NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Kalamazoo Public Library (the Library) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:
These financial statements contain only the activity of the Kalamazoo Public Library, a district library pursuant to 1989 PA 24, effective April 2, 1990. The participating municipalities include the Kalamazoo School District, the City of Kalamazoo, the Township of Kalamazoo, and the Township of Oshtemo.

In accordance with generally accepted accounting principles and Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* these financial statements present the Library (primary government). The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Library has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a blended or discretely-presented component unit in the Library's financial statements. The Library is not considered a component unit of any other municipality.

b) Basis of presentation:
The accounts of the Library are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for in, individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The financial activities of the Library are recorded in the separate funds and account groups, categorized, and described as follows:

i) Governmental funds:
General Fund - this fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, grants, and other intergovernmental revenues.

Special revenue funds - these funds are used to account for specific governmental revenues (other than expendable trusts, or major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Fund - this fund is used for servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Capital Projects Fund - this fund is used to account for the acquisition or construction of major facilities other than those financed by proprietary fund operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*:

b) Basis of presentation (continued):

ii) Fiduciary funds:

Agency fund - this fund is used to account for assets held by the Library in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Kalamazoo Public Library Endowment Nonexpendable Trust Fund - this fund is used to account for assets of which the principal may not be spent.

ii) Account groups:

General fixed assets account group - this account group presents the fixed assets of the Library utilized in its general operations.

General long-term debt account group - this account group presents the Library's long-term obligations and the amounts available and required to be provided to retire these liabilities.

c) Basis of accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

The nonexpendable trust fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The Library has elected to follow (1) all GASB pronouncements and (2) Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

d) Budgets and budgetary accounting:

Budgets are adopted at the function level and are on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. The Library follows the procedures in establishing the budgetary data reflected in the financial statements in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Acts of 1978), as prescribed by the State of Michigan.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*:

d) Budgets and budgetary accounting (continued):
Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of resources are recorded to reserve that portion of applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

e) Investments:
Investments are reported at market value.

f) Fixed assets:
Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds. No depreciation has been provided on general fixed assets. Interest incurred during construction is not capitalized on general fixed assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

This account group is not a fund. It is concerned only with the measurement of financial position and is not involved with measurement of results of operations.

g) Property tax revenue recognition:
Property tax revenues are recognized in the year for which taxes have been levied and become available. Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are considered due on February 14 (75 days after the date levied), at which date the bill becomes delinquent. Real property taxes are collected by the local units until February 28, at which time they are turned over to the County as delinquent. The County remits delinquent real property taxes to the Library by June 30. The Library considers property taxes levied December 1 to be revenues of the current year.

h) Compensated absences:
Vacation leave is accrued as the benefits are earned by the employees and is vested by the employee up to a maximum balance determined by longevity and employee class. At termination of employment, employees are compensated for the balance accrued. Amounts not expected to be liquidated with expendable, available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. Sick leave benefits accumulate, but do not vest and are not payable upon termination of employment. No liability is reported for unpaid accumulated sick leave.

i) Fund equity:
Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*:

j) Total (memorandum only):
The total column on the combined statements is captioned "memorandum only" to indicate that it is prepared only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation as interfund eliminations have not been made.

NOTE 2 - CASH AND INVESTMENTS:

A reconciliation of cash and investments, as shown in the combined balance sheet, to the Library's deposits and investments is as follows:

Financial statements:	
Cash	$2,677,982
Investments	2,402,727
	$5,080,709
Notes to financial statements:	
Deposits with financial institutions	$2,677,212
Investments	2,402,727
Cash on hand	770
	$5,080,709

a) Deposits with financial institutions:
At June 30, 2002, the Library has deposits with a carrying amount of $2,677,212 and a bank balance of $2,812,238. Of the bank balance, $219,306 is covered by federal depository insurance and $2,592,932 is uninsured.

b) Investments:
State statutes authorize the Library to invest in; a) obligations of the U.S. Treasury, agencies, and instrumentalities, b) commercial paper, within three highest rate classifications by at least two national rating services, maturing not later than 270 days, c) repurchase agreements, collateralized by U.S. governmental securities, d) bankers' acceptances, and e) investment pools, such as common trust funds and mutual funds that invest in those investments allowed by state statute. Not more than 50% of any fund may be invested in commercial paper.

NOTE 2 - CASH AND INVESTMENTS (*Continued*):

The Library's investments are categorized as follows to give an indication of the level of risk assumed by the Library at year end. Categorized investments include investments that are insured, registered, or for which the Library or its agent in the Library's name holds the securities.

Categorized:	
$300,000 Commercial paper	$ 299,376
U.S. Government securities	1,061,172
Repurchase agreements	1,026,144
Non-risk categorized:	
Mutual funds	16,035
	$2,402,727

NOTE 3 - MONIES HELD BY FOUNDATION:

Amounts shown as beneficial interest in assets held by foundation represent monies placed with the Kalamazoo Community Foundation (foundation) by the Library, specifying itself as the beneficiary. The Library and the foundation are unrelated entities. The Library has the right, at any time, to receive from the foundation all or a portion of the current balance of such monies held by the foundation. The foundation, as custodian of such funds, continues to report the funds as assets of the foundation, with a corresponding liability, agency non-endowed funds. The Library reports this asset at the present value of future payments expected to be received.

Additionally, funds for the benefit of the Library have been established at the foundation for the receipt of gifts from donors other than the Library. The terms of these funds allow annual distributions of gifts and or income thereon, subject to the foundation's unilateral variance power to redirect distributions. No asset is recorded for these funds, other than the annual grant (if any). During the year ended June 30, 2002, there were no grants received from these funds. The balance in these funds as of June 30, 2002 was $26,235.

NOTE 4 - GENERAL FIXED ASSETS:

Due to a change in accounting estimate as to costs that represent fixed assets, the beginning balance of equipment has been reduced by $267,445.

A summary of changes in general fixed assets is as follows:

	Balance July 1, 2001	*Additions*	*Dispositions*	*Balance June 30, 2002*
Land	$ 133,173	$ -	$ -	$ 133,173
Buildings and improvements	15,812,619	-	-	15,812,619
Equipment	3,657,407	122,376	36,463	3,743,320
	$19,603,199	$122,376	$ 36,463	$19,689,112

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE:

The amount of interfund receivable and payable at June 30, 2002, is as follows:

Fund	*Interfund receivable*	*Fund*	*Interfund payable*
General	$ 713	Capital Projects	$ 713

NOTE 6 - DEFINED BENEFIT PENSION PLANS:

a) Available plans and covered employees:
Library employees who participated in the Michigan Public School Employees' Retirement System (MPSERS), a multi-employer public employee retirement system, while being employees of the School District, are allowed by state statute to continue their participation in the MPSERS or to elect to participate in the Municipal Employees' Retirement System (MERS), an agent multi-employer public employee retirement system. New employees of the Library, as of April 2, 1990, can only participate in the MERS.

b) MPSERS:
Plan description:
The Library contributes to the Michigan Public School Employees' Retirement Plan (the Plan), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Michigan Public School Employees' Retirement System (MPSERS). MPSERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Article 30 of the Regulations of the State of Michigan assigns the authority to establish and amend benefit provisions to the MPSERS Board of Trustees. The MPSERS issues a publicly-available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to MPSERS, P.O. Box 30673, Lansing, Michigan 48909-8103 or by calling 1-800-381-5111.

NOTE 6 - DEFINED BENEFIT PENSION PLANS *(Continued)*:

b) MPSERS (Continued):
Funding policy:
As of October 1, 1998, the Library is required to contribute 10.77% of its annual covered payroll (11.12% prior to September 30, 1998). The contribution requirements of the Plan members are established, and may be amended, by the MPSERS Board of Trustees. The Library's contributions to the Plan for the years ending June 30, 2002, 2001, and 2000, were $263,016, $264,008, and $260,529, respectively, equal to the required contributions for each year.

c) MERS:
Description of plan and plan assets:
The Library's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Library's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the Kalamazoo Public Library. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917 or by calling 1-800-767-6377.

i) Funding policy:
MERS members do not to contribute to the plan. The Library is required to contribute at an actuarially determined rate; the current rate is 3% to 5% of annual covered payroll depending on the plan. The contribution requirements of plan members and the commission are established, and may be amended, by MERS.

ii) Annual pension cost:
For the year ended June 30, 2002, the Library contributions were $125,152, which were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2001. The employer contribution rate has been determined using the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used included (a) 8.0% long-term net investment rate of return, (b) projected salary increases of 4.5% per year, and (c) 2.5% per year cost-of-living adjustments. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

NOTE 6 - DEFINED BENEFIT PENSION PLANS *(Continued)*:

c) MERS (Continued):
Description of plan and plan assets (continued):
iii) Trend information:

Fiscal year ended June 30,	*Annual pension cost (APC)*	*Percentage of APC contributed*	*Net pension obligation*
2000	$103,118	100%	$ -
2001	114,608	100%	-
2002	125,152	100%	-

NOTE 7 - LONG-TERM OBLIGATIONS:

The following is a summary of debt transactions of the Library for the year ended June 30, 2002:

	Balance July 1, 2001	*Additions*	*Reductions*	*Balance June 30, 2002*
Contracts and bonds payable	$14,624,809	$1,250,000	$1,293,924	$14,580,885
Accrued compensated absences	186,640	7,175	-	193,815
	$14,811,449	$1,257,175	$1,293,924	$14,774,700

The full faith, credit, and resources of the Library have been pledged for the prompt payment of all long-term debt requirements.

Contracts and bonds payable at June 30, 2002, is comprised of the following:

$2,700,000 1995 Library facility limited tax general obligation bonds, due in annual installments of $250,000 to $375,000, beginning May 1, 1998 through May 1, 2005; interest payable at 4.1% to 4.8%	$ 1,125,000
$13,300,000 1996 Library facility limited tax general obligation bonds, due in annual installments of $425,000 to $1,000,000, beginning May 1, 1999 through May 1, 2014; interest payable at 3.9% to 5.4%	11,200,000

NOTE 7 - LONG-TERM OBLIGATIONS (*Continued):*

$1,700,000 1997 Library equipment limited tax general obligation bonds, due in annual installments of $250,000 to $350,000, beginning May 1, 2000 through May 1, 2005; interest payable at 4.375% to 4.6%	$ 925,000
$99,809 tax settlement assessment payable, Pharmacia Corporation, due in annual installments of $22,943, beginning February 1, 2002 through February 1, 2006; with imputed interest payable at 5.25%	80,885
$1,250,000 2002 Library facility limited tax general obligation bonds, due in annual installments of $25,000 to $300,000, beginning May 1, 2003 through May 1, 2010; interest payable at 3% to 4%	1,250,000
	$14,580,885

The annual debt service requirements for debt outstanding as of June 30, 2002, are as follows:

	Bonds
2003	$ 2,150,171
2004	2,125,446
2005	2,036,371
2006	1,654,771
2007	1,635,408
Thereafter	9,384,474
	18,986,641
Interest included thereon	(4,405,756)
	$14,580,885

NOTE 8 - CLAIMS ARISING FROM RISKS OF LOSS:

The Library is exposed to various risks of loss to general liability, property and casualty, and workers' compensation, with such risks being managed through the purchase of commercial insurance. Insurance coverage includes protection for buildings and contents up to a limit of $32,500,000; workers' compensation coverage is limited to $500,000; and general liability limits are $3,000,000 per occurrence.

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

The Library is contingently liable, at June 30, 2002, for approximately $978,592 of non-vested accumulated sick pay benefits (unadjusted for attrition).

At June 30, 2002, the Library had committed funds towards the purchase of capital improvements. The total amount committed as of June 30, 2002, is $206,952. The improvements will be funded using bond proceeds received this fiscal year.

Consumers Energy Company has challenged its assessed valuation of the personal property that it owns in the State of Michigan, including property it owns within the Library district for the years 1997, 1998, and 1999. The specific issue involved is the true cash value of the personal property. It is reasonably possible that the court's decision may result unfavorably on the Library and result in an estimated loss of approximately $96,000.

NOTE 10 - PRIOR PERIOD ADJUSTMENTS:

Prior period adjustments have been recorded during the fiscal year that resulted in fund equity restatements. Fund equity as of July 1, 2001, included in the general purpose financial statements, represents restated balances as presented below. The following schedule identifies the nature and amount of the adjustments recorded:

	Fund balance
General Fund:	
Beginning of year, as previously reported	$2,756,018
Prior period adjustments:	
Understatement of due from other governmental unit	381,872
Reclassification of assets belonging to Nonexpendable Trust Fund	(54,588)
Beginning of year, as restated	$3,083,302
Special revenue funds:	
Beginning of year, as previously reported	$ 304,570
Prior period adjustments:	
Understatement of beneficial interest in assets held at foundation	76,466
Reclassification of assets belonging to Nonexpendable Trust Fund	(38,753)
Beginning of year, as restated	$ 342,283
Nonexpendable Trust Fund:	
Beginning of year, as previously reported	$ -
Prior period adjustment - reclassification of assets belonging to Nonexpendable Trust Fund	93,341
Beginning of year, as restated	$ 93,341