

**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

October 20, 2020

Board of Trustees  
Herrick District Library  
Holland, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Herrick District Library* (the "Library") as of and for the year ended June 30, 2020, and have issued our report thereon dated October 20, 2020. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated July 23, 2020, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Library solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated October 20, 2020.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

## Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

## Qualitative Aspects of the Library's Significant Accounting Practices

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Library is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate that the liability for retiree health insurance (other postemployment benefits) is immaterial to the financial statements taken as a whole.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

### Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any misstatements during our audit.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Library's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

### Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment B to this letter.

### Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Library, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Library's auditors.

### Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment A to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

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

Very truly yours,

A handwritten signature in cursive script that reads "Rehmann Johnson LLC".

# HERRICK DISTRICT LIBRARY

## Attachment A - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2020 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Library in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Library. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

### **GASB 84 ■ Fiduciary Activities**

*Effective 12/15/2020 (your FY 2021)*

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods.

### **GASB 87 ■ Leases**

*Effective 06/15/2022 (your FY 2022)*

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

### **GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period**

*Effective 12/15/2021 (your FY 2022)*

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the Library.

### **GASB 91 ■ Conduit Debt Obligations**

*Effective 12/15/2022 (your FY 2023)*

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is *more likely than not* that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the Library.

### **GASB 92 ■ Omnibus 2020**

*Effective 06/15/2022 (your FY 2022)*

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the Library.

# HERRICK DISTRICT LIBRARY

## ■ Attachment A - Upcoming Changes in Accounting Standards / Regulations For the June 30, 2020 Audit

### **GASB 93 ■ Replacement of Interbank Offered Rates** *Effective 06/15/2022 (your FY 2022)*

This standard provides guidance to governments with agreements with variable payments tied to LIBOR, and how to transition them to a new reference rate. We do not expect this standard to have any significant effect on the Library.

### **GASB 94 ■ Public-Private and Public-Public Partnerships and Availability Payment Arrangements** *Effective 06/15/2023 (your FY 2023)*

This standard addresses accounting and financial reporting for arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a capital asset for a period of time in an exchange or exchange-like transaction. We do not expect this standard to have any significant effect on the Library.

### **GASB 96 ■ Subscription-Based Information Technology Arrangements** *Effective 06/15/2023 (your FY 2023)*

This standard expands on the new guidance for leases and applies it to computer software contracts (subscriptions) with similar characteristics. Governments that subscribe to a vendor's IT software will now report offsetting intangible subscription assets and subscription liabilities equal to the present value of future subscription payments.

### **GASB 97 ■ Certain Component Unit Criteria and IRC Section 457 Deferred Compensation Plans** *Effective 06/15/2022 (your FY 2022)*

This standard amends the requirements for when to report defined contribution pension plans (such as 401k and 403b plans) as fiduciary component units, and how to account for Section 457 deferred compensation plans.



## HERRICK DISTRICT LIBRARY

### ■ Attachment B - Management Representations For the June 30, 2020 Audit

The following pages contain the written representations that we requested from management.



October 20, 2020

Rehmann Robson  
2330 East Paris Avenue, SE  
Grand Rapids, MI 49546

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Herrick District Library* (the "Library"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the budgetary comparison for the General Fund of the Library in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of October 20, 2020:

#### Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 23, 2020, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
2. The financial statements referred to above have been fairly presented in accordance with U.S. GAAP, and include all properly classified funds, required supplementary information, and notes to the basic financial statements.
3. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
4. With respect to any assistance you provided in drafting the financial statements and related notes, we have performed the following:
  - a. Made all management decisions and performed all management functions;
  - b. Assigned a competent individual to oversee the services;
  - c. Evaluated the adequacy of the services performed;
  - d. Evaluated and accepted responsibility for the result of the service performed; and
  - e. Established and maintained internal controls, including monitoring ongoing activities.
5. We acknowledge our responsibility 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.

6. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
7. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
9. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
10. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
11. With regard to items reported at fair value:
  - a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
  - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
12. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
13. All funds and activities are properly classified.
14. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
15. All components of net position and fund balance classifications have been properly reported.
16. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
17. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
18. All interfund and intra-entity transactions and balances have been properly classified and reported.
19. Deposit and investment risks have been properly and fully disclosed.
20. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
21. All required supplementary information is measured and presented within the prescribed guidelines.
22. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
23. We are responsible for the fair presentation of the Library's net pension liability as calculated by the Municipal Employees' Retirement System of Michigan (MERS) and related amounts. We provided MERS with complete and accurate information regarding the Library's participation in the plan, and have reviewed the information provided by MERS for inclusion in the Library's financial statements.
24. In response to the novel coronavirus outbreak (COVID-19), the Governor issued various temporary Executive Orders that, among other stipulations, effectively prohibited in-person work activities for

most businesses and industries including non-essential Library services, having the effect of suspending or severely curtailing operations. As a result, the COVID-19 outbreak is disrupting and affecting the Library's normal activities. The extent of the ultimate impact of the pandemic on the Library's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the Library as it determines the appropriate methods to deliver services to visitors in a safe environment. While management reasonably expects the COVID-19 outbreak to negatively impact the Library's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

#### Information Provided

25. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
26. All transactions have been recorded in the accounting records and are reflected in the financial statements.
27. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
28. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the financial statements.
29. We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors (contractors), regulators, or others.
30. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
31. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
32. We have a process to track the status of audit findings and recommendations.
33. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
34. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
35. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
36. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.

37. The Library has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
38. We have disclosed to you all guarantees, whether written or oral, under which the Library is contingently liable.
39. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
40. There are no:
  - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62.
41. The Library has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
42. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
43. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

#### **Supplementary Information in Relation to the Financial Statements as a Whole**

44. With respect to the supplementary information accompanying the financial statements:
  - a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

#### **Required Supplementary Information**

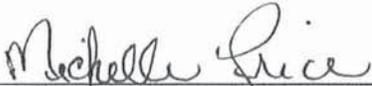
45. With respect to the required supplementary information accompanying the financial statements:
  - a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.

- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.



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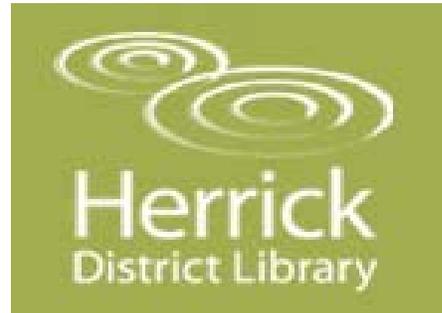
Diane Kooiker, Library Director



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Michelle Price, Assistant Finance Director - City of Holland, Michigan

Herrick District  
Library



Year Ended  
June 30, 2020

Financial  
Statements

# HERRICK DISTRICT LIBRARY

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**INDEPENDENT AUDITORS' REPORT**

October 20, 2020

Board of Trustees  
Herrick District Library  
Holland, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Herrick District Library* (the "Library"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Independent Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Library as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2020 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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 Library's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# HERRICK DISTRICT LIBRARY

## Management's Discussion and Analysis

As management of Herrick District Library (the "Library"), we offer readers of Herrick District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended June 30, 2020. 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

- The Library's total net position increased by \$1,264,783. Of this amount, \$1,264,827 was attributable to governmental activities and the remaining \$44 decrease is related to business-type activities.
- Total revenues increased from the prior year from \$6,709,991 to \$6,877,297. Expenses also increased from \$5,505,629 to \$5,612,514.
- As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$10,896,748, an increase of \$609,157 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance of the General Fund was \$7,468,507 or 142.6% of total General Fund expenditures.

### Overview of the Financial Statements

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

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

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

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

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Library can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

# HERRICK DISTRICT LIBRARY

## Management's Discussion and Analysis

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

The Library maintains four governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Endowment Permanent Fund, the North Side Branch Expansion Capital Project Fund, each of which are major funds for financial reporting purposes as defined by GASB Statement #34, and the nonmajor LSTA Collaborative Grant special revenue fund.

The Library adopts an annual appropriated budget for the General Fund and special revenue fund. A budgetary comparison statement has been provided herein to demonstrate compliance with the major fund - the General Fund - budget.

**Proprietary Funds.** The Library maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Library uses an enterprise fund to account for the Employee Vending Fund. An internal service fund is used to accumulate resources to fund the Library's compensated absence liability. Because this service predominately benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Library's internal service fund is presented in the proprietary fund financial statements in the Governmental Activities - Internal Service Fund column.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Library's own programs.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MERS pension plan immediately following the notes to the financial statements. The combining statements in connection with fiduciary funds are presented immediately following the required supplementary information.

### Government-wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets and deferred outflows of resources exceeded liabilities by \$15,253,045 at the close of the most recent fiscal year.

# HERRICK DISTRICT LIBRARY

## Management's Discussion and Analysis

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$11,930,521	\$10,711,392	\$ 1,193	\$ 1,237	\$11,931,714	\$10,712,629
Capital assets, net	6,187,736	5,432,961	-	-	6,187,736	5,432,961
Total assets	18,118,257	16,144,353	1,193	1,237	18,119,450	16,145,590
Deferred outflows of resources	245,649	618,720	-	-	245,649	618,720
Long-term debt	233,278	195,888	-	-	233,278	195,888
Other liabilities	2,878,776	2,490,767	-	-	2,878,776	2,490,767
Total liabilities	3,112,054	2,686,655	-	-	3,112,054	2,686,655
Deferred inflows of resources	-	89,393	-	-	-	89,393
Net position:						
Net investment in capital assets	6,187,736	5,430,929	-	-	6,187,736	5,430,929
Restricted	2,679,548	2,587,039	-	-	2,679,548	2,587,039
Unrestricted	6,384,568	5,969,057	1,193	1,237	6,385,761	5,970,294
Total net position	\$15,251,852	\$13,987,025	\$ 1,193	\$ 1,237	\$15,253,045	\$13,988,262

A substantial portion of the Library's net position, \$6,187,736 (40.6%), reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) less related depreciation and any related outstanding debt used to acquire those assets. The Library uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Library's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Library's net position of \$2,679,548 (17.6%) represents resources that are subject to external restrictions on how they may be used. Of this amount \$1,269,188 is considered nonexpendable because it is, by donor intent, restricted to use as corpus for a permanent endowment fund. The Library may use the remaining balance of unrestricted net position of \$6,385,761 (41.8%) to meet its ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Library is able to report positive balances in all three categories of net position, both for the government as a whole, and for its separate governmental and business-type activities.

There was an increase of \$92,509 in restricted net position reported in connection with the Library's governmental activities due to donor contributions and investment earnings. The Library's unrestricted net position increased \$415,467. This change was primarily the result of increased property tax revenues.

# HERRICK DISTRICT LIBRARY

## Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Program revenues:						
Charges for services	\$ 171,328	\$ 221,463	\$ -	\$ 29	\$ 171,328	\$ 221,492
Operating grants and contributions	808,509	819,838	-	-	808,509	819,838
General revenues:						
Property taxes	5,897,460	5,668,661	-	-	5,897,460	5,668,661
Total revenues	<u>6,877,297</u>	<u>6,709,962</u>	<u>-</u>	<u>29</u>	<u>6,877,297</u>	<u>6,709,991</u>
Expenses:						
Library services	5,612,049	5,505,294	-	-	5,612,049	5,505,294
Interest on long-term debt	21	253	-	-	21	253
Employee vending	-	-	444	82	444	82
Total expenses	<u>5,612,070</u>	<u>5,505,547</u>	<u>444</u>	<u>82</u>	<u>5,612,514</u>	<u>5,505,629</u>
Change in net position, before transfers	1,265,227	1,204,415	(444)	(53)	1,264,783	1,204,362
Transfers	(400)	(400)	400	400	-	-
Change in net position	1,264,827	1,204,015	(44)	347	1,264,783	1,204,362
Net position:						
Beginning of year,	<u>13,987,025</u>	<u>12,783,010</u>	<u>1,237</u>	<u>890</u>	<u>13,988,262</u>	<u>12,783,900</u>
End of year	<u>\$15,251,852</u>	<u>\$13,987,025</u>	<u>\$ 1,193</u>	<u>\$ 1,237</u>	<u>\$15,253,045</u>	<u>\$13,988,262</u>

The Library's net position increased by \$1,264,783 during the current fiscal year. As compared to the prior year increase of \$1,204,362, this change was primarily the result of increased property tax revenues, net of a decrease in charges for services as the Library was closed for a period of time related to the COVID-19 shutdown.

### Financial Analysis of the Library's Funds

The Library's general fund had a current year increase in fund balance of \$989,215 and total fund balance of \$7,469,995 at year-end. The increase from the prior year is primarily attributable to increased property tax revenue and local government contribution. This year we also had lower than expected expenses due to being shut down from COVID-19.

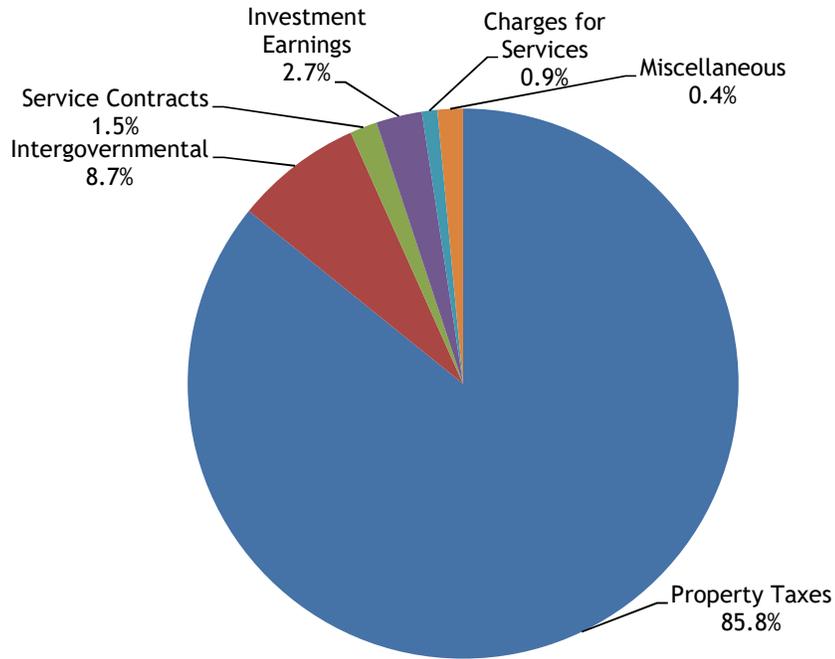
The Library's endowment permanent fund had a current year increase in fund balance of \$92,509, primarily due to investment earnings, and total fund balance of \$2,679,548 at year-end.

The Library's north side branch expansion fund had a current year decrease in fund balance of \$472,567, primarily as a result of the start of construction, and total fund balance of \$747,205 at year-end.

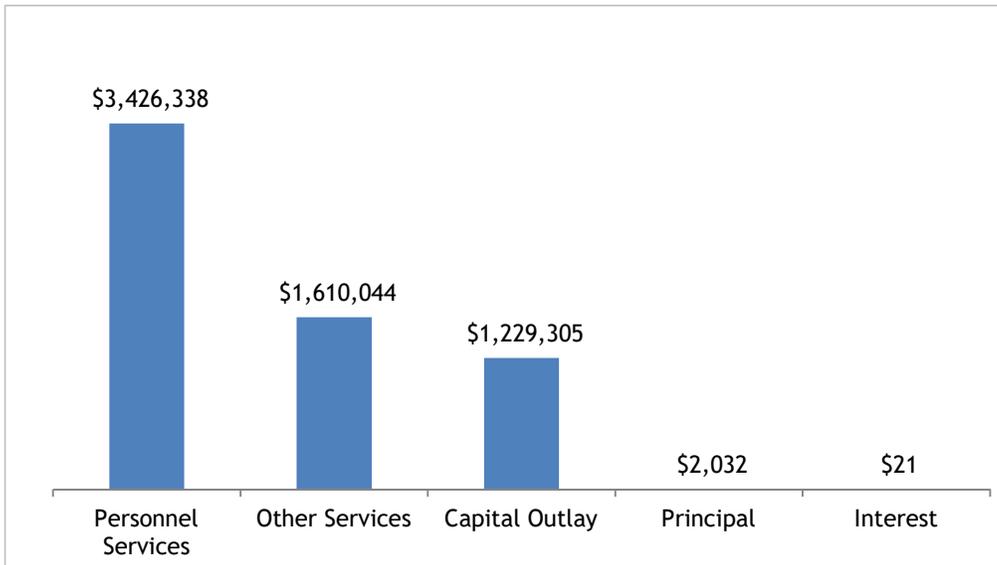
# HERRICK DISTRICT LIBRARY

## Management's Discussion and Analysis

Revenues by Source - Governmental Funds



Expenditures by Type - Governmental Funds



# HERRICK DISTRICT LIBRARY

## Management's Discussion and Analysis

### General Fund Budgetary Highlights

This year the Library received larger than expected revenues from Federal and State aid. Investment income was positive with interest rates higher at the beginning of the fiscal year and steadily declining. Penal fines for Allegan County and Ottawa County decreased \$51,890 from last year, while contributions from local government (Fillmore Township, Health Township, Manlius Township and Port Sheldon Township) came in higher than expected as property values increased. Fine revenue came in lower than budgeted due to the library fines on all materials being eliminated through the duration of the COVID pandemic and shutdown.

The budget of \$6,487,999 includes an extra contribution of \$126,136 to the MERS defined benefit retirement plan, lighting upgrades to both the auditorium and lower level cafe areas, a new HVAC Cooling tower system at the main library, new av controls and systems in the auditorium and \$500,000 savings for the North Branch expansion. Other significant funding was used for technology, increased digital content, staffing and continued development of the Groundworks, a digital lab. Landscaping around the main Library was refreshed in the summer of 2019 and completed in the summer of 2020.

### Capital Assets

	Capital Assets (Net of Depreciation)	
	Governmental Activities	
	2020	2019
Land	\$ 617,975	\$ 617,975
Construction in progress	994,207	-
Buildings	3,723,594	3,947,314
Improvements other than buildings	19,230	28,182
Equipment and machinery	281,067	206,576
Library collection	467,488	518,905
Office equipment and furniture	84,175	114,009
<b>Total capital assets, net</b>	<b>\$ 6,187,736</b>	<b>\$ 5,432,961</b>

During the year, the Library began construction on the North Branch expansion, as a result there were capital additions in construction in progress of \$994,207. Additional information on the Library's capital assets can be found in Note 5 to the financial statements.

### Long-term Debt

	Long-term Debt	
	Governmental Activities	
	2020	2019
Installment purchase agreement	\$ -	\$ 2,032
Compensated absences	233,278	193,856
<b>Total long-term debt</b>	<b>\$ 233,278</b>	<b>\$ 195,888</b>

Additional information on the Library long-term debt can be found in Note 6 to the financial statements.

# HERRICK DISTRICT LIBRARY

## Management's Discussion and Analysis

### Economic Factors and Next Year's Budget and Rates

Property taxes account for 85.8% of the library's revenues. Property values continue to rise in the Holland Area and the levy for FY 19/20 was 1.4626 mills. For FY 20/21 the tax levy will be 1.4463 mills.

The budget for the year ended June 30, 2021 was adopted in June 2020 when there was a high degree of uncertainty related to the operations for libraries in the State of Michigan due to the novel coronavirus outbreak (COVID-19). In addition, the Library is continuously evaluating the impacts of the pandemic as it determines the appropriate methods to deliver services to visitors in a safe environment. These factors will have a significant impact on the operational and financial performance of the Library.

### Requests for Information

This financial report is designed to provide a general overview of the Library's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director, Herrick District Library, 300 South River Avenue, Holland, Michigan 49423.

## BASIC FINANCIAL STATEMENTS

# HERRICK DISTRICT LIBRARY

## Statement of Net Position

June 30, 2020

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 11,552,587	\$ 1,145	\$ 11,553,732
Receivables, net	375,446	48	375,494
Prepays	2,488	-	2,488
Capital assets:			
Not being depreciated	1,612,182	-	1,612,182
Being depreciated, net	4,575,554	-	4,575,554
<b>Total assets</b>	<b>18,118,257</b>	<b>1,193</b>	<b>18,119,450</b>
<b>Deferred outflows of resources</b>			
Deferred pension amounts	245,649	-	245,649
<b>Liabilities</b>			
Payables	800,495	-	800,495
Long-term debt:			
Due within one year	116,639	-	116,639
Due in more than one year	116,639	-	116,639
Net pension liability (due in more than one year)	2,078,281	-	2,078,281
<b>Total liabilities</b>	<b>3,112,054</b>	<b>-</b>	<b>3,112,054</b>
<b>Net position</b>			
Investment in capital assets	6,187,736	-	6,187,736
Restricted for endowment:			
Nonexpendable (corpus)	1,269,188	-	1,269,188
Expendable	1,410,360	-	1,410,360
Unrestricted	6,384,568	1,193	6,385,761
<b>Total net position</b>	<b>\$ 15,251,852</b>	<b>\$ 1,193</b>	<b>\$ 15,253,045</b>

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

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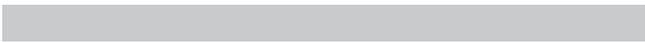
# HERRICK DISTRICT LIBRARY

## Statement of Activities

For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities			
Library services	\$ 5,612,049	\$ 171,328	\$ 808,509
Interest on long-term debt	21	-	-
Total governmental activities	5,612,070	171,328	808,509
Business-type activities			
Employee vending	444	-	-
Total primary government	<u>\$ 5,612,514</u>	<u>\$ 171,328</u>	<u>\$ 808,509</u>
General revenues and transfers			
Property taxes			
Transfers - internal activities			
Total general revenues and transfers			
Change in net position			
Net position, beginning of year			
Net position, ending of year			

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



Net (Expenses) Revenues and  
Changes In Net Position

Governmental Activities	Business-type Activities	Total
\$ (4,632,212)	\$ -	\$ (4,632,212)
<u>(21)</u>	<u>-</u>	<u>(21)</u>
(4,632,233)	-	(4,632,233)
-	(444)	(444)
<u>(4,632,233)</u>	<u>(444)</u>	<u>(4,632,677)</u>
5,897,460	-	5,897,460
<u>(400)</u>	<u>400</u>	<u>-</u>
5,897,060	400	5,897,460
1,264,827	(44)	1,264,783
<u>13,987,025</u>	<u>1,237</u>	<u>13,988,262</u>
<u>\$ 15,251,852</u>	<u>\$ 1,193</u>	<u>\$ 15,253,045</u>

# HERRICK DISTRICT LIBRARY

## Balance Sheet Governmental Funds June 30, 2020

	General	Endowment Permanent	North Side Branch Expansion	Nonmajor Fund LSTA Collaborative Grant	Total
<b>Assets</b>					
Cash and pooled investments	\$ 7,434,008	\$ 2,682,849	\$ 1,203,784	\$ -	\$ 11,320,641
Receivables:					
Accounts	3,185	50	-	-	3,235
Taxes	239	-	-	-	239
Interest	26,572	-	-	-	26,572
Due from other governmental units	327,057	-	-	18,343	345,400
Prepays	1,488	-	1,000	-	2,488
<b>Total assets</b>	<b>\$ 7,792,549</b>	<b>\$ 2,682,899</b>	<b>\$ 1,204,784</b>	<b>\$ 18,343</b>	<b>\$ 11,698,575</b>
<b>Liabilities</b>					
Negative equity in cash and pooled investments	\$ -	\$ -	\$ -	\$ 1,332	\$ 1,332
Accounts payable	254,430	3,351	457,579	17,011	732,371
Accrued payroll and benefits	68,124	-	-	-	68,124
<b>Total liabilities</b>	<b>322,554</b>	<b>3,351</b>	<b>457,579</b>	<b>18,343</b>	<b>801,827</b>
<b>Fund balances</b>					
Nonspendable:					
Prepaid	1,488	-	1,000	-	2,488
Endowment corpus	-	1,269,188	-	-	1,269,188
Restricted - endowment expendable	-	1,410,360	-	-	1,410,360
Committed - capital replacement	-	-	746,205	-	746,205
Unassigned	7,468,507	-	-	-	7,468,507
<b>Total fund balances</b>	<b>7,469,995</b>	<b>2,679,548</b>	<b>747,205</b>	<b>-</b>	<b>10,896,748</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,792,549</b>	<b>\$ 2,682,899</b>	<b>\$ 1,204,784</b>	<b>\$ 18,343</b>	<b>\$ 11,698,575</b>

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

## HERRICK DISTRICT LIBRARY

### Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2020

Fund balances - total governmental funds	\$ 10,896,748
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in the governmental activities are not financial resources, and therefore are not reported in the funds.	
Capital assets not being depreciated	1,612,182
Capital assets being depreciated	14,195,986
Accumulated depreciation	(9,620,432)
Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.	
Net pension liability	(2,078,281)
Deferred outflows related to the net pension liability	245,649
Net position of governmental activities	<u>\$ 15,251,852</u>

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

## HERRICK DISTRICT LIBRARY

### Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2020

	General	Endowment Permanent	North Side Branch Expansion	Nonmajor Fund LSTA Collaborative Grant	Total
<b>Revenues</b>					
Property taxes	\$ 5,897,460	\$ -	\$ -	\$ -	\$ 5,897,460
Intergovernmental	491,641	-	-	21,921	513,562
Service contracts - townships	107,341	-	-	-	107,341
Charges for services, fines and fees	63,987	-	-	-	63,987
Investment earnings	121,188	45,259	21,640	-	188,087
Miscellaneous	45,507	61,353	-	-	106,860
<b>Total revenues</b>	<b>6,727,124</b>	<b>106,612</b>	<b>21,640</b>	<b>21,921</b>	<b>6,877,297</b>
<b>Expenditures</b>					
<b>Current:</b>					
Personnel services - operations	3,426,338	-	-	-	3,426,338
Other services and charges	1,574,020	14,103	-	21,921	1,610,044
<b>Debt service:</b>					
Principal	2,032	-	-	-	2,032
Interest	21	-	-	-	21
Capital outlay	235,098	-	994,207	-	1,229,305
<b>Total expenditures</b>	<b>5,237,509</b>	<b>14,103</b>	<b>994,207</b>	<b>21,921</b>	<b>6,267,740</b>
<b>Revenues over (under) expenditures</b>	<b>1,489,615</b>	<b>92,509</b>	<b>(972,567)</b>	<b>-</b>	<b>609,557</b>
<b>Other financing sources (uses)</b>					
Transfers in	-	-	500,000	-	500,000
Transfers out	(500,400)	-	-	-	(500,400)
<b>Total other financing sources (uses)</b>	<b>(500,400)</b>	<b>-</b>	<b>500,000</b>	<b>-</b>	<b>(400)</b>
<b>Net changes in fund balances</b>	<b>989,215</b>	<b>92,509</b>	<b>(472,567)</b>	<b>-</b>	<b>609,157</b>
<b>Fund balances, beginning of year</b>	<b>6,480,780</b>	<b>2,587,039</b>	<b>1,219,772</b>	<b>-</b>	<b>10,287,591</b>
<b>Fund balances, end of year</b>	<b>\$ 7,469,995</b>	<b>\$ 2,679,548</b>	<b>\$ 747,205</b>	<b>\$ -</b>	<b>\$ 10,896,748</b>

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

## HERRICK DISTRICT LIBRARY

### Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2020

Net changes in fund balances - total governmental funds	\$ 609,157
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.	
Purchase of capital assets	1,358,689
Depreciation expense	(601,185)
Loss on disposal of capital assets	(2,729)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments on long-term debt	2,032
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in the net pension liability and related deferred amounts	<u>(101,137)</u>
Change in net position of governmental activities	<u><u>\$ 1,264,827</u></u>

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

# HERRICK DISTRICT LIBRARY

## Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund  
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 5,819,699	\$ 5,819,699	\$ 5,897,460	\$ 77,761
Intergovernmental	408,500	408,500	491,641	83,141
Service contracts - townships	94,000	94,000	107,341	13,341
Charges for services, fines and fees	105,800	105,800	63,987	(41,813)
Investment earnings	60,000	60,000	121,188	61,188
Miscellaneous	-	40,000	45,507	5,507
<b>Total revenues</b>	<b>6,487,999</b>	<b>6,527,999</b>	<b>6,727,124</b>	<b>199,125</b>
<b>Expenditures</b>				
Current:				
Personnel services - operations	3,727,215	3,712,353	3,426,338	(286,015)
Other services and charges	1,925,866	1,960,728	1,574,020	(386,708)
Debt service:				
Principal	2,032	2,032	2,032	-
Interest	21	21	21	-
Capital outlay	288,000	268,000	235,098	(32,902)
Contingency	44,465	44,465	-	(44,465)
<b>Total expenditures</b>	<b>5,987,599</b>	<b>5,987,599</b>	<b>5,237,509</b>	<b>(750,090)</b>
Revenues over expenditures	500,400	540,400	1,489,615	949,215
<b>Other financing uses</b>				
Transfers out	(500,400)	(500,400)	(500,400)	-
<b>Net changes in fund balances</b>	<b>-</b>	<b>40,000</b>	<b>989,215</b>	<b>949,215</b>
Fund balances, beginning of year	6,480,780	6,480,780	6,480,780	-
<b>Fund balances, end of year</b>	<b>\$ 6,480,780</b>	<b>\$ 6,520,780</b>	<b>\$ 7,469,995</b>	<b>\$ 949,215</b>

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

# HERRICK DISTRICT LIBRARY

## Statement of Net Position

Proprietary Funds

June 30, 2020

	Business-type Activities	Governmental Activities
	Employee Vending Enterprise Fund	Compensated Absences Internal Service Fund
<b>Assets</b>		
Cash and pooled investments	\$ 1,145	\$ 233,278
Accounts receivable	48	-
<b>Total assets</b>	<u>1,193</u>	<u>233,278</u>
<b>Liabilities</b>		
Current liabilities:		
Accrued compensated absences	-	116,639
Noncurrent liabilities:		
Accrued compensated absences, net of current portion	-	116,639
<b>Total liabilities</b>	<u>-</u>	<u>233,278</u>
<b>Net position</b>		
Unrestricted	<u>\$ 1,193</u>	<u>\$ -</u>

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

# HERRICK DISTRICT LIBRARY

## Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2020

	Business-type Activities	Governmental Activities
	Employee Vending Enterprise Fund	Compensated Absences Internal Service Fund
Operating revenues		
User fees and charges for services	\$ -	\$ 183,440
Operating expenses		
Operations	444	183,440
Operating loss	(444)	-
Transfers		
Transfers in	400	-
Change in net position	(44)	-
Net position, beginning of year	1,237	-
Net position, end of year	\$ 1,193	\$ -

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

# HERRICK DISTRICT LIBRARY

## Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2020

	Business-type Activities	Governmental Activities
	Employee Vending Enterprise Fund	Compensated Absences Internal Service Fund
Cash flows from operating activities		
Receipts for providing interfund services	\$ -	\$ 183,440
Payments to suppliers	(479)	-
Payments to employees	-	(144,018)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(479)	39,422
Cash flows from noncapital financing activities		
Transfer in	400	-
	<hr/>	<hr/>
Net increase (decrease) in cash and pooled investments	(79)	39,422
Cash and pooled investments, beginning of year	1,224	193,856
	<hr/>	<hr/>
Cash and pooled investments, end of year	<u>\$ 1,145</u>	<u>\$ 233,278</u>
Cash flows from operating activities		
Operating loss	\$ (444)	\$ -
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities which provided cash:		
Accounts receivable	(35)	-
Compensated absences payable	-	39,422
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	<u>\$ (479)</u>	<u>\$ 39,422</u>

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

# HERRICK DISTRICT LIBRARY

## Statement of Fiduciary Assets and Liabilities

Agency Funds  
June 30, 2020

### Assets

Cash and pooled investments	\$ 31,330
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### Liabilities

Other accrued liabilities and deposits	\$ 31,330
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The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Herrick District Library (the “Library”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

#### Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Library. There are no component units to be included. Criteria for including a component unit include entities for which the Library is considered to be financially accountable.

#### *Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

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

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

The Library reports the following major funds:

The *General Fund* is the Library's primary operating fund. It accounts for all the financial resources of the general government, except those accounted for and reported in another fund.

The *Endowment Permanent Fund* is used to record the activity and balance of endowments which are restricted for specific purposes.

The *North Branch Expansion Fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Additionally, the Library reports the following fund types:

The *Special Revenue Fund* is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted or committed to expenditures for specified purposes.

The *Enterprise Fund* is used to account for the balances and activities of the various activities benefiting employees which is financed through user charges which support this service.

The *Internal Service Fund* accounts for the accumulation of both the liability and the resources to pay the compensated absences liability at year end.

*Agency Funds* are used to account for assets held on behalf of outside parties, including other governments.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise fund include cafeteria expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

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

#### *Budgets and Budgetary Accounting*

Comparisons to budget are presented for the General Fund as required by generally accepted accounting principles. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the Board of Trustees a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the Library are governed by Public Act 621, which was followed for the year ended June 30, 2020. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.
7. Budgets for expenditures are adopted at the activity level.
8. Budgeted amounts are as originally adopted, or as amended by the Board of Trustees.

#### Cash and Pooled Investments

For purposes of the statement of cash flows, the Library considers all assets held in the cash and investment pool to be cash equivalents because the investments are not identifiable to specific funds and the assets can be withdrawn at anytime, similar to a demand deposit account.

State statutes authorize the Library to invest in:

Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

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.

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

Bankers' acceptances of United States banks.

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.

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.

External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

### Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

### Prepays

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

### Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. In addition, library material items such as books and certain media are capitalized as a collection although they may have an initial cost less than \$5,000. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated acquisition cost on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets of the Library is computed using the straight-line method over the following estimated useful lives:

	Years
Improvements other than buildings	10-20
Buildings	40
Equipment and machinery	7-10
Office equipment and furniture	5-7
Library collection	5

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

### Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Library reports deferred outflows of resources for changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

### Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

### Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Trustees. A formal resolution of the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. The Library reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Library currently has no assigned fund balance, as the Board of Trustees has not yet given the authority for the making of such assignments. Unassigned fund balance is the residual classification for the General Fund.

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

### Intergovernmental Revenue

Intergovernmental revenue includes contributions by the City of Holland, Holland Charter Township, Park Township and Laketown Township based on collection of a unified millage on property values. This revenue source also includes Library State Aid, personal property tax reimbursement, and fines collected by other governments.

### Accrued Compensated Absences

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accrued vacation leave is recorded as an internal service fund liability at June 30, 2020.

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

### Interfund Transactions

During the course of normal operations, the Library has transactions between funds, including expenditures and transfers of resources to provide services and subsidies. The accompanying financial statements generally reflect such transactions as revenues and expenditures and transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by the Library. Transfers for the year were \$400 from the General Fund to the Employee Vending Fund and \$500,000 from the General Fund to the North Side Branch Expansion Fund.

### Pensions

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

### Use of Estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2020, the Library carried commercial insurance to cover all risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three years.

## 2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to deposits and investments are as follows:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and pooled investments	\$ 11,552,587	\$ 1,145	\$ 31,330	\$ 11,585,062

Cash and pooled investments consist of the following:

Checking/savings accounts	\$ 86,973
Certificates of deposit (due within one year)	5,273,764
Investments - Michigan CLASS government investment pool	6,222,652
Petty cash	1,673
<b>Total</b>	<b>\$ 11,585,062</b>

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

Deposits and certificates of deposit are in multiple financial institutions located in Michigan. State law limits the Library's depository options to financial institutions located in Michigan. All accounts are in the name of the Library.

### Investment and Deposit Risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 (summary of significant accounting policies). The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Library's investments consist of deposits in Michigan CLASS government investment pool that does not mature.

*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, \$3,523,764 of the Library's bank balance of \$5,365,418 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk which is more restrictive than state law.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The Library investment policy does not have specific limits in excess of state law on investment credit risk. The Library's investment in Michigan CLASS government investment pool is rated at AAAM by S&P Global Ratings Services.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. This requirement was not exceeded. All of the Library's investments are in Michigan CLASS government investment pool as noted above.

### Fair Value Measurement

The Library holds shares in Michigan CLASS government investment pool whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

At year end, the net asset value of the Library's investment in Michigan CLASS government investment pool was \$6,222,652. The investment pool had no unfunded commitments, specific redemption frequency or redemption notice period required. The Michigan CLASS government investment pool invests in U.S. treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated 'A-1' or better) collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money-market funds. The program seeks to provide safety, liquidity, convenience, and competitive rates of return, and is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities and other public agencies.

### 3. RECEIVABLES, NET

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities
Accounts	\$ 3,235	\$ 48
Taxes	4,105	-
Allowance for uncollectable taxes	(3,866)	-
Interest	26,572	-
Due from other governmental units	345,400	-
	<u>\$ 375,446</u>	<u>\$ 48</u>

### 4. PAYABLES

Payables are comprised of the following at year-end:

	Governmental Activities
Accounts	\$ 732,371
Accrued payroll and benefits	68,124
	<u>\$ 800,495</u>

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

### 5. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2020, are as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 617,975	\$ -	\$ -	\$ -	\$ 617,975
Construction in progress	-	994,207	-	-	994,207
Total capital assets not being depreciated	617,975	994,207	-	-	1,612,182
Capital assets, being depreciated:					
Buildings	11,590,026	96,212	-	-	11,686,238
Improvements other than buildings	199,034	-	-	-	199,034
Equipment and machinery	410,551	110,000	(27,295)	-	493,256
Library collection	1,086,915	158,270	(235,237)	-	1,009,948
Office equipment and furniture	807,510	-	-	-	807,510
	14,094,036	364,482	(262,532)	-	14,195,986
Less accumulated depreciation for:					
Buildings	(7,642,712)	(319,932)	-	-	(7,962,644)
Improvements other than buildings	(170,852)	(8,952)	-	-	(179,804)
Equipment and machinery	(203,975)	(32,780)	24,566	-	(212,189)
Library collection	(568,010)	(209,687)	235,237	-	(542,460)
Office equipment and furniture	(693,501)	(29,834)	-	-	(723,335)
	(9,279,050)	(601,185)	259,803	-	(9,620,432)
Total capital assets being depreciated, net	4,814,986	(236,703)	(2,729)	-	4,575,554
Governmental activities capital assets, net	\$ 5,432,961	\$ 757,504	\$ (2,729)	\$ -	\$ 6,187,736

Depreciation expense of \$601,185 was charged to the library services function. As of year-end, the Library had outstanding construction commitments totaling approximately \$2.6 million.

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

### 6. LONG-TERM DEBT

The following is a summary of debt transactions of the Library for the year ended June 30, 2020:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Notes from direct borrowings and direct placements:					
Installment purchase agreement due in monthly installments of \$513 through October 2019 including interest at 4.84%	\$ 2,032	\$ -	\$ (2,032)	\$ -	\$ -
Compensated absences	193,856	183,440	(144,018)	233,278	116,639
<b>Total</b>	<b>\$ 195,888</b>	<b>\$ 183,440</b>	<b>\$ (146,050)</b>	<b>\$ 233,278</b>	<b>\$ 116,639</b>

Compensated absences are generally liquidated by the internal service fund.

### 7. PENSION PLAN

#### *General Information About the Plan*

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

*Benefits Provided.* Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 5 year period) and a multiplier of 2.0%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 55 with 25 years of service, age 50 with 25 years of service or age 55 with 15 years of service. The Plan is closed to new members.

*Employees Covered by Benefit Terms.* At the December 31, 2019 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	50
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>21</u>
<b>Total membership</b>	<b><u><u>79</u></u></b>

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

*Contributions.* The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. As of June 30, 2020, employer contributions were \$16,037 per month. In addition, the employer may establish contribution rates to be paid by its covered employees. During the year ended June 30, 2020, employee contributions of 2.0% were required.

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

*Actuarial Assumptions.* The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment and administrative expense including inflation

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

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

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	60.0%	5.25%	3.15%
Global fixed income	20.0%	1.25%	0.25%
Private investments	20.0%	7.25%	1.45%
	<u>100.0%</u>		
Inflation			2.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u><u>7.60%</u></u>

*Discount Rate.* The discount rate used to measure the total pension liability as of December 31, 2019 was 7.6% (down from 8.0% at December 31, 2018). 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.

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

### *Changes in Net Pension Liability*

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2018	\$ 8,467,036	\$ 6,206,214	\$ 2,260,822
Changes for the year:			
Service cost	100,317	-	100,317
Interest	657,429	-	657,429
Differences between expected and actual experience	6,018	-	6,018
Changes in assumptions	237,627	-	237,627
Employer contributions	-	341,056	(341,056)
Employee contributions	-	24,442	(24,442)
Net investment income	-	832,750	(832,750)
Benefit payments, including refunds of employee contributions	(598,659)	(598,659)	-
Administrative expense	-	(14,316)	14,316
Net changes	402,732	585,273	(182,541)
Balances at December 31, 2019	\$ 8,869,768	\$ 6,791,487	\$ 2,078,281

*Changes in assumptions.* Amounts reported as changes in assumptions resulted primarily from a decrease in the assumed rate of return from 7.75% to 7.35%, and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the Library, calculated using the discount rate of 7.6%, as well as what the Library's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.6%) or 1% higher (8.6%) than the current rate:

1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
\$ 2,940,246	\$ 2,078,281	\$ 1,335,236

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

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

### *Pension Expense and Deferred Outflows of Resources Related to Pensions*

For the year ended June 30, 2020, the Library recognized pension expense of \$419,717. The Library reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 3,009
Changes in assumptions	118,813
Net difference between projected and actual earnings on pension plan investments	<u>27,605</u>
Contributions subsequent to the measurement date	<u>149,427</u>
	<u>96,222</u>
Total	<u>\$ 245,649</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2021. Other amounts reported as deferred outflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2021	\$ 105,594
2022	24,565
2023	88,500
2024	<u>(69,232)</u>
Total	<u>\$ 149,427</u>

*Payable to the Pension Plan.* At June 30, 2020, the Library reported a payable of \$17,697 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

The net pension liability is generally liquidated by the general fund.

### Defined Contribution Plan

The Library also maintains a Section 401(k) defined contribution plan administered by MERS. All employees of the Library hired after February 1, 2017 are eligible to participate in the Plan. Participants may contribute annual compensation as defined in either Plan up to the maximum allowed by the Internal Revenue Service. The defined contribution provisions of the plan require the Library to contribute 6% to 7% of covered employee payroll. Total employer and employee contributions were \$56,133 and \$7,801, respectively, for the year ended June 30, 2020.

# HERRICK DISTRICT LIBRARY

## Notes to Financial Statements

### Defined Compensation Plan

The Library also maintains a Section 457 defined compensation plan administered by MERS. All employees of the Library are eligible to participate in the Plan. Participants may contribute annual compensation as defined in either Plan up to the maximum allowed by the Internal Revenue Service. The Library is not required to contribute to the plan. Total employee contributions totaled \$58,238 for the year ended June 30, 2020.

## 8. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the Library provides postemployment health care benefits, in accordance with union contracts and approved personnel policy for full-time permanent employees, to all employees who retire from the Library on or after attaining age 55, but prior to attaining age 65. During the year there were no retirees receiving benefits. The Library provides for single person coverage up to \$155 per month or two-person coverage up to \$300 per month for up to 18 months after retirement. No benefit is provided if the retiree can obtain no cost coverage through other employment or through a spouse's employment. However, retired employees who are eligible to receive hospital, surgical and medical coverage from another employer sponsored plan may request reimbursement for any premium cost up to the maximum amounts as stated above. All retirees and their spouses, including surviving spouses and/or dependents, are eligible for participation in the Library's Group Health Insurance by paying the established premiums. During the fiscal year, there were no expenditures paid for postemployment health care benefits. Such premiums are expected to be funded on a pay-as-you-go basis. An actuarial valuation of the Library's liability for these benefits in accordance with GASB Statement No. 75 has not been performed. Inasmuch as the plan is only open to a small number of Library employees, management has determined that the net other postemployment benefit liability would be immaterial to the financial statements taken as a whole.

## 9. TAX ABATEMENTS

The Library received reduced property tax revenues during 2020 as a result of industrial facilities tax exemptions (IFT's) and other agreements entered into by the City of Holland and Holland Township. The City of Holland has offered tax incentives and abatements to create jobs, stimulate investment, provide affordable housing, rehabilitate existing residential, commercial and industrial properties, clean up environmentally contaminated properties, redevelop functionally obsolete properties, encourage high tech innovation, and enhance economic growth in the region.

The three tax incentive programs provided by the City of Holland as of December 31, 2019, and the amount of taxes abated for each of the programs for Herrick District Library for the year ended June 30, 2020 were as follows:

Industrial Facility Tax Exemption (IFT)	\$	66,564
Payment in Lieu of Taxes (PILOT)		15,862
Brownfield Redevelopment Financing Act		<u>68,190</u>
	\$	<u><u>150,616</u></u>

# HERRICK DISTRICT LIBRARY

## ■ Notes to Financial Statements

### 10. CORONAVIRUS (COVID-19)

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



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## REQUIRED SUPPLEMENTARY INFORMATION

# HERRICK DISTRICT LIBRARY

## Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

### Schedule of Changes in the Library's Net Pension Liability and Related Ratios

	Year Ended June 30,					
	2020	2019	2018	2017	2016	2015
<b>Total pension liability</b>						
Service cost	\$ 100,317	\$ 99,711	\$ 97,650	\$ 128,769	\$ 118,525	\$ 127,760
Interest	657,429	659,414	651,089	637,916	604,421	587,753
Change in benefits	-	-	(11,785)	(14,815)	-	-
Differences between expected and actual experience	6,018	(178,786)	7,645	69,938	146,374	-
Changes of assumptions	237,627	-	-	-	354,428	-
Benefit payments, including refunds of employee contributions	(598,659)	(612,208)	(670,959)	(612,207)	(550,280)	(467,441)
<b>Net change in total pension liability</b>	<b>402,732</b>	<b>(31,869)</b>	<b>73,640</b>	<b>209,601</b>	<b>673,468</b>	<b>248,072</b>
Total pension liability, beginning of year	8,467,036	8,498,905	8,425,265	8,215,664	7,542,196	7,294,124
<b>Total pension liability, end of year</b>	<b>8,869,768</b>	<b>8,467,036</b>	<b>8,498,905</b>	<b>8,425,265</b>	<b>8,215,664</b>	<b>7,542,196</b>
<b>Plan fiduciary net position</b>						
Employer contributions	341,056	280,428	316,266	154,501	142,625	143,447
Employee contributions	24,442	23,972	20,004	8,161	-	-
Net investment income (loss)	832,750	(258,640)	811,515	674,268	(95,659)	409,355
Benefit payments, including refunds of employee contributions	(598,659)	(612,208)	(670,959)	(612,207)	(550,280)	(467,441)
Administrative expense	(14,316)	(12,937)	(12,891)	(13,332)	(14,200)	(14,971)
<b>Net change in plan fiduciary net position</b>	<b>585,273</b>	<b>(579,385)</b>	<b>463,935</b>	<b>211,391</b>	<b>(517,514)</b>	<b>70,390</b>
Plan fiduciary net position, beginning of year	6,206,214	6,785,599	6,321,664	6,110,273	6,627,787	6,557,397
<b>Plan fiduciary net position, end of year</b>	<b>6,791,487</b>	<b>6,206,214</b>	<b>6,785,599</b>	<b>6,321,664</b>	<b>6,110,273</b>	<b>6,627,787</b>
<b>Library's net pension liability</b>	<b>\$ 2,078,281</b>	<b>\$ 2,260,822</b>	<b>\$ 1,713,306</b>	<b>\$ 2,103,601</b>	<b>\$ 2,105,391</b>	<b>\$ 914,409</b>
Plan fiduciary net position as a percentage of total pension liability	76.6%	73.3%	79.8%	75.0%	74.4%	87.9%
Covered payroll	\$ 1,175,192	\$ 1,165,256	\$ 1,178,842	\$ 1,606,338	\$ 1,468,081	\$ 1,584,563
Library's net pension liability as a percentage of covered payroll	176.8%	194.0%	145.3%	131.0%	143.4%	57.7%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

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

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

In 2020, amounts reported as changes of assumptions resulted primarily from a decrease in the assumed rate of return from 7.75% to 7.35%, and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%.

# HERRICK DISTRICT LIBRARY

## Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

### Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution (Deficiency) Excess	Covered Payroll	Contributions as Percentage of Covered Payroll
2020	\$ 192,444	\$ 318,580	126,136	\$ 1,207,904	26.4%
2019	237,396	302,574	65,178	1,204,741	25.1%
2018	193,104	333,112	140,008	1,199,519	27.8%
2017	163,129	163,129	-	1,030,780	15.8%
2016	147,813	147,813	-	1,555,194	9.5%
2015	142,958	142,958	-	1,534,331	9.3%

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

#### Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of the December 31 that is 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2020, based on the 12/31/2017 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	21 years
Asset valuation method	5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables

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## COMBINING FUND FINANCIAL STATEMENTS

# HERRICK DISTRICT LIBRARY

## Combining Statement of Fiduciary Assets and Liabilities

Agency Funds  
June 30, 2020

	Imprest Payroll	Employees' Flexible Benefits Plan	Total
<b>Assets</b>			
Cash and pooled investments	<u>\$ 27,338</u>	<u>\$ 3,992</u>	<u>\$ 31,330</u>
<b>Liabilities</b>			
Other accrued liabilities and deposits	<u>\$ 27,338</u>	<u>\$ 3,992</u>	<u>\$ 31,330</u>

# HERRICK DISTRICT LIBRARY

## Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2020

	Balance June 30, 2019	Additions	Deductions	Balance June 30, 2020
<b>IMPREST PAYROLL</b>				
<b>Assets</b>				
Cash and pooled investments	\$ 27,883	\$ 781,099	\$ 781,644	\$ 27,338
<b>Liabilities</b>				
Other accrued liabilities and deposits	\$ 27,883	\$ 781,099	\$ 781,644	\$ 27,338
<b>EMPLOYEES' FLEXIBLE BENEFITS PLAN</b>				
<b>Assets</b>				
Cash and pooled investments	\$ 133	\$ 23,625	\$ 19,766	\$ 3,992
<b>Liabilities</b>				
Other accrued liabilities and deposits	\$ 133	\$ 23,625	\$ 19,766	\$ 3,992
<b>TOTAL - ALL AGENCY FUNDS</b>				
<b>Assets</b>				
Cash and pooled investments	\$ 28,016	\$ 804,724	\$ 801,410	\$ 31,330
<b>Liabilities</b>				
Other accrued liabilities and deposits	\$ 28,016	\$ 804,724	\$ 801,410	\$ 31,330

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## INTERNAL CONTROL AND COMPLIANCE

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INDEPENDENT AUDITORS' 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*

October 20, 2020

Members of the Board of Trustees  
Herrick District Library  
Holland, Michigan

We have audited, in accordance with the 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, the business-type activities, each major fund, and the aggregate remaining fund information of *Herrick District Library* (the "Library"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 20, 2020.

#### 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) 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.

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

## 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 financial statements. 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*.

## 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rehmann Johnson LLC*

**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

October 20, 2020

Board of Trustees  
Herrick District Library  
Holland, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Herrick District Library* (the "Library") as of and for the year ended June 30, 2020, and have issued our report thereon dated October 20, 2020. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated July 23, 2020, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Library solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated October 20, 2020.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

## Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

## Qualitative Aspects of the Library's Significant Accounting Practices

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Library is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate that the liability for retiree health insurance (other postemployment benefits) is immaterial to the financial statements taken as a whole.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

### Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any misstatements during our audit.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Library's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

### Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment B to this letter.

### Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Library, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Library's auditors.

### Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment A to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

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

Very truly yours,

A handwritten signature in cursive script that reads "Rehmann Johnson LLC".

# HERRICK DISTRICT LIBRARY

## Attachment A - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2020 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Library in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Library. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

### **GASB 84 ■ Fiduciary Activities**

*Effective 12/15/2020 (your FY 2021)*

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods.

### **GASB 87 ■ Leases**

*Effective 06/15/2022 (your FY 2022)*

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

### **GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period**

*Effective 12/15/2021 (your FY 2022)*

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the Library.

### **GASB 91 ■ Conduit Debt Obligations**

*Effective 12/15/2022 (your FY 2023)*

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is *more likely than not* that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the Library.

### **GASB 92 ■ Omnibus 2020**

*Effective 06/15/2022 (your FY 2022)*

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the Library.

# HERRICK DISTRICT LIBRARY

## ■ Attachment A - Upcoming Changes in Accounting Standards / Regulations For the June 30, 2020 Audit

**GASB 93 ■ Replacement of Interbank Offered Rates**  
*Effective 06/15/2022 (your FY 2022)*

This standard provides guidance to governments with agreements with variable payments tied to LIBOR, and how to transition them to a new reference rate. We do not expect this standard to have any significant effect on the Library.

**GASB 94 ■ Public-Private and Public-Public Partnerships and Availability Payment Arrangements**  
*Effective 06/15/2023 (your FY 2023)*

This standard addresses accounting and financial reporting for arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a capital asset for a period of time in an exchange or exchange-like transaction. We do not expect this standard to have any significant effect on the Library.

**GASB 96 ■ Subscription-Based Information Technology Arrangements**  
*Effective 06/15/2023 (your FY 2023)*

This standard expands on the new guidance for leases and applies it to computer software contracts (subscriptions) with similar characteristics. Governments that subscribe to a vendor's IT software will now report offsetting intangible subscription assets and subscription liabilities equal to the present value of future subscription payments.

**GASB 97 ■ Certain Component Unit Criteria and IRC Section 457 Deferred Compensation Plans**  
*Effective 06/15/2022 (your FY 2022)*

This standard amends the requirements for when to report defined contribution pension plans (such as 401k and 403b plans) as fiduciary component units, and how to account for Section 457 deferred compensation plans.



## HERRICK DISTRICT LIBRARY

### ■ Attachment B - Management Representations For the June 30, 2020 Audit

The following pages contain the written representations that we requested from management.



October 20, 2020

Rehmann Robson  
2330 East Paris Avenue, SE  
Grand Rapids, MI 49546

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Herrick District Library* (the "Library"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the budgetary comparison for the General Fund of the Library in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of October 20, 2020:

#### Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 23, 2020, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
2. The financial statements referred to above have been fairly presented in accordance with U.S. GAAP, and include all properly classified funds, required supplementary information, and notes to the basic financial statements.
3. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
4. With respect to any assistance you provided in drafting the financial statements and related notes, we have performed the following:
  - a. Made all management decisions and performed all management functions;
  - b. Assigned a competent individual to oversee the services;
  - c. Evaluated the adequacy of the services performed;
  - d. Evaluated and accepted responsibility for the result of the service performed; and
  - e. Established and maintained internal controls, including monitoring ongoing activities.
5. We acknowledge our responsibility 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.

6. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
7. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
9. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
10. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
11. With regard to items reported at fair value:
  - a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
  - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
12. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
13. All funds and activities are properly classified.
14. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
15. All components of net position and fund balance classifications have been properly reported.
16. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
17. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
18. All interfund and intra-entity transactions and balances have been properly classified and reported.
19. Deposit and investment risks have been properly and fully disclosed.
20. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
21. All required supplementary information is measured and presented within the prescribed guidelines.
22. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
23. We are responsible for the fair presentation of the Library's net pension liability as calculated by the Municipal Employees' Retirement System of Michigan (MERS) and related amounts. We provided MERS with complete and accurate information regarding the Library's participation in the plan, and have reviewed the information provided by MERS for inclusion in the Library's financial statements.
24. In response to the novel coronavirus outbreak (COVID-19), the Governor issued various temporary Executive Orders that, among other stipulations, effectively prohibited in-person work activities for

most businesses and industries including non-essential Library services, having the effect of suspending or severely curtailing operations. As a result, the COVID-19 outbreak is disrupting and affecting the Library's normal activities. The extent of the ultimate impact of the pandemic on the Library's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the Library as it determines the appropriate methods to deliver services to visitors in a safe environment. While management reasonably expects the COVID-19 outbreak to negatively impact the Library's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

#### Information Provided

25. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
26. All transactions have been recorded in the accounting records and are reflected in the financial statements.
27. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
28. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the financial statements.
29. We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors (contractors), regulators, or others.
30. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
31. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
32. We have a process to track the status of audit findings and recommendations.
33. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
34. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
35. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
36. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.

37. The Library has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
38. We have disclosed to you all guarantees, whether written or oral, under which the Library is contingently liable.
39. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
40. There are no:
  - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62.
41. The Library has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
42. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
43. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

#### **Supplementary Information in Relation to the Financial Statements as a Whole**

44. With respect to the supplementary information accompanying the financial statements:
  - a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

#### **Required Supplementary Information**

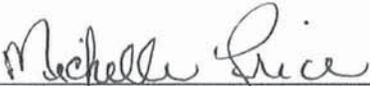
45. With respect to the required supplementary information accompanying the financial statements:
  - a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.

- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.



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Diane Kooiker, Library Director



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Michelle Price, Assistant Finance Director - City of Holland, Michigan