

Capital Area District Library

For the Year
Ended
December 31,
2019

Financial
Statements

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CAPITAL AREA DISTRICT LIBRARY

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INDEPENDENT AUDITORS' REPORT

May 19, 2020

Board of Trustees
Capital Area District Library
Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the *Capital Area District Library* (the "Library"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Capital Area District Library as of December 31, 2019, and the respective changes in financial position thereof, and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Rehmann Lobson LLC

CAPITAL AREA DISTRICT LIBRARY

Management's Discussion and Analysis

This discussion and analysis of the Capital Area District Library's (the "Library") financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2019. Please read it in conjunction with the Library's financial statements.

Financial

· Total net position	\$ 14,004,691
· Change in total net position	(550,205)
· Fund balance, general fund	9,775,294
· Change in fund balance, general fund	352,686
· Unassigned fund balance, general fund	6,487,330

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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net position and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page.

Government-wide Statements

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

The *statement of activities* presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the government-wide financial statements display functions of the Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The Library had no business-type activities as of and for the year ended December 31, 2019.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library is accounted for in a governmental fund (general fund).

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

CAPITAL AREA DISTRICT LIBRARY

Management's Discussion and Analysis

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund 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 general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Library maintains one governmental fund (the general fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Library. The general fund is a major fund for financial reporting purpose as defined by generally accepted accounting principles (GAAP).

The Library adopts an annual appropriated budget for its fund. Budgetary comparison statements and schedules have been provided herein to demonstrate compliance with those budgets.

The Library does not maintain proprietary or fiduciary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Library's financial statements. The notes to the financial statements are considered to be part of the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules for the pension plan immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Library's financial position. In the case of the Library, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$14,004,691 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance. \$5,851,230 of the Library's net position reflects its investment in capital assets (e.g. costs of building and building improvement, furniture and equipment and library collection, net of related accumulated depreciation). The Library uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

CAPITAL AREA DISTRICT LIBRARY

Management's Discussion and Analysis

Financial Information

Net position may serve over time as a useful indicator of a government's financial position. The following table shows key financial information.

	Net Position	
	Governmental Activities	
	2019	2018
Assets		
Current and other assets	\$ 21,122,522	\$ 20,358,389
Capital assets, net	5,851,230	5,700,385
Total assets	<u>26,973,752</u>	<u>26,058,774</u>
Deferred outflows of resources	<u>694,260</u>	<u>1,046,867</u>
Liabilities		
Other liabilities	2,191,286	1,627,152
Long-term debt	330,125	265,720
Total liabilities	<u>2,521,411</u>	<u>1,892,872</u>
Deferred inflows of resources	<u>11,141,910</u>	<u>10,657,873</u>
Net position		
Investment in capital assets	5,851,230	5,700,385
Restricted for donations	415,899	291,936
Unrestricted	<u>7,737,562</u>	<u>8,562,575</u>
Total net position	<u>\$ 14,004,691</u>	<u>\$ 14,554,896</u>
	Change in Net Position	
	Governmental Activities	
	2019	2018
Revenues		
Charges for services	\$ 689,924	\$ 844,119
Operating grants and contributions	810,246	904,811
Property taxes	10,620,126	10,224,380
Other revenues	319,818	193,489
Total revenues	<u>12,440,114</u>	<u>12,166,799</u>
Expenses		
Library services	<u>12,990,319</u>	<u>11,330,812</u>
Change in net position	(550,205)	835,987
Net position, beginning of year	<u>14,554,896</u>	<u>13,718,909</u>
Net position, end of year	<u>\$ 14,004,691</u>	<u>\$ 14,554,896</u>

CAPITAL AREA DISTRICT LIBRARY

Management's Discussion and Analysis

The Library's net position decreased in the current year by \$550,205. This decrease was due primarily to the increase in the net pension liability and related deferred amounts in the current year.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, totals \$7,737,562. Unrestricted net position decreased during the year by \$825,013.

Financial Analysis of the General Fund

As of the end of the current fiscal year, the Library's general fund reported combined ending fund balance of \$9,775,294, an increase of \$352,686 in comparison with the prior year. Approximately 66% of this total amount, \$6,487,330, constitutes unassigned fund balance, which is available for spending at the Library's discretion. The remainder of fund balance is considered nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending. As of December 31, 2019, the Library had \$292,031 considered nonspendable as it has already been committed to prepaid contracted services, which is included as a fund asset. An additional portion of the fund balance is restricted for donations in the amount of \$415,899. The Library had committed fund balance of \$2,409,120 which includes amounts for capital projects, automation, operations and pension reserve. The remaining fund balance of \$170,914 is assigned for donations.

Unassigned fund balance represents 54% of total general fund expenditures, while total fund balance represents 81% of that same amount.

The fund balance of the general fund increased by \$352,686 during fiscal year 2019. This increase is a result of overall revenues exceeding expenditures. Details are outlined below in the budgetary highlights section.

Budgetary Highlights

The total actual revenues were over the final budget by \$270,014, and the total actual expenditures were under the final budget by \$920,672.

The total operating revenues were over the final budget primarily as a result of increased donations and an unexpected project subsidy. Two large donations were made to the library system during 2019 to help fund future capital projects at the Mason and Okemos branches. Additionally, a project subsidy of approximately \$46,000 was received to offset the costs of an IT related capital project.

The total actual expenditures were under the final budget in several categories. Labor and benefits were under budget by \$397,158, aided by a substantial reduction in prescription drug expenditures. Library materials spending was under budget by \$63,499. All other expenditures were under budget by \$460,015 as all categories of spending were lower than plan. The final expenditure budget also included approximately \$180,000 of budgeted capital projects which were unfinished at year end and rolled forward to the 2020 budget.

The original budget was amended during the current year to account for various changes. These included adjustments to roll forward unspent 2018 project funding in February, adjustments to increase the funding for a renovation project due to a change of scope mid year, and finally to adjust various revenue and expenditure accounts to reflect actual activity at year end.

Capital Assets

As of December 31, 2019, the Capital Area District Library had \$5,851,230 invested in a broad range of capital assets, including building and building improvement, furniture and equipment and library collection, net of accumulated depreciation.

CAPITAL AREA DISTRICT LIBRARY

Management's Discussion and Analysis

For the year ended December 31, 2019, the Library had additions to building and building improvement of \$296,783, furniture and equipment of \$445,485 and library collection of \$786,920. More detailed information of capital assets can be found in the notes to the financial statements.

Long-term Debt

Total long-term debt included compensated absences in the amount of \$330,125 at December 31, 2019. More detailed information on long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

The 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 2020 that will support the Library's activities and programs.

Contacting the Library's Management

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 the Capital Area District Library, 401 S. Capitol Ave, Lansing, MI 48933.

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BASIC FINANCIAL STATEMENTS

CAPITAL AREA DISTRICT LIBRARY

Statement of Net Position and General Fund Balance Sheet December 31, 2019

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 4,406,084	\$ -	\$ 4,406,084
Investments	6,024,540	-	6,024,540
Taxes receivable	10,386,469	-	10,386,469
Accounts receivable	13,398	-	13,398
Prepaid items	292,031	-	292,031
Capital assets being depreciated, net	-	5,851,230	5,851,230
Total assets	\$ 21,122,522	5,851,230	26,973,752
Deferred outflows of resources			
Deferred pension amounts		694,260	694,260
Liabilities			
Accounts payable	\$ 179,420	-	179,420
Salaries payable and related benefits	240,808	-	240,808
Long-term debt:			
Due within one year	-	33,012	33,012
Due in more than one year	-	297,113	297,113
Net pension liability (due in more than one year)	-	1,771,058	1,771,058
Total liabilities	420,228	2,101,183	2,521,411
Deferred inflows of resources			
Taxes levied but intended for subsequent period	10,927,000	-	10,927,000
Deferred pension amounts	-	214,910	214,910
Total deferred inflows of resources	10,927,000	214,910	11,141,910
Fund balances			
Nonspendable for prepaid items	292,031	(292,031)	-
Restricted for donations	415,899	(415,899)	-
Committed:			
Capital projects	500,000	(500,000)	-
Automation	500,000	(500,000)	-
Operations	983,000	(983,000)	-
Pension reserve	426,120	(426,120)	-
Assigned for donations	170,914	(170,914)	-
Unassigned	6,487,330	(6,487,330)	-
Total fund balances	9,775,294	(9,775,294)	-
Total liabilities, deferred inflows of resources and fund balances	\$ 21,122,522		
Net position			
Investment in capital assets		5,851,230	5,851,230
Restricted for donations		415,899	415,899
Unrestricted		7,737,562	7,737,562
Total net position		\$ 14,004,691	\$ 14,004,691

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

CAPITAL AREA DISTRICT LIBRARY

Reconciliation

Fund Balance for the General Fund
to Net Position of Governmental Activities
December 31, 2019

Fund balance - general fund	\$ 9,775,294
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	
Capital assets being depreciated, net	5,851,230
Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	(330,125)
Net pension liability	(1,771,058)
Deferred outflows related to the net pension liability	694,260
Deferred inflows related to the net pension liability	<u>(214,910)</u>
Net position of governmental activities	<u>\$ 14,004,691</u>

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

CAPITAL AREA DISTRICT LIBRARY

Statement of Activities and General Fund Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2019

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Library services:			
Salaries	\$ 5,867,572	\$ 64,405	\$ 5,931,977
Benefits	1,698,418	989,331	2,687,749
Governance	58,201	-	58,201
Materials	1,684,903	(786,920)	897,983
Supplies	120,317	-	120,317
Staff development	34,989	-	34,989
Automated library system	273,243	-	273,243
Professional services	466,964	-	466,964
Maintenance and utilities	696,877	-	696,877
Capital outlay	565,039	(484,127)	80,912
Depreciation	-	1,378,343	1,378,343
Technology	372,880	(258,141)	114,739
Other services	248,025	-	248,025
Total expenditures/expenses	12,087,428	902,891	12,990,319
Program revenues			
Charges for services	689,924	-	689,924
Operating grants and contributions	810,246	-	810,246
Total program revenues	1,500,170	-	1,500,170
Net program expenditures/expenses	(10,587,258)	902,891	(11,490,149)
General revenues			
Property taxes	10,620,126	-	10,620,126
Investment earnings	214,407	-	214,407
Miscellaneous	105,411	-	105,411
Total general revenues	10,939,944	-	10,939,944
Change in fund balance/net position	352,686	902,891	(550,205)
Fund balance/net position, beginning of year	9,422,608	5,132,288	14,554,896
Fund balance/net position, end of year	\$ 9,775,294	\$ 6,035,179	\$ 14,004,691

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

CAPITAL AREA DISTRICT LIBRARY

Reconciliation

Net Change in Fund Balance of the General Fund
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2019

Net change in fund balance - general fund	\$ 352,686
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased/constructed	1,529,188
Depreciation expense	(1,378,343)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in the accrual for compensated absences	(64,405)
Change in net pension liability and related deferred amounts	<u>(989,331)</u>
Change in net position of governmental activities	<u>\$ (550,205)</u>

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

CAPITAL AREA DISTRICT LIBRARY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 10,528,700	\$ 10,628,700	\$ 10,620,126	\$ (8,574)
Penal fines	517,000	417,000	417,664	664
Fines and fees	277,400	257,400	272,260	14,860
State aid	336,400	326,900	328,714	1,814
Local contributions	104,800	104,800	101,176	(3,624)
Investment earnings	206,000	213,000	214,407	1,407
Donations	85,000	165,000	380,356	215,356
Miscellaneous	15,800	57,300	105,411	48,111
Total revenues	12,071,100	12,170,100	12,440,114	270,014
Expenditures				
Library services:				
Salaries	6,033,000	6,033,000	5,867,572	(165,428)
Benefits	1,937,248	1,930,148	1,698,418	(231,730)
Governance	80,583	80,583	58,201	(22,382)
Materials	1,745,902	1,748,402	1,684,903	(63,499)
Supplies	142,185	133,185	120,317	(12,868)
Staff development	48,770	48,770	34,989	(13,781)
Automated library system	285,664	291,164	273,243	(17,921)
Professional services	491,100	501,600	466,964	(34,636)
Maintenance and utilities	744,905	752,905	696,877	(56,028)
Capital outlay	458,500	711,800	565,039	(146,761)
Technology	482,775	511,075	372,880	(138,195)
Other services	182,468	265,468	248,025	(17,443)
Total expenditures	12,633,100	13,008,100	12,087,428	(920,672)
Net change in fund balance	(562,000)	(838,000)	352,686	1,190,686
Fund balance, beginning of year	9,422,608	9,422,608	9,422,608	-
Fund balance, end of year	\$ 8,860,608	\$ 8,584,608	\$ 9,775,294	\$ 1,190,686

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

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Effective January 1, 1998, the Capital Area District Library (the "Library") commenced official operations pursuant to the March 10, 1997 signed District Library Agreement. The District Library Agreement was originally entered into by the County of Ingham, except for the City of East Lansing and small portions of White Oak and Locke Townships, and the City of Lansing. In February 1999, three additional participating municipalities were recognized by the original participants - Delhi Township, Meridian Township and the City of Williamston. The Library is funded primarily through property taxes, state aid, penal fines, and donations. The voters of the Library approved a 1.56 mill tax for a 4-year period, which began with a tax levy effective December 31, 2018. This millage provides funding of Library operations through December 31, 2022.

The Library has determined that no entities should be consolidated into its financial statements as component units. 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.

The Library is not included as a component unit in any other primary government's financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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 Library had no business-type activities during the year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

As permitted by GASB Statement No. 34, the Library uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. The general fund is considered to be a major fund for financial reporting purposes.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

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

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Library reports the following major governmental fund -

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Library's investments in the Michigan Liquid Asset Fund (MILAF) are recorded at amortized cost.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the United States, certain commercial paper, repurchase agreements, banker acceptances and mutual funds composed of otherwise legal investments.

Prepaid Items

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

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. In addition, library materials such as books and certain media are capitalized as a collection although they may have an individual cost less than \$2,500. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated acquisition cost at the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building and building improvement	10-40
Furniture and equipment	3-25
Library collection	7

Deferred Outflows 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 represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Library reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation 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 incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

Deferred Inflows of Resources

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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental fund reports unavailable revenues, which arise only under a modified accrual basis of accounting, from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Additionally, the Library reports deferred inflows of resources related to its pension plan.

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees (the government's highest level of decision-making authority). A formal resolution of the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. The Library reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Trustees has delegated the authority to assign fund balance to the Finance Director. *Unassigned fund balance* is the residual classification for the general fund.

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

When the Library incurs expenditures for purposes for which various fund balance classification can be used, it is the Library's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and related expenses, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position has been determined on the same basis as it is reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

2. BUDGETARY INFORMATION

Budgets are adopted annually. The general fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Library Board. The budget for the general fund is adopted on a functional classification basis; expenditures at this level in excess of final budgeted amounts are a violation of Michigan law. The Library had no expenditures in excess of budgeted amounts.

3. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of December 31, 2019:

Statement of Net Position	
Cash and cash equivalents	\$ 4,406,084
Investments	<u>6,024,540</u>
	<u>\$ 10,430,624</u>
Deposits and investments	
Petty cash	\$ 2,612
Checking/savings	4,403,472
Certificates of deposit	1,928,020
Investments	<u>4,096,520</u>
	<u>\$ 10,430,624</u>

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

Investments

The Library chooses to disclose its investments by specifically identifying each. As of year-end, the Library had the following investments:

Investments	Maturity	Amortized Cost	Rating
Michigan Liquid Asset Fund (MILAF):			
MILAF Term	2/7/2020	\$ 1,357,935	Kroll AAAkf
GovMIC (MILAF+ Portfolio)	n/a	<u>2,738,585</u>	S&P AAAM
		<u>\$ 4,096,520</u>	

Investment and Deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments 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 maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates of investments are shown in the investment schedule above.

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 ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$5,268,291 of the Library's bank balance of \$6,510,010 (including certificates of deposit) 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. State law does not require and the Library does not have a policy for investment custodial credit risk. All investments are held in the name of the Library by a counterparty, and thus are not exposed to custodial credit risk.

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. All of the Library's investments are listed in the schedule above.

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets not being depreciated -					
Construction in progress	\$ 8,882	\$ -	\$ -	\$ (8,882)	\$ -
Capital assets being depreciated:					
Building and building improvement	1,773,014	296,783	-	-	2,069,797
Furniture and equipment	3,422,801	445,485	(128,143)	8,882	3,749,025
Library collection	15,303,686	786,920	(371,910)	-	15,718,696
	<u>20,499,501</u>	<u>1,529,188</u>	<u>(500,053)</u>	<u>8,882</u>	<u>21,537,518</u>
Less accumulated depreciation for:					
Building and building improvement	(364,292)	(94,651)	-	-	(458,943)
Furniture and equipment	(2,512,329)	(321,884)	128,143	-	(2,706,070)
Library collection	(11,931,377)	(961,808)	371,910	-	(12,521,275)
	<u>(14,807,998)</u>	<u>(1,378,343)</u>	<u>500,053</u>	<u>-</u>	<u>(15,686,288)</u>
Total capital assets being depreciated, net	<u>5,691,503</u>	<u>150,845</u>	<u>-</u>	<u>8,882</u>	<u>5,851,230</u>
Total capital assets, net	<u>\$ 5,700,385</u>	<u>\$ 150,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,851,230</u>

5. LONG-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Compensated absences	\$ 265,720	\$ 86,791	\$ (22,386)	\$ 330,125	\$ 33,012

6. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

7. PENSION PLAN - AGENT MULTIPLE-EMPLOYER PLAN

General Information About the Plan

Plan Description. The Library participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits are calculated as final average compensation (based on a 5 year period) and multiplier of 2.0% to 2.5%. Participants are considered to be fully vested in the plan after 6 years for nonunion employees and 10 years for union employees. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or at age 55 with 15 years of service, depending on division/bargaining unit.

Employees Covered by Benefit Terms. At December 31, 2018 (valuation date), plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	37
Active employees	<u>61</u>
 Total membership	 <u><u>123</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 the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In addition, the employer may establish contribution rates to be paid by its covered employees. The employee contributions noted below are paid by the Library.

Division/Bargaining Unit	Employer Contribution	Employee Contribution	Status
07 - NonUnion	19.29%	10.00%	Open
70 - UnionProf	8.00%	4.80%	Open
71 - UnNon-Prof	8.00%	2.74%	Open

Net Pension Liability. The Library's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018.

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

Although no explicit price inflation assumption is used in the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.50%.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% male, 50% female blend of the following tables:

- The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
- The RP-2014 Employee Mortality Tables
- The RP-2014 Juvenile Mortality Tables

The mortality table used to project the mortality experience of disabled plan members is 50% Male, 50% Female blend of RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	55.50%	6.15%	3.41%
Global fixed income	18.50%	1.26%	0.23%
Real assets	13.50%	7.22%	0.98%
Diversifying strategies	12.50%	5.00%	0.63%
	<u>100.00%</u>		<u>5.25%</u>
Inflation			2.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2018 was 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2018	\$ 10,241,996	\$ 9,021,925	\$ 1,220,071
Changes for the year:			
Service cost	801,820	-	801,820
Interest	1,478,959	-	1,478,959
Changes in benefit terms	(41,616)	-	(41,616)
Differences between expected and actual experience	291,130	-	291,130
Employer contributions	-	796,018	(796,018)
Employee contributions	-	365,192	(365,192)
Net investment income	-	857,056	(857,056)
Benefit payments, including refunds of employee contributions	(704,148)	(704,148)	-
Administrative expense	-	(38,960)	38,960
Net changes	<u>1,826,145</u>	<u>1,275,158</u>	<u>550,987</u>
Balances at December 31, 2019	<u>\$ 12,068,141</u>	<u>\$ 10,297,083</u>	<u>\$ 1,771,058</u>

During the current year, the Library changed the measurement date of the plan to align with its fiscal year end. As a result, the activity for the year ended December 31, 2019 includes adjustments necessary for this modification.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Library, calculated using the discount rate of 8.00%, as well as what the Library's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 3,389,786	\$ 1,771,058	\$ 416,093

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

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

For the year ended December 31, 2019, the Library recognized pension expense of \$1,406,790. The Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 484,708	\$ 103,337	\$ 381,371
Changes in assumptions	209,552	-	209,552
Net difference between projected and actual earnings on pension plan investments	-	111,573	(111,573)
Total	\$ 694,260	\$ 214,910	\$ 479,350

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

Year Ended December 31,	Amount
2020	\$ 208,460
2021	79,769
2022	127,336
2023	36,232
2024	27,553
Total	\$ 479,350

Payable to the Pension Plan. At December 31, 2019, the Library had \$40,426 in contributions payable to the pension plan.

8. DEFINED CONTRIBUTION RETIREMENT PLAN

The Library provides retirement benefits to certain full time employees hired before January 1, 2002 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation with the Library's competitive bargaining units, the Library contributes 8% of annual covered compensation. For the year ended December 31, 2019, the Library and employees contributed \$24,767 and \$2,166, respectively, to the plan.

CAPITAL AREA DISTRICT LIBRARY

Notes to Financial Statements

9. OPERATING LEASE

The Library entered into a noncancelable operating lease for parking space rental. The future minimum rental payments for the noncancelable portions of this lease is as follows:

Year Ended December 31,	Amount
2020	<u>\$ 44,280</u>

The Library recorded \$48,374 for rental expense related to the lease during the year ended December 31, 2019.

10. PROPERTY TAXES

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 2018 taxable value of the District totaled \$6,888,008,183, on which taxes of 1.56 mills are levied for operating purposes. The Library's 2018 tax was levied and collectible on December 1, 2018 and is recognized as revenue in the year ended December 31, 2019, when the proceeds of the levy are budgeted and available for the financing operations.

11. TAX ABATEMENTS

The Library received reduced property tax revenues during 2019 as a result of industrial facilities tax exemptions (IFT's). The IFT's were entered into based upon the Plant Rehabilitation and Industrial Developments Librarys Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and promote the establishment of high-tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property. The abatements amounted to approximately \$50,000 in reduced tax revenues for fiscal year 2019.

12. SUBSEQUENT EVENT

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the government's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the government for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the government's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.



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REQUIRED SUPPLEMENTARY INFORMATION

CAPITAL AREA DISTRICT LIBRARY

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in Net Pension Liability and Related Ratios

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 801,820	\$ 404,462	\$ 415,935	\$ 398,610	\$ 365,896
Interest	1,478,959	739,158	682,433	580,414	520,792
Changes in benefit terms	(41,616)	4,138	31,415	(62,471)	-
Differences between expected and actual experience	291,130	192,883	(180,842)	266,071	-
Changes in assumptions	-	-	-	488,952	-
Benefit payments, including refunds of employee contributions	(704,148)	(271,796)	(196,459)	(173,841)	(186,880)
Net change in total pension liability	1,826,145	1,068,845	752,482	1,497,735	699,808
Total pension liability, beginning of year	10,241,996	9,173,151	8,420,669	6,922,934	6,223,126
Total pension liability, end of year	12,068,141	10,241,996	9,173,151	8,420,669	6,922,934
Plan fiduciary net position					
Employer contributions	796,018	373,154	297,624	258,871	245,098
Employee contributions	365,192	154,076	124,505	142,200	128,660
Net investment income (loss)	857,056	1,047,349	785,435	(104,388)	388,568
Benefit payments, including refunds of employee contributions	(704,148)	(271,796)	(196,459)	(173,841)	(186,880)
Administrative expense	(38,960)	(16,526)	(15,479)	(14,897)	(14,374)
Net change in plan fiduciary net position	1,275,158	1,286,257	995,626	107,945	561,072
Plan fiduciary net position, beginning of year	9,021,925	7,735,668	6,740,042	6,632,097	6,071,025
Plan fiduciary net position, end of year	10,297,083	9,021,925	7,735,668	6,740,042	6,632,097
Net pension liability	\$ 1,771,058	\$ 1,220,071	\$ 1,437,483	\$ 1,680,627	\$ 290,837
Plan fiduciary net position as a percentage of total pension liability	85.3%	88.1%	84.3%	80.0%	95.8%
Covered payroll	\$ 3,602,566	\$ 3,408,001	\$ 3,401,919	\$ 3,383,310	\$ 3,106,622
Net pension liability as a percentage of covered payroll	49.2%	35.8%	42.3%	49.7%	9.4%

Notes:

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Changes in assumptions. In 2016, amounts reported as changes of assumptions resulted primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return, and changes in asset smoothing.

During the year ended December 31, 2019, the Library changed the measurement date of the plan to align with its fiscal year end. As a result, the activity for the year ended December 31, 2019 includes adjustments necessary for this modification.

CAPITAL AREA DISTRICT LIBRARY

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 6,922,934	\$ 6,632,097	\$ 290,837	95.8%	\$ 3,106,622	9.4%
2016	8,420,669	6,740,042	1,680,627	80.0%	3,383,310	49.7%
2017	9,173,151	7,735,668	1,437,483	84.3%	3,401,919	42.3%
2018	10,241,996	9,021,925	1,220,071	88.1%	3,408,001	35.8%
2019	12,068,141	10,297,083	1,771,058	85.3%	3,602,566	49.2%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CAPITAL AREA DISTRICT LIBRARY

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2014	\$ 245,098	\$ 245,098	\$ -	\$ 3,106,622	7.9%
2015	258,871	258,871	-	3,383,310	7.7%
2016	297,624	297,624	-	3,401,919	8.7%
2017	373,154	373,154	-	3,408,001	10.9%
2018	378,560	378,560	-	3,317,209	11.4%
2019	417,458	417,458	-	3,602,566	11.6%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of the December 31 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	20 years
Asset valuation method	5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables