

Traverse Area District Library

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Traverse Area District Library
Traverse City, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Traverse Area District Library (the "Library"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Traverse Area District Library's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Library, as of December 31, 2023 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Library and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 5 through 14, and pension schedules and budgetary comparison information, on pages 37 - 39, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2024 on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Traverse Area District Library's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

June 24, 2024

**Traverse Area District Library
Management Discussion and Analysis
For the year ended December 31, 2023**

As management of the Traverse Area District Library (the “Library” or “TADL”), we offer readers of the Traverse Area District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended December 31, 2023. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

1. TADL continued the strategic planning process which involved input from direct interviews and survey results from over 480 citizens. This Plan was adopted by the Board of Trustees in June 2021. While always keeping our patrons and community our top priority, we met the challenges of 2023 with renewed vigor from the input we received during the strategic planning process which guided our collection, programs and budgets during 2023 and will continue to do so for the next year.
2. The main source of operating revenue for the library is generated by a millage. Taxes collected in 2023 were based on 2022 property tax values. The amount collected for 2023 increased 6.0% over the previous year. The 2023 taxable values, which determine what the Library receives in 2024, increased 9.1%.
3. On August 2, 2016, voters approved the renewal of our millage at .9544 mills by a greater than 75% margin. Subsequent Headlee Millage Rollbacks have resulted in the levy being reduced to .9467 in 2017, .9431 in 2018, .9382 in 2019, .9292 in 2020, .9202 in 2021, .9044 in 2022, but remained at .9044 in 2023 due to high inflation rates. As inflation rates have stabilized, we do expect another rollback in 2024.
4. The overall operating revenue in 2023 increased from the prior year by 8.6% due mainly to property taxes increasing, not being subject to the Headlee rollback, and investment gains increasing substantially from 2022. Expenses increased due to an added focus toward library materials with purchases of more books and electronic materials, as well as inflation impacting the costs of goods and services.
5. In 2023, the library paid \$120,000 to the Municipal Employees’ Retirement System (MERS). With the extra payments and the freezing of our Defined Benefit plan, the plan is now funded at 84% versus 79% last year based on an adjustment to life expectancy and rates of return on investments.

Management Discussion and Analysis – Continued

6. Overall personnel expenses went down 0.4% in 2023. This was due to the library incurring higher one-time expenses in 2022, including higher extra payments to our MERS Defined Benefit plan as well as paying out the Reserve Sick Leave liability to current employees who would have otherwise received the payout at retirement and at a cost-of-living pay rate much higher than paid out in 2022. Employee insurance premiums, which include employer contributions toward employee HSA accounts, increased by 0.3% compared to 2022. This difference can be attributed to changes in employee demographics and selected coverage levels. The actual increase in medical plan premiums was 4.7%.
7. Of the six TADL locations, three are Member libraries with service contracts. Funding is based on the percentage of increase or decrease in the collection of Property Taxes, Penal Fines and State Aid from the prior year. The total of these revenue sources increased in 2023, resulting in an increase in member library funding of 1.5% in 2023. In December of 2021 the Fife Lake Public Library, Interlochen Public Library and Peninsula Community Library contracts were re-negotiated and a 10-year contract was signed with each library.
8. The Teamsters Union labor contract negotiated in 2021 and a 3-year contract was signed. The new contract will expire at the end of 2024. This contract continued a 3% annual wage increase each year of the three-year contract.
9. The Unassigned General Fund Balance increased by \$343,655 from last year's audit, bringing the total to \$1,425,586. This increase preserves a balance equal to two months of operating expenses.
10. By adapting to the ever-changing financial landscapes in 2023, the Library continues to operate well within current revenue collections.

Overview of the Financial Statements

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

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

Management Discussion and Analysis – Continued

- The governmental funds statements tell how basic services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Library's budget for the year.

Library-wide Statements

The Library-wide statements report information about the Library as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Library-wide statements report the Library's net position and how it has changed. Net position - the difference between the Library's assets and liabilities - is one way to measure the Library's financial health or position.

- Over time, increases or decreases in the Library's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Library's overall health, you need to consider additional non-financial factors such as changes in the Library's property tax base and the condition of buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Library's funds, focusing on its most significant or "major" funds: not the Library as a whole. Funds are accounting devices the Library uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law.
- The Library establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

Management Discussion and Analysis – Continued

The Library has one kind of fund:

- **Governmental funds:** Most of the Library’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library’s programs. Because this information does not encompass the additional long-term focus of the Library-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the Library-wide statements and the fund financial statements.

Financial Analysis of the Library as a Whole

Net position. The Library’s combined total net position was \$8,507,200 on December 31, 2023, a decrease of 2.1% from the prior year. Figure A-1 illustrates the net position for years ended December 31.

Figure A-1

Condensed Statement of Net Position

	2023	2022
Assets		
Current assets	\$ 9,566,087	\$ 8,807,704
Non-current assets	6,697,502	6,818,913
Deferred outflows of resources	371,164	868,845
Total assets and deferred outflows of resources	\$ 16,634,753	\$ 16,495,462
Liabilities		
Current liabilities	\$ 245,212	\$ 229,752
Non-current liabilities	1,689,187	1,970,057
Total liabilities	1,934,399	2,199,809
Deferred inflows of resources	6,193,154	5,604,207
Net position		
Investment in capital assets	6,503,425	6,720,773
Restricted	1,237,699	1,363,205
Unrestricted	766,076	607,468
Total net position	8,507,200	8,691,446
Total liabilities, deferred inflows of resources	\$ 16,634,753	\$ 16,495,462

Management Discussion and Analysis – Continued

Changes in net assets. The Library’s total revenue of \$6,437,380 was less than expenditures; decreasing net assets by \$184,246. This decrease was primarily due to increase in library services.

Of the Library’s \$6,621,626 in expenditures, approximately 57% is related to personnel costs.

Figure A-2

Changes in Net Position from Operating Results

	2023	2022
Revenue		
Program revenue		
Charges for services	\$ 83,428	\$ 80,283
Operating grants and contributions	305,463	305,656
Total program revenue	388,891	385,939
General revenue		
Property taxes	5,661,127	5,357,525
Fines and forfeitures	213,858	190,441
Unrestricted investment earnings	173,504	(106,661)
Total general revenue	6,048,489	5,441,305
Total revenue	6,437,380	5,827,244
Expenditures		
Library services	5,970,368	5,784,917
Depreciation - unallocated	651,258	667,462
Total expenditures	6,621,626	6,452,379
Increase (decrease) in net position	(184,246)	(625,135)
Net position - beginning of year	8,691,446	9,316,581
Net position - end of year	\$ 8,507,200	\$ 8,691,446

Financial Analysis of the Library’s Funds

The strong financial performance of the Library as a whole is reflected in its governmental funds. As the Library completed the year, its governmental funds reported a fund balance of \$3,259,021.

Management Discussion and Analysis – Continued

General Fund Budgetary Highlights

Over the course of the year, the Library revised the annual operating budget. Budget items that were significantly different from original budgeted amounts and items causing budget adjustments are enumerated below.

- There was a significant increase in unrealized investment gains, as well as more modest increases in other revenue categories including property taxes, grants, penal fines, sales, and donations for an overall increase in budgeted revenue of \$268,031.
- Along with an increase in Revenues due to donations, we also had adjustments to our expenditures as we put those donations to work. Expenditures were adjusted as follows:
 - Personnel was adjusted upward slightly by \$26,719 to ensure all individual budgetary line items within the category would not go over budget.
 - Supplies were increased \$151,467 due to additional spending created by various grants and donations and also by a management focus on increased spending on physical and digital materials.
 - Other Services and Charges was adjusted up a total of \$35,147 due to building maintenance contractor charges throughout the year.
 - Capital Improvements budgets were adjusted upward of \$45,000 for purchases of the outdoor drinking fountain, a new server and an HVAC unit specific for the IT room to keep server temperatures stable.

Management Discussion and Analysis – Continued

Figure A-3

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<i>General Fund Revenues</i>			
Property taxes	\$ 5,661,131	\$ 5,661,127	\$ (4)
State grants	149,301	149,301	-
Other grants	67,202	67,206	4
Charges for services	79,358	83,428	4,070
Fines and forfeitures	212,034	213,858	1,824
Investment income	89,040	116,732	27,692
Contributions and other income	77,588	88,956	11,368
Total revenues	<u>6,335,654</u>	<u>6,380,608</u>	<u>44,954</u>
<i>General Fund Expenditures</i>			
Personnel	3,587,835	3,535,788	52,047
Supplies	1,023,242	874,580	148,662
Other services and charges	1,669,879	1,546,869	123,010
Capital outlay	45,000	38,773	6,227
Total expenditures	<u>6,325,956</u>	<u>5,996,010</u>	<u>329,946</u>
Net change in fund balance	<u>\$ 9,698</u>	<u>\$ 384,598</u>	<u>\$ 374,900</u>

Capital Asset and Debt Administration

Capital Assets

By the end of 2023, the Library had invested approximately \$14.9 million in a broad range of capital assets, including building improvements, books, computer and audio-visual equipment. Total depreciation expense for the year was \$623,334. Figure A-4 details the historical costs, accumulated depreciation, and book value of the Library's capital assets.

Management Discussion and Analysis – Continued

Figure A-4

	<u>2023</u>	<u>2022</u>
Land	\$ 345,545	\$ 345,545
Building	8,616,889	8,565,421
Collections	4,127,282	4,030,050
Furniture & equipment	<u>1,894,698</u>	<u>1,921,223</u>
Total capital assets	14,984,414	14,862,239
Accumulated depreciation	<u>8,470,124</u>	<u>8,136,027</u>
Net capital assets	<u><u>\$ 6,514,290</u></u>	<u><u>\$ 6,726,212</u></u>

Debt Administration

The following (Figure A-5) is a summary of the outstanding debt at December 31:

Figure A5

	<u>2023</u>	<u>2022</u>
Governmental activities:		
Compensated absences	<u>\$ 277,138</u>	<u>\$ 270,879</u>

Factors Bearing on the Library's Future

At the time these financial statements were prepared and audited, the Library was aware of circumstances that could significantly affect its financial health in the future.

1. Local property taxes represent the largest portion of the Library's revenue providing 89% of the total library funding this year. Taxable values have increased each year of the last decade with the increases as follows according to annual county equalization reports:
 - 2014 1.762%
 - 2015 3.273%
 - 2016 1.683%
 - 2017 3.622%
 - 2018 4.896%
 - 2019 5.128%
 - 2020 5.24%
 - 2021 4.66%
 - 2022 7.38%
 - 2023 9.42%

Management Discussion and Analysis – Continued

Due to the increasing value of taxable properties, TADL has generally had Headlee Millage reductions for the past but a reduction was not required in 2023 due to the rate of inflation. The Headlee Millage reduction is expected to reduce the library's levy in December 2024 for 2025 operations. Our tax receipts will, of course, increase overall, but the lower millage rate will prevent us from collecting the full voter approved amount, unless voters approve a higher Millage.

2. We are continuing to monitor discussions of extending the duration of TIF97 and expansion of borders without a tax capture component. If this should occur, in accordance with Board policy, we will opt out to preserve library funding.
3. In 2023, TADL received a Local Community Stabilization payment of \$33,220 from the state as a result of Personal Property tax legislation. This was down from the previous year by 2.9%.
4. In 2023, the Library was required to reimburse the county and/or townships due to Board of Review and Tax Tribunal judgments for a total of \$5,199. The possibility of adverse Board of Review and Tax Tribunal rulings remains a threat that can vary tremendously from year to year and is not within the control of the Library.
5. State Aid receipts increased 3.2% in 2023. We continue to appreciate the efforts by the Michigan Library Association to advocate for increased library funding to the legislature, and the positive response from our legislators in approving funding increases. We hope that funding will be continuing to be prioritized for libraries.
6. Penal fine receipts have generally declined annually since 2015. This is of great concern as this is the second largest funding source. It remains a target of legislative activity at the state level as well as potential local ordinances that are passed to capture fines for the municipalities in which the offenses take place. In 2023, Penal fines increased 11.8% totaling \$179,251. We do not foresee the trend of decreasing penal fines reversing in the near future, but see revenue in 2023 as an outlier.
7. A new labor contract will be negotiated in 2024 with an effective date of January 1, 2025. Negotiation with the labor union will ultimately provide stabilization of wage and retirement costs for the contract period; however, the precise financial impact on future TADL budgets remains to be calculated. In addition, rising inflation rates make health insurance expenditures unpredictable.
8. A committee of the Board of Trustees also negotiated a new ten-year contract with each of our three Member libraries in 2021 to continue a stable funding source for our Members to be able to provide library services in their communities.

Management Discussion and Analysis – Continued

9. We continued the practice of contributing extra funds toward our unfunded pension liability for our frozen MERS Defined Benefit plan in 2023. An additional \$52,452 was paid on top of the required annual contribution of \$67,548. While we expect to continue this practice of additional payments, our future required contributions are based in part on investment earnings and we do not know the effect of the current fluctuating markets on those investments.
10. After significant testing, completion of insulation installation, and completion of roof venting, it was resolved in 2023 that the roof is working well and will last another 10 years. We will continue to monitor and maintain the roof but will turn the focus of other Capital Improvement areas in 2024.
11. The Main library still requires regular maintenance and upgrades. In 2023, the Board approved funding to install a community garden and outdoor drinking fountain, improvements to our HVAC system, and interior painting. Topping the list for 2024 is more interior painting, a renovation of the restrooms, and much needed updates to our audio/visual components in our meeting rooms.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Traverse Area District Library, 610 Woodmere, Traverse City, Michigan 49686.

Traverse Area District Library

STATEMENT OF NET POSITION

December 31, 2023

	Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
Current assets	
Cash and equivalents	\$ 658,869
Investments	3,101,023
Accounts receivable	5,595,027
Prepaid expenses	211,168
Total current assets	9,566,087
Non-current assets	
Capital assets, net of accumulated depreciation	6,514,290
Operating lease right-of-use asset	183,212
Total non-current assets	6,697,502
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources for net pension liability	371,164
Total assets and deferred outflows of resources	\$ 16,634,753
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 72,568
Accrued liabilities	118,978
Lease liability, current portion	25,952
Current portion of long-term debt	27,714
Total current liabilities	245,212
Non-current liabilities	
Long-term debt	249,424
Lease liability, net of current portion	168,125
Net pension liability	1,271,638
Total non-current liabilities	1,689,187
Total liabilities	1,934,399
DEFERRED INFLOWS OF RESOURCES	
Taxes levied but intended for subsequent period	6,115,520
Deferred inflows of resources for net pension obligation	77,634
Total deferred inflows of resources	6,193,154
NET POSITION	
Investment in capital assets	6,503,425
Restricted for	
Sight and sound	7,679
Youth services	1,456
Local history collections	13,407
East Bay	200
Teen services	5,537
Talking Book Library	19,659
Kingsley	50
Adult service	1,219
Bookmobile	250
Public improvement	1,162,484
Permanent fund	
Expendable	4,708
Nonspendable	21,050
Unrestricted	766,076
Total net position	8,507,200
Total liabilities, deferred inflows of resources and net position	\$ 16,634,753

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

Traverse Area District Library

STATEMENT OF ACTIVITIES

Year Ended December 31, 2023

Functions	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental activities					
Library services	\$ 5,970,368	\$ 83,428	\$ 305,463	\$ -	\$ (5,581,477)
Depreciation and amortization - unallocated	<u>651,258</u>	-	-	-	<u>(651,258)</u>
Total governmental activities	<u>\$ 6,621,626</u>	<u>\$ 83,428</u>	<u>\$ 305,463</u>	<u>\$ -</u>	<u>(6,232,735)</u>
General revenues					
Property taxes					
Levied for general purposes					5,661,127
Fines and forfeitures					213,858
Investment earnings (losses)					<u>173,504</u>
Total general revenues					<u>6,048,489</u>
Change in net position					(184,246)
Net position, beginning of year					<u>8,691,446</u>
Net position, end of year					<u>\$ 8,507,200</u>

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

Traverse Area District Library

GOVERNMENTAL FUNDS - BALANCE SHEETS

December 31, 2023

	General Fund	Public Improvement	Non-Major Permanent Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 658,869	\$ -	\$ -	\$ 658,869
Investments	1,873,751	1,201,698	25,574	3,101,023
Receivables				
Property taxes	5,567,189	-	-	5,567,189
Interest	8,888	8,628	184	17,700
Accounts	10,138	-	-	10,138
Prepaid expenditures	198,043	13,125	-	211,168
Total assets	\$ 8,316,878	\$ 1,223,451	\$ 25,758	\$ 9,566,087
LIABILITIES				
Accounts payable	\$ 72,568	\$ -	\$ -	\$ 72,568
Accrued liabilities	118,978	-	-	118,978
Total liabilities	191,546	-	-	191,546
DEFERRED INFLOWS OF RESOURCES				
Taxes levied intended for subsequent period	6,115,520	-	-	6,115,520
FUND BALANCE				
Nonspendable	198,043	13,125	21,050	232,218
Restricted				
Sight and sound	4,324	3,355	-	7,679
Youth services	125	1,331	-	1,456
Local history collection	2,542	10,865	-	13,407
East Bay	200	-	-	200
Teen services	500	5,037	-	5,537
Talking Book Library	9,398	10,261	-	19,659
Kingsley	50	-	-	50
Adult Services	1,219	-	-	1,219
Bookmobile	250	-	-	250
Fund use	-	1,162,484	4,708	1,167,192
Committed				
Children's programming endowment	81,000	-	-	81,000
Employee benefit obligations	277,138	-	-	277,138
Assigned				
Future projects	9,437	-	-	9,437
Accounting software	-	16,993	-	16,993
Unassigned	1,425,586	-	-	1,425,586
Total fund balance	2,009,812	1,223,451	25,758	3,259,021
Total liabilities, deferred inflows of resources and fund balance	\$ 8,316,878	\$ 1,223,451	\$ 25,758	

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

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

Capital assets, including the operating lease right-of-use assets, are used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.
 The cost of the capital assets is \$14,984,414 and the accumulated depreciation is \$8,470,124. 6,514,290
 The operating lease right-of-use lease asset is \$211,136 and the accumulated amortization is \$27,924. 183,212

Deferred inflows of resources net of deferred outflows of resources for pension liabilities are not a financial resource and, therefore, are not reported in governmental funds. 293,530

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

	Net pension liability	(1,271,638)
	Lease liabilities	(194,077)
	Compensated absences	(277,138)
		\$ 8,507,200

Total net position - governmental activities

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

Traverse Area District Library

GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended December 31, 2023

	General Fund	Public Improvement	Non-Major Permanent Fund	Total Governmental Funds
REVENUES				
Property taxes	\$ 5,661,127	\$ -	\$ -	\$ 5,661,127
State grants	149,301	-	-	149,301
Other grants	67,206	-	-	67,206
Charges for services	83,428	-	-	83,428
Fines and forfeitures	213,858	-	-	213,858
Investment income (loss)	116,732	55,660	1,112	173,504
Contributions and other income	88,956	-	-	88,956
Total revenues	<u>6,380,608</u>	<u>55,660</u>	<u>1,112</u>	<u>6,437,380</u>
EXPENDITURES				
Current				
Personnel	3,535,788	-	-	3,535,788
Supplies and collection additions	874,580	-	-	874,580
Other services and charges	1,546,869	3,328	62	1,550,259
Capital outlay	<u>38,773</u>	<u>205,554</u>	<u>-</u>	<u>244,327</u>
Total expenditures	<u>5,996,010</u>	<u>208,882</u>	<u>62</u>	<u>6,204,954</u>
REVENUES OVER EXPENDITURES	384,598	(153,222)	1,050	232,426
Fund balance, beginning of year	<u>1,625,214</u>	<u>1,376,673</u>	<u>24,708</u>	<u>3,026,595</u>
Fund balance, end of year	<u><u>\$ 2,009,812</u></u>	<u><u>\$ 1,223,451</u></u>	<u><u>\$ 25,758</u></u>	<u><u>\$ 3,259,021</u></u>

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

Traverse Area District Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2023

Total net change in fund balance - governmental funds \$ 232,426

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

Capital outlays to purchase, build, or lease capital assets are reported in the governmental funds as expenditures. However, those costs are allocated over their estimated useful lives as annual depreciation and amortization expense in the statement of activities. This is the amount by which depreciation and amortization expense is more than capital outlays during the period.

Capital outlays	\$ 411,412	
Depreciation expense	(623,334)	
Amortization expense	<u>(27,924)</u>	(239,846)

Change in deferred outflows of resources, net of the change in deferred inflows of resources for pension obligations. (575,315)

In the statement of activities, certain operating expenses - accrued leave - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year, the amount earned was more than the accrued leave paid. (6,259)

Change in lease liabilities 22,498

Decrease in net pension liability 382,250

Change in net position of governmental activities \$ (184,246)

Traverse Area District Library
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting policies of the Traverse Area District Library (the "Library") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

The Traverse Area District Library was established on January 1, 1983 pursuant to the Library Act of Michigan by participating municipalities of the City of Traverse City and Grand Traverse County. The Library provides library services to the public.

The Financial Reporting Entity

As a district Library, the Library is governed by a Board of Trustees, appointed in accordance with the Library bylaws. The Board has governance responsibilities over all activities related to the Traverse Area District Library. The Board receives funding from local and State government sources and must comply with concomitant requirements of these funding entities. However, the Board is not included in any other governmental "reporting entity" as defined by the Government Accounting Standards Board since the Board members, who are appointed, have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in the financial statements.

The Traverse Area District Library maintains associate library relationships with the Peninsula Community, Fife Lake Public, and Interlochen Public Libraries. These contractual relationships provide for an exchange of library services. The agreements also provide for payments to the associate members of the amounts based on varying factors. Supplemental payments may also be made to the associate members at the discretion of the Board of Trustees. The Library operates branches in the Village of Kingsley and East Bay Township.

The Traverse Area District Library also provides services for eligible blind and physically handicapped residents to an eight-county region by means of the TADL Talking Book Library. Part of the Michigan Braille and Talking Book Library Network of Regional and Subregional Libraries, expenditures related to this program are partially funded through State and Federal grants and in-kind support.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by charges for services and tax revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

The balance sheets and statements of revenues, expenditures and changes in fund balance (i.e. fund financial statements) for the Library's governmental and internal service funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund type's assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, property taxes and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued compensated absences, which is recorded when payable from current available financial resources.

State revenue, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Fund Types and Major Funds

Activities in Major Funds

General Fund - This fund is used to account for all financial resources except those provided for in other funds. The fund includes the general operating expenditures of the Library.

Public Improvement Special Revenue Fund - This fund is used to accumulate money for acquiring, constructing, extending, altering, repairing, or equipping public improvements or buildings.

Activities in Non-Major Funds

Permanent Fund - This fund is used to account for the corpus and earnings of a trust of which the earnings can be spent.

Budgeting Data

The annual budgets are prepared by the Library's management and adopted by the Library Board; subsequent amendments are approved by the Library Board. During the current year, the budget was amended in a legally permissible manner.

The budgets have been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenue, expenditures and change in fund balance - budget and actual) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan Law. A comparison of actual results of operations to the budget as adopted by the Board is included in the financial statements.

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

- a. On or about December 1st, the Library submits to the general public a proposed operating budget for the fiscal year commencing the following January 1st. The operation budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. On or about December 31st, the budget is legally enacted through passage of a resolution.
- d. The Library Director is authorized to transfer budgeted amounts within the four budgeted categories.
- e. Appropriations for the funds lapse at the end of the fiscal year.

NOTES TO FINANCIAL STATEMENTS - Continued

Cash and Investments

The Library considers all cash, demand deposits and short-term investments with an original maturity of three months or less to be cash equivalents.

Cash deposits are reported at carrying amounts that reasonably estimate fair value. Investments are reported at fair value.

Property Tax Receivable

Property taxes are levied and attached as an enforceable lien on property on December 1st on the taxable valuation of property as of the preceding December 31st. The property taxes are billed and collected by local units of government within the Library District, which then remit the Library's designated portion on a semi-monthly basis. During March of each year, uncollected real property taxes are transferred to the respective County which pays the Library for those balances and accepts responsibility for collection. Responsibility for the collection of unpaid personal property taxes remains with the local units of government.

Although the Library's 2023 ad valorem tax is levied and collectible on December 1, 2023, it is the Library's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the Library's operations.

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net position) and are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Library generally capitalizes assets with costs of \$5,000 or more and an estimated life in excess of one year. Collection assets are recorded as group additions and deletions each year. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives, in years, for depreciable assets are as follows:

Furniture, fixtures and equipment	3-40 years
Buildings and improvements	15-40 years
Collections-books, DVD's, videotapes, etc.	6 years

Leased Assets and Liabilities

Lease agreements with a non-cancelable term exceeding 12 months are recorded as lease liabilities in the government-wide financial statements. The right-of-use asset is recorded as operating lease right-of-use asset and amortized using a straight-line method over the lease term. The lease liability is valued at net present value, whereby interest is calculated based on the Prime rate at lease inception.

Deferred Inflows and Outflows of Resources

Government-wide financial statements report *deferred inflows of resources* in connection with the net pension obligation. Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows for receivables and revenues at December 31, 2023:

Property taxes:	
General Fund	<u>\$ 6,115,520</u>

Government-wide financial statements report *deferred outflows of resources* in connection with consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources are related to recording the net pension liability.

Compensated Absences

The Library's employees earn leave in varying amounts based on length of service. Unused leave may accumulate and be carried over to a subsequent year, subject to restrictions. Leave accrued at year-end which is subject to payment upon termination has been included as a liability on the statement of net position and not on the fund balance sheet as the balance has not yet matured from resignations or retirements.

Fund Balance

In the fund financial statements, governmental funds classify fund balance as nonspendable for amounts that are not in a spendable form, such as inventory and prepaid expenses, or are required to be maintained intact. Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers, such as grant providers, constitutionally, or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers. Committed fund balance includes amounts that can be used only for the specific purpose determined by a formal action of government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. Assigned fund balance comprises amounts intended to be used by the government for a specific purpose. Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

NOTES TO FINANCIAL STATEMENTS - Continued

When both restricted and unrestricted fund balances are available for use, it is the Library's policy to use restricted fund balance first, then unrestricted fund balance. However, the Library reserves the right to use unrestricted fund balance first. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

It is the Board of Trustees intent to utilize the Public Improvement Fund's restricted balance as set forth in the governmental funds' balance sheet.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Pensions

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net pension of the Municipal Employees Retirement System ("MERS") of Michigan, and additions to/deductions from MERS fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Library has evaluated subsequent events and transactions for potential recognition and disclosure through June 24, 2024, the date the financial statements were available to be issued.

NOTE B - CASH AND INVESTMENTS

At December 31, 2023, the Library's cash and investments include the following:

	<u>Balance Sheet Classification</u>		
	<u>Cash and</u>		
	<u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
Total	<u>\$ 658,869</u>	<u>\$ 3,101,023</u>	<u>\$ 3,759,892</u>

These deposits are held at financial institutions located in Michigan. State policy limits the Library's investing options to financial institutions located in Michigan.

Deposits Risk

Interest Rate Risk - State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Library's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified below for investments held at year-end.

Credit Risk - State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Library's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the following listing. The Library's investment policy does not have specific limits in excess of State law on investment credit risk. The rating for each investment (not including money market investments) is AA+.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. The Library minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the Library's investment policy. As of year-end, \$539,836 of the Library's bank balance of \$789,836 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

NOTES TO FINANCIAL STATEMENTS - Continued

Statutory Authority

State statutes authorize the Library to invest in:

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

The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Library has the following recurring fair value measurements as of December 31, 2023:

Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investment Maturities (in years)	
				Current	1-5
Government backed bonds	\$ -	\$ 760,667	\$ -	\$ 74,836	\$ 685,831
Treasury bonds	-	1,535,184	-	316,397	1,218,787
Money market funds	492,664	-	-	492,664	-
Total	<u>\$ 492,664</u>	<u>\$ 2,295,851</u>	<u>\$ -</u>	<u>\$ 883,897</u>	<u>\$ 1,904,618</u>

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

There have been no changes in the methodologies used at December 31, 2023.

U.S. government bonds, municipal bonds and corporate bonds: Valued at fair value using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

NOTES TO FINANCIAL STATEMENTS - Continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Library believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE C - INVESTMENT IN CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended December 31, 2023:

	<u>Beginning</u>	Capital <u>Acquisitions</u>	<u>Disposals</u>	<u>Ending</u>
Buildings	\$ 8,565,421	\$ 51,468	\$ -	\$ 8,616,889
Collections	4,030,050	338,854	(241,622)	4,127,282
Furniture and equipment	<u>1,921,223</u>	<u>21,090</u>	<u>(47,615)</u>	<u>1,894,698</u>
Total depreciable assets	14,516,694	411,412	(289,237)	14,638,869
Less accumulated depreciation	(8,136,027)	(623,334)	289,237	(8,470,124)
Land	<u>345,545</u>	<u>-</u>	<u>-</u>	<u>345,545</u>
Total capital assets, net	<u>\$ 6,726,212</u>	<u>\$ (211,922)</u>	<u>\$ -</u>	<u>\$ 6,514,290</u>

Total depreciation expense for the year ended December 31, 2023 was \$623,334.

NOTE D - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2023:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	<u>\$ 270,879</u>	<u>\$ 6,259</u>	<u>\$ -</u>	<u>\$ 277,138</u>	<u>\$ 27,714</u>

Compensated absences are liquidated in the general fund.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - LEASES

The Library has entered into an equipment and building lease. The equipment operating lease for the self-checkout machine began on June 1, 2023 for a five-year term and with the option for a one-year renewal term. The annual payment amount is \$26,946. The building lease, with the Village of Kingsley, began on May 1, 2019 for a period of ten years and includes an option to renew for an additional ten-year term. The monthly payment amount is \$500.

Quantitative information concerning the Library's leases consisted of the following as of and for the year ended December 31, 2023:

Lease expense

Amortization expense by class of underlying asset	
Building	\$ 4,595
Equipment	<u>23,329</u>
Total amortization expense	27,924
Interest on lease liabilities	<u>6,825</u>
Total	<u>\$ 34,749</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	
Operating lease right-of-use assets					
Building	\$ 79,647	\$ -	\$ -	\$ 79,647	
Equipment	<u>159,413</u>	<u>-</u>	<u>-</u>	<u>159,413</u>	
Total operating lease right-of-use assets	<u>239,060</u>	<u>-</u>	<u>-</u>	<u>239,060</u>	
Accumulated amortization					
Building	(4,595)	(4,595)	-	(9,190)	
Equipment	<u>(23,329)</u>	<u>(23,329)</u>	<u>-</u>	<u>(46,658)</u>	
Total accumulated amortization	<u>(27,924)</u>	<u>(27,924)</u>	<u>-</u>	<u>(55,848)</u>	
Total operating lease right-of-use assets, net	<u>\$ 211,136</u>	<u>\$ (27,924)</u>	<u>\$ -</u>	<u>\$183,212</u>	
Lease liabilities	<u>\$ 215,953</u>	<u>\$ -</u>	<u>\$ (21,876)</u>	<u>\$194,077</u>	<u>Current Portion</u>
					<u>\$ 25,952</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Years Ending December 31,	Principal	Interest	Total Payments
2024	\$ 25,952	\$ 6,994	\$ 32,946
2025	27,490	5,456	32,946
2026	28,397	4,549	32,946
2027	29,334	3,612	32,946
2028	30,301	2,645	32,946
2029-2033	23,259	6,741	30,000
2034-2038	27,357	2,643	30,000
2039-2043	<u>1,987</u>	<u>13</u>	<u>2,000</u>
Total	<u>\$ 194,077</u>	<u>\$ 32,653</u>	<u>\$ 226,730</u>

NOTE F - PENSION PLAN

The Library participates in two retirement programs as detailed below:

Defined Contribution Plan - Employee Investment Plan and Trust

The Library participates in a self-administered defined contribution pension plan established on June 1, 1985. There are two types of contributions that the Library may make: discretionary matching and discretionary profit sharing. Employees are eligible to participate in the plan after reaching 21 years of age and providing three months of service. As authorized by the plan document, each participant may contribute from 1% to 15% of compensation to this plan. The Library may contribute each year, depending on its funding. Participants in the plan are vested depending on their years of service. The employee will be credited with one year of service for each plan year in which at least 1,000 hours of service were completed. All employee contributions are 100% vested at all times.

The Library opened a MERS Defined Contribution plan as of November 1, 2016. As authorized by the plan document, each participant will contribute 3% of compensation to this plan. The Library contributes 8% of the employee's compensation. All employees are 100% vested after 5 years of service. The employee will be credited with one vesting year for each 12 months of continuous employment from the date of hire.

The employer contribution to the self-administered defined contribution plan and the MERS defined contribution plan for the year totaled \$111,258 and \$172,245, respectively. The employee contributions totaled \$196,734 and \$63,643, respectively. Plan provisions and contribution requirements are established and may be amended by the Library Board.

Defined Benefit Plan - Municipal Employees Retirement System of Michigan

The Library participates in the Municipal Employees Retirement System of Michigan ("MERS") defined benefit plan. The defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, State-wide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.gov.

In October 2016, the Library and the Teamsters Union reached an agreement on the labor contract that had expired on December 31, 2015. The settlement included the transition from the MERS Defined Benefit plan to a MERS Defined Contribution plan. The MERS Defined Benefit plan was frozen as of November 1, 2016. Employees will maintain their benefits pursuant to the MERS Defined Benefit plan.

Benefits Provided

Benefits were frozen as of November 1, 2016.

The vesting period is 6 years.

Normal retirement age is 60 with early retirement at 55 with 15 years of service, or 50 with 25 years of service.

Final average compensation is calculated based on 5 years. Members contributions are 0% because the plan is closed.

Employees Covered by Benefit Terms

At the December 31, 2022 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	38
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>20</u>
	<u><u>66</u></u>

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions were \$120,000 based on the annual required contribution.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2022, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of December 31, 2022.

Actuarial Assumptions

The total pension liability in the December 31, 2022 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary increases: 3.0% in the long-term.

Investment rate of return: 7.00%, net of investment expense, including inflation.

The long-term rate of inflation wage assumed in the valuation is 2.75% annually, which is consistent with the 2.5% price inflation assumption.

Mortality rates used were based on the PubG-2010 and fully generational MP-2019 mortality tables.

The actuarial assumptions used in valuation were based on the results of the actuarial experience studies covering 2014-2018 and dated 2020.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	60.0 %	2.70 %
Global fixed income	20.0 %	0.40 %
Private investments	20.0 %	1.40 %

NOTES TO FINANCIAL STATEMENTS - Continued

Discount Rate

The discount rate used to measure the total pension liability is 7.25% for 2022. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a)-(b)
Balances at December 31, 2022	\$ 7,868,776	\$ 6,214,888	\$ 1,653,888
Changes for the year			
Service cost	744	-	744
Interest on total pension liability	550,748	-	550,748
Changes in benefits	-	-	-
Difference between expected and actual experience	(155,267)	-	(155,267)
Employer contributions	-	120,000	(120,000)
Net investment income	-	671,488	(671,488)
Benefit payments, including employee refunds	(545,243)	(545,243)	-
Administrative expense	-	(14,280)	14,280
Other changes	(1,267)	-	(1,267)
Net changes	(150,285)	231,965	(382,250)
Balances as of December 31, 2023	\$ 7,718,491	\$ 6,446,853	\$ 1,271,638

NOTES TO FINANCIAL STATEMENTS - Continued

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the Library, calculated using the discount rate of 7.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.25%) or 1% higher (8.25%) than the current rate.

	1% Decrease <u>6.25%</u>	Current Discount Rate 7.25%	1% Increase <u>8.25%</u>
Net pension liability	\$ 2,043,486	\$ 1,271,638	\$ 616,288

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

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

For the year ended December 31, 2023, the Library recognized pension expense of \$313,065. The Library reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference in experience	\$ -	\$ 77,634
Deficit investment returns	<u>371,164</u>	<u>-</u>
Total	<u>\$ 371,164</u>	<u>\$ 77,634</u>

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

<u>Years Ending</u>	
2024	\$ (8,217)
2025	129,636
2026	215,283
2027	<u>(43,172)</u>
	<u>\$ 293,530</u>

NOTE G - DEFERRED COMPENSATION PLAN

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

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

NOTE H - RISKS AND UNCERTAINTIES

Risk Management

The Library is exposed to various risks of loss related to property, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past four fiscal years. There were no significant reductions in insurance coverage during the past year.

NOTE I - COMMITMENTS AND CONTINGENCIES

Collectively Bargained Employment Agreement

The employees of the Library are organized under the Teamsters State, county and municipal workers local 214 (the "Union"). The Board of Trustees and the Union have a contract for January 1, 2022 through December 31, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

Traverse Area District Library

SCHEDULE OF CHANGES IN THE MERS NET PENSION ASSET AND RELATED RATIOS

Years Ended December 31:

	2023	2022	2021	2020	2019	2018	2017	2016
Total Pension Liability								
Service cost	\$ 744	\$ 780	\$ 990	\$ 1,100	\$ 1,515	\$ 1,950	\$ 199,446	\$ 215,673
Interest	550,748	526,201	533,181	514,941	559,529	554,612	668,004	603,264
Changes in benefit terms	-	-	-	-	-	-	(1,603,158)	-
Difference between expected and actual experience	(155,267)	124,626	21,472	(37,768)	(271,179)	(30,107)	(117,979)	242,089
Changes in assumption	-	248,501	244,014	254,298	-	-	-	450,014
Benefit payments, including employee refunds	(545,243)	(554,092)	(528,986)	(505,221)	(448,086)	(451,825)	(431,735)	(429,433)
Other	(1,267)	(11,847)	(15,604)	24,596	(31,582)	(14,823)	(23,177)	(34,593)
Net change in total pension liability	(150,285)	334,169	255,067	251,946	(189,803)	59,807	(1,308,599)	1,047,014
Total pension liability, beginning	7,868,776	7,534,607	7,279,540	7,027,594	7,217,397	7,157,590	8,466,189	7,419,175
Total pension liability, ending	<u>\$ 7,718,491</u>	<u>\$ 7,868,776</u>	<u>\$ 7,534,607</u>	<u>\$ 7,279,540</u>	<u>\$ 7,027,594</u>	<u>\$ 7,217,397</u>	<u>\$ 7,157,590</u>	<u>\$ 8,466,189</u>
Plan Fiduciary Net Position								
Contributions - employer	\$ 120,000	\$ 234,173	\$ 320,000	\$ 230,000	\$ 299,528	\$ 299,372	\$ 299,900	\$ 654,923
Contributions - employee	-	-	-	-	-	-	(123)	68,879
Net investment income	671,488	(750,260)	921,234	755,913	749,972	(231,447)	707,090	555,932
Benefit payments, including employee refunds	(545,243)	(554,092)	(528,986)	(505,221)	(448,086)	(451,825)	(431,735)	(429,433)
Administrative expense	(14,280)	(13,260)	(10,561)	(12,147)	(12,930)	(11,492)	(11,182)	(10,910)
Net change in plan fiduciary net position	231,965	(1,083,439)	701,687	468,545	588,484	(395,392)	563,950	839,391
Plan fiduciary net position, beginning	6,214,888	7,298,327	6,596,640	6,128,095	5,539,611	5,935,003	5,371,053	4,531,662
Plan fiduciary net position, ending	<u>\$ 6,446,853</u>	<u>\$ 6,214,888</u>	<u>\$ 7,298,327</u>	<u>\$ 6,596,640</u>	<u>\$ 6,128,095</u>	<u>\$ 5,539,611</u>	<u>\$ 5,935,003</u>	<u>\$ 5,371,053</u>
Employer net pension liability	<u>\$ 1,271,638</u>	<u>\$ 1,653,888</u>	<u>\$ 236,280</u>	<u>\$ 682,900</u>	<u>\$ 899,499</u>	<u>\$ 1,677,786</u>	<u>\$ 1,222,587</u>	<u>\$ 3,095,136</u>
Plan fiduciary net position as a percentage of total pension liability	84 %	79 %	97 %	91 %	87 %	77 %	83 %	63 %
Covered employee payroll	<u>\$ 929,840</u>	<u>\$ 983,007</u>	<u>\$ 1,113,703</u>	<u>\$ 1,236,453</u>	<u>\$ 1,401,775</u>	<u>\$ 1,646,335</u>	<u>\$ 1,733,192</u>	<u>\$ 1,785,090</u>
Employer's net pension liability as a percentage of covered employee payroll	137 %	168 %	21 %	55 %	64 %	102 %	71 %	173 %

Note to schedule:

The plan was closed October 31, 2016.

Traverse Area District Library

SCHEDULE OF MERS EMPLOYER'S CONTRIBUTIONS

Years Ended December 31,

	2023	2022	2021	2020	2019	2018	2017	2016
Actuarial determined contributions	\$ 67,548	\$ 120,000	\$ 120,000	\$ 120,000	\$ 99,528	\$ 99,372	\$ 99,777	\$ 304,734
Contribution in relation to the actuarially determined contributions	<u>120,000</u>	<u>234,173</u>	<u>320,000</u>	<u>230,000</u>	<u>299,528</u>	<u>299,372</u>	<u>299,777</u>	<u>679,734</u>
Contribution excess	<u>\$ 52,452</u>	<u>\$ 114,173</u>	<u>\$ 200,000</u>	<u>\$ 110,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 375,000</u>
Covered employee payroll	<u>\$ 929,840</u>	<u>\$ 983,007</u>	<u>\$1,113,703</u>	<u>\$1,236,453</u>	<u>\$1,401,775</u>	<u>\$1,646,335</u>	<u>\$1,733,192</u>	<u>\$1,785,090</u>
Contributions as a percentage of covered employee payroll	13 %	24 %	29 %	19 %	21 %	18 %	17 %	38 %

Notes to Schedule

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.0%
Investment rate of return	7.00%
Retirement age	Varies depending on plan adoption
Mortality	PubG-2010 Mortality Table and fully generational MP-2019 Mortality tables

Previous actuarial methods and assumptions:

A seven year smoothed asset valuation method was used for the time period of 2015 through 2018. Inflation and salary increases were expected to be 3.5% and 4.5%, respectively, for 2015. Salary increases were expected to be 3.75% for the time period of 2016 through 2019. Investment rate of return was 7.75% for the time period of 2016 through 2019, 7.5% for the time period of 2020 and was reduced to 7.00% for the time period of 2021 through 2022.

Traverse Area District Library

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2023

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	REVENUES				
Property taxes	\$ 5,634,707	\$ 5,661,131	\$ 5,661,127	\$ 26,424	\$ (4)
State grants	148,541	149,301	149,301	760	-
Other grants	27,475	67,202	67,206	39,727	4
Charges for services	62,800	79,358	83,428	16,558	4,070
Fines and forfeitures	167,900	212,034	213,858	44,134	1,824
Interest income	-	89,040	116,732	89,040	27,692
Contributions and other income	26,200	77,588	88,956	51,388	11,368
Total revenues	<u>6,067,623</u>	<u>6,335,654</u>	<u>6,380,608</u>	<u>268,031</u>	<u>44,954</u>
EXPENDITURES					
Current					
Personnel	3,561,116	3,587,835	3,535,788	(26,719)	52,047
Supplies	871,775	1,023,242	874,580	(151,467)	148,662
Other services and charges	1,634,732	1,669,879	1,546,869	(35,147)	123,010
Capital outlay	-	45,000	38,773	(45,000)	6,227
Total expenditures	<u>6,067,623</u>	<u>6,325,956</u>	<u>5,996,010</u>	<u>(258,333)</u>	<u>329,946</u>
REVENUES OVER (UNDER) EXPENDITURES	-	9,698	384,598	9,698	374,900
Fund balance, beginning of year	<u>1,625,214</u>	<u>1,625,214</u>	<u>1,625,214</u>	-	-
Fund balance, end of year	<u>\$ 1,625,214</u>	<u>\$ 1,634,912</u>	<u>\$ 2,009,812</u>	<u>\$ 9,698</u>	<u>\$ 374,900</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Traverse Area District Library
Traverse City, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Traverse Area District Library** (the "Library") as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements and have issued our report thereon dated June 24, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as described below, we identified a deficiency in internal control that we consider to be a significant deficiency.

Finding 2023-001 Preparation of Financial Statements

Criteria: The preparation of financial statements is the responsibility of the Library management and requires internal controls over both (1) recording, processing and summarizing financial data (i.e., maintaining internal books and records) and (2) reporting this financial data in the form of financial statements, including all related note disclosures (i.e., external financial reporting).

Condition: As is the case with many small governments, the Library is relying on their independent external auditors to assist with the preparation of the financial statements and related note disclosures as part of its external financial reporting process.

Cause: This condition was caused by the Library's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Library to perform this task internally.

Effect: The Library's ability to adjust its books and records and prepare financial statements is based, in part, on its reliance on its external auditors who cannot, by definition, be considered a part of the Library's internal controls.

Recommendation: The Library should perform a review of the draft financial statements and notes prior to approving them to accept responsibility for their content.

Management's Response: The Library has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Library to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Report on Compliance and Other Matters

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

Board of Trustees
Traverse Area District Library

Library's Response to Finding

The Library's response to the finding identified in our audit is identified above. The Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

June 24, 2024

AUDIT-RELATED COMMUNICATIONS

To the Board of Trustees
Traverse Area District Library

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Traverse Area District Library* (the "Library") for the year ended December 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 10, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Compliance and Internal Controls

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

In planning and performing our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, we considered the Library's system of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

We have issued our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* thereon dated June 24, 2024.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 Library'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 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 following deficiency in internal control to be a *significant deficiency*:

Preparation of Financial Statements

The preparation of financial statements is the responsibility of Library management and requires internal controls over both (1) recording, processing and summarizing financial data (i.e., maintaining internal books and records) and (2) reporting this financial data in the form of financial statements, including all related note disclosures (i.e., external financial reporting). The Library has historically relied on their independent external auditors to assist with the preparation of the financial statements and related note disclosures as part of its external financial reporting process. Accordingly, the Library's ability to adjust its books and records and prepare financial statements is based, in part, on its reliance on its external auditors who cannot, by definition, be considered a part of the Library's internal controls.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Library are described in Note A of the financial statements. The Library adopted the provisions of GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, for the year ended December 31, 2023, which established criteria for identifying, and requiring recognition of, certain subscription liabilities for software agreements. However, the adoption of the standard resulted in no significant changes to the financial statements. The application of existing policies was not changed in the year. We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Net pension liability based on information provided by MERS.
- Management's estimate of depreciation expense was based on useful lives of capital assets per Internal Revenue Service guidelines.

We evaluated the methods, assumptions, and data used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

- Pension Plan
- Commitments and Contingencies

No Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Below is a summary of corrected adjustments of the financial statements.

Uncorrected Adjustments

- Unrecorded GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, in the amount of approximately \$40,000.

Corrected Adjustments

- Adjust General Fund taxes receivable and deferred taxes to actual (increase of approximately \$750,000).
- Reclassify computer software expense to prepaid expense in the amount of approximately \$13,000.

No Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 24, 2024.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Accounting Changes and Error Corrections

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. This statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements. Accounting changes include changes in accounting principles, changes in accounting estimates and changes to or within the financial reporting entity.

The new standard defines four categories of accounting changes and error corrections and related accounting and financial reporting requirements:

1. Changes in accounting principle must be reported retroactively by restating prior periods.
2. Changes in accounting estimate must be reported prospectively by recognizing the change in the current period.
3. Changes to and within the financial reporting entity must be reported by adjusting beginning balances of the current period.
4. Error corrections result from mathematical mistakes, misuse of information, or misapplication of accounting principle and should be reported retroactively by restating prior periods.

The requirements in this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The Library should evaluate the impact this standard will have on the financial statements when adopted during the 2024 fiscal year.

Compensated Absences

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. The Library should evaluate the impact of this standard will have on the financial statements when adopted during the 2024-2025 fiscal year.

Other Matters

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

Restriction on Use

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

Dennis, Gartland & Niergarth

June 24, 2024