

Capital Area District  
Library



**CADL**

Year Ended  
December 31, 2012

Financial  
Statements

# CAPITAL AREA DISTRICT LIBRARY

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Statement of Net Position and General Fund Balance Sheet	10
Reconciliation - Fund Balance for General Fund to Net Position of Governmental Activities	11
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation - Net Change in Fund Balance of General Fund to Change in Net Position of Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	14
Notes to Financial Statements	16
Required Supplementary Information	
Schedules of Funding Progress and Employer Contributions - Defined Benefit Pension Plan	26



**INDEPENDENT AUDITORS' REPORT**

March 18, 2013

To the Board of Trustees  
Capital Area District Library  
Lansing, 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* (the "Library"), as of and for the year ended December 31, 2012, 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.

*Auditors' Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Capital Area District Library as of December 31, 2012, 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.

### *Other Matters*

#### *Required Supplementary Information*

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Capital Area District Library as of December 31, 2012, 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.

### *Other Matters*

#### *Required Supplementary Information*

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



## 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 the 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 and 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 Position and the Statement of Activities provide information about the activities of the Library as a whole and present a long-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:

	Statement of Net Position	
	2012	2011
Current assets	\$ 16,701,168	\$ 16,282,437
Capital assets	5,818,580	6,070,480
<b>Total assets</b>	<b>22,519,748</b>	<b>22,352,917</b>
Long-term liabilities	240,278	249,426
Other liabilities	454,792	414,036
<b>Total liabilities</b>	<b>695,070</b>	<b>663,462</b>
<b>Total deferred inflows of resources</b>	<b>9,215,150</b>	<b>9,638,000</b>
<b>Net position:</b>		
Net investment in capital assets	5,818,580	6,070,480
Restricted by donor request	304,584	306,640
Unrestricted	6,486,364	5,674,335
<b>Total net position</b>	<b>\$ 12,609,528</b>	<b>\$ 12,051,455</b>

# CAPITAL AREA DISTRICT LIBRARY

## Management's Discussion and Analysis

	Change in Net Position	
	2012	2011
Revenues		
Program revenues	\$ 1,035,213	\$ 988,028
General revenues:		
Property taxes	9,738,601	10,132,396
Other	190,889	205,316
<b>Total revenues</b>	<b>10,964,703</b>	<b>11,325,740</b>
<b>Expenses - Library services</b>	<b>10,406,630</b>	<b>10,699,500</b>
<b>Change in net position</b>	<b>\$ 558,073</b>	<b>\$ 626,240</b>

### Net position

- The Library's net position was \$12,609,528 on a full accrual basis. This represents an increase of \$558,073 over the previous year. This increase was primarily driven by the continued reduction of ongoing operational expenses. Despite the loss of nearly 4% of our operating revenue in 2012, we continue to maintain a positive gap between revenue and expense, allowing us to build our fund balance in anticipation of continued tax revenue reductions.

### *The Library's Fund*

Our analysis of the Library's major fund is included in the Statement of Net Position and Statement of Activities in the first column of the respective statements. The fund column provides detailed information about the general fund - not the Library as a whole.

- Based on the amount of revenue greater than expense in 2012, the fund balance of the general fund increased by \$800,825 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 designated items on the balance sheet.

### *Revenues*

- The Library's primary source of revenue is from property taxes. For 2012, total tax collection was \$9,738,601. This represents approximately 88.8% of total revenue and is \$393,795 lower than the previous year's collection. This represents a 3.9% reduction in total tax revenue for the year.
- The Library's second largest source of revenue is from penal fines. The 2012 revenue was \$577,931. This was \$4,198 lower than the previous year's revenue.
- State aid was \$106,972 in 2012. This was lower by \$9,420 or 8% from the previous year.

## CAPITAL AREA DISTRICT LIBRARY

### Management's Discussion and Analysis

- Rental revenue increased from the previous year. In 2012, \$268,903 was collected and recorded. This is \$46,349 higher than 2011. In April, the library began charging late fines for books and CD's, in addition to DVD's. The increase in this revenue stream is attributed to that change.
- Another important revenue stream for the Library is interest income. In 2012, interest income generated was \$57,982. This was a \$16,477 decrease from 2011. Interest rates remained at rock bottom levels for the entire year, negatively impacting both our short and longer term investments.
- Overall, the Library's revenue was \$10,964,703 for the year. This was a \$361,037 decrease from the previous year. We expect this trend to continue for the next couple of years until real estate values hit bottom and begin to rebound.

#### *Expenditures*

- Salaries and benefits are the largest overall expense of the Library. For 2012, this expense was \$6,834,856 representing 67.2% of the library's total expenses. These expenses decreased from the previous year by \$228,294, as more positions were consolidated through attrition over the course of the year.
- Library materials at \$1,263,226 are the second largest overall expense of the library, representing 12.4% of the Library's total expenses. This is an increase of \$14,252 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 2012, these expenses were \$642,120, or 6.3%, of the total. It also represents an increase of \$31,471 or 5.2% 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 \$314,408 for 2012. This represents an increase of \$24,493, or 8.4%, over the previous year. Increased Marketing and Melcat delivery costs were the primary drivers of this increase.
- The governance category of expenses was reduced by \$28,730 to a total of \$69,866. Nearly 95% of this reduction was the result of lower legal fees.
- Technology related expenses were \$308,225 for the year. This was a \$25,969 increase over the previous year. This increase was primarily due to the addition of a project to add surveillance cameras to several of our locations.
- 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 2012, these expenses were \$270,360. The largest of these expenses were tax tribunal judgments of \$156,294, which were \$51,450 higher than 2011.
- Total expenses for the year under the modified accrual method of accounting were \$10,163,878. This is a decrease of \$154,917 or 1.5% from the previous year.

## 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 \$50,000 to reflect a higher than anticipated amount collected and distributed to the library from Ingham County.
- Rental revenue was increased by \$35,000 to reflect the additional revenue generated by the implementation of book fines beginning in April.
- Donations revenue was increased \$32,000 over the course of the year to reflect contributions made to help fund projects in Mason and Webberville.
- Misc revenue was increased \$33,000 over the course of the year to reflect funds received for a BTOP grant used to add 14 new computers to several library locations.
- Technology expense was increased during the year by \$24,200 to reflect the addition of a surveillance project added to improve security at several locations.
- Capital outlay expenses were increased by \$21,500 during the year to fund building upgrade projects at our Haslett, Webberville, and Downtown Lansing locations.
- Lastly, the other expense category was increased a total of \$87,000 over the course of the year. This was a combination of higher property tax refunds of \$57,000 and donation project spending of \$30,000.

#### Capital Assets and Debt Administration

At the end of the fiscal year, the Library had approximately \$5.8 million invested in furniture, equipment, and books and materials. In 2012, the Library added approximately \$1.14 million in new collection items consisting mainly of books, DVD's, audio books, and music CD's, as well as \$287,235 in depreciable IT equipment, furniture, and building improvements.

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

#### Contacting the Library's Management

This financial information is intended to provide our taxpayers and customers with a general overview of the Library's finances and provide accountability for the resources entrusted to the Board and the management of the Capital Area District Library. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Pat Taylor, Finance Director, 401 S Capitol Ave., Lansing, Michigan 48933.

This page intentionally left blank.

## BASIC FINANCIAL STATEMENTS

# CAPITAL AREA DISTRICT LIBRARY

## Statement of Net Position and and General Fund Balance Sheet December 31, 2012

	General Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and cash equivalents	\$ 5,338,704	\$ -	\$ 5,338,704
Investments	1,758,420	-	1,758,420
Taxes receivable	9,219,294	-	9,219,294
Accounts receivable	2,812	-	2,812
Interest receivable	1,642	-	1,642
Prepaid items	380,296	-	380,296
Capital assets, net	-	5,818,580	5,818,580
<b>Total assets</b>	<b>16,701,168</b>	<b>5,818,580</b>	<b>22,519,748</b>
<b>Liabilities</b>			
Accounts payable	190,908	-	190,908
Accrued salaries and benefits	263,884	-	263,884
Long-term liabilities due after one year - Compensated absences	-	240,278	240,278
<b>Total liabilities</b>	<b>454,792</b>	<b>240,278</b>	<b>695,070</b>
<b>Deferred inflows of resources</b>			
Taxes levied but intended for subsequent period	9,215,150	-	9,215,150
<b>Fund balance</b>			
Nonspendable	380,296	(380,296)	-
Restricted - donations	304,584	(304,584)	-
Committed:			
Capital projects	440,175	(440,175)	-
Automation	500,000	(500,000)	-
Operations	3,200,000	(3,200,000)	-
Assigned - donations	32,360	(32,360)	-
Unassigned	2,173,811	(2,173,811)	-
<b>Total fund balances</b>	<b>7,031,226</b>	<b>(7,031,226)</b>	<b>-</b>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 16,701,168</b>		
<b>Net position</b>			
Net investment in capital assets		5,818,580	5,818,580
Restricted - donations		304,584	304,584
Unrestricted		6,486,364	6,486,364
<b>Total net position</b>		<b>\$ 12,609,528</b>	<b>\$ 12,609,528</b>

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

## CAPITAL AREA DISTRICT LIBRARY

### Reconciliation

Fund Balance for General Fund  
to Net Position of Governmental Activities  
December 31, 2012

Fund balance - general fund	\$ 7,031,226
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	
Capital assets	21,022,468
Accumulated depreciation	(15,203,888)
<p>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.</p>	
Compensated absences	<u>(240,278)</u>
Net position of governmental activities	<u><u>\$ 12,609,528</u></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, 2012

	General Fund	Adjustments	Statement of Activities
<b>Expenditures/expenses</b>			
Library services:			
Salaries and benefits	6,834,856	(9,148)	6,825,708
Materials	1,263,226	(1,141,530)	121,696
Supplies	117,137	-	117,137
Professional services	314,408	-	314,408
Governance	69,866	-	69,866
Automated library system	237,132	-	237,132
Maintenance and utilities	642,120	-	642,120
Technology	308,225	(218,558)	89,667
Staff development	17,638	-	17,638
Capital outlay	88,910	(68,677)	20,233
Depreciation	-	1,680,665	1,680,665
Other	270,360	-	270,360
	<u>10,163,878</u>	<u>242,752</u>	<u>10,406,630</u>
<b>Program Revenues</b>			
Penal fines	577,931	-	577,931
State aid	106,972	-	106,972
Rental revenue	268,903	-	268,903
Donations	81,407	-	81,407
	<u>1,035,213</u>	<u>-</u>	<u>1,035,213</u>
Net program revenues			(9,371,417)
<b>General Revenues</b>			
Property taxes	9,738,601	-	9,738,601
Interest income	57,982	-	57,982
Miscellaneous	132,907	-	132,907
	<u>9,929,490</u>	<u>-</u>	<u>9,929,490</u>
Change in fund balance/net position	800,825	(242,752)	558,073
Fund balance/net position, beginning of year	<u>6,230,401</u>	<u>5,821,054</u>	<u>12,051,455</u>
Fund balance/net position, end of year	<u>\$ 7,031,226</u>	<u>\$ 5,578,302</u>	<u>\$ 12,609,528</u>

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

## CAPITAL AREA DISTRICT LIBRARY

### Reconciliation

Net Change in Fund Balance of General Fund  
to Change in Net Position of Governmental Activities  
For the Year Ended December 31, 2012

Net change in fund balance - general fund	\$ 800,825
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.	
Capital outlay	1,428,765
Depreciation expense	(1,680,665)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in the accrual for compensated absences	<u>9,148</u>
Change in net position of governmental activities	<u><u>\$ 558,073</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 - General Fund

For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 9,757,000	\$ 9,736,000	\$ 9,738,601	\$ 2,601
Penal fines	526,500	576,500	577,931	1,431
State aid	103,100	106,010	106,972	962
Rental revenue	240,000	275,000	268,903	(6,097)
Interest income	67,000	58,000	57,982	(18)
Donations	50,000	82,000	81,407	(593)
Miscellaneous	113,045	146,045	132,907	(13,138)
<b>Total revenues</b>	<b>10,856,645</b>	<b>10,979,555</b>	<b>10,964,703</b>	<b>(14,852)</b>
<b>Expenditures</b>				
Library services:				
Salaries and benefits	7,246,640	7,237,640	6,834,856	402,784
Materials	1,552,031	1,604,131	1,263,226	340,905
Supplies	124,500	124,500	117,137	7,363
Professional services	323,945	326,245	314,408	11,837
Governance	88,600	88,600	69,866	18,734
Automated library system	268,430	268,430	237,132	31,298
Maintenance and utilities	662,070	671,270	642,120	29,150
Technology	332,420	356,620	308,225	48,395
Staff development	25,700	25,700	17,638	8,062
Capital outlay	88,898	110,398	88,910	21,488
Other	187,352	274,352	270,360	3,992
<b>Total expenditures</b>	<b>10,900,586</b>	<b>11,087,886</b>	<b>10,163,878</b>	<b>924,008</b>
<b>Net change in fund balance</b>	<b>(43,941)</b>	<b>(108,331)</b>	<b>800,825</b>	<b>909,156</b>
Fund balance, beginning of year	6,230,401	6,230,401	6,230,401	-
<b>Fund balance, end of year</b>	<b>\$ 6,186,460</b>	<b>\$ 6,122,070</b>	<b>\$ 7,031,226</b>	<b>\$ 909,156</b>

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.

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 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 Library had no business-type activities during the year ended 2012.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

# CAPITAL AREA DISTRICT LIBRARY

## Notes To Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

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, if any.

#### *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.

# CAPITAL AREA DISTRICT LIBRARY

## Notes To Financial Statements

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 completed. 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 governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

### *Fund Equity*

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Library Board. A formal resolution of the Library Board is required to establish, modify or rescind a fund balance commitment. The Library reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

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

### *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.

# CAPITAL AREA DISTRICT LIBRARY

## Notes To Financial Statements

The Library's 2011 tax is levied and collectible on December 1, 2011 and is recognized as revenue in the year ended December 31, 2012 financial statements, when the proceeds of the levy are budgeted and available for the financing operations. The 2011 taxable value of the district totaled \$6,491,459,724 (a portion of which is not captured from all jurisdictions), on which taxes of 1.56 mills are levied for operating purposes.

### 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 Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund.

### 3. DEPOSITS AND INVESTMENTS

#### Deposits

Following is a reconciliation of deposit and investment balances as of December 31, 2012:

Statement of Net Position	
Cash and cash equivalents	\$ 5,338,704
Investments	<u>1,758,420</u>
	<u>\$ 7,097,124</u>
Deposits and investments	
Petty cash	\$ 3,962
Bank deposits (checking, savings, and certificate of deposit accounts)	6,547,091
Investments	<u>546,071</u>
	<u>\$ 7,097,124</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:

Investment	Maturity	Fair Value	Rating
Michigan Governmental MMF	n/a	\$ 546,071	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, \$5,816,021 of the Library’s bank balance of \$6,793,307 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

### 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, being depreciated:				
Furniture and equipment	\$ 4,011,608	\$ 287,235	\$ (466,015)	\$ 3,832,828
Library materials	17,066,299	1,141,530	(1,018,189)	17,189,640
	<u>21,077,907</u>	<u>1,428,765</u>	<u>(1,484,204)</u>	<u>21,022,468</u>
Less accumulated depreciation for:				
Furniture and equipment	(2,646,303)	(331,801)	466,015	(2,512,089)
Library materials	(12,361,124)	(1,348,864)	1,018,189	(12,691,799)
	<u>(15,007,427)</u>	<u>(1,680,665)</u>	<u>1,484,204</u>	<u>(15,203,888)</u>
Total capital assets, net	<u>\$ 6,070,480</u>	<u>\$ (251,900)</u>	<u>\$ -</u>	<u>\$ 5,818,580</u>

### 5. LONG-TERM DEBT

The following is a summary of long-term debt activity of the Library for the year ended December 31, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance
Compensated absences	<u>\$ 249,426</u>	<u>\$ -</u>	<u>\$ (9,148)</u>	<u>\$ 240,278</u>

Compensated absences represent the estimated liability to be paid to 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

### 6. 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.

### 7. RETIREMENT 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 \$30,659 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 and non-union employees of 3.07% or .85% and 12.55%, 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.

# CAPITAL AREA DISTRICT LIBRARY

## Notes To Financial Statements

### *Annual Pension Cost*

For the year ended December 31, 2012, the Library's annual pension cost of \$225,337 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 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 27 years for positive unfunded accrued liabilities and 10 years for negative unfunded accrued liabilities.

### *Funded Status and Funding Progress*

As of December 31, 2011, the most recent actuarial valuation date, the plan was 102 percent funded. The actuarial accrued liability for benefits was \$5,161,725, and the actuarial value of assets was \$5,250,975, resulting in an unfunded actuarial accrued liability (UAAL) of \$(89,250). The covered payroll (annual payroll of active employees covered by the plan) was \$3,210,251, and the ratio of the UAAL to the covered payroll was (2.8) 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.

## 8. 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, 2012, are summarized as follows:

Year Ending December 31,	Amount
2013	\$ 41,208
2014	42,030
2015	42,870
2016	43,728
2017	44,604
2018-2020	<u>151,199</u>
	<u>\$ 365,639</u>

Rent expense related to these leases for the year ended December 31, 2012 was \$46,212.

# CAPITAL AREA DISTRICT LIBRARY

## Notes To Financial Statements

### 9. IMPLEMENTATION OF NEW STANDARDS

The Library adopted the provisions of GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. While the classification of certain financial elements in the financial statements were revised, the implementation of this standard had no effect on total equity.



## 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)
12/31/2006	\$ 1,897,473	\$ 2,072,365	\$ 174,622	92%	\$ 3,266,454	5.3%
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%

### Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2007	\$ 235,404	100%
2008	247,474	100%
2009	248,960	100%
2010	246,607	100%
2011	251,136	100%
2012	225,337	100%