deferred outflows of resources - related to pension			492,164
Deferred inflows of resources - related to pension			(2,957,091)
Net pension asset			9,689,187
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			
Capital assets not being depreciated		672,472	
Capital assets being depreciated, net		<u>7,047,450</u>	7,719,922
Long-term liabilities, such as compensated absences, are not due and payable in the current period and are therefore not reported in the funds			
Compensated absences payable			<u>(275,292)</u>
Net position of governmental activities			<u>\$ 25,882,339</u>

See notes to financial statements.

KENT DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	General	Nonmajor Capital projects	Total governmental funds
REVENUES:			
Local sources:			
Property taxes	\$ 20,556,739	\$ -	\$ 20,556,739
Penal fines	790,072	-	790,072
Charges for services	417,058	-	417,058
Interest income	155,499	-	155,499
Public donations	332,897	-	332,897
Other	692,176	104,000	796,176
Total local sources	22,944,441	104,000	23,048,441
State sources	1,182,711	-	1,182,711
Total revenues	24,127,152	104,000	24,231,152
EXPENDITURES:			
Current:			
Recreation and culture:			
Salaries and wages	10,398,814	-	10,398,814
Employee benefits	2,480,678	-	2,480,678
Collections:			
Digital	1,280,560	-	1,280,560
Physical	1,912,470	-	1,912,470
Supplies	257,668	-	257,668
Contractual services	2,069,607	7,449	2,077,056
Programming and outreach	302,666	-	302,666
Maintenance and utilities	729,226	-	729,226
Staff development	158,365	-	158,365
Other	442,872	-	442,872
Capital outlay	887,116	159,388	1,046,504
Total expenditures	20,920,042	166,837	21,086,879
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,207,110	(62,837)	3,144,273
OTHER FINANCING SOURCES (USES):			
Transfers in	-	208,000	208,000
Transfers out	(208,000)	-	(208,000)
Total other financing sources (uses)	(208,000)	208,000	-
Net change in fund balance	2,999,110	145,163	3,144,273
FUND BALANCE, beginning of year (as restated)	8,069,176	-	8,069,176
FUND BALANCE, end of year	\$ 11,068,286	\$ 145,163	\$ 11,213,449

See notes to financial statements.

**KENT DISTRICT LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

Net change in fund balances - total governmental funds	\$ 3,144,273
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(2,106,929)
Capital outlay	2,479,189
Compensated absences are reported on the accrual method in the statement of activities, and reported as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences beginning of the year	300,869
Accrued compensated absences end of the year	(275,292)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Pension related items	(174,171)
Change in net position of governmental activities	\$ 3,367,939

**KENT DISTRICT LIBRARY
STATEMENT OF FIDUCIARY NET POSTION
DECEMBER 31, 2017**

	<u>Pension trust fund</u>
ASSETS:	
Cash	\$ 182
Investments	51,002,193
Receivables:	
Interest and dividends	<u>50,633</u>
TOTAL ASSETS	<u>51,053,008</u>
NET POSITION:	
Restricted for pension	<u>\$ 51,053,008</u>

**KENT DISTRICT LIBRARY
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2017**

	<u>Pension trust fund</u>
ADDITIONS:	
Contributions:	
Employer	\$ 45,485
Nonemployer	160,947
Total contributions	<u>206,432</u>
Investment income:	
Net appreciation	7,252,565
Interest and dividends	628,083
Other income	3,722
Total investment income	<u>7,884,370</u>
Less investment expense	<u>(60,610)</u>
Total investment income	<u>7,823,760</u>
Total additions	<u>8,030,192</u>
DEDUCTIONS:	
Benefits paid to members	1,869,329
Administrative expense	163,076
TOTAL DEDUCTIONS	<u>2,032,405</u>
CHANGE IN NET POSITION	5,997,787
NET POSITION:	
Beginning of year	<u>45,055,221</u>
End of year	<u><u>\$ 51,053,008</u></u>

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of 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 non-fiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The Kent District Library (the “Library”) has no business-type activities.

B. Reporting Entity

Kent District Library commenced official operations pursuant to Act No. 24 of the Public Acts of 1989 on July 1, 1994, and is governed by a Board of Trustees (the “Board”) consisting of eight members, each appointed by the Kent County Board of Commissioners, according to geographic regions. The Board has the authority to levy property taxes, the power to designate management, and the accountability for all fiscal matters, including budget adoption. The Library provides services to the residents of its district, and may enter into contracts to provide library services to municipalities outside of its district.

The Library has determined that no entities should be consolidated into its financial statements as component units as defined by Governmental Accounting Standards Board (GASB). Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for the governmental funds and fiduciary fund, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Library's funds, including its fiduciary fund. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. The remaining governmental fund is reported as a nonmajor fund. The major individual governmental fund is reported as a separate column in the fund financial statements.

The Library reports the following major fund:

The *general fund* is the Library's primary operating fund. It accounts for all financial resources of the general government. There are no resources required to be accounted for in another fund.

Additionally, the government reports the following nonmajor fund type:

Capital project fund - The *capital project fund* accounts for the receipt of proceeds and transfers from the general fund for the purchase of fixed assets or construction of major capital projects.

Additionally, the government reports, as a fiduciary fund, the *pension trust fund*, which accounts for the activities of the Kent District Library Employees' Retirement Plan, which accumulates resources for pension benefit payments to qualified employees.

During operations, the Library has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements (the statement of net position and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements (the balance sheet and statement of revenue, expenditures and changes in fund balances) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government.

F. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund.

The appropriate budget is prepared by fund and function. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

1. Budgetary Basis of Accounting (Concluded)

Appropriations in the budgeted fund lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Library does not utilize encumbrance accounting.

The budget was amended during the year with supplemental appropriations. The budget was amended prior to December 31, 2017. The Library does not consider the amendments to be significant. Violations, if any, are noted in the required supplementary information sections.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash, Cash Equivalents and Investments

Cash includes amounts in petty cash and demand deposits. Investments include instruments allowed by state statute subsequently described. Investments are carried at amortized cost or fair value.

State statutes authorized the Library to invest in bonds, securities, and other direct and certain indirect obligations of the U.S. Treasury, which include securities issued or guaranteed by U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Library is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

3. Capital Assets

Capital assets, which include furniture, equipment, and library books, are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The total of books purchased during the year are capitalized and are depreciated over five years. The Library has elected not to capitalize rare books. Fully depreciated books are removed from the asset schedule. Such assets are recorded at historical cost or estimated historical cost if purchased. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Capital assets of the Library, are depreciated using the straight-line method over the following estimated useful lives.

Assets	Years
Building	25
Building improvements	10 - 15
Land improvements	15
Vehicles	5
Library books and materials	5
Furniture and equipment	5

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Library only has one item that qualifies for reporting in this category. It is the pension related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension related items and is expensed in the plan year in which it applies.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Deferred Outflows/Inflows of Resources (Concluded)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Library has two items that qualify for reporting in this category. The first relates to property taxes. The governmental funds and the governmental-wide report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is the future resources yet to be recognized in relation to the pension accrual calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

5. Pension

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

6. Net position flow Assumption

Sometimes the Library will fund outlays for a particular purpose from both restricted (e.g., restricted contributions or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Library's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

7. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Library itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Library's highest level of decision-making authority. The Board of Trustees is the highest level of decision-making authority for the Library that can, by adoption of a Board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the Board action remains in place until a similar action is taken (the adoption of another Board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Library for specific purposes but do not meet the criteria to be classified as committed. The Board of Trustees has by resolution authorized the Director of Finance to assign fund balance. The Board of Trustees may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The Library has adopted a minimum unassigned fund balance policy, which states that the Library will maintain a minimum unassigned fund balance of 15% of subsequent year's budgeted operational expenses. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment. If the fund balance falls below the minimum 15% level, Library management will replenish shortages/deficiencies by reducing recurring expenditures to eliminate any structural deficit, increase taxes in accordance with law, fees for services, pursue other funding sources, or some combination of the two options.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

H. Revenues and Expenditures/Expenses

1. Property Taxes

Property taxes become an enforceable lien on the property as of December 1. Taxes are levied on December 1 and are due in February of the following year. The Library engages other municipalities to bill and collect its own property taxes. Library tax revenues are recognized in the fiscal year following the December 1 levy date. Property taxes levied for the ensuing year's revenue are included in taxes receivable and deferred inflows. Property tax receivables related to delinquent taxes are also deferred unless collected within 60 days of year-end.

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2016 tax is levied and collectible on December 1, 2016 and is recognized as revenue in the year ended December 31, 2017 financial statements, when the proceeds of the levy are budgeted and available for the financing operations. The 2016 taxable value of the district totaled \$16,126,177,299 (a portion of which is not captured from all jurisdictions), on which taxes of 1.28 mills are levied for operating purposes.

2. Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS AND INVESTMENTS

As of December 31, 2017, the Library does not have any investments as defined under GASB 40.

The Library participates in the Kent County Pooled Investment Fund, which is a local government investment pool established under Michigan state statutes for participating Michigan municipalities. The Pool, which is a nonrisk categorized qualifying investment, is carried at fair market value. The Pool is not subject to regulatory oversight, is not registered with the SEC. The Pool issues a separate report. The Library's portion of Fund is determined by the percentage held. The Library holds 3.25% of the Pooled Investment Fund. Per the most recent Financial Overview of Kent County, the Pool's value is \$346,847,401. The Library's portion of this, therefore, is \$11,273,308.

Interest rate risk. State law limits the allowance investments and the maturities of some of the allowable investments as identified above in Note 1. 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 Library's investments do not have identifiable maturity dates.

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 specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The County investment pool is not rated. Additional information regarding credit risk of the investments held in the County Investment pool can be found in the notes to the financial statements of the County's Comprehensive Annual Financial report.

Concentration of credit risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of December 31, 2017, \$12,675,267 of the Library's bank balance of \$13,421,005 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificate of deposits, Kent County Investment Pool, cash on hand and money market accounts are included in the above totals. The balance of \$13,749,567 is reported as cash and investments on the financial statements as of December 31, 2017. The deposit risk of the Kent County Investment Pool is consistent with CDs invested in the pool.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk - investments. For an investment, this 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. State law does not require and the Library does not have a policy for investment custodial credit risk. The deposit risk of the Kent County Investment Pool is consistent with CDs invested in the pool.

Fair value measurement. The Library is required to disclose amounts within a framework established for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Kent County Investment Pool was measured at net asset value (or its equivalent) as a practical expedient and, accordingly, has not been classified in the fair value hierarchy.

Foreign currency risk. The Library is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 2:

Deposits	\$ 13,749,567
	<hr style="border-top: 1px solid black;"/>
As presented in the financial statements:	
Cash	\$ 4,262
Investments	13,745,305
	<hr style="border-top: 1px solid black;"/>
	\$ 13,749,567
	<hr style="border-top: 1px solid black;"/>

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Pension - The Kent District Library’s Employees’ Retirement Plan (the “Plan”) investments are maintained separately from the Library’s cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosure for the Plan’s deposits and investments are presented separately.

Deposits - The Plan does not maintain any checking or other demand/time deposit accounts.

Investments - The Michigan Public Employees Retirement Systems’ Investment Act, Public Act 314 of 1985, as amended, authorizes the Plan to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Plan has the responsibility and authority to oversee the investment portfolio. The Pension Board of Trustees manages the Plan’s assets. All investment decisions are subject to Michigan law and the investment policy established by the Plan.

The Plan’s investments are held in a financial institution administered trust fund. Following is a summary of the Plan’s investments as of December 31, 2017:

	Fair value		
	Level 1	Level 2	Total
U.S. Treasury bills, notes, and bonds	\$ -	\$ 3,181,979	\$ 3,181,979
Government agency obligations	-	60,863	60,863
Corporate bonds, debentures and notes	-	2,989,480	2,989,480
Foreign obligations	-	474,851	474,851
Municipal obligations	-	67,167	67,167
Mortgage backed securities	-	1,120	1,120
Collateralized mortgage obligations	-	158,854	158,854
Asset backed securities	-	533,359	533,359
Private placements	-	80,265	80,265
Money market mutual funds	1,063,746	-	1,063,746
Fixed income mutual funds	4,459,686	-	4,459,686
Domestic equity funds	5,271,061	18,650,661	23,921,722
Global fixed income fund	-	6,384,551	6,384,551
Foreign equity mutual funds	7,624,550	-	7,624,550
Total assets at fair value	<u>\$ 18,419,043</u>	<u>\$ 32,583,150</u>	<u>\$ 51,002,193</u>

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS

The capital assets for the year ended December 31, 2017 were as follows:

	Balance January 1, 2017	Additions	Deletions	Balance December 31, 2017
Primary government:				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 440,000	\$ -	\$ -	\$ 440,000
Construction in progress	12,417	232,472	12,417	232,472
Total capital assets, not being depreciated	<u>452,417</u>	<u>232,472</u>	<u>12,417</u>	<u>672,472</u>
Capital assets being depreciated:				
Buildings	2,108,900	-	-	2,108,900
Building improvements	1,255,813	-	-	1,255,813
Land improvements	29,492	325,422	-	354,914
Library books and materials	14,131,098	1,775,479	6,750,223	9,156,354
Vehicles	78,267	-	-	78,267
Furniture and equipment	5,413,436	158,233	4,400	5,567,269
Total capital assets, being depreciated	<u>23,017,006</u>	<u>2,259,134</u>	<u>6,754,623</u>	<u>18,521,517</u>
Less accumulated depreciation for:				
Buildings	1,391,874	84,356	-	1,476,230
Building improvements	432,104	111,184	-	543,288
Land improvements	1,475	7,708	-	9,183
Library books and materials	9,964,921	1,520,492	6,750,223	4,735,190
Vehicles	36,080	12,053	-	48,133
Furniture and equipment	4,295,307	371,136	4,400	4,662,043
Total accumulated depreciation	<u>16,121,761</u>	<u>2,106,929</u>	<u>6,754,623</u>	<u>11,474,067</u>
Total capital assets, being depreciated, net	<u>6,895,245</u>	<u>152,205</u>	<u>-</u>	<u>7,047,450</u>
Total governmental activities, capital assets, net	<u>\$ 7,347,662</u>	<u>\$ 384,677</u>	<u>\$ 12,417</u>	<u>\$ 7,719,922</u>

Depreciation expense amounted to \$2,106,929.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - LONG-TERM DEBT

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Compensated absences	\$ 300,869	\$ -	\$ 25,577	\$ 275,292	\$ 110,117

NOTE 5 - PENSION PLANS

Defined Contribution Retirement Plan

The Library's defined benefit retirement plan closed to new employees on December 31, 2009. Following the closure of the defined benefit plan, the Kent District Library Deferred Compensation Plan (the "Plan") was created in accordance with the Internal Revenue Code, Section 457 and was offered to employees hired after December 31, 2009. The Library will match 100% of an employee's contribution up to 7.5% of the employee's wages, and the difference between 7.5% and 11.5% will be matched at 50%. The Library contributed \$169,630 to the plan for the year ended December 31, 2017.

Defined Benefit Plan

Plan Description

The Kent District Library Employees' Retirement Plan (the "Plan") is a single-employer defined benefit pension plan covering approximately 40% of the employees of the Library. The Plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The Plan was established and may be amended by the Library Board of Trustees and is administered by the Library Plan Pension Board. The Pension Board consists of five members, three of whom are appointed by the Library Board and two of whom are elected by fully vested participants. The Plan was closed to new entrants on December 31, 2009.

The Plan issues publicly available financial report that includes financial statements and required supplementary information for the Plan. The financial report may be obtained by contacting the Library.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - PENSION PLANS (Continued)

Benefits Provided

Upon retirement, each vested member receives a benefit equal to 2.25% of the member's final average salary multiplied by years credited service, not to exceed 75% of the member's final average salary. The normal retirement age is 62 and the benefit amount is adjusted for early retirement. The Plan provides for annual post-retirement cost of living adjustments the beginning of each Plan year equal to 1% of the original benefit provided that a corresponding increase occurs in the Consumer Price Index. Retirees begin receiving this adjustment on the first day of the Plan year following 36 months of retirement.

Employees covered by benefit terms. At the December 31, 2017, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	159
Inactive employees entitled to but not yet receiving benefits	39
Active employees	<u>116</u>
	<u><u>314</u></u>

Contributions. The Library's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry-age actuarial cost method. Unfunded actuarial accrued liability is being amortized as a level dollar over a period of 10 years.

During the year ended December 31, 2017, contributions totaling \$206,432, consisting of \$48,485 employer contributions and \$160,947 employee contributions, were made in accordance with contribution requirements determined by an actuarial valuation of the Plan. Union members' required contribution rate was 3.5% of their covered payroll for plan year 2017. The Library is required to contribute at actuarially determined rates expressed as a percentage of covered payroll. The Library's contribution rate was 1.01% of annual covered payroll in 2017. Administrative costs of the Plan are financed through investment earnings.

At year end, the Library is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for December paid in January.

Net pension asset. The employer's net pension asset was measured as of December 31, 2017, and the total pension asset used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - PENSION PLANS (Continued)

Actuarial assumptions. The total pension liability in the December 31, 2017, annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.75%

Salary increases: 4.5% to 11.1% including inflation

Investment rate of return: 7.0%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.75% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the RP-2000 Combined Mortality Table projected to year 2020 using Scale BB.

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 gross rate of return	Inflation assumption	Long-term expected real rate of return
Core Bonds	27%	6.28%	3.51%	2.77%
Core Plus	13%	6.55%	3.51%	3.04%
US Large Cap Equity	35%	10.99%	3.51%	7.48%
US Small Cap Equity	10%	12.22%	3.51%	8.71%
International Developed Equity	15%	11.96%	3.51%	8.45%
Total	<u>100%</u>			

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - PENSION PLANS (Continued)

Discount rate. The discount rate used to measure the total pension liability is 7.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) - (b)
Balances at 12/31/2016	\$ 39,765,125	\$ 45,043,006	\$ (5,277,881)
Changes for the year:			
Service cost	842,900	-	842,900
Interest on total pension liability	2,747,634	-	2,747,634
Difference between expected and actual experience	(122,509)	-	(122,509)
Employer contributions	-	48,169	(48,169)
Employee contributions	-	170,478	(170,478)
Net investment income	-	7,820,036	(7,820,036)
Benefit payments including employee refunds	(1,869,329)	(1,869,329)	-
Administrative expense	-	(36,850)	36,850
Other charges	-	(122,502)	122,502
Net changes	1,598,696	6,010,002	(4,411,306)
Balances as of 12/31/2017	\$ 41,363,821	\$ 51,053,008	\$ (9,689,187)

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - PENSION PLANS (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the employer, calculated using the discount rate of 7.00%, as well as what the employer's net pension liability would be using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% decrease (6.00%)	Current discount rate (7.00%)	1% increase (8.00%)
Net pension liability at 12/31/2017	\$ -	\$ (9,689,187)	\$ -
Change in net pension liability (NPL)	5,086,068	-	(4,314,731)
Calculated NPL	<u>\$ (4,603,119)</u>	<u>\$ (9,689,187)</u>	<u>\$ (14,003,918)</u>

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

For the year ended December 31, 2017 the employer recognized pension expense of \$174,171 on the governmental-wide financial statements. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 492,164	\$ 661,571
Net difference between projected and actual earnings on pension plan investments	-	2,295,520
	<u>\$ 492,164</u>	<u>\$ 2,957,091</u>

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

<u>Year end December 31,</u>	
2018	\$ (279,624)
2019	(299,114)
2020	(940,112)
2021	(946,077)
	<u>\$ (2,464,927)</u>

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library carries commercial insurance to cover any losses that may result from the above described activities. No settlements have incurred in excess of coverage in 2017 or any of the prior 3 years.

NOTE 7 - OPERATING LEASE

The Library had entered into multiple operating lease for branch locations and equipment. The scheduled future minimum lease payments under these agreements as of December 31, 2017, are summarized as follows:

Year ending December 31,	
2018	\$ 435,363
2019	389,125
2020	386,580
2021	386,580
2022	<u>384,756</u>
	<u><u>\$ 1,982,404</u></u>

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - TAX ABATEMENTS

INDUSTRIAL FACILITIES EXEMPTION

Municipalities within the Library boundaries entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. An Industrial Facilities Tax Exemption (IFT) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term of 1 - 12 years as determined by the local unit of government. The IFT on new plant and new industrial property is computed at 50% of the taxes levied. The municipalities can elect to freeze the taxable values for rehabilitation properties.

For the year ended December 31, 2017, the Library's property tax revenue for general operations were reduced by \$185,604 under this program. The abatements issued by other governmental units is as follows:

<u>Governmental unit</u>	<u>Amount</u>
Ada Township	\$ 15,087
Algoma Township	347
Alpine Township	14,815
Byron Township	4,830
Caledonia Township	3,019
Cascade Township	9,182
Gaines Township	687
Grand Rapids Township	160
Plainfield Township	3,720
Tyrone Township	133
Vergennes Township	27
City of Grandville	4,888
City of Kentwood	46,339
City of Lowell	1,864
City of Rockford	832
City of Walker	32,567
City of Wyoming	47,107
Total	<u>\$ 185,604</u>

There are no abatements made by the Library.

**KENT DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - PRIOR PERIOD ADJUSTMENT

The governmental fund as of and for the year ended December 31, 2017, has been adjusted to reflect an understatement in fund balance/net position for the general fund relating to the timing of payment for prepaid expenses. The restated fund balance/net position is as follows:

	General fund	Governmental wide statements
Fund balance/net position as of January 1, 2017	\$ 7,972,821	\$ 22,418,045
Prior period adjustment	96,355	96,355
Fund balance/net position as of January 1, 2017 (as restated)	\$ 8,069,176	\$ 22,514,400

NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017 and will be effective for the Library’s 2019 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the Library’s 2020 year end. The objective of this Statement is to increase the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

**KENT DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget</u>
REVENUES:				
Local sources:				
Property taxes	\$ 20,503,733	\$ 20,503,733	\$ 20,556,739	\$ 53,006
Fines and forfeitures	450,000	900,000	940,983	40,983
Charges for services	141,000	131,000	135,731	4,731
Interest income and rentals	57,470	57,470	164,284	106,814
Other	836,446	836,446	1,146,704	310,258
Total local sources	21,988,649	22,428,649	22,944,441	515,792
State sources	357,514	1,157,514	1,182,711	25,197
Total revenues	22,346,163	23,586,163	24,127,152	540,989
EXPENDITURES:				
Current:				
Recreation and culture:				
Personal services	13,513,200	13,513,200	12,879,492	633,708
Supplies	377,657	377,748	260,058	117,690
Other services and charges	5,729,641	6,194,550	5,309,912	884,638
Capital outlay	2,725,665	2,725,665	2,470,580	255,085
Total expenditures	22,346,163	22,811,163	20,920,042	1,891,121
EXCESS OF REVENUES OVER EXPENDITURES	-	775,000	3,207,110	2,432,110
OTHER FINANCING USES:				
Transfers out	-	(208,000)	(208,000)	-
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 567,000</u>	2,999,110	<u>\$ 2,432,110</u>
FUND BALANCE:				
Beginning of year (as restated)			8,069,176	
End of year			<u>\$ 11,068,286</u>	

**KENT DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY
AND RELATED RATIOS
LAST 10 FISCAL YEARS**

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 842,900	\$ 873,137	\$ 654,695	\$ 662,374
Interest	2,747,634	2,696,884	2,496,342	2,417,794
Changes of benefit terms	-	-	-	50,877
Difference between expected and actual experience	(122,509)	(1,043,296)	1,259,648	(468,054)
Benefit payments including employee refunds	(1,869,329)	(1,707,766)	(1,598,411)	(1,475,674)
Net change in total pension liability	1,598,696	818,959	2,812,274	1,187,317
Total pension liability beginning	39,765,125	38,946,166	36,133,892	34,946,575
Total pension liability ending	<u>\$ 41,363,821</u>	<u>\$ 39,765,125</u>	<u>\$ 38,946,166</u>	<u>\$ 36,133,892</u>
Plan fiduciary net position				
Contributions-employer	\$ 45,485	\$ 52,169	\$ 57,424	\$ 54,888
Contributions-employee	160,947	185,207	193,544	249,681
Net investment income	7,820,036	2,318,926	410,599	3,581,104
Benefit payments including employee refunds	(1,869,329)	(1,707,766)	(1,598,411)	(1,475,674)
Administrative expense	(36,850)	(74,473)	(47,962)	(44,671)
Other	(122,502)	-	-	-
Net change in plan fiduciary net position	5,997,787	774,063	(984,806)	2,365,328
Plan fiduciary net position beginning	45,055,221	44,281,158	45,265,964	42,900,636
Plan fiduciary net position ending	<u>\$ 51,053,008</u>	<u>\$ 45,055,221</u>	<u>\$ 44,281,158</u>	<u>\$ 45,265,964</u>
Employer net pension asset	<u>\$ 9,689,187</u>	<u>\$ 5,290,096</u>	<u>\$ 5,334,992</u>	<u>\$ 9,132,072</u>
Plan fiduciary net position as a percentage of the total pension liability	123.42%	113.30%	113.70%	125.27%
Covered employee payroll	\$ 4,765,699	\$ 5,093,052	\$ 5,450,295	\$ 5,220,856
Employer's net pension liability as a percentage of covered employee payroll	203.31%	103.87%	97.88%	174.92%

Notes to schedule

Benefit changes - there were no changes in benefits in 2017.

Changes in assumptions - there were no assumption changes in 2017.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

**KENT DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
LAST 10 FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial determined contributions	\$ 45,485	\$ 52,169	\$ 57,424	\$ 55,071
Contributions in relation to the actuarially determined contribution	<u>45,485</u>	<u>52,169</u>	<u>57,424</u>	<u>55,071</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 4,765,699	\$ 5,093,052	\$ 5,450,295	\$ 5,220,856
Contributions as a percentage of covered employee payroll	0.95%	1.02%	1.05%	1.05%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

**KENT DISTRICT LIBRARY
NOTES TO THE REQUIRED
SUPPLEMENTARY INFORMATION**

Notes to Schedule of Employer Contributions

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	10 years
Asset valuation method	4 year smoothed
Inflation	2.5%
Salary increases	4.5% to 11.1%, including inflation
Investment rate of return	7.0%
Retirement age	Experience based table of rates that are specific to the type of eligibility condition
Mortality	RP2000 combined mortality table projected to year 2020 using Scale BB