

Ann Arbor District  
Library



Year Ended  
June 30, 2013

Financial  
Statements

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# ANN ARBOR DISTRICT LIBRARY

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## INDEPENDENT AUDITORS' REPORT

November 12, 2013

To the Board of Trustees  
Ann Arbor District Library  
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the *Ann Arbor District Library* (the "Library"), as of and for the year ended June 30, 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.

### *Independent Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Library'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 Library's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Ann Arbor District Library, as of June 30, 2013, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Rehmann Lobson LLC*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

# ANN ARBOR DISTRICT LIBRARY

## Management's Discussion and Analysis

As management of the Ann Arbor District Library (the "Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year that ended June 30, 2013.

### Financial Highlights

- The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$30,445,882 (net position). Of this amount, \$7,589,117 (unrestricted net position) may be used to meet the Library's ongoing obligations.
- The Library's total net position decreased by \$516,618 during the year.
- As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$8,191,090, an increase of \$88,269 in comparison with the prior year. Approximately 94% or \$7,670,532 is available for spending at the Library's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$7,670,532 or 64% percent of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Library's basic financial statements. To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net position and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the Library's assets and liabilities, with the difference between the two 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 government'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 vacation leave).

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund level financial statement portions of this combined reporting format are designed to provide readers information on how the Library has complied with finance-related legal requirements.

**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.

# ANN ARBOR DISTRICT LIBRARY

## Management's Discussion and Analysis

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

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found after the basic financial statement section of this report.

### Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by \$30,445,882 at the close of the most recent fiscal year.

	Net Position	
	Governmental Activities	
	2013	2012
Current and other assets	\$ 9,002,896	\$ 8,762,369
Capital assets, net	22,494,725	23,116,585
<b>Total assets</b>	<b>31,497,621</b>	<b>31,878,954</b>
Current liabilities outstanding	811,806	659,548
Other liabilities	239,933	256,906
<b>Total liabilities</b>	<b>1,051,739</b>	<b>916,454</b>
Net position		
Net investment in capital assets	22,494,725	23,116,585
Restricted	362,040	361,217
Unrestricted	7,589,117	7,484,698
<b>Total net position</b>	<b>\$30,445,882</b>	<b>\$30,962,500</b>

# ANN ARBOR DISTRICT LIBRARY

## Management's Discussion and Analysis

	Change in Net Position	
	Governmental Activities	
	2013	2012
<b>Revenues:</b>		
Property taxes	\$11,105,111	\$10,875,521
State penal fines	256,398	195,152
State aid	160,025	81,780
Interest income (loss)	(72,071)	181,475
Copier revenue	32,411	35,435
Grants and memorials	140,043	112,832
Library fines, fees and other	418,620	445,007
Non-resident fees	15,645	16,414
<b>Total revenues</b>	<b>12,056,182</b>	<b>11,943,616</b>
<b>Expenses:</b>		
Personnel costs	7,688,782	7,545,867
Purchased services	1,023,649	1,000,497
Repairs and maintenance	275,826	256,196
Rent	185,340	178,837
Materials, supplies and expense	2,270,137	2,264,905
Other operating costs	402,172	353,268
Depreciation expense	726,894	745,175
<b>Total expenses</b>	<b>12,572,800</b>	<b>12,344,745</b>
<b>Change in net position</b>	<b>(516,618)</b>	<b>(401,129)</b>
Net position:		
Beginning of year	30,962,500	31,363,629
End of year	<u>\$30,445,882</u>	<u>\$30,962,500</u>

As noted earlier, the Library decreased net position during the year ended June 30, 2013 by approximately \$516,000. At the fund level, capital outlay is an expenditure, but in the government-wide reporting model, this capital addition is added into capital assets. Also, at the government-wide level, depreciation is an expense. For the year ended June 30, 2013, depreciation expense exceeded capitalized capital outlay by \$609,064, causing most of the decrease in net position above.



# ANN ARBOR DISTRICT LIBRARY

## Management's Discussion and Analysis

### 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 Funds.** The focus of the Library's governmental funds 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 funds reported combined ending fund balances of \$8,191,090, an increase of \$88,269 in comparison with the prior year. Approximately 94% of this total amount (\$7.7 million) constitutes unassigned fund balance, which is available for spending at the Library's discretion.

The general fund is the chief operating fund of the Library. At the end of the current fiscal year, unassigned fund balance of the general fund was \$7,670,532 while total fund balance was \$7,829,050. 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 and total fund balance each represent approximately 64% and 65% of total general fund expenditures.

The fund balance of the Library's general fund increased by \$87,446, during the current fiscal year. The unassigned fund balance increased by \$111,565.

**Capital Assets.** The Library's investment in capital assets as of June 30, 2013, amounted to \$22,494,725 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, and equipment.

	Library's Capital Assets (Net of Depreciation)	
	2013	2012
Land	\$ 2,108,183	\$ 2,108,183
Buildings and construction in progress	19,486,115	19,985,296
Vehicles	2,404	7,212
Equipment	898,023	1,015,894
<b>Total capital assets, net</b>	<b><u>\$22,494,725</u></b>	<b><u>\$23,116,585</u></b>

Additional information on the Library's capital assets can be found in Note 4 to these financial statements.

### General Fund Budgetary Highlights

Differences between the original and final budgets for revenues and expenditures were relatively minor in relation to the overall budget amounts. Once additional information was known as the year progressed, subsequent budget amendments recognized certain additional expenditures.

Actual variances from the final amended budgets were minimal, except for the line item "Interest income", where the actual revenue was less than the final amended budget. This was due to the decline in market values of various bond securities during the year from their original costs values. Government reporting standards require investments to be recorded at fair market value.

# ANN ARBOR DISTRICT LIBRARY

## Management's Discussion and Analysis

### Factors Bearing on the Library's Future

The following factors were considered in preparing the Library's budget for the 2013-2014 fiscal years:

- Focus on keeping products and services at the same levels as the past few years.
- Small increase in wages and benefits that are supported by a slight increase in the tax revenue.
- Continued focus on repairs and maintenance at all locations.

### 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 Associate Director, 343 S. Fifth Avenue, Ann Arbor, Michigan 48104.



**BASIC FINANCIAL STATEMENTS**

# ANN ARBOR DISTRICT LIBRARY

## Governmental Funds Balance Sheet/Statement of Net Position June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds	Adjustments	Statement of Net Position
<b>Assets</b>					
Cash and cash equivalents	\$ 3,336,904	\$ 362,040	\$ 3,698,944	\$ -	\$ 3,698,944
Investments	4,637,857	-	4,637,857	-	4,637,857
Taxes receivable	23,538	-	23,538	-	23,538
Due from other governmental units	489,200	-	489,200	-	489,200
Prepaid expenditures/expenses	153,357	-	153,357	-	153,357
Capital assets:					
Assets not being depreciated	-	-	-	2,108,183	2,108,183
Assets being depreciated	-	-	-	20,386,542	20,386,542
<b>Total assets</b>	<b>\$ 8,640,856</b>	<b>\$ 362,040</b>	<b>\$ 9,002,896</b>	<b>22,494,725</b>	<b>31,497,621</b>
<b>Liabilities</b>					
Accounts payable - vendors	\$ 505,977	\$ -	\$ 505,977	-	505,977
Accrued payroll and benefits	305,829	-	305,829	-	305,829
Long-term liabilities:					
Due within one year	-	-	-	30,000	30,000
Due after one year	-	-	-	209,933	209,933
<b>Total liabilities</b>	<b>811,806</b>	<b>-</b>	<b>811,806</b>	<b>239,933</b>	<b>1,051,739</b>
<b>Fund balances</b>					
Nonspendable:					
Prepaid expenditures	153,357	-	153,357	(153,357)	-
Permanent corpus	-	325,000	325,000	(325,000)	-
Restricted -					
Endowments	-	37,040	37,040	(37,040)	-
Assigned -					
Subsequent year appropriations	5,161	-	5,161	(5,161)	-
Unassigned	7,670,532	-	7,670,532	-	-
<b>Total fund balances</b>	<b>7,829,050</b>	<b>362,040</b>	<b>8,191,090</b>	<b>(520,558)</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,640,856</b>	<b>\$ 362,040</b>	<b>\$ 9,002,896</b>		
<b>Net position</b>					
Net investment in capital assets				22,494,725	22,494,725
Restricted for endowments - nonexpendable				325,000	325,000
Restricted for endowments - expendable				37,040	37,040
Unrestricted				7,589,117	7,589,117
<b>Total net position</b>				<b>\$ 30,445,882</b>	<b>\$ 30,445,882</b>

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

# ANN ARBOR DISTRICT LIBRARY

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2013

Fund balances - total governmental funds \$ 8,191,090

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

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Capital assets	32,040,668
Accumulated depreciation	(9,545,943)

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.

Compensated absences	<u>(239,933)</u>
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Net position of governmental activities	<u>\$ 30,445,882</u>
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The accompanying notes are an integral part of these financial statements.

# ANN ARBOR DISTRICT LIBRARY

## Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities Governmental Funds For the Year Ended June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds	Adjustments	Statement of Activities
<b>Revenues</b>					
Property taxes, net	\$ 11,105,111	\$ -	\$ 11,105,111	\$ -	\$ 11,105,111
State penal fines	256,398	-	256,398	-	256,398
State aid	160,025	-	160,025	-	160,025
Interest income (loss)	(72,894)	823	(72,071)	-	(72,071)
Copier revenue	32,411	-	32,411	-	32,411
Grants and memorials	140,043	-	140,043	-	140,043
Library fines, fees and other	418,620	-	418,620	-	418,620
Non-resident fees	15,645	-	15,645	-	15,645
<b>Total revenues</b>	<b>12,055,359</b>	<b>823</b>	<b>12,056,182</b>	<b>-</b>	<b>12,056,182</b>
<b>Expenditures/expenses</b>					
Current:					
Personnel costs	7,705,755	-	7,705,755	(16,973)	7,688,782
Purchased services	1,023,649	-	1,023,649	-	1,023,649
Repairs and maintenance	275,826	-	275,826	-	275,826
Rent	185,340	-	185,340	-	185,340
Materials, supplies and expense	2,270,137	-	2,270,137	-	2,270,137
Other operating costs	389,376	-	389,376	12,796	402,172
Depreciation expense	-	-	-	726,894	726,894
Capital outlay/maintenance expense	117,830	-	117,830	(117,830)	-
<b>Total expenditures/expenses</b>	<b>11,967,913</b>	<b>-</b>	<b>11,967,913</b>	<b>604,887</b>	<b>12,572,800</b>
<b>Net change in fund balances</b>	<b>87,446</b>	<b>823</b>	<b>88,269</b>	<b>(88,269)</b>	<b>-</b>
<b>Change in net position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(516,618)</b>	<b>(516,618)</b>
<b>Fund balance/net position, beginning of year</b>	<b>7,741,604</b>	<b>361,217</b>	<b>8,102,821</b>	<b>22,859,679</b>	<b>30,962,500</b>
<b>Fund balance/net position, end of year</b>	<b>\$ 7,829,050</b>	<b>\$ 362,040</b>	<b>\$ 8,191,090</b>	<b>\$ 22,254,792</b>	<b>\$ 30,445,882</b>

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

# ANN ARBOR DISTRICT LIBRARY

## Reconciliation

Net Change in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2013

Net change in fund balances - total governmental funds \$ 88,269

Amounts reported for *governmental activities* 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	117,830
Depreciation expense	(726,894)
Book value of assets disposed	(12,796)

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>16,973</u>
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Change in net position of governmental activities	<u>\$ (516,618)</u>
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The accompanying notes are an integral part of these financial statements.

# ANN ARBOR DISTRICT LIBRARY

## Statement of Revenues, Expenditures and Changes

in Fund Balances - Budget and Actual  
General Fund  
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		With Final Budget
<b>Revenues</b>				
Property taxes, net	\$ 11,132,000	\$ 11,132,000	\$ 11,105,111	\$ (26,889)
State penal fines	230,000	230,000	256,398	26,398
State aid	80,000	80,000	160,025	80,025
Interest income	150,000	150,000	(72,894)	(222,894)
Copier revenue	35,000	35,000	32,411	(2,589)
Grants and memorials	90,000	90,000	140,043	50,043
Library fines, fees and other	450,000	450,000	418,620	(31,380)
Non-resident fees	16,000	16,000	15,645	(355)
<b>Total revenues</b>	<b>12,183,000</b>	<b>12,183,000</b>	<b>12,055,359</b>	<b>(127,641)</b>
<b>Expenditures</b>				
Current:				
Salaries and wages	5,800,000	5,800,000	5,695,994	104,006
Employee benefits	1,565,000	1,565,000	1,583,235	(18,235)
Employment taxes	444,000	444,000	426,526	17,474
Purchased services:				
Custodial services	200,000	200,000	179,178	20,822
Professional services	201,000	201,000	149,728	51,272
Utilities	425,000	444,000	442,625	1,375
Property insurance	84,000	84,000	77,767	6,233
Communications	160,000	176,000	174,351	1,649
Repairs and maintenance	297,000	281,000	275,826	5,174
Rent	200,000	200,000	185,340	14,660
Materials	1,850,000	1,850,000	1,848,600	1,400
Operating supplies and expense	428,000	450,000	421,537	28,463
Library programming	250,000	260,000	240,639	19,361
Seminars, conferences and travel	25,000	25,000	13,460	11,540
Grant and memorial expenses	90,000	90,000	135,277	(45,277)
Capital outlay	164,000	123,000	117,830	5,170
<b>Total expenditures</b>	<b>12,183,000</b>	<b>12,193,000</b>	<b>11,967,913</b>	<b>225,087</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>(10,000)</b>	<b>87,446</b>	<b>97,446</b>
Fund balance, beginning of year	7,741,604	7,741,604	7,741,604	-
<b>Fund balance, end of year</b>	<b>\$ 7,741,604</b>	<b>\$ 7,731,604</b>	<b>\$ 7,829,050</b>	<b>\$ 97,446</b>

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

**NOTES TO FINANCIAL STATEMENTS**

# ANN ARBOR DISTRICT LIBRARY

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Ann Arbor District Library (the "Library") is a public entity, which enjoys dual tax status as both a municipality and a 501(c)(3) tax-exempt organization.

Pursuant to Public Act 145 of 1993 (Proposal A), effective July 1, 1996, school districts in Michigan are not allowed to levy a millage for public libraries. The Library was, therefore, spun off from the Ann Arbor Public Schools (the "Schools") to operate as an independent body with its own board of trustees and its own tax levy. The Library has received voter approval to levy up to 2.0 mills. The Library levied 1.55 mills for the year ending June 30, 2013. Assets and liabilities of the Library were transferred as of July 1, 1996. The Library is governed by an elected Board (the "Library Board") which consists of seven members elected at large from the Library District.

The Library's borders encompass the City of Ann Arbor (the "City"), and the Townships of Ann Arbor, Lodi, Pittsfield, Salem, Scio, Superior, and Webster. Properties in each governmental unit are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year.

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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The Library had no business-type activities during the year ended 2013.

Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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



# ANN ARBOR 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, except those required to be accounted for and reported in another fund.

Additionally, the Library reports the following fund type -

The *permanent funds* account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specific government programs.

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**

#### ***Deposits and 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.

#### ***Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans). There were no such interfund loans outstanding at June 30, 2013.

#### ***Prepaid items***

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.

# ANN ARBOR DISTRICT LIBRARY

## Notes to Financial Statements

### *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 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.

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

	Years
Buildings and improvements	20-45
Vehicles	4-12
Equipment	5-20

### *Compensated absences*

Compensated absences represent the estimated liability to be paid to employees under the Library's compensated absences policy, net of the portion that is estimated to be paid currently. Under the Library's policy, employees earn compensated absence time based on time of service with the Library.

### *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 require to be maintained intact. Restricted fund balance, if any, 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, if any, is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Library Board. 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 an expenditure 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.

## 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.

# ANN ARBOR DISTRICT LIBRARY

## Notes to Financial Statements

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. Variances with the final budget are shown on the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the General Fund.

### 3. DEPOSITS AND INVESTMENTS

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

#### Statement of Net Position

Cash and cash equivalents	\$ 3,698,944
Investments	<u>4,637,857</u>
<b>Total</b>	<b><u>\$ 8,336,801</u></b>

These balances are disclosed in the notes as follows:

Petty cash	\$ 2,200
Bank deposits (checking, savings and certificates of deposit)	3,696,744
Investments	<u>4,637,857</u>
	<b><u>\$ 8,336,801</u></b>

#### Statutory Authority

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.

# ANN ARBOR 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
Money markets	N/A	\$ 70,375	N/A
Federated Government Ultrashot	N/A	63,762	S&P - AAA
Vanguard GNMA Fund	N/A	138,947	S&P - AAA
Ann Arbor Michigan 3.500%	5/1/2014	25,591	S&P - AA+
Jackson MI Comm. College 3.150%	5/1/2014	127,156	S&P - AA-
Lincoln MI Cons School Dist. 3.500%	5/1/2014	102,264	S&P - AA-
Grand Rapids MI Bldg Auth 3.100%	10/1/2014	87,148	S&P - AA
Fed Home Loan Bank 1.750%	10/29/2014	152,913	S&P - AAA
Chippewa Valley Michigan Sch Dist 4.250%	5/1/2016	51,703	S&P - AA-
St. Johns MI Public Schs 4.350%	5/1/2016	104,404	S&P - AA-
Federal Farm Credit Bank 0.830%	8/22/2016	24,952	S&P - AAA
Jenison MI Public Schs 4.750%	5/1/2017	109,194	Moody's - Aa2
Federal Farm Credit Bank 0.970%	7/24/2017	98,597	S&P - AAA
Federal Farm Credit Bank 2.500%	12/6/2017	52,155	S&P - AAA
St. Clair Cnty MI 1.6000%	4/1/2018	96,870	S&P - AA
Plainwell MI Cmty Schs 1.650%	5/1/2018	73,289	S&P - AA-
Avondale MI School Dist. 4.000%	5/1/2018	77,952	S&P - AA-
St. Johns MI Public Schs 5.050%	5/1/2018	155,550	S&P - AA-
Michigan State 2.125%	5/15/2018	98,752	S&P - AA
Alma Michigan Pub Sch Dist 4.150%	5/1/2019	151,571	S&P - AA
Federal Farm Credit Bank 1.750%	6/12/2019	72,700	S&P - AAA
Federal Farm Credit Bank 1.690%	2/13/2020	215,411	S&P - AAA
Monroe Cnty Michigan 5.500%	10/1/2020	97,139	S&P - AA-
MI State G.O. Bond 4.140%	11/1/2020	54,187	S&P - AA-
Federal Farm Credit Bank 2.350%	6/21/2021	129,152	S&P - AAA
Fed Home Loan Bank 2.090%	11/9/2021	214,218	S&P - AA+
Federal Farm Credit Bank 2.250%	2/25/2022	47,388	S&P - AAA
Fed Home Loan Bank Step Up 1.500%	6/13/2022	243,283	S&P - AA+
Fed Home Loan Bank 2.500%	6/27/2022	95,955	S&P - AAA
Lansing MI 2.6500%	6/1/2023	186,982	S&P - AA
Fed Home Loan Bank Step Up 1.000%	6/27/2023	244,036	S&P - AA+
University of Michigan 4.926%	4/1/2024	56,776	S&P - AAA
Fed Home Loan Bank 2.600%	11/1/2024	47,024	S&P - AAA
Oakland Cnty Michigan 5.750%	4/1/2025	52,888	S&P - AAA
Fed Home Loan Bank Step Up 1.000%	11/26/2027	291,154	S&P - AA+
Fed Nat'l Mtg Assn 1.000%	12/27/2027	292,022	S&P - AA+
Fed Home Loan Bank Step Up 1.000%	2/14/2028	119,053	S&P - AA+
Fed Home Loan Bank Step Up 2.125%	4/11/2028	190,608	S&P - AA+
Fed Nat'l Mtg Assn Step Up 1.000%	6/27/2028	124,736	S&P - AA+
		<u>\$ 4,637,857</u>	

# ANN ARBOR DISTRICT LIBRARY

## Notes to Financial Statements

### Deposit and investment 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, \$1,446,744 of the Library's bank balance of \$3,808,674 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. Although uninsured and unregistered, the Library's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the Library's name. Also, \$273,084 of the investments listed above are unclassified as to custodial credit risk as the invested amount is part of an investment pool.

*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 restricts commercial paper in any one fund to no more than 33% at any time. All investments held at year-end are reported above.

# ANN ARBOR DISTRICT LIBRARY

## Notes to Financial Statements

### 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Capital assets not being depreciated -</b>				
Land	\$ 2,108,183	\$ -	\$ -	\$ 2,108,183
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	25,988,344	12,500	-	26,000,844
Vehicles	183,256	-	-	183,256
Communications equipment	431,035	-	-	431,035
Computer equipment	1,363,432	71,254	(98,062)	1,336,624
Furniture and equipment	1,302,241	-	(42,132)	1,260,109
Other equipment	736,928	34,076	(50,387)	720,617
<b>Total capital assets being depreciated</b>	<b>30,005,236</b>	<b>117,830</b>	<b>(190,581)</b>	<b>29,932,485</b>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(6,003,048)	(511,681)	-	(6,514,729)
Vehicles	(176,044)	(4,808)	-	(180,852)
Communications equipment	(412,964)	(7,010)	-	(419,974)
Computer equipment	(1,162,961)	(80,943)	85,266	(1,158,638)
Furniture and equipment	(754,287)	(74,771)	42,132	(786,926)
Other equipment	(487,530)	(47,681)	50,387	(484,824)
<b>Total accumulated depreciation</b>	<b>(8,996,834)</b>	<b>(726,894)</b>	<b>177,785</b>	<b>(9,545,943)</b>
<b>Total assets being depreciated, net</b>	<b>21,008,402</b>	<b>(609,064)</b>	<b>(12,796)</b>	<b>20,386,542</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 23,116,585</b>	<b>\$ (609,064)</b>	<b>\$ (12,796)</b>	<b>\$ 22,494,725</b>

### 5. LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Library for the year ended June 30, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Sick and vacation leave pay	\$ 256,906	\$ -	\$ (16,973)	\$ 239,933	\$ 30,000

# ANN ARBOR DISTRICT LIBRARY

## Notes to Financial Statements

### 6. LEASES

The Library rents building space for one of the branches and archive storage under operating leases. The rental payments include taxes and shared building expenses. The minimum future rental payments at June 30 are summarized as follows:

Year Ended June 30,	Amount
2014	\$ 101,510
2015	<u>47,985</u>
<b>Total future expenditures</b>	<b><u>\$ 149,495</u></b>

Total rental expense under the above leases for the year ended June 30, 2013 was \$185,340.

### 7. TRANSFERS OF ASSETS AND ASSUMPTION OF LIABILITIES AND CONTRACTUAL OBLIGATIONS

Effective July 1, 1996, the Schools transferred all of the assets (the "Premises") of its library fund to the Library subject to all the liabilities and contractual obligations, including contingent liabilities, of or incurred by the former library.

At the time of the separation of the Library from the Schools under the District Library Agreement ("DLA"), the Library, the Schools and the City executed an Employee Transfer Agreement which outlined many of the provisions governing the formation of the District Library and the terms and conditions of employment relations during the transition period. The Employee Transfer Agreement provides that the Library shall continue to make retirement contributions to MPSERS for Former School Library Employees ("FSLE"), that is, those employed prior to July 1, 1996. As provided in the Agreement, the Library has continued to make contributions to MPSERS on behalf of FSLE with the exception of certain identified hourly employees. The Library has also adopted a 403(b) defined contribution plan which allows for participation by certain designated employees who are not part of the FSLE group.

### 8. DEFINED BENEFIT PENSION PLAN

#### Plan Description

The Library contributes to the Michigan Public School Employees Retirement System (MPSERS), a collection of several retirement plans administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-5103.



# ANN ARBOR DISTRICT LIBRARY

## Notes to Financial Statements

### Funding Policy

#### *Defined Benefit Plans*

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3.0 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the MIP Plus Plan. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. Basic 4% and MIP 7% members contribute 4 percent and 7 percent of pretax salary, respectively. Based on the option selected at enrollment, these individuals contribute at a fixed rate until termination of employment or until reaching 30 years of service. At that time, based on the option selected, employee contributions are no longer required or revert to the contribution requirements under the MIP plan in which the employee initially enrolled.

The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the year ended June 30, 2013 as a percentage of payroll ranged from 20.96 to 25.39 percent.

#### *Hybrid Plans*

Effective February 1, 2013, members that initially enrolled in the defined benefit plan were provided the option to convert to a defined contribution plan. In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4 percent employer contributions to a personal 401(k) account. Voluntary employee contributions are permitted in accordance with IRS guidelines. Employer contributions and earnings thereon vest based on the following schedule: 50 percent at 2 years of service, 75 percent at 3 years of service, and 100 percent at 4 years of service. Any voluntary contributions vest with the employee immediately. If a member participating in the hybrid plan retires with certain age and service requirements, he or she will receive a monthly pension based on compensation received before February 1, 2013.

#### *Defined Contribution Plan*

A member first enrolling in MPSERS on or after September 4, 2012 is automatically enrolled in the defined contribution plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the hybrid plan as described above.

The contribution requirements of plan members and the Library are established by Michigan State statute and may be amended only by action of the State Legislature. The Library's contributions to MPSERS under all plans for the years ended June 30, 2013, 2012, and 2011 were \$308,822, \$222,152, and \$182,427, respectively, equal to the required contributions for each year.



# ANN ARBOR DISTRICT LIBRARY

## Notes to Financial Statements

### 9. OTHER POSTEMPLOYMENT BENEFITS

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80 percent of cost.

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3 percent employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The Library's contributions to MPSERS for other postemployment benefits are not separately identified and are included in the contribution amounts disclosed above.

### 10. DEFINED CONTRIBUTION PLAN

Employees hired subsequent to July 1, 1996 are not eligible to participate in the MPSERS as the Library is no longer operated by the Schools. However, some employees are eligible to participate in the Library's 403(b) retirement savings plan (the "Plan"), a defined contribution plan which consists of a tax deferred annuity. Employees are eligible to participate in the Plan as of their start date of employment. The Plan, called the Ann Arbor Library 403(b) Tax Sheltered Annuity Plan, is administered by the Library and has been reviewed and approved by the Internal Revenue Service. Plan provisions and contribution requirements are established and may be amended by the Library Board of Directors.

The Library contributes 10% of the eligible salaried employees' base pay. There are no employee matching requirements; however, employees can contribute the maximum amount as required by current IRS guidelines into any one of six mutual funds with variable degrees of risk. Both employee and employer contributions are portable, thus in the event an employee terminates employment with the Library, the Plan benefits travel with the employee. Upon retirement, an eligible employee receives the tax-deferred contributions plus interest earnings on the contributions. The employer and employee contribution requirements for the Plan year ended June 30, 2013, were \$349,000 and \$271,454, respectively.

# ANN ARBOR DISTRICT LIBRARY

## Notes to Financial Statements

### 11. 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 general liability, property casualty, health claims and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.



**COMBINING FUND FINANCIAL  
STATEMENTS**

# ANN ARBOR DISTRICT LIBRARY

## Combining Balance Sheet

Nonmajor Permanent Funds  
June 30, 2013

	Holtrey Endowment	Keniston Endowment	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 331,745	\$ 30,295	\$ 362,040
<b>Fund balances</b>			
Nonspendable -			
Permanent fund corpus	\$ 300,000	\$ 25,000	\$ 325,000
Restricted -			
Expendable permanent fund	31,745	5,295	37,040
<b>Total fund balances</b>	\$ 331,745	\$ 30,295	\$ 362,040

# ANN ARBOR DISTRICT LIBRARY

**Combining Statement of Revenues, Expenditures**  
 and Changes in Fund Balances  
 Nonmajor Permanent Funds  
 For the Year Ended June 30, 2013

	Holtrey Endowment	Keniston Endowment	Totals
<b>Revenues</b>			
Investment income	\$ 793	\$ 30	\$ 823
<b>Expenditures</b>	-	-	-
<b>Net change in fund balances</b>	793	30	823
Fund balances - beginning of year	330,952	30,265	361,217
<b>Fund balances - end of year</b>	<u>\$ 331,745</u>	<u>\$ 30,295</u>	<u>\$ 362,040</u>

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