

Capital Area
District Library



Year Ended
December 31,
2011

Financial
Statements

CAPITAL AREA DISTRICT LIBRARY

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March 19, 2012

To the Board of Trustees
Capital Area District Library
Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the *CAPITAL AREA DISTRICT LIBRARY (the "Library")*, as of and for the year ended December 31, 2011, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Capital Area District Library, as of December 31, 2011, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Required Supplementary Information on page 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Accounting principles general accepted in the United States of America require that the management's discussion and analysis on pages 3-6 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 assurance.



MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL AREA DISTRICT LIBRARY

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: Management's Discussion & Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of the library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These Fund Financial Statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources & uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The Government Wide Financial Statement column provides both long and short-term information about the Library's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term, as well as what remains for future spending.

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

Condensed Financial Information

The following table shows key information in a condensed format:

	2011	2010
Current assets	\$ 16,282,437	\$ 15,604,195
Capital assets	6,070,480	6,449,387
Total assets	22,352,917	22,053,582
Long-term liabilities	249,426	247,628
Other liabilities	10,052,036	10,380,739
Total liabilities	10,301,462	10,628,367
Net assets:		
Invested in capital assets,	6,070,480	6,449,387
Restricted by donor request	306,640	299,345
Unrestricted	5,674,335	4,676,483
Total net assets	\$ 12,051,455	\$ 11,425,215

CAPITAL AREA DISTRICT LIBRARY

Management's Discussion and Analysis

	2011	2010
Revenue		
Property taxes	\$ 10,132,396	\$ 10,715,893
Other	1,193,344	1,135,297
Total revenue	11,325,740	11,851,190
Expenses - Library services	10,699,500	10,680,009
Increase / (Decrease) in net assets	\$ 626,240	\$ 1,171,181

The Library as a Whole

Assets

- The Library's net assets were \$12,051,455 on a full accrual basis. This represents an increase of \$626,240 over the previous year. This increase was primarily driven by the continued reduction of ongoing operational expenses. Although the gap between revenue and expense is shrinking, it remains positive and continues to allow us to build our fund balance in anticipation of leaner times ahead.

Revenues

- The Library's primary source of revenue is from property taxes. For 2011, total tax collection was \$10,132,396. This represents approximately 89.5% of total revenue and is \$583,497 lower than the previous year's collection. This represents a 5.5% reduction in total tax revenue for the year.
- The Library's second largest source of revenue is from Penal Fines. The 2011 collection was \$582,129. This was \$10,431 higher than the previous year's distribution.
- State aid to libraries was \$116,392 in 2011. This was higher by \$21,646 or 23% from the previous year. An additional distribution from the State of Michigan to fund Mel delivery was the reason for this increase.
- Fine and fee revenue was up slightly from the previous year. In 2011, \$222,554 was collected and recorded. This is \$4,078 higher than 2010. This represents a full year of increased fines for overdue DVD's and printing and copying prices at \$.15 per page.
- Another important revenue stream for the Library is interest income. In 2011, interest income generated was \$74,459. This was \$9,696 lower than 2010. Short term interest rates reached historical lows of .02% at year end.
- Overall, the Library's revenue was \$11,325,740 for the year. This was \$525,450 lower than the previous year. Unfortunately, this is a trend we expect to continue, as the failure of the housing market to rebound will continue to have a negative impact on the taxable values of property in our service area.

CAPITAL AREA DISTRICT LIBRARY

Management's Discussion and Analysis

Expenses

- Salaries and fringe benefits are the largest overall expense of the Library. For 2011, this expense was \$7,063,150 representing 68.5 % of the library's total expenses. These expenses were lower than the previous year by \$96,343, as more positions were eliminated through attrition throughout the year.
- Library materials at \$1,248,974 are the second largest overall expense of the library, representing 12.1% of the Library's total expenses. This is a reduction of \$182,829 from the previous year.
- The third largest category of expenses for the Library is maintenance and utilities. This includes electricity, steam, natural gas, water, and sewage costs for all the branch libraries and ongoing maintenance costs for the Downtown Branch. For 2011, these expenses were \$610,640 or 5.9% of the total. It also represents an increase of \$22,749 or 3.9% from the previous year.
- The professional services expense category includes marketing, payroll service, collection agency fees, membership dues, and Melcat delivery charges. The total expense was \$289,915 for 2011. This represents an increase of \$13,007 or 4.7% over the previous year.
- The travel and staff development category of expenses was increased \$5,200 from 2010 levels, as increased emphasis was placed on staff training. Total spending was \$19,774 for the year.
- Technology related expenses were \$282,586 for the year. This was \$134,468 higher than the previous year, as several new projects were either completed or initiated. These included new computers for staff and patrons, and a new operating system for our library software.
- Other expenses of the Library include monies refunded to Ingham County due to tax tribunal judgments, property and liability insurance costs, donation expenses, and travel costs. In 2011, these expenses were \$200,268. The largest of these expenses were tax tribunal judgments of \$104,844, which were higher by over \$26,000 from 2010.
- Total expenses for the year under the modified accrual method of accounting were \$10,318,795. This is a decrease of \$136,541 or 1.3% from the previous year.

The Library's Fund

Our analysis of the Library's major fund is included on pages 7 and 9 in the first column of the respective statements. The fund column provides detailed information about the most significant fund - not the Library as a whole.

- Based on the amount of revenue greater than expense in 2011, the fund balance of the General Fund was increased by \$1,006,945 for the year.
- The Library Board has the ability to create separate funds to help manage money for specific purposes. The Library maintains several of these to fund projects such as system expansion, technology upgrades, and capital improvements. These amounts are reflected as committed items on the balance sheet.

CAPITAL AREA DISTRICT LIBRARY

Management's Discussion and Analysis

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments are highlighted below:

- Penal fines revenue was increased \$55,000 to reflect a higher than anticipated amount collected and distributed from Ingham County.
- Professional services expense was increased \$18,500 to account for increased delivery and cooperative fees.
- The Governance category was increased \$20,000 to account for increased legal costs due to ongoing litigation.
- The other expense category was increased \$20,000 during the year to reflect higher tax refund judgments awarded by the state tax tribunal and charged back to the library.
- Lastly, the Automated Library System budget was increased by \$35,000 to reflect the mid year decision to upgrade our library software.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$6.07 million invested in furniture, equipment, and books and materials. In 2011, the Library added approximately \$1.12 million in new collection items consisting mainly of books, video materials, audio books, and music CD's, as well as \$199,749 in depreciable IT equipment, furniture, and building improvements.

The Library carries no long-term debt other than compensated absences.

BASIC FINANCIAL STATEMENTS

CAPITAL AREA DISTRICT LIBRARY

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2011

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 4,629,799	\$ -	\$ 4,629,799
Investments	1,732,688	-	1,732,688
Taxes receivable	9,647,193	-	9,647,193
Accounts receivable	3,674	-	3,674
Interest receivable	1,609	-	1,609
Prepaid items	267,474	-	267,474
Capital assets, net	-	6,070,480	6,070,480
Total assets	16,282,437	6,070,480	22,352,917
LIABILITIES			
Accounts payable	149,313	-	149,313
Accrued salaries and benefits	264,723	-	264,723
Deferred/unearned revenue	9,638,000	-	9,638,000
Long-term liabilities due after one year - Compensated absences	-	249,426	249,426
Total liabilities	10,052,036	249,426	10,301,462
FUND BALANCES/NET ASSETS			
Fund balance:			
Nonspendable	267,474	(267,474)	-
Restricted - donations	306,640	(306,640)	-
Committed:			
Capital projects	290,604	(290,604)	-
Automation	500,000	(500,000)	-
Operations	3,000,000	(3,000,000)	-
Assigned - donations	39,001	(39,001)	-
Unassigned	1,826,682	(1,826,682)	-
Total fund balances	6,230,401	(6,230,401)	-
Total liabilities and fund balance	\$ 16,282,437		
Net assets:			
Invested in capital assets		6,070,480	6,070,480
Restricted for other purposes		306,640	306,640
Unrestricted		5,674,335	5,674,335
Total net assets		\$ 12,051,455	\$ 12,051,455

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

CAPITAL AREA DISTRICT LIBRARY

Reconciliation of General Fund Balance Sheet to Statement of Net Assets December 31, 2011

Fund balances - governmental fund	\$ 6,230,401
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	21,077,907
Deduct - accumulated depreciation	(15,007,427)
Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences	<u>(249,426)</u>
Net assets of governmental activities	<u>\$ 12,051,455</u>

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

CAPITAL AREA DISTRICT LIBRARY

Statement of Activities and General Fund Revenues,

Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2011

	General Fund	Adjustments	Statement of Activities
Revenue			
Property taxes	\$ 10,132,396	\$ -	\$ 10,132,396
Penal fines	582,129	-	582,129
State aid	116,392	-	116,392
Rental revenue	222,554	-	222,554
Interest income	74,459	-	74,459
Donations	66,953	-	66,953
Miscellaneous revenue	130,857	-	130,857
	<u>11,325,740</u>	<u>-</u>	<u>11,325,740</u>
Total revenue			
Expenditures/expenses			
Library services:			
Salaries and benefits	7,063,150	1,798	7,064,948
Materials	1,248,974	(1,123,021)	125,953
Supplies	123,287	-	123,287
Professional services	289,915	-	289,915
Governance	98,596	-	98,596
Automated library system	249,595	-	249,595
Maintenance and utilities	610,649	-	610,649
Technology	282,256	(94,979)	187,277
Staff development	19,774	-	19,774
Capital outlay - equipment and furniture	132,331	(104,770)	27,561
Depreciation	-	1,701,677	1,701,677
Other	200,268	-	200,268
	<u>10,318,795</u>	<u>380,705</u>	<u>10,699,500</u>
Total expenditures/expenses			
Change in fund balance/ net assets	1,006,945	(380,705)	626,240
Fund balance/net assets, beginning of year	<u>5,223,456</u>	<u>6,201,759</u>	<u>11,425,215</u>
Fund balance/net assets, end of year	<u>\$ 6,230,401</u>	<u>\$ 5,821,054</u>	<u>\$ 12,051,455</u>

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

CAPITAL AREA DISTRICT LIBRARY

■ Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities For the Year Ended December 31, 2011

Net change in fund balances - governmental fund	\$ 1,006,945
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	1,322,770
Deduct - depreciation expense	(1,701,677)
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.	
Deduct - increase in the accrual for compensated absences	<u>(1,798)</u>
Change in net assets of governmental activities	<u><u>\$ 626,240</u></u>

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

CAPITAL AREA DISTRICT LIBRARY

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenue				
Property taxes	\$ 10,130,500	\$ 10,128,500	\$ 10,132,396	\$ 3,896
Penal fines	527,000	582,000	582,129	129
State aid	114,482	116,482	116,392	(90)
Rental revenue	245,000	245,000	222,554	(22,446)
Interest income	85,000	80,000	74,459	(5,541)
Donations	50,000	60,000	66,953	6,953
Miscellaneous revenue	107,641	115,491	130,857	15,366
Total revenue	11,259,623	11,327,473	11,325,740	(1,733)
Expenditures				
Library services:				
Salaries and benefits	7,243,065	7,243,065	7,063,150	179,915
Materials	1,555,137	1,555,137	1,248,974	306,163
Supplies	137,800	137,800	123,287	14,513
Professional services	298,500	317,000	289,915	27,085
Governance	86,100	106,100	98,596	7,504
Automated library system	283,500	318,500	249,595	68,905
Maintenance and utilities	641,600	641,600	610,649	30,951
Technology	314,320	312,300	282,256	30,044
Staff development	24,700	24,700	19,774	4,926
Capital outlay - equipment and furniture	167,050	167,050	132,331	34,719
Other	211,300	231,300	200,268	31,032
Total expenditures	10,963,072	11,054,552	10,318,795	735,757
Net change in fund balance	296,551	272,921	1,006,945	734,024
Fund balance, beginning of year	5,223,456	5,223,456	5,223,456	-
Fund balance, end of year	\$ 5,520,007	\$ 5,496,377	\$ 6,230,401	\$ 734,024

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

NOTES TO FINANCIAL STATEMENTS

CAPITAL AREA DISTRICT LIBRARY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Effective January 1, 1998, Capital Area District Library commenced official operations pursuant to the March 10, 1997 signed District Library Agreement. The District Library Agreement was originally entered into by the County of Ingham, except for the City of East Lansing and small portions of White Oak and Locke Townships, and the City of Lansing. In February 1999, three additional participating municipalities were recognized by the original participants - Delhi Township, Meridian Township and the City of Williamston. The Library is funded primarily through property taxes, state aid, penal fines, and donations. The voters of the districts approved a 1.56 mill tax for a four-year period, which began with a tax levy effective December 31, 2010. This millage provides funding of Library operations through December 31, 2014.

The Library is governed by a seven-member board. The board consists of five members appointed by the County of Ingham and two members appointed by the City of Lansing. The Library is not included as a component unit in any other primary government's financial statements. Based on the significance of any operations or financial relationships with the Library, there are no component units to be included in these financial statements.

The Library has implemented the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

Government-Wide and Fund Financial Statements

The government wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The Library had no business type activities during the year ended 2011.

The sole major governmental fund, the General Fund, is reported as a separate column in the fund financial statements.

CAPITAL AREA DISTRICT LIBRARY

Notes To Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The Library reports the following major governmental fund:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

Assets, liabilities and equity

Cash and cash equivalents/investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are recorded at fair value, based on quoted market prices.

Receivables and payables

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts.

CAPITAL AREA DISTRICT LIBRARY

Notes To Financial Statements

Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Library books, CD's, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite being below the \$2,500 capitalization threshold.

The Library has a collection of art work presented for public exhibition and education that is being preserved for future generations. The proceeds from sales of any pieces of the collection are used to purchase other acquisitions. The collection is not capitalized or depreciated as part of capital assets, since at the time of donation it was impractical to determine a fair value due to the number of small pieces in the collection.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Furniture and equipment	3-10
Library books and materials	7

Compensated absences

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in government funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

CAPITAL AREA DISTRICT LIBRARY

Notes To Financial Statements

Fund equity

In accordance with Governmental Accounting Standards Board Statement #54, the Library reports the following fund balance categories:

Nonspendable - Represents those resources that cannot be used to liquidate current liabilities because the related assets are either not in spendable form (such as prepaid items), or because the related assets are required to be maintained intact (such as the corpus of an endowment).

Restricted - Includes amounts that are restricted to use by externally imposed requirements or enabling legislation. The Library has received donations that have been restricted for expenditures relating to the development of the Library's collection.

Committed - Includes amounts that can be used for specific purposes determined by a formal action of the governing board, with the action taking place prior to year end. The donations described above meet the criteria that require the amounts to be restricted on the statement of net assets.

Assigned - Includes amounts that are intended to be used for specific purposes, but do not meet the stricter definitions of restricted or committed. This "intent" can be expressed by the governing board itself, or delegated by the board to a specific member of management.

Unassigned - Represents the residual amount in the general fund.

Property taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2010 tax is levied and collectible on December 1, 2010 and is recognized as revenue in the year ended December 31, 2011, when the proceeds of the levy are budgeted and available for the financing operations. The 2010 taxable value of the district totaled \$6,677,555,329 (a portion of which is not captured from all jurisdictions), on which taxes levied consisted of 1.56 mills for operating purposes.

CAPITAL AREA DISTRICT LIBRARY

Notes To Financial Statements

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The General fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Library Board. The budget for the General Fund is adopted on a functional basis; expenditures at this level in excess of final budgeted amounts are a violation of Michigan law. A comparison of actual results of operations to the final amended budget is included in the Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual for the General Fund.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

3. DEPOSITS AND INVESTMENTS

Deposits

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 4,629,799
Uninsured - collateralized Investments	<u>1,732,688</u>
	<u>\$ 6,362,487</u>

These balances are disclosed in the notes as follows:

Petty cash	\$ 3,837
Bank deposits (checking, savings, and certificate of deposit accounts)	4,827,235
Investments	<u>1,531,415</u>
	<u>\$ 6,362,487</u>

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

CAPITAL AREA DISTRICT LIBRARY

Notes To Financial Statements

Investments

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

Deposit / Investment	Maturity	Fair Value	Rating
Michigan Governmental MMF	n/a	\$ 1,531,415	Moody's - Aaa

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates of investments are shown in the investment schedule above.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$4,074,625 of the Library's bank balance of \$5,049,655 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. The investment listed above is not subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk.

CAPITAL AREA DISTRICT LIBRARY

Notes To Financial Statements

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets, being depreciated:				
Furniture and equipment	\$ 3,853,691	\$ 199,749	\$ (41,832)	\$ 4,011,608
Library materials	16,636,291	1,123,021	(693,013)	17,066,299
	<u>20,489,982</u>	<u>1,322,770</u>	<u>(734,845)</u>	<u>21,077,907</u>
Less accumulated depreciation for:				
Furniture and equipment	(2,345,479)	(342,656)	41,832	(2,646,303)
Library materials	(11,695,116)	(1,359,021)	693,013	(12,361,124)
	<u>(14,040,595)</u>	<u>(1,701,677)</u>	<u>734,845</u>	<u>(15,007,427)</u>
Total capital assets being depreciated, net	<u>6,449,387</u>	<u>(378,907)</u>	<u>-</u>	<u>6,070,480</u>
Total capital assets, net	<u>\$ 6,449,387</u>	<u>\$ (378,907)</u>	<u>\$ -</u>	<u>\$ 6,070,480</u>

4. DEFERRED/UNEARNED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue recorded in the governmental activities consisted entirely of unearned property taxes.

5. LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Library for the year ended December 31, 2011:

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental Activities				
Compensated absences	\$ 247,628	\$ 1,798	\$ -	\$ 249,426
	<u>247,628</u>	<u>1,798</u>	<u>-</u>	<u>249,426</u>

Compensated absences represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the vacation policy, employees earn vacation time based on time of service with the Library. None of the balance above is due in one year.

CAPITAL AREA DISTRICT LIBRARY

Notes To Financial Statements

5. OTHER INFORMATION

Risk Management

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

Defined Contribution Retirement Plan

The Library provides pension benefits to certain full-time employees hired before January 1, 2002 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation with the Library's competitive bargaining units, the Library contributes 7 percent of employees' gross earnings. In accordance with these requirements, the Library contributed \$33,464 during the current year, and employees made no contributions.

Defined Benefit Plan

Plan Description

The Library's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS.

The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy

The Library is required to contribute and maintain the system based on an obligation established by board approval and requires a contribution from the union, non-union and Library Director employees of 2.64% or 1.02%, 12.68% and 4.50%, respectively. The current employer's contribution rate of annual covered payroll for union, non-union and Library Director employees is 7%. The contribution requirements of plan members, are established and may be amended by the Library Board.

CAPITAL AREA DISTRICT LIBRARY

Notes To Financial Statements

Annual Pension Cost

For the year ended December 31, 2011, the Library's annual pension cost of \$251,136 for MERS was equal to the Library's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2011, the date of the latest actuarial report, was 28 years.

Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was 105 percent funded. The actuarial accrued liability for benefits was \$4,447,029, and the actuarial value of assets was \$4,661,960, resulting in an unfunded actuarial accrued liability (UAAL) of \$(214,931). The covered payroll (annual payroll of active employees covered by the plan) was \$3,458,666, and the ratio of the UAAL to the covered payroll was (6.2) percent.

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

Lease Commitments

The Library entered into an operating lease for parking space rental, which was an extension of an existing lease. Payments commenced on October 1, 2010 for this lease; scheduled future minimum lease payments under this agreement as of December 31, 2011, are summarized as follows:

Year Ending December 31,	Amount
2012	\$ 48,240
2013	49,206
2014	50,193
2015	51,321
2016	52,857
2017-2020	<u>212,547</u>
	<u>\$ 464,364</u>

Rent expense related to these leases for the year ended December 31, 2011 was \$48,000.



REQUIRED SUPPLEMENTARY INFORMATION

CAPITAL AREA DISTRICT LIBRARY

Required Supplementary Information
Defined Benefit Pension Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2008	\$ 3,167,270	\$ 3,367,588	\$ 200,318	94%	\$ 3,433,112	5.8%
12/31/2009	3,924,734	3,811,368	(113,366)	103%	3,522,957	-3.2%
12/31/2010	4,661,960	4,447,029	(214,931)	105%	3,458,666	-6.2%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2009	\$ 248,960	100%
2010	246,607	100%
2011	251,136	100%