

**KENT DISTRICT LIBRARY**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary information)**  
**YEAR ENDED DECEMBER 31, 2018**

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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 business-type activity, the major fund, and the aggregate remaining fund information of the Kent District Library as of and for the year ended December 31, 2018, 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 business-type activity, the major fund, and the aggregate remaining fund information as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flow thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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*

June 28, 2019

## 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, 2018.

### 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 \$26,780,807 (net position). Of this amount, \$11,626,405 (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 \$898,468.

#### Fund-level

##### *Governmental funds*

- As of the close of the 2018 fiscal year, the Library's governmental funds reported ending fund balance of \$12,254,335, an increase of \$1,040,886 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,895,699 or 25% of total general fund expenditures, exceeding the Kent District Library Board's fund balance minimum of 15% to 20% of expenditures.

##### *Proprietary fund*

- As of the close of the 2018 fiscal year, the Library's enterprise fund reported ending fund balance of \$2,053, an increase of \$2,053, as this was a new fund in the current year. The entirety of this balance is considered unrestricted.

### 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).

Both of the government-wide financial statements distinguish functions of the Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Library include culture and recreation. The business-type activities of the Library consulting activity.

The government-wide financial statements can be found on pages 16 and 17 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 18 through 20 of this report.

**Proprietary funds.** The Library maintains one type of proprietary fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The Library uses the enterprise fund to account for its consulting activity.

Proprietary funds provided the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 22 through 24 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 25 and 26 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 27 through 46 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 49 through 51.

### **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 \$26,780,807 at the close of the most recent fiscal year.

\$8,434,319 of the Library's net position (31%) 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**

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 35,507,046	\$ 32,999,295	\$ 16,529	\$ -	\$ 35,523,575	\$ 32,999,295
Pension assets	3,772,162	9,689,187	-	-	3,772,162	9,689,187
Capital assets	8,434,319	7,719,922	-	-	8,434,319	7,719,922
Total assets	<u>47,713,527</u>	<u>50,408,404</u>	<u>16,529</u>	<u>-</u>	<u>47,730,056</u>	<u>50,408,404</u>
Deferred outflows of resources	3,329,741	492,164	-	-	3,329,741	492,164
Long-term liabilities	304,475	165,175	-	-	304,475	165,175
Other liabilities	965,034	634,463	14,476	-	979,510	634,463
Total liabilities	<u>1,269,509</u>	<u>799,638</u>	<u>14,476</u>	<u>-</u>	<u>1,283,985</u>	<u>799,638</u>
Deferred inflow of resources	22,995,005	24,218,591	-	-	22,995,005	24,218,591
Net position:						
Investment in capital assets	8,434,319	7,719,922	-	-	8,434,319	7,719,922
Restricted contributions	325,508	237,292	-	-	325,508	237,292
Restricted for pension	6,394,575	7,224,260	-	-	6,394,575	7,224,260
Unrestricted	11,624,352	10,700,865	2,053	-	11,626,405	10,700,865
Total net position	<u>\$ 26,778,754</u>	<u>\$ 25,882,339</u>	<u>\$ 2,053</u>	<u>\$ -</u>	<u>\$ 26,780,807</u>	<u>\$ 25,882,339</u>

The unrestricted net position of \$11,626,405 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 \$898,468 during the current fiscal year. The majority of the increase can be attributed to increased property tax revenue.

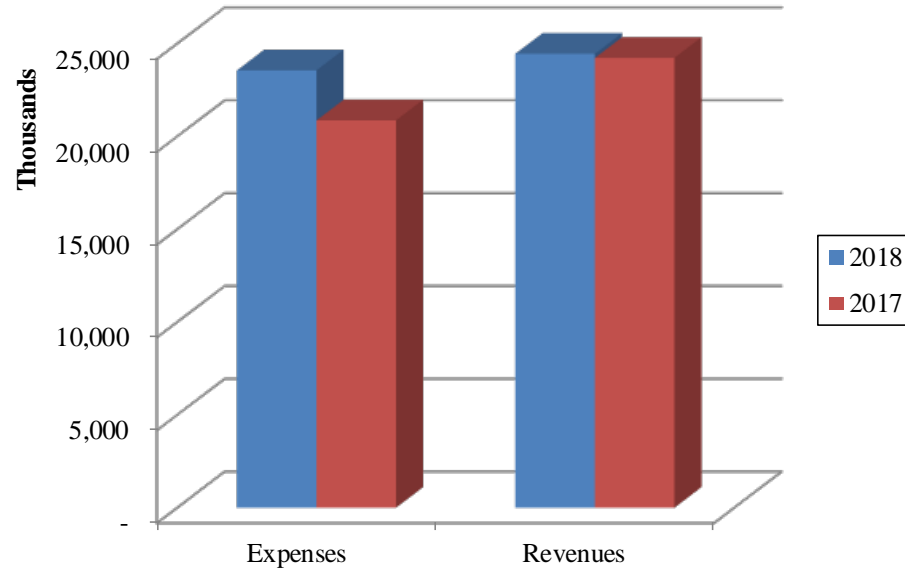
**Governmental activities.** Governmental activities increased the Library’s net position by \$896,415 and the business-type activities increased net position by \$2,053. Key elements are as follows:

**Kent District Library’s Changes in Net Position**

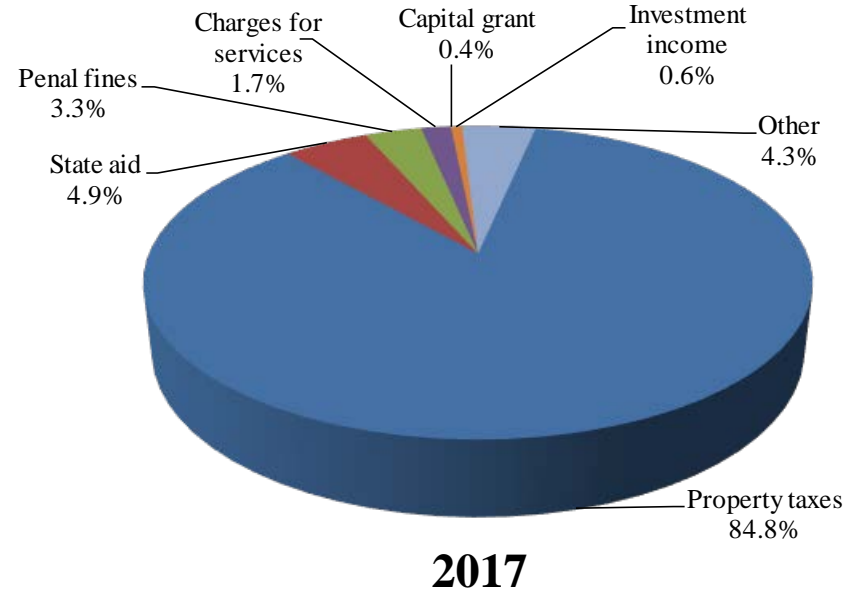
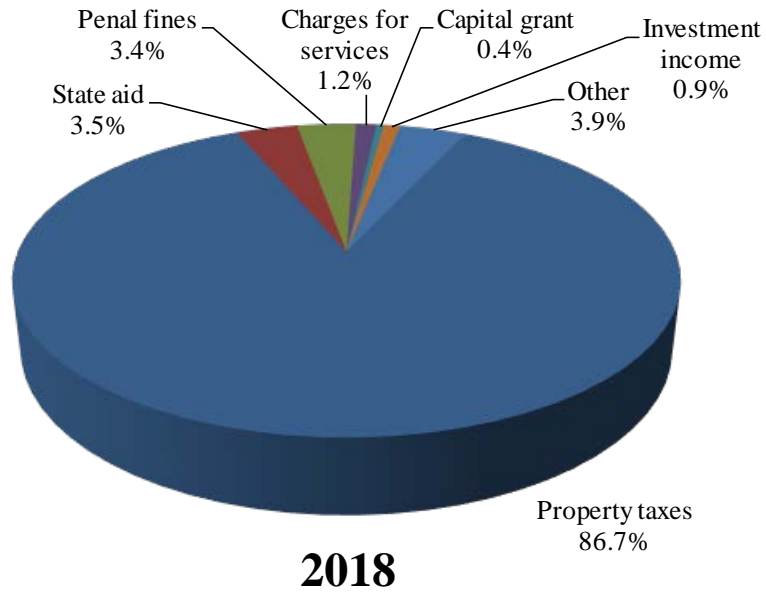
	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 291,834	\$ 417,058	\$ 75,435	\$ -	\$ 367,269	\$ 417,058
Capital grants and contributions	104,000	104,000	-	-	104,000	104,000
General revenues:						
Property taxes	21,188,285	20,556,739	-	-	21,188,285	20,556,739
Penal fines	831,140	790,072	-	-	831,140	790,072
State aid	863,786	1,182,711	-	-	863,786	1,182,711
Investment income	231,514	155,499	-	-	231,514	155,499
Other	938,469	1,025,073	-	-	938,469	1,025,073
Total revenues	24,449,028	24,231,152	75,435	-	24,524,463	24,231,152
Expenses:						
Library services	23,552,613	20,863,213	-	-	23,552,613	20,863,213
Consulting	-	-	73,382	-	73,382	-
Total expenses	23,552,613	20,863,213	73,382	-	23,625,995	20,863,213
Increase in net position	896,415	3,367,939	2,053	-	898,468	3,367,939
Net position, beginning of year	25,882,339	22,514,400	-	-	25,882,339	22,514,400
Net position, end of year	\$ 26,778,754	\$ 25,882,339	\$ 2,053	\$ -	\$ 26,780,807	\$ 25,882,339

- Overall government activities revenue is up \$293,311 from the prior year. The majority of the increase is due to collecting more property tax.
- Expenses increased \$2,762,782. The increase can primarily be attributed to an increase in spending on materials.

**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 \$12,254,335, an increase of \$1,040,886 in comparison with the prior year. Approximately 48% of this total amount (\$5,895,699) 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) donations (\$325,508), 2) capital projects (\$3,862,388), 3) subsequent year expenditures (\$883,481) or 4) prepaid expenses (\$1,223,057).

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 \$5,895,699 while total fund balance was \$12,190,133. 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 25% of total general fund expenditures, while total fund balance represents 52% of that same amount.

The fund balance of the Library's general fund increased by \$1,121,847 during fiscal year 2018. A key factor in this increase is as follows:

- Increase in property tax revenue

**Proprietary funds.** The Library's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the year amounted to \$2,053. The total increase in net position is the same, as this was a new fund in the current year.

## Capital Asset and Debt Administration

**Capital assets.** The Library's investment in capital assets for its governmental activities as of December 31, 2018, amounts to \$8,434,319 (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	
	2018	2017
Buildings	\$ 548,314	\$ 632,670
Building improvements	958,038	712,525
Land improvements	387,196	345,731
Library books and materials	5,063,516	4,421,164
Vehicles	362,550	30,134
Furniture and equipment	663,038	905,226
Land	440,000	440,000
Construction in progress	11,667	232,472
	\$ 8,434,319	\$ 7,719,922

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 \$304,475. This represents compensated absences earned but not used as of year-end.

**Kent District Library's Outstanding Debt**

	Governmental activities	
	2018	2017
Compensated absences	\$ 304,475	\$ 275,292

The Library's total debt increased by \$29,183 (10.6%) 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 projected expenditures to exceed revenues in 2019 by \$883,481. The Library has a conservative and fiscally responsible budget for the fiscal year 2019 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, 2018**

	<b>Governmental activities</b>	<b>Business-type activity</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash	\$ 2,120,463	\$ -	\$ 2,120,463
Investments	11,753,318	-	11,753,318
Receivables:			
Accounts	202,681	16,496	219,177
Taxes	20,193,051	-	20,193,051
Internal balances	14,476	(14,476)	-
Prepaid expenses	1,223,057	33	1,223,090
Net pension asset	3,772,162	-	3,772,162
Capital assets, not being depreciated	451,667	-	451,667
Capital assets, net of accumulated depreciation	7,982,652	-	7,982,652
<b>TOTAL ASSETS</b>	<b>47,713,527</b>	<b>2,053</b>	<b>47,715,580</b>
<b>DEFERRED OUTFLOW OF RESOURCES:</b>			
Pension related items	3,329,741	-	3,329,741
<b>LIABILITIES:</b>			
Accounts payable	690,370	-	690,370
Accrued payroll, taxes and withholding	272,564	-	272,564
Unearned revenue	2,100	-	2,100
Noncurrent liabilities:			
Due within one year	121,790	-	121,790
Due in more than one year	182,685	-	182,685
<b>TOTAL LIABILITIES</b>	<b>1,269,509</b>	<b>-</b>	<b>1,269,509</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Unavailable revenue	22,287,677	-	22,287,677
Pension related items	707,328	-	707,328
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>22,995,005</b>	<b>-</b>	<b>22,995,005</b>
<b>NET POSITION:</b>			
Investment in capital assets	8,434,319	-	8,434,319
Restricted - contributions	325,508	-	325,508
Restricted - pension benefits	6,394,575	-	6,394,575
Unrestricted	11,624,352	2,053	11,626,405
<b>TOTAL NET POSITION</b>	<b>\$ 26,778,754</b>	<b>\$ 2,053</b>	<b>\$ 26,780,807</b>



**KENT DISTRICT LIBRARY  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018**

<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>	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Total</u>
<b>Governmental activities:</b>						
Recreation and culture:						
Library	\$ 23,552,613	\$ 291,834	\$ 104,000	\$ (23,156,779)	\$ -	\$ (23,156,779)
<b>Business-type activity:</b>						
Consulting	73,382	75,435	-	-	2,053	2,053
Total	<u>\$ 23,625,995</u>	<u>\$ 367,269</u>	<u>\$ 104,000</u>	<u>(23,156,779)</u>	<u>2,053</u>	<u>(23,154,726)</u>
General revenues						
Taxes:						
Property taxes, levied for general purposes				21,188,285	-	21,188,285
Penal fines				831,140	-	831,140
State sources				863,786	-	863,786
Investment income				231,514	-	231,514
Other				938,469	-	938,469
Total general revenues				<u>24,053,194</u>	<u>-</u>	<u>24,053,194</u>
Change in net position				896,415	2,053	898,468
Net position, beginning of year				<u>25,882,339</u>	<u>-</u>	<u>25,882,339</u>
Net position, end of year				<u>\$ 26,778,754</u>	<u>\$ 2,053</u>	<u>\$ 26,780,807</u>

See notes to financial statements.

**KENT DISTRICT LIBRARY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	General	Nonmajor Capital projects	Total governmental funds
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 2,120,463	\$ -	\$ 2,120,463
Investments	11,753,318	-	11,753,318
Due from other funds	-	64,202	64,202
Receivables:			
Accounts	202,681	-	202,681
Taxes	20,193,051	-	20,193,051
Prepaid expenses	1,223,057	-	1,223,057
<b>TOTAL ASSETS</b>	<b>\$ 35,492,570</b>	<b>\$ 64,202</b>	<b>\$ 35,556,772</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 690,370	\$ -	\$ 690,370
Accrued payroll, taxes and withholding	272,564	-	272,564
Due to other funds	49,726	-	49,726
Unearned revenue	2,100	-	2,100
<b>TOTAL LIABILITIES</b>	<b>1,014,760</b>	<b>-</b>	<b>1,014,760</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Unavailable revenue - USF funds	194,117	-	194,117
Unavailable revenue - property taxes	22,093,560	-	22,093,560
<b>TOTAL DEFERRED INFLOWS</b>	<b>22,287,677</b>	<b>-</b>	<b>22,287,677</b>

See notes to financial statements.

	General	<u>Nonmajor</u> Capital projects	Total governmental funds
<b>FUND BALANCE:</b>			
Nonspendable - prepaid expenditures	\$ 1,223,057	\$ -	\$ 1,223,057
Restricted - donations	325,508	-	325,508
Committed - capital projects	3,862,388	-	3,862,388
Assigned - capital projects	-	64,202	64,202
Assigned - subsequent year expenditures	883,481		883,481
Unassigned	5,895,699	-	5,895,699
<b>TOTAL FUND BALANCE</b>	<u>12,190,133</u>	<u>64,202</u>	<u>12,254,335</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u>\$ 35,492,570</u>	<u>\$ 64,202</u>	<u>\$ 35,556,772</u>
<b>Total governmental fund balances</b>			\$ 12,254,335
Amounts reported for governmental activities in the statement of net position are different because:			
Deferred outflows of resources - related to pension			3,329,741
Deferred inflows of resources - related to pension			(707,328)
Net pension asset			3,772,162
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			
Capital assets not being depreciated		451,667	
Capital assets being depreciated, net		<u>7,982,652</u>	8,434,319
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>(304,475)</u>
<b>Net position of governmental activities</b>			<u>\$ 26,778,754</u>

See notes to financial statements.

**KENT DISTRICT LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2018**

	General	Nonmajor Capital projects	Total governmental funds
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ 21,188,285	\$ -	\$ 21,188,285
Penal fines	831,140	-	831,140
Charges for services	291,834	-	291,834
Interest income	231,514	-	231,514
Public donations	361,388	-	361,388
Other	577,081	104,000	681,081
Total local sources	23,481,242	104,000	23,585,242
State sources	863,786	-	863,786
Total revenues	24,345,028	104,000	24,449,028
<b>EXPENDITURES:</b>			
Current:			
Recreation and culture:			
Salaries and wages	11,058,964	-	11,058,964
Employee benefits	2,871,016	-	2,871,016
Collections:			
Digital	1,510,561	-	1,510,561
Physical	2,340,222	-	2,340,222
Supplies	728,799	-	728,799
Contractual services	1,202,081	7,949	1,210,030
Programming and outreach	240,482	-	240,482
Maintenance and utilities	1,658,450	-	1,658,450
Staff and board development	201,463	-	201,463
Other	569,203	-	569,203
Capital outlay	841,940	177,012	1,018,952
Total expenditures	23,223,181	184,961	23,408,142
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,121,847	(80,961)	1,040,886
Net change in fund balance	1,121,847	(80,961)	1,040,886
<b>FUND BALANCE, beginning of year</b>	11,068,286	145,163	11,213,449
<b>FUND BALANCE, end of year</b>	\$ 12,190,133	\$ 64,202	\$ 12,254,335

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, 2018**

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 1,040,886</b>
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	(2,316,356)
Gain/loss on disposal of fixed assets	(7,072)
Capital outlay	3,037,825
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	275,292
Accrued compensated absences end of the year	(304,475)
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	(829,685)
<b>Change in net position of governmental activities</b>	<b>\$ 896,415</b>

**KENT DISTRICT LIBRARY  
 PROPRIETARY FUND  
 STATEMENT OF NET POSITION  
 DECEMBER 31, 2018**

	<u>Consulting</u>
<b>CURRENT ASSETS:</b>	
Accounts receivable	\$ 16,496
Prepaid expenses	33
<b>TOTAL CURRENT ASSETS</b>	<b>16,529</b>
<b>CURRENT LIABILITY:</b>	
Due to other funds	14,476
<b>NET POSITION:</b>	
Unrestricted	<b>\$ 2,053</b>

**KENT DISTRICT LIBRARY  
 PROPRIETARY FUND  
 STATEMENT REVENUES, EXPENSES  
 AND CHANGES IN NET POSITION  
 YEAR ENDED DECEMBER 31, 2018**

	Consulting
<b>REVENUE:</b>	
Charges for services	\$ 75,435
<b>OPERATING EXPENSES:</b>	
Salaries and wages	32,040
Benefits	8,034
Professional services	22,054
Other	11,254
Total expenses	73,382
Change in net position	2,053
<b>NET POSITION</b> , beginning of year	-
<b>NET POSITION</b> , end of year	\$ 2,053

**KENT DISTRICT LIBRARY  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS  
 YEAR ENDED DECEMBER 31, 2018**

	Consulting
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 58,939
Payment to employees	(40,074)
Payment to suppliers and other	(18,865)
Net cash provided in operating activities	-
<b>CASH:</b>	
Beginning of year	-
End of year	\$ -
<b>RECONCILIATION OF NET OPERATING REVENUES    (EXPENSE) TO NET CASH PROVIDED (USED) BY    OPERATING ACTIVITIES:</b>	
Operating income	\$ 2,053
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) decrease in assets:	
Receivables	(16,496)
Prepaid expenditures	(33)
Due to/from other funds	14,476
Net cash provided by operating activities	\$ -



**KENT DISTRICT LIBRARY  
STATEMENT OF FIDUCIARY NET POSTION  
DECEMBER 31, 2018**

	<u>Pension trust fund</u>
<b>ASSETS:</b>	
Investments	\$ 46,649,385
Receivables:	
Interest and dividends	<u>58,823</u>
<b>TOTAL ASSETS</b>	<u>46,708,208</u>
<b>LIABILITIES</b>	
Overdraft position	<u>1,500</u>
<b>NET POSITION:</b>	
Restricted for pension	<u><u>\$ 46,706,708</u></u>

**KENT DISTRICT LIBRARY  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED DECEMBER 31, 2018**

	<u>Pension trust fund</u>
<b>ADDITIONS:</b>	
Contributions:	
Employer	\$ 92,147
Nonemployer	<u>167,920</u>
Total contributions	<u>260,067</u>
Investment income:	
Net appreciation	(3,480,300)
Interest and dividends	995,760
Other income	<u>7,759</u>
Total investment income	(2,476,781)
Less investment expense	<u>(60,962)</u>
Total investment income	<u>(2,537,743)</u>
Total additions	<u>(2,277,676)</u>
<b>DEDUCTIONS:</b>	
Benefits paid to members	1,928,245
Administrative expense	<u>140,379</u>
<b>TOTAL DEDUCTIONS</b>	<u>2,068,624</u>
<b>CHANGE IN NET POSITION</b>	(4,346,300)
<b>NET POSITION:</b>	
Beginning of year	<u>51,053,008</u>
End of year	<u><u>\$ 46,706,708</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* activity, which rely to a significant extent on fees and charges for support.

**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, while business-type activity incorporate data from the Library’s enterprise fund. Separate financial statements are provided for the governmental funds, proprietary fund 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, proprietary 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 governmental 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 proprietary fund:

The *consulting fund* accounts for the revenue and expenses related to consulting on management of libraries to third parties.

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 the course of 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. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type 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*, as are the proprietary fund and fiduciary fund financial statements. 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.

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.

The proprietary and fiduciary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The fiduciary fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

**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, 2018. 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 three years. 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 three 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. The third relates to USF funds that are received more than 60 days after year-end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**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 2017 tax is levied and collectible on December 1, 2017 and is recognized as revenue in the year ended December 31, 2018 financial statements, when the proceeds of the levy are budgeted and available for the financing operations. The 2017 taxable value of the district totaled \$16,655,648,247 (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, 2018, 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 2.73% of the Pooled Investment Fund. Per the most recent Financial Overview of Kent County, the Pool's value is \$347,538,117. The Library's portion of this, therefore, is \$9,493,192.

**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, 2018, \$13,558,510 of the Library's bank balance of \$14,304,409 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 \$13,873,781 is reported as cash and investments on the financial statements as of December 31, 2018. 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	<u>\$ 13,873,781</u>
As presented in the financial statements:	
Cash	\$ 2,120,463
Investments	<u>11,753,318</u>
	<u>\$ 13,873,781</u>

**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.

**KENT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)**

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, 2018:

	Fair value		
	Level 1	Level 2	Total
U.S. Treasury bills, notes, and bonds	\$ -	\$ 4,296,814	\$ 4,296,814
Government agency obligations	-	19,210	19,210
Corporate bonds, debentures and notes	-	3,044,232	3,044,232
Foreign obligations	-	559,358	559,358
Municipal obligations	-	63,258	63,258
Mortgage backed securities	-	848	848
Collateralized mortgage obligations	-	167,896	167,896
Asset backed securities	-	736,765	736,765
Private placements	-	66,661	66,661
Money market mutual funds	964,244	-	964,244
Fixed income mutual funds	5,060,113	-	5,060,113
Domestic equity funds	4,269,784	15,921,863	20,191,647
Global fixed income fund	-	4,791,843	4,791,843
Foreign equity mutual funds	6,686,496	-	6,686,496
Total assets at fair value	<u>\$ 16,980,637</u>	<u>\$ 29,668,748</u>	<u>\$ 46,649,385</u>

**NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of December 31, 2018 is as follows:

Receivable fund	Amount	Payable fund	Amount
Capital projects fund	<u>\$ 64,202</u>	Consulting fund	\$ 14,476
		General fund	49,726
			<u>\$ 64,202</u>

The outstanding balances between funds result mainly from cash payments and receipts being made from and received by the general fund. The funds expect to collect or pay out, as applicable, in the subsequent year.

**KENT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

The capital assets for the year ended December 31, 2018 were as follows:

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
Primary government:				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 440,000	\$ -	\$ -	\$ 440,000
Construction in progress	232,472	11,667	232,472	11,667
Total capital assets, not being depreciated	<u>672,472</u>	<u>11,667</u>	<u>232,472</u>	<u>451,667</u>
Capital assets being depreciated:				
Buildings	2,108,900	-	-	2,108,900
Building improvements	1,255,813	360,837	-	1,616,650
Land improvements	354,914	68,790	-	423,704
Library books and materials	9,156,354	2,340,221	1,184,358	10,312,217
Vehicles	78,267	351,799	-	430,066
Furniture and equipment	5,567,269	136,983	20,184	5,684,068
Total capital assets, being depreciated	<u>18,521,517</u>	<u>3,258,630</u>	<u>1,204,542</u>	<u>20,575,605</u>
Less accumulated depreciation for:				
Buildings	1,476,230	84,356	-	1,560,586
Building improvements	543,288	115,324	-	658,612
Land improvements	9,183	27,325	-	36,508
Library books and materials	4,735,190	1,697,869	1,184,358	5,248,701
Vehicles	48,133	19,383	-	67,516
Furniture and equipment	4,662,043	372,099	13,112	5,021,030
Total accumulated depreciation	<u>11,474,067</u>	<u>2,316,356</u>	<u>1,197,470</u>	<u>12,592,953</u>
Total capital assets, being depreciated, net	<u>7,047,450</u>	<u>942,274</u>	<u>7,072</u>	<u>7,982,652</u>
Total governmental activities, capital assets, net	<u>\$ 7,719,922</u>	<u>\$ 953,941</u>	<u>\$ 239,544</u>	<u>\$ 8,434,319</u>

Depreciation expense amounted to \$2,316,356.

**KENT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT**

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2018 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
<b>Governmental activities:</b>					
Compensated absences	\$ 275,292	\$ 29,183	\$ -	\$ 304,475	\$ 121,790

**NOTE 6 - 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 \$221,782 to the plan for the year ended December 31, 2018.

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 6 - 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, 2018, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	165
Inactive employees entitled to but not yet receiving benefits	42
Active employees	107
	314

**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, 2018, contributions totaling \$260,167, consisting of \$92,247 employer contributions and \$167,920 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 2018. The Library is required to contribute at actuarially determined rates expressed as a percentage of covered payroll. The Library's contribution rate was 1.91% of annual covered payroll in 2018. 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, 2018, 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 6 - PENSION PLANS (Continued)**

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

Inflation: 2.5%

Salary increases: 3.5% to 10.1% including inflation

Investment rate of return: 6.75%, net of investment expense, including inflation

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

Mortality rates used were based on the RP-2014 Mortality Table with 2-dimensional fully generational improvements using MP-2018 projection scale.

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%	5.37%	2.75%	2.62%
Core Plus	13%	5.64%	2.75%	2.89%
US Large Cap Equity	35%	9.95%	2.75%	7.20%
US Small Cap Equity	10%	11.16%	2.75%	8.41%
International Developed Equity	15%	10.89%	2.75%	8.14%
Total	<u>100%</u>			

**Discount rate.** The discount rate used to measure the total pension liability is 6.75%. 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.

**KENT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLANS (Continued)**

Changes in Net Pension Liability

	Increase (decrease)		
	Total pension liability	Plan fiduciary net position	Net pension liability
	(a)	(b)	(a) - (b)
Balances at 12/31/2017	\$ 41,363,821	\$ 51,053,008	\$ (9,689,187)
Changes for the year:			
Service cost	744,402	-	744,402
Interest on total pension liability	2,854,033	-	2,854,033
Difference between expected and actual experience	(455,101)	-	(455,101)
Changes of assumptions	355,636	-	355,636
Employer contributions	-	88,608	(88,608)
Employee contributions	-	174,670	(174,670)
Net investment income	-	(2,582,796)	2,582,796
Benefit payments including employee refunds	(1,928,245)	(1,928,245)	-
Administrative expense	-	(50,000)	50,000
Other charges	-	(48,537)	48,537
Net changes	1,570,725	(4,346,300)	5,917,025
Balances as of 12/31/2018	\$ 42,934,546	\$ 46,706,708	\$ (3,772,162)

**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 6.75%, as well as what the employer's net pension liability would be using a discount rate that is 1% lower (5.75%) or 1% higher (7.75%) than the current rate.

	1% decrease	Current discount	1% increase
Net pension liability at 12/31/2018	\$ -	\$ (3,772,162)	\$ -
Change in net pension liability (NPL)	2,207,354	-	(4,497,895)
Calculated NPL	\$ (1,564,808)	\$ (3,772,162)	\$ (8,270,057)

**KENT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLANS (Concluded)**

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

For the year ended December 31, 2018 the employer recognized pension expense of \$829,685 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	\$ 236,336	\$ 707,328
Differences in assumptions	243,529	-
Net difference between projected and actual earnings on pension plan investments	2,849,876	-
	\$ 3,329,741	\$ 707,328

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

Year end December 31,		
2019		\$ 888,489
2020		247,491
2021		267,477
2022		1,218,956
		\$ 2,622,413

**NOTE 7 - 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 2018 or any of the prior 3 years.

**KENT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - 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, 2018, are summarized as follows:

Year ending December 31,	
2019	\$ 389,125
2020	386,580
2021	386,580
2022	384,756
	<u>\$ 1,547,041</u>

**NOTE 9 - 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.

**KENT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - TAX ABATEMENTS (Concluded)**

For the year ended December 31, 2018, the Library's property tax revenue for general operations were reduced by \$176,920 under this program. The abatements issued by other governmental units is as follows:

Governmental unit	Amount
Ada Township	\$ 14,914
Algoma Township	405
Alpine Township	14,591
Byron Township	5,371
Caledonia Township	2,692
Cascade Township	14,092
Gaines Township	685
Plainfield Township	3,068
Tyrone Township	129
Vergennes Township	1,158
City of Grandville	4,678
City of Kentwood	40,477
City of Lowell	1,061
City of Rockford	698
City of Walker	26,785
City of Wyoming	46,116
Total	\$ 176,920

There are no abatements made by the Library.

**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.

**KENT DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENT (Concluded)**

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, 2018**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget</u>
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ 21,261,500	\$ 21,261,500	\$ 21,188,285	\$ (73,215)
Penal fines	454,000	754,000	831,140	77,140
Charges for services	150,000	150,000	291,834	141,834
Interest income and rentals	76,000	76,000	231,514	155,514
Donations	50,000	361,500	361,388	(112)
Other	423,000	701,791	577,081	(124,710)
Total local sources	22,414,500	23,304,791	23,481,242	176,451
State sources	610,000	810,000	863,786	53,786
Total revenues	23,024,500	24,114,791	24,345,028	230,237
<b>EXPENDITURES:</b>				
Current:				
Recreation and culture:				
Salaries and wages	10,853,252	11,030,339	11,058,964	(28,625)
Employee benefits	3,362,207	3,200,721	2,871,016	329,705
Collections - Digital	1,410,334	1,540,334	1,510,561	29,773
Collections - Physical	1,984,995	2,543,995	2,340,222	203,773
Supplies	715,402	796,452	728,799	67,653
Contractual and professional services	1,156,521	1,386,596	1,202,081	184,515
Programming and outreach	266,055	300,055	240,482	59,573
Maintenance and utilities	1,723,623	1,978,223	1,658,450	319,773
Staff development	275,310	276,810	190,578	86,232
Board development	14,900	14,900	10,885	4,015
Other services and charges	551,625	722,520	569,203	153,317
Capital outlay	735,276	1,453,757	841,940	611,817
Total expenditures	23,049,500	25,244,702	23,223,181	2,021,521
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(25,000)	(1,129,911)	1,121,847	2,251,758
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	50,000	-	-	-
Transfers out	(25,000)	-	-	-
Total other financing sources (uses)	25,000	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (1,129,911)</u>	1,121,847	<u>\$ 2,251,758</u>
<b>FUND BALANCE:</b>				
Beginning of year			11,068,286	
End of year			<u>\$ 12,190,133</u>	



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

	2018	2017	2016	2015	2014
<b>Total pension liability:</b>					
Service cost	\$ 744,402	\$ 842,900	\$ 873,137	\$ 654,695	\$ 662,374
Interest	2,854,033	2,747,634	2,696,884	2,496,342	2,417,794
Changes of benefit terms	-	-	-	-	50,877
Difference between expected and actual experience	(455,101)	(122,509)	(1,043,296)	1,259,648	(468,054)
Assumption changes	355,636	-	-	-	-
Benefit payments including employee refunds	(1,928,245)	(1,869,329)	(1,707,766)	(1,598,411)	(1,475,674)
<b>Net change in total pension liability</b>	<b>1,570,725</b>	<b>1,598,696</b>	<b>818,959</b>	<b>2,812,274</b>	<b>1,187,317</b>
<b>Total pension liability beginning</b>	<b>41,363,821</b>	<b>39,765,125</b>	<b>38,946,166</b>	<b>36,133,892</b>	<b>34,946,575</b>
<b>Total pension liability ending</b>	<b>\$ 42,934,546</b>	<b>\$ 41,363,821</b>	<b>\$ 39,765,125</b>	<b>\$ 38,946,166</b>	<b>\$ 36,133,892</b>
<b>Plan fiduciary net position:</b>					
Contributions-employer	\$ 92,147	\$ 45,485	\$ 52,169	\$ 57,424	\$ 54,888
Contributions-employee	167,920	160,947	185,207	193,544	249,681
Net investment income	(2,582,796)	7,820,036	2,318,926	410,599	3,581,104
Benefit payments including employee refunds	(1,928,245)	(1,869,329)	(1,707,766)	(1,598,411)	(1,475,674)
Administrative expense	(50,000)	(36,850)	(74,473)	(47,962)	(44,671)
Other	(45,326)	(122,502)	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>(4,346,300)</b>	<b>5,997,787</b>	<b>774,063</b>	<b>(984,806)</b>	<b>2,365,328</b>
<b>Plan fiduciary net position beginning</b>	<b>51,053,008</b>	<b>45,055,221</b>	<b>44,281,158</b>	<b>45,265,964</b>	<b>42,900,636</b>
<b>Plan fiduciary net position ending</b>	<b>\$ 46,706,708</b>	<b>\$ 51,053,008</b>	<b>\$ 45,055,221</b>	<b>\$ 44,281,158</b>	<b>\$ 45,265,964</b>
<b>Employer net pension asset</b>	<b>\$ 3,772,162</b>	<b>\$ 9,689,187</b>	<b>\$ 5,290,096</b>	<b>\$ 5,334,992</b>	<b>\$ 9,132,072</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>108.79%</b>	<b>123.42%</b>	<b>113.30%</b>	<b>113.70%</b>	<b>125.27%</b>
<b>Covered employee payroll</b>	<b>\$ 4,627,864</b>	<b>\$ 4,765,699</b>	<b>\$ 5,093,052</b>	<b>\$ 5,450,295</b>	<b>\$ 5,220,856</b>
<b>Employer's net pension liability as a percentage of covered employee payroll</b>	<b>81.51%</b>	<b>203.31%</b>	<b>103.87%</b>	<b>97.88%</b>	<b>174.92%</b>

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial determined contributions	\$ 92,147	\$ 45,485	\$ 52,169	\$ 57,424	\$ 55,071
Contributions in relation to the actuarially determined contribution	<u>92,147</u>	<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>	<u>\$ -</u>
Covered employee payroll	\$ 4,627,864	\$ 4,765,699	\$ 5,093,052	\$ 5,450,295	\$ 5,220,856
Contributions as a percentage of covered employee payroll	1.99%	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 the Schedule of Changes in Employer’s Net Pension Liability**

*Benefit changes* - there were no changes in benefits in 2018.

*Changes in assumptions* -

- The inflation rate was reduced from 2.75% in 2017 to 2.50% in 2018.
- Salary increases was reduced from 4.5% to 11.1%, including inflation in 2017 to 3.5% to 10.1%, including inflation in 2018.
- Investment rate of return was reduced from 7.00%, net of investment expense including inflation, in 2017 to 6.75%, net of investment expense including inflation in 2018.
- The mortality tables changed from RP-2000 combined Mortality Table projected to year 2020 using Scale BB in 2017 to RP-2014 Mortality Table with 2-dimensional fully generational improvements using MP-2018 projection scale in 2018.

**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	2.75%
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

June 28, 2019

To the Board of Trustees  
Kent District Library

In planning and performing our audit of the financial statements of Kent District Library as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Kent District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated June 28, 2019 on the financial statements of Kent District Library. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

### **General comments**

1. The Library currently has four trust funds for various purposes. Because of the restrictions placed on the usage of these funds, the Library must ensure that all amounts paid from the trust are in compliance with the individual trust's requirements. To properly ensure appropriate usage of funds, the Library needs to obtain and reference the documentation that set-up each trust, and ensure that all activity complies with the requirements. Documentation was obtained for two of the trusts during 2018.
2. Currently, the Library does not maintain any activity in the general ledger related to the defined benefit pension plan, which is presented as a fiduciary fund. Though the funds are accounted for in a fiduciary fund, and therefore do not belong to the Library, and because of the nature of the fund and the related governing body, the detail of this fiduciary fund should be maintained in the Library's accounting system. The Library is also in the process of creating additional funds for reporting. We would recommend that the Library account for all funds on the general ledger system.

### **Bank reconciliations**

The following relates to the bank reconciliation process:

1. Monthly bank reconciliations are the primary internal control procedure relating to the Library's cash accounts. During 2018, bank account reconciliations were prepared, however, they were prepared a few months after the end of the month. Based on our discussion with management, this difference has been resolved and controls are in place to prevent such an occurrence going forward.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Library personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. This report is intended solely for the information and use of Kent District Library management, and others within the Library, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maney Costeiran PC*

June 28, 2019

To the Board of Trustees  
Kent District Library

We have audited the financial statements of Kent District Library for the year ended December 31, 2018, and have issued our report thereon dated June 28, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

*1. Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kent District Library are described in Note 1 to the financial statements. No new accounting policies were adopted. The application of existing policies was not changed during 2018. We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Estimates have been used to calculate the net pension asset. The estimated asset is approximately \$3,722,162.

Management's estimate in calculating the liability for compensated absences:

The estimated liability is approximately \$304,475. We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

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

The disclosure of the pension plan in the notes to the financial statements describes that the contributions are determined based on an actuarial valuation.

## *2. Difficulties Encountered in Performing the Audit*

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

## *3. Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

## *4. Disagreements with Management*

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



5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 28, 2019.

6. *Management Consultations with Other Independent Accountants*

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

7. *Other Audit Findings or Issues*

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

8. *Other Matters*

We applied limited procedures to the required supplementary information (RSI), which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurances on the RSI.

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

Very truly yours,

*Manes Costeiran PC*