

CAPITAL AREA DISTRICT LIBRARY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information and
additional supplementary information)

YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Capital Area District Library, State of Michigan as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information - Additional Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Capital Area District Library's basic financial statements. The additional supplementary information, as outlined on the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary 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.

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April 9, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Capital Area District Library (the Library), we offer readers of the Capital Area District Library's financial statements this narrative overview and analysis of the financial activities of the Capital Area District Library for the fiscal years ended December 31, 2013 and 2012.

FINANCIAL HIGHLIGHTS

- The assets of the Library exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$13,010,693 (net position). Of this amount, \$7,325,325 (unrestricted net position) may be used to meet the Library's ongoing obligations to citizens and creditors.
- The Library's total net position increased by \$401,165.
- As of the close of the 2013 fiscal year, the Library's governmental fund reported ending fund balance of \$7,842,842 an increase of \$811,616 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,761,051, or 28 percent 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 Library's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary and additional 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, liabilities, and deferred inflows of resources with the difference between the three reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

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

The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the Library is categorized as a governmental fund.

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

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

The Library maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund which is considered a major fund.

The Library adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund in the required supplementary information.

The basic governmental fund financial statements can be found on pages 14 and 15 of this report.

Notes to the financial statements. The notes provide supplementary information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 27 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Library's progress in funding its obligation to provide retirement benefits to its employees and the general fund budget on pages 29 and 30. Additional supplementary information can be found on pages 32 and 33 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the Library, assets exceeded liabilities and deferred inflow of resources by \$13,010,693 at the close of the most recent fiscal year.

A portion of the Library's net position (41 percent) reflects its investment in capital assets (e.g., library books, furniture and equipment), less any related debt, none at year end, used to acquire those assets that is still outstanding. The Library uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

Capital Area District Library's Net Position

	Governmental activities	
	2013	2012
Current assets	\$ 17,351,103	\$ 16,701,168
Capital assets	5,396,290	5,818,580
Total assets	22,747,393	22,519,748
Long-term liabilities	228,439	240,278
Other liabilities	421,761	454,792
Total liabilities	650,200	695,070
Deferred inflow of resources	9,086,500	9,215,150
Net position:		
Net investment in capital assets	5,396,290	5,818,580
Restricted by donor request	289,078	304,584
Unrestricted	7,325,325	6,486,364
Total net position	\$ 13,010,693	\$ 12,609,528

The unrestricted net position (\$7,325,325) may be used to meet the Library's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Library is able to report positive balances in all categories of net position for its governmental activities.

The Library's net position increased by \$401,165 during the current fiscal year. The majority of this increase can be attributed to monitoring the budget and cutting expenditures.

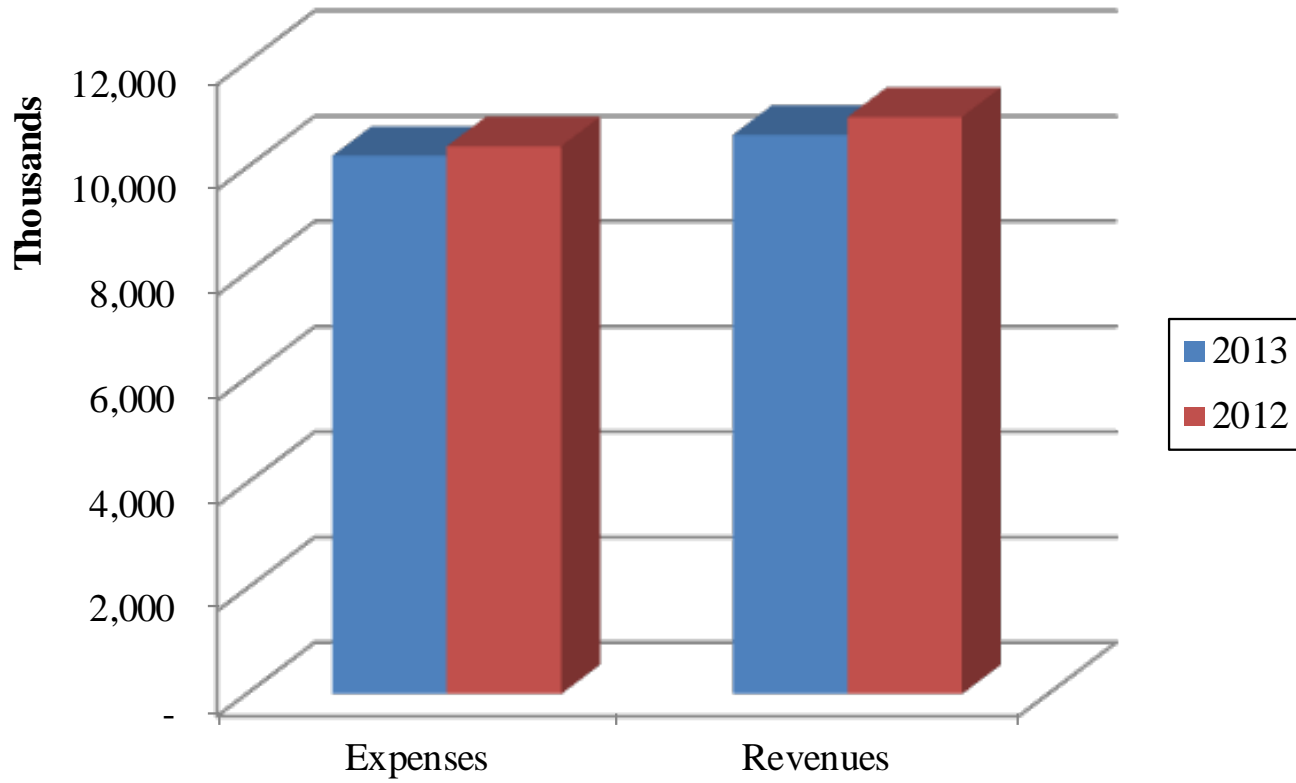
Governmental activities. Governmental activities increased the Library's net position by \$401,165, thereby the governmental activities accounted for 100% of the total increase in the net position of the Library.

Capital Area District Library's Changes in Net Position

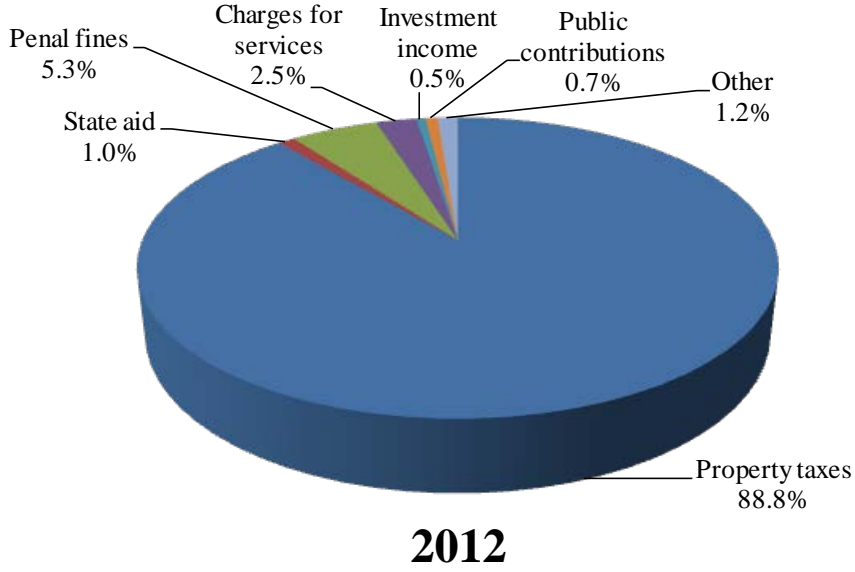
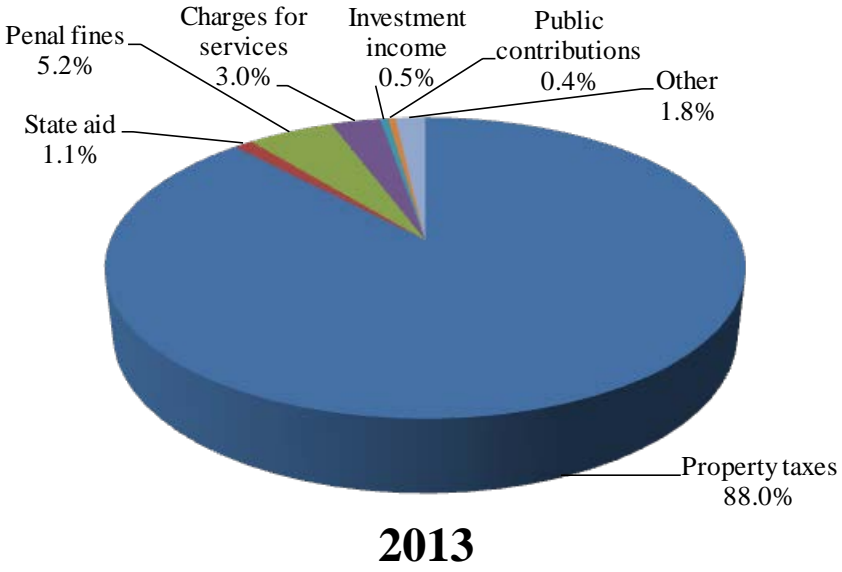
	Governmental activities	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 315,350	\$ 268,902
State aid	119,204	106,972
Penal fines	553,711	577,931
Public contributions	45,833	81,406
General revenues:		
Property taxes	9,347,504	9,738,601
Investment earnings	51,864	57,981
Other	192,238	132,907
Total revenues	<u>10,625,704</u>	<u>10,964,700</u>
Expenses:		
Library services	<u>10,224,539</u>	<u>10,406,630</u>
Increase (decrease) in net position	401,165	558,070
Net position, beginning of year	<u>12,609,528</u>	<u>12,051,458</u>
Net position, end of year	<u><u>\$ 13,010,693</u></u>	<u><u>\$ 12,609,528</u></u>

- Overall government activities revenue is down \$338,996 from prior year. The majority of the decrease is due to collecting less property tax than in the previous year.
- Expenses decreased \$182,091. The increase can be attributed to a reduction in spending for salaries and benefits as well as material and supplies.

Capital Area District Library
Expenses and Revenues - Governmental Activities
December 31,



Capital Area District Library
 Revenues by Source - Governmental Activities
 December 31,



Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental fund. The focus of the Library's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Library's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental fund reported combined ending fund balance of \$7,842,842, an increase of \$811,616 in comparison with the prior year. Approximately 35% of this total amount (\$2,761,051) constitutes *unassigned*, which is available for spending at the Library's discretion. The remainder of fund balance is restricted, non-spendable, or assigned to indicate that it is not available for new spending because it has already been committed to 1) capital projects (\$500,000), 2) automation (\$500,000), 3) operations (\$3,400,000), 4) for donations (\$320,857), or prepaid contracted services (\$360,934).

The general fund is the chief and only operating fund of the Library. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,761,051 while total fund balance reached \$7,842,842. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 28 percent of total general fund expenditures, while total fund balance represents 80 percent of that same amount.

The fund balance of the Library's general fund increased by \$811,616 during fiscal year 2013. Key factors in this increase are as follows:

- Decrease in expenses, particularly salary and benefits and materials
- Increase in charges for services, including overdue fines

Capital Asset and Debt Administration

Capital assets. The Library's net investment in capital assets for its governmental activities as of December 31, 2013, amounts to \$5,396,290 (net of accumulated depreciation). This investment in capital assets includes library books, audio, furniture and equipment.

Major capital asset events during the current fiscal year included the following:

- New library books and materials
- New computers and technology
- Furniture and equipment renovations to several branch locations

Capital Area District Library's Capital Assets
(Net of depreciation)

	Governmental activities	
	2013	2012
Library books and materials	\$ 4,135,924	\$ 4,497,841
Furniture and equipment	1,260,366	1,320,739
	\$ 5,396,290	\$ 5,818,580

Additional information on the Library's capital assets can be found in Note 3 of this report.

Long-term debt. At the end of the current fiscal year, the Library had total long-term debt outstanding of \$228,439. This represents compensated absences earned but not used as of year-end.

Capital Area District Library's Outstanding Debt

	Governmental activities	
	2013	2012
Compensated absences	\$ 228,439	\$ 240,278

The Library's total debt decreased by \$11,839 (5 percent) during the current fiscal year.

Additional information on the Library's long-term debt can be found in Note 4 of this report.

Economic Factors and Next Year's Budgets and Rates

Capital Area District Library's goal is to maintain and enhance the services that are provided to the public utilizing the most efficient and effective methods. The Library has a conservative and fiscally responsible budget for the fiscal year 2014 that will support the Library's activities and programs.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Capital Area District Library, 401 S. Capitol Ave, Lansing, MI 48933.

BASIC FINANCIAL STATEMENTS

**CAPITAL AREA DISTRICT LIBRARY
GOVERNMENTAL FUND BALANCE SHEET/
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Balance sheet general fund modified accrual basis	Adjustments	Statement of net position
ASSETS:			
Cash	\$ 6,364,425	\$ -	\$ 6,364,425
Investments	1,527,309	-	1,527,309
Receivables:			
Accounts	9,327	-	9,327
Taxes	9,088,120	-	9,088,120
Interest	988	-	988
Prepaid expenses	360,934	-	360,934
Capital assets, net of accumulated depreciation	-	5,396,290 ⁽¹⁾	5,396,290
TOTAL ASSETS	\$ 17,351,103	5,396,290	22,747,393
LIABILITIES:			
Accounts payable	\$ 131,328	-	131,328
Accrued payroll, taxes and withholding	290,433	-	290,433
Noncurrent liabilities:			
Due within one year	-	20,265 ⁽²⁾	20,265
Due in more than one year	-	208,174 ⁽²⁾	208,174
TOTAL LIABILITIES	421,761	228,439	650,200
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue - property taxes	9,086,500	-	9,086,500
FUND BALANCE/NET POSITION:			
Net investment in capital assets	-	5,396,290	5,396,290
Nonspendable - prepaid expenditures	360,934	(360,934)	-
Restricted for - donations	289,078	-	289,078
Committed:			
Capital projects	500,000	(500,000)	-
Automation	500,000	(500,000)	-
Operations	3,400,000	(3,400,000)	-
Assigned- donations	31,779	(31,779)	-
Unassigned/unrestricted	2,761,051	4,564,274	7,325,325
TOTAL FUND BALANCE/NET POSITION	7,842,842	\$ 5,167,851	\$ 13,010,693
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 17,351,103		

⁽¹⁾ Capital assets used in governmental activities are not financial resources and are not reported under the modified accrual basis of accounting.

⁽²⁾ Compensated absences are not due and payable in the current period and are not reported under the modified accrual basis of accounting.

CAPITAL AREA DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

	Statement of revenue, expenditures and changes in fund balance general fund modified accrual basis	Adjustments	Statement of activities
REVENUES:			
Property taxes	\$ 9,347,504	\$ -	\$ 9,347,504
State aid	119,204	-	119,204
Penal fines	553,711	-	553,711
Charges for services	315,350	-	315,350
Investment income - net	51,864	-	51,864
Public contributions	45,833	-	45,833
Other	192,238	-	192,238
Total revenues	<u>10,625,704</u>	<u>-</u>	<u>10,625,704</u>
EXPENDITURES:			
Current:			
Salaries and employee benefits	6,630,660	(11,839) ⁽²⁾	6,618,821
Materials	1,083,333	(958,921) ⁽¹⁾	124,412
Supplies	113,729	-	113,729
Contractual services	318,460	-	318,460
Governance	51,668	-	51,668
Automated library system	238,015	-	238,015
Maintenance and utilities	654,109	-	654,109
Technology	245,271	(141,731) ⁽¹⁾	103,540
Staff development	22,078	-	22,078
Capital outlay	188,186	(107,577) ⁽¹⁾	80,609
Depreciation	-	1,630,519 ⁽¹⁾	1,630,519
Miscellaneous	268,579	-	268,579
Total expenditures	<u>9,814,088</u>	<u>410,451</u>	<u>10,224,539</u>
Net change in fund balance/net position	811,616	(410,451)	401,165
FUND BALANCE/NET POSITION, beginning of year	<u>7,031,226</u>	<u>5,578,302</u>	<u>12,609,528</u>
FUND BALANCE/NET POSITION, end of year	<u>\$ 7,842,842</u>	<u>\$ 5,167,851</u>	<u>\$ 13,010,693</u>

⁽¹⁾ Governmental funds report capital assets as expenditures in the statement of revenues, expenditures and changes in fund balances. In the statement of activities these expenditures are capitalized and depreciated over their estimated useful lives.

⁽²⁾ Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental fund. The adjustment represents the change of the year end liability compared to the prior year.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The Capital Area District Library has no business-type activities or fiduciary activities.

B. 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 district 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.

The Library 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.

C. 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 all of the non-fiduciary activities of the primary government unit.

The Library utilized the financial statement format recommended by the State of Michigan for special purpose entities engaged only in governmental activities.

The Library maintains only one fund, the general fund, which is reported as a major governmental fund.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-wide and Fund Financial Statements (Concluded)

The *general fund* is the Library's primary operating fund. It accounts for all financial resources of the general government. There are no resources required to be accounted for in another fund.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements (the statement of net position and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements (the balance sheet and statement of revenue, expenditures and changes in fund balances) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government.

E. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund.

The appropriate budget is prepared by fund and function. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Information (Concluded)

1 Budgetary Basis of Accounting (Concluded)

Appropriations in the budgeted fund lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Library does not utilize encumbrance accounting.

The budget was amended during the year with supplemental appropriations. The budget was amended prior to December 31, 2013. The Library does not consider the amendments to be significant. Violations, if any, are noted in the required supplementary information sections.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash, Cash Equivalents and Investments

Cash includes amounts in petty cash and demand deposits. Investments include instruments allowed by state statute subsequently described. Investments are carried at amortized cost or fair value.

State statutes authorized the Library to invest in bonds, securities, and other direct and certain indirect obligations of the U.S. Treasury, which include securities issued or guaranteed by U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Library is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Prepaid Expenses

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

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

3. Capital Assets

Capital assets, which include furniture, equipment, and library books, are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. The total of books purchased during the year are capitalized and are depreciated over seven years. The Library has elected not to capitalize rare books. Fully depreciated books are removed from the asset schedule. Such assets are recorded at historical cost or estimated historical cost if purchased. Donated capital assets are recorded at estimated fair market value at the date of donation.

The 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the Library, are depreciated using the straight-line method over the following estimated useful live.

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

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Library does not have anything that qualifies for reporting in this category.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Deferred Outflows/Inflows of Resources (Concluded)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Library has only one type of item that qualifies for reporting in this category. The governmental and governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

5. Net position Flow Assumption

Sometimes the Library will fund outlays for a particular purpose from both restricted (e.g., restricted contributions or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Library's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

6. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Library itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Library's highest level of decision-making authority. The board of trustees is the highest level of decision-making authority for the Library that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

6 Fund Balance Policies (Concluded)

Amounts in the assigned fund balance classification are intended to be used by the Library for specific purposes but do not meet the criteria to be classified as committed. The board of trustees has by resolution authorized the executive director to assign fund balance. The board of trustees may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The Library has adopted a minimum unassigned fund balance policy, which states that the Library will maintain a minimum unassigned fund balance of 15 percent of subsequent year's operational expenses. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment. If the fund balance falls below the minimum 15 percent level, library management will replenish shortages/deficiencies by reduce recurring expenditures to eliminate any structural deficit, increase taxes in accordance with law, fees for services, pursue other funding sources, or some combination of the two options.

7 Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

G. Revenues and Expenditures/Expenses

1. Property Taxes

Property taxes become an enforceable lien on the property as of December 1. Taxes are levied on December 1 and are due in February of the following year. The Library engages other municipalities to bill and collect its own property taxes. Library tax revenues are recognized in the fiscal year following the December 1 levy date. Property taxes levied for the ensuing year's revenue are included in taxes receivable and deferred inflows. Property tax receivables related to delinquent taxes are also deferred unless collected within 60 days of year-end.

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

The Library's 2012 tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended December 31, 2013 financial statements, when the proceeds of the levy are budgeted and available for the financing operations. The 2012 taxable value of the district totaled \$6,190,955,129 (a portion of which is not captured from all jurisdictions), on which taxes of 1.56 mills are levied for operating purposes.

2. Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS

As of December 31, 2013 the Library had the following investments.

Investment Type:	Fair value	Weighted average maturity (years)	Moody's rating	%
Michigan Governmental MMF	<u>\$ 686,096</u>	n/a	Aaa	<u>100.0%</u>

State statutes authorize the Library 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.

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.

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of December 31, 2013, \$6,737,085 of the Library's bank balance of \$7,461,550 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificate of deposits and money market accounts are included in the above totals. The balance of \$7,205,638 is reported as deposits on the financial statements as of December 31, 2013.

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

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

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

The above amounts as previously reported in Note 2:

Deposits	\$	7,205,638
Investments		686,096
		7,891,734
	\$	7,891,734

As presented in the financial statements:

Cash	\$	6,364,425
Investments		1,527,309
		7,891,734
	\$	7,891,734

NOTE 3 - CAPITAL ASSETS

The capital assets for the year ended December 31 was as follows:

	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013
Primary government:				
Governmental activities:				
Capital assets being depreciated:				
Library books and materials	\$ 17,189,640	\$ 958,921	\$ 1,329,007	\$ 16,819,554
Furniture and equipment	3,832,828	249,308	207,979	3,874,157
Total capital assets, being depreciated	21,022,468	1,208,229	1,536,986	20,693,711
Less accumulated depreciation for:				
Library books and materials	12,691,799	1,320,838	1,329,007	12,683,630
Furniture and equipment	2,512,089	309,681	207,979	2,613,791
Total accumulated depreciation	15,203,888	1,630,519	1,536,986	15,297,421
Total capital assets, being depreciated, net	\$ 5,818,580	\$ (422,290)	\$ -	\$ 5,396,290

Depreciation expense amounted to \$1,630,519.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - LONG-TERM DEBT

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2013 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Compensated absences	\$ 240,278	\$ -	\$ 11,839	\$ 228,439	\$ 20,265

NOTE 5 - PENSION PLANS

Defined Contribution Retirement Plan

The Library provides retirement 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% of employees' gross earnings. In accordance with these requirements, the Library contributed \$29,698 during the current year, and employees made no contributions.

Defined Benefit Plan

A. 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), and 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 included 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 48971, or by calling (800) 767-6377.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - PENSION PLANS (Continued)

B. 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 and non-union employees of 2.84% or 0.27% and 13.01% respectively. The current employer's contribution rate of annual covered payroll for union and non-union employees is 7%. The contribution requirements of plan members are established and may be amended by the Library Board.

C. Annual Pension Cost

For the year ended December 31, 2012, the Library's Annual pension cost of \$217,812 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 13% 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 level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2012, the date of the latest actuarial report, was 26 years for positive unfunded accrued liabilities and 10 years for negative unfunded accrued liabilities.

D. Funded Status and Funding Process

As of December 31, 2013, the most recent actuarial valuation date, the plan was 101 percent funded. The actuarial accrued liability for benefits was \$5,734,667, and the actuarial value of assets was \$5,789,528, resulting in an unfunded actuarial accrued liability (UAAL) of \$(54,861). The covered payroll (annual payroll of active employees covered by the plan) was \$3,111,658, and the ratio of the UAAL to the covered payroll was (1.8%).

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.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library carries commercial insurance to cover any losses that may result from the above described activities. No settlements have incurred in excess of coverage in 2013 or any of the prior three years.

**CAPITAL AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - OPERATING LEASE

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, 2013, are summarized as follows:

Year ending December 31,	
2014	\$ 41,826
2015	42,771
2016	44,043
2017	45,363
2018	46,728
2019 - 2020	85,029
	<u>\$ 305,760</u>

During 2013 the Library paid \$40,945 for rental of the parking spaces.

NOTE 8 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the Library's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires multiple employer plan employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

REQUIRED SUPPLEMENTARY INFORMATION

**CAPITAL AREA DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS AND
EMPLOYER CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2013**

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)
12/31/2006	\$ 1,897,473	\$ 2,072,365	\$ 174,892	92%	\$3,266,454	5.4%
12/31/2007	2,488,085	2,663,138	175,053	93%	3,304,852	5.3%
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%
12/31/2011	5,250,975	5,161,725	(89,250)	102%	3,210,251	-2.8%
12/31/2012	5,789,528	5,734,667	(54,861)	101%	3,111,658	-1.8%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year ended December 31,	Annual Required Contributions	Percentage Contributed	Net Pension Obligation
2007	\$ 235,404	100%	\$ -
2008	247,474	100%	-
2009	248,960	100%	-
2010	246,607	100%	-
2011	251,136	100%	-
2012	225,337	100%	-
2013	217,812	100%	-

**CAPITAL AREA DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Local sources:				
Property taxes	\$ 9,215,150	\$ 9,333,650	\$ 9,347,504	\$ 13,854
Penal fines	549,350	555,350	553,711	(1,639)
Charges for services	306,250	328,250	315,350	(12,900)
Investment income - net	54,000	54,000	51,864	(2,136)
Public contributions	73,800	93,800	45,833	(47,967)
Other	118,200	191,456	192,238	782
Total local sources	<u>10,316,750</u>	<u>10,556,506</u>	<u>10,506,500</u>	<u>(50,006)</u>
State sources	<u>119,000</u>	<u>119,000</u>	<u>119,204</u>	<u>204</u>
Total revenues	<u>10,435,750</u>	<u>10,675,506</u>	<u>10,625,704</u>	<u>(49,802)</u>
EXPENDITURES:				
Current:				
Salaries and employee benefits	6,975,325	6,949,125	6,630,660	318,465
Materials	1,469,354	1,378,753	1,083,333	295,420
Supplies	122,500	122,500	113,729	8,771
Contractual services	337,145	335,145	318,460	16,685
Governance	68,600	68,600	51,668	16,932
Automated library system	278,073	281,673	238,015	43,658
Maintenance and utilities	685,200	705,100	654,109	50,991
Technology	270,845	348,921	245,271	103,650
Staff development	25,700	25,700	22,078	3,622
Capital outlay	161,500	188,575	188,186	389
Miscellaneous	239,008	334,663	268,579	66,084
Total expenditures	<u>10,633,250</u>	<u>10,738,755</u>	<u>9,814,088</u>	<u>924,667</u>
NET CHANGE IN FUND BALANCE	<u>\$ (197,500)</u>	<u>\$ (63,249)</u>	811,616	<u>\$ 874,865</u>
FUND BALANCE:				
Beginning of year			<u>7,031,226</u>	
End of year			<u>\$ 7,842,842</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**CAPITAL AREA DISTRICT LIBRARY
GENERAL FUND
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
ASSETS:		
Cash	\$ 6,364,425	\$ 5,338,704
Investments	1,527,309	1,758,420
Receivables:		
Accounts	9,327	2,812
Taxes	9,088,120	9,219,294
Interest	988	1,642
Prepaid expense	360,934	380,296
TOTAL ASSETS	<u><u>\$ 17,351,103</u></u>	<u><u>\$ 16,701,168</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$ 131,328	\$ 190,908
Accrued payroll, taxes and withholding	290,433	263,884
TOTAL LIABILITIES	<u>421,761</u>	<u>454,792</u>
DEFERRED INFLOWS OF RESOURCES:		
Unavailable revenue - property taxes	<u>9,086,500</u>	<u>9,215,150</u>
FUND BALANCE:		
Nonspendable - prepaid expenditures	360,934	380,296
Restricted for - donations	289,078	304,584
Committed:		
Capital projects	500,000	440,175
Automation	500,000	500,000
Operations	3,400,000	3,200,000
Assigned - donations	31,779	32,360
Unassigned	2,761,051	2,173,811
TOTAL FUND BALANCE	<u>7,842,842</u>	<u>7,031,226</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u><u>\$ 17,351,103</u></u>	<u><u>\$ 16,701,168</u></u>

**CAPITAL AREA DISTRICT LIBRARY
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
REVENUES:		
Property taxes	\$ 9,347,504	\$ 9,738,601
State aid	119,204	106,972
Penal fines	553,711	577,931
Charges for services	315,350	268,902
Investment income - net	51,864	57,981
Public contributions	45,833	81,406
Other	192,238	132,907
	<u>10,625,704</u>	<u>10,964,700</u>
Total revenues		
EXPENDITURES:		
Current:		
Salaries and employee benefits	6,630,660	6,834,856
Materials	1,083,333	1,263,226
Supplies	113,729	117,137
Contractual services	318,460	314,408
Governance	51,668	69,866
Automated library system	238,015	237,132
Maintenance and utilities	654,109	642,120
Technology	245,271	308,225
Staff development	22,078	17,638
Capital outlay	188,186	58,962
Miscellaneous	268,579	300,301
	<u>9,814,088</u>	<u>10,163,871</u>
Total expenditures		
Net change in fund balance	811,616	800,829
FUND BALANCE, beginning of year	<u>7,031,226</u>	<u>6,230,397</u>
FUND BALANCE, end of year	<u><u>\$ 7,842,842</u></u>	<u><u>\$ 7,031,226</u></u>