

Muskegon Area District Library
Muskegon, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended December 31, 2010

Muskegon Area District Library

TABLE OF CONTENTS

Management's Discussion and Analysis i - iv

Independent Auditors' Report..... 1

Basic Financial Statements

 Balance Sheet—Statement of Net Assets 2

 Statement of Revenues, Expenditures and Changes
 in Fund Balance—Statement of Activities 3

 Notes to Financial Statements 4

Required Supplementary Information

 Budgetary Comparison Schedule—General Fund 16

 Schedules of Funding Progress 17

Muskegon Area District Library

Library Management's Discussion and Analysis

Brief Discussion of the Basic Financial Statements

This report consists of three parts -- *management's discussion and analysis (this section), the basic financial statements, and required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These financial statements focus on current resources and provide a detailed view about the Library's sources and uses of funds.
- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method.
- The third column provides both long-term and short-term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole and present a longer term view of the Library's finances.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Condensed Financial Information

Statement of Net Assets

The Statement of net assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time increases or decreases in net assets may serve as an indicator of whether the financial position of the Library is improving or deteriorating.

Statement of Net Assets

	<u>2010</u>	<u>2009</u>
Current assets and other assets	\$ 5,270,043	\$ 5,033,649
Capital assets, net	<u>604,573</u>	<u>501,507</u>
Total assets	5,874,616	5,535,156
Current liabilities	<u>2,796,541</u>	<u>2,834,663</u>
Net assets		
Invested in capital assets	604,573	501,507
Unrestricted	<u>2,473,502</u>	<u>2,198,986</u>
Total net assets	<u>\$ 3,078,075</u>	<u>\$ 2,700,493</u>

Muskegon Area District Library

Library Management's Discussion and Analysis

Statement of Activities

The table below shows key financial information under the full accrual method in a condensed format. Amounts and totals reported are for all Library activities, including general operations, improvements, and gift activity in order to give a complete picture.

Statement of Activities

	<u>2010</u>	<u>2009</u>
General revenues		
Property taxes	\$ 2,486,076	\$ 2,475,742
Grants and contributions	86,722	120,587
Fines and forfeitures	299,887	302,940
Other	85,245	122,082
Total revenues	<u>2,957,930</u>	<u>3,021,351</u>
Expenses		
Salaries and wages	1,075,349	927,777
Fringe benefits	500,250	399,189
Contracted services	405,066	384,698
Depreciation	178,970	129,884
Other expenses	420,713	365,952
Total expenses	<u>2,580,348</u>	<u>2,207,500</u>
Change in net assets	377,582	813,851
Net assets at beginning of year	<u>2,700,493</u>	<u>1,886,642</u>
Net assets at end of year	<u>\$ 3,078,075</u>	<u>\$ 2,700,493</u>

The above condensed Statement of Activities is focused on the change in the Statement of Activities.

Revenues

- Interest income declined due to lower interest rates.
- Penal fines continued a multi-year decline in revenues.
- Grants and contributions decreased due to cuts by the State of Michigan.

Expenditures

- Salaries and wages increased due to the ratification of the union contract and new staff positions. Signing bonuses and retroactive salary adjustments were made, as well as hourly rate adjustments.
- Fringe benefits increased due to rising medical insurance costs and new staff positions.
- Contracted services saw increases in branch expenses and legal fees.
- Depreciation increased due to continued investment in the Library's collection.

Muskegon Area District Library

Library Management's Discussion and Analysis

The Library's Fund

The analysis of the Library's sole fund, the General Fund, is included on pages 2 and 3. As noted earlier, salaries and wages increased along with fringe benefits and contracted services due to ratification of the contract, new staff positions, and overall rising costs.

The Library's Budget Highlights

Over the course of the year, the Library Board amended the budget to address unplanned needs and events that occurred during the year. The amendments to revenues and expenditures are as follows:

Revenues

- Penal fines were amended to reflect collections by the County.
- Interest and rentals were reduced due to the falling interest rates.

Expenditures

- The Library underwent a Strategic Planning process in 2010. The planning process led to increased budget lines for implementation of the plan in 2011.
- The Insurance budget was increased due to the additional premium of insuring the Library's books which were previously insured under the County's umbrella.

Budget to Actual

Revenues

- Library overdue and related revenues continue to show increases due to increased library usage.
- Interest and rentals came in under budget as the drop in interest rates was greater than estimated.

Expenditures

- Expenditures increased overall due to the Library's growth in services, hours and staff. However, most expenditures ended up less than expected.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$604,573 invested in software, equipment, books and materials net of depreciation. The Library added \$251,117 in new collection items consisting of new books, various audio/visual materials, and planned upgrades to technology.

The Library's long-term debt activity consists of capped accumulated employee compensated absences (sick leave) to be paid to eligible employees upon retirement.

Muskegon Area District Library

Library Management's Discussion and Analysis

Next Year's Anticipated Budget Factors and Currently Known Facts

The Library's budget for 2011 projects a balanced budget and an anticipated surplus at year's end. The majority of revenues will come from property taxes and penal fines. The remainder of funds will come from state aid grants to libraries, Universal Service Fund credits, book sale revenues, overdue book fines, lost and damaged book charges, photocopier income and memorial donations from individuals and groups.

It is anticipated that state aid grants to libraries will be reduced in 2011. State aid grants are a small portion of the Library's overall budget, but are a large portion of the budget for our Blind and Physically Handicapped services. State aid grants are important to library cooperatives and cooperative services to member libraries. Cooperative state aid reductions are anticipated for 2011. This decrease in state aid will be reflected in higher "out of pocket" expenses by member libraries.

Penal fines vary from year to year and can only be estimated on previous year's receipts. Penal fines continue to erode as a result of alternative sentencing, increased fees, and parallel ordinances passed by local units of government. Additionally collections are down due to the rate of unemployment in the county and the reduced number of police officers available for enforcement.

The result of union agreements has resulted in a modest increase in salaries and a decrease in fringe benefits as a result of changing the health care plan to a plan with higher deductibles and copays.

Inflation will have an impact on the cost of supply and materials purchases. Wages are also affected by inflation as the library pays a cost of living formula (COLA). In the year 2009 there was no COLA payment, in 2010 the payment was .10 per hour, and it is anticipated it will be even higher in 2011.

Fluctuating gas prices will have an effect on the overall costs of delivery services.

The current depressed real estate market will have a continuing effect on property tax revenues. Tax captures such as Renaissance zone, TIFA's and DDA's have reduced our property tax revenues.

The fund balance will decrease significantly in 2011 as a result of the real estate purchase of the Administration building located at 4845 Airline Road. This purchase will result in a reduced cash position offset by the acquired real estate asset. Another major purchase of collection control equipment will further reduce the fund balance. This purchase will entail acquiring self check out machines for the three major branches and the implementation of Radio Frequency Identification technology to enhance the circulation system.

The above factors may result in budget amendments but should still result in a balanced budget with a surplus.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those interested in the Library's finances. If you have any questions about this report or need additional information, contact Stephen Dix, Director at Muskegon Area District Library, 4845 Airline Road, Unit 5, Muskegon, Michigan 49444.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

May 25, 2011

Board of Directors
Muskegon Area District Library
Muskegon, Michigan

We have audited the accompanying financial statements of the Muskegon Area District Library as of and for the year ended December 31, 2010, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Muskegon Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muskegon Area District Library as of December 31, 2010 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require management's discussion and analysis and required supplementary information on pages i - iv and 16 - 17 be presented to supplement the basic financial statements. Such information, although not 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brickley De Long, P.C.

Muskegon Area District Library
BALANCE SHEET—STATEMENT OF NET ASSETS
December 31, 2010

	Balance Sheet - Modified accrual	<u>Adjustments</u>	Statement of Net Assets - Full accrual
ASSETS			
Cash and cash equivalents	\$ 2,773,303	\$ -	\$ 2,773,303
Receivables			
Property taxes	2,337,147	-	2,337,147
Other	10,584	-	10,584
Due from other governmental units	112,000	-	112,000
Prepaid items	31,332	-	31,332
Capital assets, net of depreciation			
Depreciable	-	604,573	604,573
Net other postemployment benefits asset	<u>-</u>	<u>5,677</u>	<u>5,677</u>
Total assets	<u>\$ 5,264,366</u>	610,250	5,874,616
LIABILITIES			
Accounts payable	\$ 16,634	-	16,634
Accrued liabilities	49,800	-	49,800
Deferred revenue	2,614,727	-	2,614,727
Compensated absences	<u>-</u>	<u>115,380</u>	<u>115,380</u>
Total liabilities	2,681,161	115,380	<u>2,796,541</u>
FUND BALANCE			
Reserved for prepaid items	31,332	(31,332)	-
Unreserved	<u>2,551,873</u>	<u>(2,551,873)</u>	<u>-</u>
Total fund balance	<u>2,583,205</u>	<u>(2,583,205)</u>	-
Total liabilities and fund balance	<u>\$ 5,264,366</u>		
NET ASSETS			
Invested in capital assets		604,573	604,573
Unrestricted		<u>2,473,502</u>	<u>2,473,502</u>
Total net assets		<u>\$ 3,078,075</u>	<u>\$ 3,078,075</u>

The accompanying notes are an integral part of this statement.

Muskegon Area District Library
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES**
 For the year ended December 31, 2010

	Revenues and Expenditures - Modified accrual	Adjustments	Statement of Activities - Full accrual
REVENUES			
Property taxes	\$ 2,502,222	\$ (16,146)	\$ 2,486,076
Intergovernmental revenue - State	86,722	-	86,722
Charges for services	5,464	-	5,464
Fines and forfeitures	299,887	-	299,887
Investment earnings	19,592	-	19,592
Contributions	6,852	-	6,852
Reimbursements	11,950	-	11,950
Other	41,387	-	41,387
	<u>2,974,076</u>	<u>(16,146)</u>	<u>2,957,930</u>
Total revenues			
EXPENDITURES			
Current			
Salaries and wages	1,041,693	33,656	1,075,349
Fringe benefits	505,927	(5,677)	500,250
Operating supplies	38,922	-	38,922
Repairs and maintenance	25,358	-	25,358
Professional services	43,241	-	43,241
Utilities	7,875	-	7,875
Insurance	16,996	-	16,996
Travel	12,433	-	12,433
Contracted services	405,066	-	405,066
Telephone	56,692	-	56,692
Occupancy	71,175	-	71,175
Administrative expense	30,252	-	30,252
Other	60,893	-	60,893
Capital outlay	338,912	(282,036)	56,876
Depreciation	-	178,970	178,970
	<u>2,655,435</u>	<u>(75,087)</u>	<u>2,580,348</u>
Total expenditures			
Change in fund balance—net assets	318,641	58,941	377,582
Fund balance—net assets at January 1, 2010	<u>2,264,564</u>	<u>435,929</u>	<u>2,700,493</u>
Fund balance—net assets at December 31, 2010	<u>\$ 2,583,205</u>	<u>\$ 494,870</u>	<u>\$ 3,078,075</u>

The accompanying notes are an integral part of this statement.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Muskegon Area District Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are listed below.

Reporting Entity

The Library was established in October 2005 by a district library agreement between Muskegon County, Blue Lake Township, Casnovia Township, Cedar Creek Township, Dalton Township, Egelston Township, Fruitland Township, Fruitport Charter Township, Village of Fruitport, Holton Township, Laketon Township, City of Montague, Montague Township, Moorland Township, City of Muskegon Heights, Muskegon Charter Township, City of North Muskegon, City of Norton Shores, Ravenna Township, City of Roosevelt Park, Sullivan Township, and White River Township pursuant to the District Library Establishment Act. The district of the Muskegon Area District Library shall consist of all that territory which is located in the jurisdictional limits of Muskegon County except Whitehall Township and those areas located within the jurisdictional boundaries of the White Lake Community Library or the Hackley Public Library. The Library is governed by an eight member Library Board. Participating municipalities are divided into seven regions from which appointments are made in addition to one appointment by Muskegon County at large. The Library is administered by a director appointed by the Board. The Library is primarily funded through a tax levy on property within the Library district, fines, fees and state aid.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the Library's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Library only has one fund, no separate columns have been provided.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 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 Library 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, compensated absences and claims and judgments, are recorded only when payment is due.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Fund Equity or Net Assets

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the Library intends to hold the investment until maturity.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Receivables and Payables

All property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied on December 1 and are due without penalty on or before February 15. The property taxes attach as an enforceable lien on property as of December 1. Property taxes are collected and forwarded to the Library by the participating municipalities. Uncollected real property taxes as of the following March 1 are turned over by the participating municipalities to the County for collection. The County advances the Library all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the Library. The 2009 state taxable valuation for real/personal property of the Library was approximately \$3,445,900,000. The ad valorem taxes levied consisted of .7490 mills for operating purposes. These amounts are recognized in the General Fund.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The prepaid items recorded in the governmental fund types do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include library books, periodicals, etc. and equipment are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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 assets lives are not capitalized.

Library books and equipment of the Library are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Leasehold improvements	5 - 40
Library books, periodicals, etc.	5
Furniture and equipment	3 - 10

Compensated Absences

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused vacation days are paid to employees upon termination. The liability for these compensated absences is accrued when incurred in the government-wide financial statements.

Fund Balance and Net Assets

Reservations and restrictions represent amounts that are not appropriable or are legally segregated for a specific purpose.

Use of Estimates

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to September of the current fiscal year, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Not later than December 1, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issues by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Library does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. The Library does not have a custodial credit risk policy for 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, 2010, the Library's bank balance was fully insured by the FDIC.

Custodial credit risk - investments. The Library does not have a custodial credit risk policy for investments. In an investment, this is the risk that in the event of the failure of the counterparty, the Library's will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance January 1, 2010	Additions	Deductions	Balance December 31, 2010
Capital assets, being depreciated:				
Leasehold improvements	\$ 28,682	\$ 8,619	\$ -	\$ 37,301
Library books, periodicals, etc.	2,355,072	251,117	113,923	2,492,266
Furniture and equipment	<u>255,609</u>	<u>22,300</u>	<u>-</u>	<u>277,909</u>
Total capital assets, being depreciated	2,639,363	282,036	113,923	2,807,476
Less accumulated depreciation:				
Leasehold improvements	2,390	1,004	-	3,394
Library books, periodicals, etc.	1,927,265	163,784	113,923	1,977,126
Furniture and equipment	<u>208,201</u>	<u>14,182</u>	<u>-</u>	<u>222,383</u>
Total accumulated depreciation	<u>2,137,856</u>	<u>178,970</u>	<u>113,923</u>	<u>2,202,903</u>
Capital assets, net	<u>\$ 501,507</u>	<u>\$ 103,066</u>	<u>\$ -</u>	<u>\$ 604,573</u>

NOTE E—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the entire deferred revenue amount of \$2,614,727 was unearned.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE F—COMMITMENTS AND SUBSEQUENT EVENT

Facility Lease

The Library entered into a non-cancelable lease agreement for the Library's operating facilities that expires July 31, 2016. The lease requires monthly payments of \$4,197, with annual increases during the lease term based upon increases in the Consumer Price Index of the Bureau of Labor Statistics, but not to exceed 3%. The lease contains an option to purchase the existing building from the lessor at the Library's option. The Library entered into a non-cancelable lease agreement for additional building space that expired November 3, 2010 and has continued as a month-to-month agreement. Rent expense under these lease agreements amounted to \$61,416 for the year ended December 31, 2010.

Subsequent Event

In March 2011, the Library exercised its option to purchase the building, including the additional space. The purchase will be financed with available fund balance for \$655,000. Closing is to be held on or before June 1, 2011.

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Library. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon Area District Library
4845 Airline Road
Muskegon, MI 49444

Funding Policy. The Library is required to contribute at an actuarially-determined rate; the current rate is 9.51 percent of annual covered payroll. The contribution requirements of the library are established by MERS. Library employees are required to contribute 2.34 percent of their annual covered payroll to the plan.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Annual Pension Cost. For the year ended December 31, 2010, the Library’s annual pension cost was approximately \$61,000 which the Library contributed. The employees contributed approximately \$15,000.

<u>Year ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/08	\$ 57,400	100 %	-
12/31/09	71,000	100	-
12/31/10	61,000	100	-

The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age normal cost funding method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 2 percent to 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten-year period. The plan’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009 was 28 years. This period will be reduced by one year in each of the next eight valuations until reaching 20 years after which the 20 year period will be reestablished with each annual actuarial valuation.

Funding Status and Progress. As of December 31, 2009, the most recent actuarial valuation date, the plan was 96 percent funded. The actuarial accrued liability for benefits was approximately \$1,088,000, and the actuarial value of asset was approximately \$1,049,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$39,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$590,000, and the ratio of the UAAL to the covered payroll was 7 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE H—OTHER POST-EMPLOYMENT BENEFITS

Plan Description. The Library has a retiree healthcare funding vehicle administered by Municipal Employees Retirement System (MERS), an agent multiple-employer postemployment healthcare plan (OPEB). The retiree healthcare funding vehicle is established under the authority of section 115 of the IRS code and is exempt from taxation. The Plan provides health insurance to eligible retirees and their spouses. Act No. 149 of the Public Acts of 1999 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Library. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon Area District Library
4845 Airline Road
Muskegon, MI 49444

Funding Policy. Plan members are not required to contribute to the Plan. The Library is required to contribute the annual required contribution of the employer (ARC) at an actuarially-determined rate which varies upon employee group from 3.9 to 9.4 percent of covered wages. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The contribution requirements of plan members and the Library are established and may be amended by MERS.

Annual OPEB Cost and Net OPEB Obligation. The Library’s OPEB expense is calculated based on the ARC, an actuarially-determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Library’s annual OPEB cost for the year, the amount actually contributed to the OPEB Plan, and changes in the Library’s net OPEB obligation:

Annual required contribution	\$	(34,235)
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Net OPEB cost		(34,235)
Payments made to or on behalf of retirees		-
Contributions made to OPEB trust		39,912
Increase in net OPEB asset		5,677
Net OPEB asset at beginning of year		-
Net OPEB asset at end of year	\$	5,677

NOTE H—OTHER POST-EMPLOYMENT BENEFITS—Continued

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

Trend Information

<u>Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
12/31/08	\$ 33,100	100 %	-
12/31/09	40,400	100	-
12/31/10	34,235	117	5,677

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of Plan members not contributing to the Plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The required contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) an annual healthcare trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after 5 years. Both rates include a 5 percent inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 is 27 years.

Funded Status and Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was 64 percent funded. The actuarial accrued liability for benefits was approximately \$367,951, and the actuarial value of assets was approximately \$234,312, resulting in an unfunded actuarial liability (UAAL) of approximately \$133,639. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$534,791 and the ratio of the UAAL to the covered payroll was 25 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE I—OTHER INFORMATION

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

Community Foundation

The Community Foundation for Muskegon County has established various endowment funds for the Library which have not been included in the financial statements. These funds are accounted for and administered by the Community Foundation for Muskegon County. At December 31, 2010, these funds were valued at approximately \$84,000.

NOTE J—SUBSEQUENT EVENT

In April 2011, the Library entered into a contract for the purchase of a Radio Frequency Identification System at an estimated cost of \$120,650.

Muskegon Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

**NOTE K—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Total fund balance—governmental fund \$ 2,583,205

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial
resources and are not reported in the governmental fund.

Cost of capital assets	\$ 2,807,476	
Accumulated depreciation	<u>(2,202,903)</u>	604,573

Net other postemployment benefits are recorded as expenditures in the
fund statements when paid, but are recorded as expenses in the
government-wide statements when incurred. 5,677

Compensated absences in governmental activities are not
due and payable in the current period and are not reported
in the governmental funds (115,380)

Net assets of governmental activities in the Statement of Net Assets		<u>\$ 3,078,075</u>
---	--	---------------------

Net change in fund balance—total governmental fund \$ 318,641

Amounts reported for government activities in the Statement of Activities
are different because:

Revenue reported in the Statement of Activities that does not provide current
financial resources are not reported as revenue in the governmental funds. (16,146)

Governmental funds report outlays for capital assets as expenditures;
in the Statement of Activities, these costs are depreciated over
their estimated useful lives.

Depreciation expense	\$ (178,970)	
Capital outlay	<u>282,036</u>	103,066

Other postemployment benefits are reported on the accrual method in the
Statement of Activities and reported as expenditures when financial resources
are used in the governmental funds. 5,677

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. (33,656)

Change in net assets in governmental activities		<u>\$ 377,582</u>
---	--	-------------------

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Area District Library
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
For the year ended December 31, 2010

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues				
Property taxes	\$ 2,580,998	\$ 2,580,998	\$ 2,502,222	\$ (78,776)
Intergovernmental revenues - State	88,000	86,526	86,722	196
Charges for services	5,200	6,000	5,464	(536)
Fines and forfeitures	311,000	298,545	299,887	1,342
Interest and rentals	60,000	32,000	19,592	(12,408)
Contributions	6,000	6,000	6,852	852
Reimbursements	8,000	8,000	11,950	3,950
Other	<u>46,700</u>	<u>46,700</u>	<u>41,387</u>	<u>(5,313)</u>
Total revenues	3,105,898	3,064,769	2,974,076	(90,693)
Expenditures				
Current				
Salaries and wages	1,011,400	1,073,938	1,041,693	32,245
Fringe benefits	483,000	587,550	505,927	81,623
Operating supplies	49,800	48,800	38,922	9,878
Repairs and maintenance	29,000	33,750	25,358	8,392
Professional services	33,000	44,000	43,241	759
Utilities	10,004	10,504	7,875	2,629
Insurance	13,000	26,400	16,996	9,404
Travel	21,000	21,050	12,433	8,617
Contracted services	428,000	457,000	405,066	51,934
Telephone	56,500	58,800	56,692	2,108
Occupancy	57,760	72,800	71,175	1,625
Administrative expense	42,000	32,000	30,252	1,748
Other	89,200	90,950	60,893	30,057
Capital outlay	<u>333,200</u>	<u>359,250</u>	<u>338,912</u>	<u>20,338</u>
Total expenditures	<u>2,656,864</u>	<u>2,916,792</u>	<u>2,655,435</u>	<u>261,357</u>
Net change in fund balance	<u>\$ 449,034</u>	<u>\$ 147,977</u>	318,641	<u>\$ 170,664</u>
Fund balance at January 1, 2010			<u>2,264,564</u>	
Fund balance at December 31, 2010			<u>\$ 2,583,205</u>	

Muskegon Area District Library
 Required Supplementary Information
SCHEDULES OF FUNDING PROGRESS
 For the year ended December 31, 2010

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) PENSION PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/07			There was no 2007 actuarial valuation			
12/31/08	\$ 911,966	\$ 1,034,085	\$ 122,119	88 %	\$ 527,187	23 %
12/31/09	1,049,407	1,087,842	38,435	96	589,873	7

OTHER POSTEMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/07	\$ 140,083	\$ 669,897	\$ 529,814	21 %	\$ 441,045	120 %
12/31/10	234,312	367,951	133,639	64	534,791	25

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

May 25, 2011

Board of Directors and
Muskegon Area District Library
4485 Airline Road
Muskegon, MI

In planning and performing our audit of the financial statements of Muskegon Area District Library as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Muskegon Area 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the attached deficiency in Muskegon Area District Library's internal control to be a significant deficiency.

This communication is intended solely for the information and use of the Board of Directors, management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Brickley De Long, P.C.

SIGNIFICANT DEFICIENCIES

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

May 25, 2011

Board of Directors and
Muskegon Area District Library
4485 Airline Road
Muskegon, MI

In planning and performing our audit of the financial statements of Muskegon Area District Library as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Muskegon Area 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the attached deficiency in Muskegon Area District Library's internal control to be a significant deficiency.

This communication is intended solely for the information and use of the Board of Directors, management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Brickley De Long, P.C.

SIGNIFICANT DEFICIENCIES

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.