

Kalamazoo Public Library

**Financial Report
with Supplemental Information
June 30, 2012**

Kalamazoo Public Library

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Independent Auditor's Report

To the Board of Trustees
Kalamazoo Public Library

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kalamazoo Public Library (the "Library") as of and for the year ended June 30, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kalamazoo Public Library as of June 30, 2012 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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 supplemental 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.

To the Board of Trustees
Kalamazoo Public Library

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kalamazoo Public Library's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

October 8, 2012

Kalamazoo Public Library

Management's Discussion and Analysis

As the management and board of Kalamazoo Public Library (the "Library"), we offer readers of Kalamazoo Public Library's financial statements this narrative overview and analysis of the financial activities of Kalamazoo Public Library for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of Kalamazoo Public Library exceeded its liabilities at the close of the most recent fiscal year by \$21,389,410. Of this amount, \$8,009,975 may be used to meet Kalamazoo Public Library's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, Kalamazoo Public Library's governmental funds reported combined ending fund balances of \$10,920,848, an increase of \$561,951 in comparison with the prior year. Approximately 17 percent of the total amount, \$1,822,145, is unassigned.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$1,822,145, or 18 percent of total General Fund expenditures.
- Kalamazoo Public Library's long-term debt decreased by \$1,020,704 (29 percent) during the current fiscal year, attributed to the payment of bond principal. No new debt was issued during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Kalamazoo Public Library's basic financial statements. Kalamazoo Public Library's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information, in addition to the basic financial statements themselves.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of Kalamazoo Public Library's finances, in a manner similar to a private-sector business.

- **Statement of Net Assets** - The statement of net assets presents information on all of Kalamazoo Public Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether Kalamazoo Public Library's financial position is improving or deteriorating.
- **Statement of Activities** - The statement of activities presents information showing how Kalamazoo Public Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Both of the government-wide financial statements distinguish functions of Kalamazoo Public Library that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of its costs through user fees and charges. The governmental activities of Kalamazoo Public Library include a single program function, culture and recreation, and one major fund reported separately from the general Library operations, the Endowment Fund.

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. Kalamazoo Public Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Kalamazoo Public Library can be classified as governmental funds.

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

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

Kalamazoo Public Library maintains six individual governmental funds: the General, Debt Service, Capital Improvement, Endowment, Ready to Read, and Gift and Memorial Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, Capital Improvement Fund, and Endowment Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Kalamazoo Public Library adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget, which is included in the required supplemental information.

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Notes to the Financial Statements - The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplemental information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Kalamazoo Public Library, assets exceeded liabilities by \$21,389,410 at the close of the most recent fiscal year.

By far, the most significant portion of Kalamazoo Public Library's net assets (51 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. Kalamazoo Public Library used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Kalamazoo Public Library's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Kalamazoo Public Library's net assets (11 percent) represents resources that are subject to external restrictions on how they may be used or have been reserved for specific purposes by the board. The remaining balance of unreserved, undesignated net assets (\$8,009,975) may be used to meet Kalamazoo Public Library's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Kalamazoo Public Library is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate major fund groupings. The same situation held true for the prior fiscal year.

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Kalamazoo Public Library Net Assets

	<u>2011-2012</u>	<u>2010-2011</u>
Assets		
Current and other assets	\$ 11,329,423	\$ 10,772,694
Capital assets	<u>12,962,598</u>	<u>13,257,911</u>
Total assets	24,292,021	24,030,605
Liabilities		
Long-term debt (due in more than one year)	1,500,369	2,466,193
Other liabilities	<u>1,402,242</u>	<u>1,465,831</u>
Total liabilities	<u>2,902,611</u>	<u>3,932,024</u>
Net Assets		
Invested in capital assets - Net of related debt	10,962,598	10,257,911
Restricted - Nonexpendable	2,096,135	2,096,135
Restricted - ONEplace, Ready to Read, and other	320,702	361,161
Unrestricted	<u>8,009,975</u>	<u>7,383,374</u>
Total net assets	<u>\$ 21,389,410</u>	<u>\$ 20,098,581</u>

As of June 30, 2012, Kalamazoo Public Library's total net assets equaled \$21,389,410. Of that total, 51 percent, or \$10,962,598, is invested in capital assets net of related debt; 10 percent, or \$2,096,135, represents the principal of a permanent nonexpendable trust; and 2 percent, or \$320,702, is net assets for ONEplace nonprofit management center, the Ready to Read program, and other Library gifts and grants. The remaining balance of \$8,009,975, or 37 percent, is unrestricted net assets including \$1,009,893 of interest and earnings on the endowment and \$1,528,868 assigned for capital projects. The increase in net assets is due to the increase in capital assets net of related debt, which increased \$704,687 from \$10,257,911 in the prior year, and an increase in unrestricted net assets of \$626,601.

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Kalamazoo Public Library Change in Net Assets

	<u>2011-2012</u>	<u>2010-2011</u>
Revenue		
Program revenue:		
Charges for services	\$ 165,841	\$ 153,585
Operating grants and contributions	195,596	309,388
General revenue:		
Property taxes	11,016,155	11,402,961
State grants	78,069	34,584
District Court penal fines	292,421	290,737
Investment return	70,537	526,039
Other	99,126	125,488
Net loss on sale/disposal of assets	<u>(6,918)</u>	<u>(41,998)</u>
Total revenue	11,910,827	12,800,784
Expenses - Program - Library		
Salaries	4,474,643	4,617,616
Benefits	2,285,484	2,294,281
Materials	231,419	263,094
Facilities	451,050	462,357
Supplies	182,228	139,522
Technical services	462,004	210,729
Purchased services	562,317	740,118
Other	622,539	673,871
Debt service interest	153,101	205,457
Depreciation expense	<u>1,195,213</u>	<u>1,232,528</u>
Total expenses	<u>10,619,998</u>	<u>10,839,573</u>
Change in Net Assets	<u>\$ 1,290,829</u>	<u>\$ 1,961,211</u>

* Certain 2010-2011 expense classifications have been reclassified to be comparable with the 2011-2012 expense classifications.

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Kalamazoo Public Library's net assets increased by \$1,290,829 during the current fiscal year as discussed below:

Governmental Activities - Governmental activities increased Kalamazoo Public Library's net assets by \$1,290,829, accounting for all of the total increase in the net assets of Kalamazoo Public Library. Key elements of this increase are attributable to meeting the bond payment schedule, the realignment of staff and services through attrition and retirements resulting in the reduction of an additional 2.5 FTEs during the fiscal year, and the reduction of individual budgets during the year in anticipation of the continuation of falling tax revenue. In addition to the reduction in property tax revenue, the Library has experienced a sharp decline in revenue from cash investments and other sources of local revenue. The Library has chosen to reduce banking fees through the consolidation of deposits when it is more advantageous to do so considering the continuation of extremely low interest rate returns.

Overall, expenditures were curtailed and many budget items reduced to anticipate reductions in tax revenue. While the reduction in property tax revenue is expected to moderate, lower tax receipts and significant expenditures for tax refunds are expected to continue for several years. Services and staff realignments were achieved through attrition and included reduction in graphic design, public computer training, information technology, and a support position in adult services.

Financial Analysis of Kalamazoo Public Library's Funds - As noted earlier, Kalamazoo Public Library used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, Kalamazoo Public Library's governmental funds reported combined ending fund balances of \$10,920,848, an increase of \$561,951 in comparison with the prior year. Approximately 17 percent of this total amount, \$1,822,145, constitutes unassigned fund balance, which is available for spending at Kalamazoo Public Library's discretion. The remainder of the fund balance is designated to indicate that it is not available for new spending because it has already been (1) restricted to pay for ONEplace operations (\$127,450), the Ready to Read program (\$65,456); and other gifts and memorials (\$127,796); (2) committed to support cash flow needs for the first half of the following fiscal year (\$3,800,000) and debt service (\$57,071); (3) assigned to pay for future capital projects (\$1,528,868); (4) nonspendable including the principal of a permanent endowment fund for Kalamazoo Public Library (\$2,096,135) and prepaid expenditures for fiscal year 2011-2012 (\$207,648); or (5) assigned for the Endowment Fund interest and earnings (\$1,009,893) and operating fund encumbrances as of June 30, 2012 (\$78,386).

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

The General Fund is the chief operating fund of Kalamazoo Public Library. At the end of the current fiscal year, the unassigned fund balance of the General Fund totaled \$1,822,145 and the total fund balance was \$6,035,629. Unassigned fund balance represents 18.5 percent of total General Fund expenditures.

Kalamazoo Public Library's General Fund's fund balance increased by a total of \$404,590 during the current fiscal year. The increased fund balance was created by staffing reductions due to attrition, retirements and staff realignments, including reductions in branch and Law Library hours to trim costs, lower expenditures for building repairs, and a refocused acquisition of materials for the collection.

General Fund Budgetary Highlights

The Library's General Fund original budget for the fiscal year ended June 30, 2012 projected a net excess of revenue and other sources over expenditures of \$6,932, reflecting transfers to the Capital Improvement Plan of \$100,000 to maintain capital assets, the continued repayment of debt, and continuation of services. The revised General Fund budget at mid-year projected a net excess of revenue and other sources under expenditures of \$197,232 through revisions to property tax revenue projections, the reduction of salary and expenditure budgets due to the reduction of staff through retirements and attrition, and mid-year adjustments to the support of the capital improvement plan.

Capital Assets and Debt Administration

Capital Assets - Kalamazoo Public Library's investment in capital assets for its governmental and business-type activities as of June 30, 2012 amounts to \$12,962,598. This investment in capital assets includes land, buildings, furniture and equipment, computer systems, and library materials. The total decrease in Kalamazoo Public Library's investment in capital assets for the current fiscal year was 2.2 percent, reflecting depreciation expense and the disposal of assets. Details of Kalamazoo Public Library's capital assets are continued in the notes to the financial statements.

Long-term Debt - At the end of the current fiscal year, Kalamazoo Public Library had total bonded and installment debt outstanding of \$2,000,000, the entirety of which is backed by the full faith and credit of the government.

Additional information on Kalamazoo Public Library's long-term debt can be found in the notes to the financial statements.

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Kalamazoo Public Library's primary revenue source is local property taxes. It accounts for approximately 92.4 percent of all Library revenue. The Library's voted millage is applied to all areas within Kalamazoo Public School District, Mattawan and Otsego School Districts within Oshtemo Township, Portage and Comstock School Districts within the City of Kalamazoo, and Comstock School District within Kalamazoo Township.

In May 2009, voters approved the renewal of 2.7782 mills for 20 years until 2030. The millage was originally approved in 1990 at 2.88 mills and subsequently rolled back through the application of the Headlee Amendment. A second millage of 1.1801 was approved in 1995 and will not expire until 2014. During fiscal year 2011-2012, Kalamazoo Public Library's total property tax revenue decreased by \$386,806 (3.4 percent), including delinquent receipts over the previous year. Total governmental revenue decreased \$929,193 from the prior year and included reductions in both investment return and local revenue.

General Fund expenditures increased by \$168,120 from the prior year. Staff salaries and benefit costs decreased by \$155,015 through the reduction of 2.5 salaried staff positions over the course of the fiscal year. Internally, management and staff have continued to examine processes and operations in order to increase efficiencies while improving or maintaining customer service. Offsetting the staff savings and efficiencies achieved was a 76 percent increase (\$90,259) in property tax refunds as a result of local Board of Review and Michigan tax tribunal decisions.

Looking forward to fiscal year 2012-2013, the Library's preliminary budget anticipates continued declines in property tax revenue. Capital Improvement Plan support has been significantly reduced with all nonessential operationally funded capital projects put on hold with the intent to increase support to capital projects if sufficient funds are available. The budget continues to support our strategic priorities with particular attention to early childhood literacy. Specific materials budgets have been enhanced to support reading, viewing, and listening for pleasure through a variety of media including books, movies, and music. This targeted approach to the library's materials budgets has supported a 21 percent increase in the Library's total circulation of materials.

More recently, Library use is soaring. The Library experienced record-breaking circulation of library materials during our summer reading games and strong program attendance. The Library public computers are full during most open hours and Library visits have increased. The Library has continued efforts to improve online content delivery to patrons in the most effective way possible and has won the prestigious 2011 State History Award from the Historical Society of Michigan for our "All About Kalamazoo History" section of the our website. The State History Awards are the highest recognition presented by the state's official historical society. Criteria for the award are "excellence of achievement by an individual or organization in the collection, preservation, and promotion of state and local history."

Kalamazoo Public Library

Management's Discussion and Analysis (Continued)

Kalamazoo Public Library continues efforts to concentrate our service and programming efforts to deliver services the community needs. Looking forward to fiscal year 2012-2013, the Library will continue to focus on the community-identified service priorities of early literacy; reading, viewing and listening for pleasure; public internet access; nonprofit support through ONEplace; and genealogy and local history. Efforts will continue in the examination of processes, services, and staffing to look for reductions and efficiencies.

Requests for Information

This financial report is designed to provide a general overview of Kalamazoo Public Library's finances for all those with an interest in Kalamazoo Public Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Head of Financial Services, Kalamazoo Public Library, 315 S. Rose St., Kalamazoo, MI 49007.

Kalamazoo Public Library

Statement of Net Assets June 30, 2012

Assets

Cash	\$ 6,390,879
Investments	4,428,105
Accounts receivable:	
Taxes	103,441
Other	97,573
Due from other government units	12,632
Prepays and other assets	218,235
Beneficial interest in assets held by the Foundation	78,558
Capital assets:	
Nondepreciable assets - Land	133,173
Depreciable assets:	
Buildings	15,828,755
Furniture, equipment, and automation	2,953,222
Materials	4,684,957
Less accumulated depreciation	<u>(10,637,509)</u>
Total depreciable assets	<u>12,829,425</u>
Total capital assets	<u>12,962,598</u>
Total assets	24,292,021

Liabilities

Accounts payable	304,413
Salaries and wages payable	49,043
Retirement payable	22,980
Interest payable	18,000
Long-term liabilities (Note 7)	
Due within one year	1,007,806
Due in more than one year	<u>1,500,369</u>
Total liabilities	<u>2,902,611</u>

Net Assets

Invested in capital assets - Net of related debt	10,962,598
Restricted - Nonexpendable	2,096,135
Restricted - ONEplace, Ready to Read, and other	320,702
Unrestricted	<u>8,009,975</u>
Total net assets	<u>\$ 21,389,410</u>

Kalamazoo Public Library

Statement of Activities Year Ended June 30, 2012

Program Expenses - Recreational and cultural - Library

Salaries	\$ 4,474,643
Benefits	2,285,484
Materials	231,419
Facilities	451,050
Supplies	182,228
Technical services	462,004
Purchased services	562,317
Other	622,539
Debt service interest	153,101
Depreciation expense	<u>1,195,213</u>

Total program expenses 10,619,998

Program Revenue

Charges for services	165,841
Operating grants and contributions	<u>195,596</u>

Total program revenue 361,437

Net program expenses 10,258,561

General Revenue

Property taxes	11,016,155
State grants	78,069
District Court penal fines	292,421
Investment return	70,537
Other	99,126
Net loss on sale/disposal of assets	<u>(6,918)</u>

Total general revenue 11,549,390

Change in Net Assets 1,290,829

Net Assets - Beginning of year 20,098,581

Net Assets - End of year \$ 21,389,410

Kalamazoo Public Library

Governmental Funds Balance Sheet June 30, 2012

	General Fund	Debt Service Fund	Permanent Fund	Capital Improvement Fund	Other Governmental Funds	Totals
Assets						
Cash	\$ 4,359,075	\$ 57,071	\$ 285,852	\$ 1,573,065	\$ 115,816	\$ 6,390,879
Investments	1,607,929	-	2,820,176	-	-	4,428,105
Accounts receivable	97,573	-	-	-	-	97,573
Taxes receivable - Net of allowances	103,441	-	-	-	-	103,441
Due from other governmental units	12,632	-	-	-	-	12,632
Prepays and other assets	218,235	-	-	-	-	218,235
Beneficial interest in assets held by the Foundation	-	-	-	-	78,558	78,558
Total assets	\$ 6,398,885	\$ 57,071	\$ 3,106,028	\$ 1,573,065	\$ 194,374	\$ 11,329,423
Liabilities						
Accounts payable	\$ 331,117	\$ -	\$ -	\$ 44,197	\$ 1,122	\$ 376,436
Deferred revenue	32,139	-	-	-	-	32,139
Total liabilities	363,256	-	-	44,197	1,122	408,575
Fund Balance						
Nonspendable:						
Endowment	-	-	2,096,135	-	-	2,096,135
Prepays	207,648	-	-	-	-	207,648
Restricted:						
Gifts and memorials	-	-	-	-	127,796	127,796
ONEplace	127,450	-	-	-	-	127,450
Ready to Read	-	-	-	-	65,456	65,456
Committed:						
Property taxes to be used in the next 150 days	3,800,000	-	-	-	-	3,800,000
Debt service	-	57,071	-	-	-	57,071
Assigned:						
General Fund - Future purchases	78,386	-	-	-	-	78,386
Endowment Fund - Interest and earnings	-	-	1,009,893	-	-	1,009,893
Capital Projects - Future purchases	-	-	-	1,528,868	-	1,528,868
Unassigned - General Fund	1,822,145	-	-	-	-	1,822,145
Total fund balances	6,035,629	57,071	3,106,028	1,528,868	193,252	10,920,848
Total liabilities and fund balances	\$ 6,398,885	\$ 57,071	\$ 3,106,028	\$ 1,573,065	\$ 194,374	
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:						
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds						12,962,598
Other long-term revenue, not available in the current period, is deferred in the funds						32,139
Accrued interest payable does not require recognition in the governmental funds						(18,000)
Accrued vacation payable does not require recognition in the governmental funds						(224,767)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds						(2,283,408)
Net assets of governmental funds						\$ 21,389,410

Kalamazoo Public Library

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2012

	General Fund	Debt Service Fund	Permanent Fund	Capital Improvement Fund	Other Governmental Funds	Totals
Revenue						
Property taxes	\$ 11,016,155	\$ -	\$ -	\$ -	\$ -	\$ 11,016,155
State grants	78,069	-	-	-	-	78,069
Charges for services	165,841	-	-	-	-	165,841
District Court penal fines	292,421	-	-	-	-	292,421
Investment return	14,249	918	49,966	-	5,404	70,537
Other	232,673	-	107	2,500	64,955	300,235
Total revenue	11,799,408	918	50,073	2,500	70,359	11,923,258
Expenditures						
Recreational and cultural:						
Salaries	4,494,478	-	-	-	-	4,494,478
Benefits	2,286,353	-	-	-	-	2,286,353
Materials	933,171	-	-	-	43,839	977,010
Facilities	451,050	-	-	-	-	451,050
Supplies	182,228	-	-	-	-	182,228
Technical services	462,004	-	-	-	-	462,004
Purchased services	562,317	-	-	-	-	562,317
Other	498,677	-	19,425	-	4,926	523,028
Capital outlay	-	-	-	260,738	-	260,738
Debt service:						
Principal	-	1,000,000	-	-	-	1,000,000
Interest	-	162,101	-	-	-	162,101
Total expenditures	9,870,278	1,162,101	19,425	260,738	48,765	11,361,307
Excess (Deficiency) of Revenue Over Expenditures	1,929,130	(1,161,183)	30,648	(258,238)	21,594	561,951
Other Financing Sources (Uses)						
Operating transfers in	10,460	1,135,000	-	400,000	-	1,545,460
Operating transfers out	(1,535,000)	-	-	-	(10,460)	(1,545,460)
Total other financing (uses) sources	(1,524,540)	1,135,000	-	400,000	(10,460)	-
Net Change in Fund Balances	404,590	(26,183)	30,648	141,762	11,134	561,951
Fund Balances - Beginning of year	5,631,039	83,254	3,075,380	1,387,106	182,118	10,358,897
Fund Balances - End of year	<u>\$ 6,035,629</u>	<u>\$ 57,071</u>	<u>\$ 3,106,028</u>	<u>\$ 1,528,868</u>	<u>\$ 193,252</u>	<u>\$ 10,920,848</u>
Net Change in Fund Balances - Total Governmental Funds						\$ 561,951
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 costs of those assets are allocated over their estimated useful lives as depreciation expense:						
Depreciation						(1,195,213)
Additions						906,818
Net effect of disposals						(6,918)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds, net effect of change in deferred revenue						(5,513)
Change in accrued interest on bonds and assessments payable is not reported in the governmental fund statements						9,000
Changes in vacation accrual are not reported in the governmental fund statements						869
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets						1,000,000
Decrease in the amount of retirement payable balances decreases the amount of salary expense during the year						19,835
Change in Net Assets of Governmental Activities						<u>\$ 1,290,829</u>

Kalamazoo Public Library

Notes to Financial Statements June 30, 2012

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Kalamazoo Public Library (the "Library") conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. These basic financial statements contain only the activity of Kalamazoo Public Library, a district library pursuant to 1989 PA 24, effective April 2, 1990. The participating municipalities include the City of Kalamazoo, Kalamazoo Township, Oshtemo Township, and a portion of Texas Township. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Library. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds. 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, as are the nonexpendable trust fund financial statements. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenue to be available if it is 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The Capital Improvement Fund accounts for the capital improvements of the Library.

Note 1 - Summary of Significant Accounting Policies (Continued)

- The Permanent Fund accounts for resources legally held in trust, as an endowment, that are legally restricted to the extent that only earnings, and not principal, may be used to support the Library's programs.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity period of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property tax receivables are presented net of an allowance for uncollectible accounts.

Other Assets - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported as prepaid items 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 market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10-50 years
Equipment	3-20 years
Materials	5-7 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - 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. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. 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.

Deferred Revenue - Amounts represent revenue received in advance of it being earned.

Retirement Benefits - The Library provides employees a benefit to accumulate hours based on contract and years of service to be paid out at retirement. The earned benefit is accrued as a long-term liability in the government-wide financial statements.

Fund Balance - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the board of trustees for use for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of trustees.
- **Assigned:** Intent to spend resources on specific purposes expressed by the board of trustees, or the director, who is authorized by resolution approved by the board of trustees to make assignments
- **Unassigned:** All other amounts available for any purpose

Restricted/Unrestricted Resources - When expenses are incurred for which both restricted and unrestricted resources are available, it is the Library's policy to first apply restricted resources. Once restricted resources are exhausted, the Library's policy is to apply unrestricted resources in the following order: committed, assigned, and unassigned.

Kalamazoo Public Library

Notes to Financial Statements June 30, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 15, with the final collection date of February 28 before they are added to the county tax rolls.

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

The Library's 2011 tax is levied and collectible on December 1, 2011 and is recognized as revenue in the year ended June 30, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2011 taxable valuation of the participating municipalities totaled \$2.813 billion before adjustments, on which taxes levied consisted of 3.9583 mills for operating purposes. This resulted in approximately \$11.0 million for General Fund operations. This amount was reported in the General Fund as tax revenue.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library also maintains an endowment investment policy, which allows investments held within the endowment to be invested in all investment vehicles listed above and also allows for investments in securities traded on major U.S. exchanges (based on the Uniform Prudent Management of Institutional Funds Act, Act 87 of 2009, as amended). The board of trustees of Kalamazoo Public Library authorizes the local unit to invest in bonds, securities, and other direct obligations of the United States or any agency.

Kalamazoo Public Library

**Notes to Financial Statements
June 30, 2012**

Note 2 - Deposits and Investments (Continued)

Deposits

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$1,625,349 of bank deposits (money market funds, checking, and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The investment policy adopted by the board for the investments other than the endowment funds is in accordance with Public Act 196 of 1997. The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policies do not restrict investment maturities, except for within the investment policy relating to the operating funds, and commercial paper which can only be purchased with a 270-day maturity.

At year end, the Library had the following investments:

	Fair Market Value	Less than One Year	One to Five Years	More than Five Years
Common stock	\$ 1,690,342	\$ -	\$ -	\$ -
CDs	1,513,278			
Corporate bonds	568,314	101,752	466,562	-
Government bonds	50,520	50,520	-	-
Total	<u>\$ 3,822,454</u>	<u>\$ 152,272</u>	<u>\$ 466,562</u>	<u>\$ -</u>

Kalamazoo Public Library

Notes to Financial Statements June 30, 2012

Note 2 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library's operating investment policy does not further limit its investment choices. The Library's endowment investment policy limits the purchases to a credit rating of A or better at the time of purchase by Moody's or Standard & Poor's.

	Fair Market Value	Credit Risk Rating
Corporate bonds	\$ 568,314	A Standard & Poor's
Government bonds	<u>50,520</u>	AA+ Standard & Poor's
Total	<u>\$ 618,834</u>	

Custodial Credit Risk of Investments

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. The Library does not have a policy for custodial credit risk. At year end, substantially all of the investments were uninsured and uncollateralized.

Note 3 - Monies Held by Foundation

Amounts shown as beneficial interest in assets held by the Foundation represent monies placed with the Kalamazoo Community Foundation (the "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 request 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 nonendowed funds. The Library reports this asset at the present value of future payments expected to be received. The balance of these funds as of June 30, 2012 was \$78,558.

Kalamazoo Public Library

Notes to Financial Statements June 30, 2012

Note 3 - Monies Held by Foundation (Continued)

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). The balance in these funds as of June 30, 2012 was \$38,587.

Note 4 - Endowment

The assets restricted for endowment consist of contributions of \$2,096,135, none of which is available for expenditure, and investment return of \$1,009,893, totaling \$3,106,028. Beginning July 1, 2007, up to 50 percent of the earned income, up to a maximum equal to a five-year rolling average of net earned income or 5 percent of the unspendable principal, whichever is less, may be designated for current project expenditures or reserved for future project expenditures, which will be determined by the endowment allocation committee. The State of Michigan has not implemented law that limits the ability to spend net appreciation.

Note 5 - Receivables

All receivables as of year end for the government's individual major and nonmajor funds are current. Taxes receivable are net of allowances for doubtful accounts of \$71,016.

Kalamazoo Public Library

Notes to Financial Statements June 30, 2012

Note 6 - Capital Assets

Capital asset activity of the Library for the current year was as follows:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated - Land	\$ 133,173	\$ -	\$ -	\$ 133,173
Capital assets being depreciated:				
Buildings	15,828,755	-	-	15,828,755
Furniture, equipment, and automation	2,924,888	161,227	132,893	2,953,222
Materials	4,625,746	745,591	686,380	4,684,957
Subtotal	23,379,389	906,818	819,273	23,466,934
Accumulated depreciation:				
Buildings	5,457,798	396,928	-	5,854,726
Furniture, equipment, and automation	2,409,818	163,991	125,975	2,447,834
Materials	2,387,035	634,294	686,380	2,334,949
Subtotal	10,254,651	1,195,213	812,355	10,637,509
Net capital assets being depreciated	13,124,738	(288,395)	6,918	12,829,425
Net capital assets	<u>\$ 13,257,911</u>	<u>\$ (288,395)</u>	<u>\$ 6,918</u>	<u>\$ 12,962,598</u>

Depreciation expense was \$1,195,213 for the year ended June 30, 2012.

Note 7 - Long-term Debt

Long-term debt at June 30, 2012 is comprised of the following individual issues:

\$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 percent to 5.4 percent	\$ 2,000,000
Less current maturities	<u>1,000,000</u>
Total long-term debt	<u>\$ 1,000,000</u>

Kalamazoo Public Library

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

Long-term obligation activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
1996 limited tax bonds	\$ 3,000,000	\$ -	\$ (1,000,000)	\$ 2,000,000	\$ 1,000,000
Compensated absence liability	225,636	-	(869)	224,767	1,163
Retirement incentive liability	303,243	-	(19,835)	283,408	6,643
Total long-term obligations	<u>\$ 3,528,879</u>	<u>\$ -</u>	<u>\$ (1,020,704)</u>	<u>\$ 2,508,175</u>	<u>\$ 1,007,806</u>

Debt service requirements at June 30, 2012 were as follows:

Years Ending June 30	Principal	Interest
2013	1,000,000	108,000
2014	1,000,000	54,000
Total	<u>\$ 2,000,000</u>	<u>\$ 162,000</u>

Note 8 - Interfund Receivables, Payables, and Transfers

A summary of interfund transfers for the year ended June 30, 2012 is as follows:

Fund	Transfer In	Fund	Transfer Out
Debt Service	\$ 1,135,000	General	\$ 1,135,000
Capital Improvement	400,000	General	400,000
General	<u>10,460</u>	Other governmental	<u>10,460</u>
Total	<u>\$ 1,545,460</u>	Total	<u>\$ 1,545,460</u>

In 2012, transfers totaling \$1,545,460 were used to finance debt requirements and capital asset acquisitions.

Note 9 - Defined Benefit Retirement Plans

Available Plans and Covered Employees

Library employees who participated in the Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing, multiple-employer public school employee defined benefit plan, while being employees of the school district, are allowed by statute to continue their participation in the MPSERS or to elect to participate in the Municipal Employees' Retirement System (MERS), an agent multiple-employer public employee defined benefit plan. New employees of the Library, as of April 2, 1990, can only participate in the MERS.

MPSERS

Plan Description

The Library participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Library. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Note 9 - Defined Benefit Retirement Plans (Continued)

Pension Benefits

Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each MPSERS participating employer is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 12.16 percent of covered payroll for the period from July 1, 2011 through September 30, 2011 and 15.96 percent for the period from October 1, 2011 through June 30, 2012. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. For member investment plan members hired after June 30, 2008, a graduated fixed contribution rate is used ranging from 3 percent to 6.4 percent of wages. The Library's required and actual contributions to the plan for the years ended June 30, 2012, 2011, and 2010 were \$166,681, \$149,255, and \$166,633, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. For members who first work after June 30, 2008, a graded premium health insurance subsidy has been put in place. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. Required contributions for postemployment healthcare benefits are included as part of the Library's total contribution to the MPSERS plan discussed above. The employer contribution rate was 8.50 percent of covered payroll for the period from July 1, 2011 through June 30, 2012. The Library's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2012, 2011, and 2010 were \$94,660, \$102,102, and \$113,225, respectively.

Note 9 - Defined Benefit Retirement Plans (Continued)

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 Kalamazoo Public Library. The MERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Funding Policy

MERS members are required to contribute an amount varying from 0.0 to 10.0 percent, depending upon which plan they fall under. The Library is required to contribute at an actuarially determined rate, which is currently 8.82 to 12.93 percent of annual covered payroll depending on the plan. The contribution requirements of plan members are established, and may be amended, by MERS.

For the year ended June 30, 2012, the Library's contributions were \$277,426, which were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2009. 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 of 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) an 8.0 percent long-term net investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2.5 percent 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.

Kalamazoo Public Library

Notes to Financial Statements June 30, 2012

Note 9 - Defined Benefit Retirement Plans (Continued)

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	220,410	100%	-
2009	242,417	100%	-
2010	250,807	100%	-
2011	293,107	100%	-
2012	277,426	100%	-

Actuarial valuation as of December 31:

	2008	2009	2010
Actuarial value of assets	\$ 2,495,725	\$ 2,925,156	\$ 3,397,515
Actuarial accrued liability (AAL) (entry age)	\$ 3,276,122	\$ 3,433,773	\$ 3,806,173
Unfunded (overfunded) AAL (UAAL)	\$ 780,397	\$ 508,617	\$ 408,658
Funded ratio	76%	85%	89%
Covered payroll	\$ 2,420,624	\$ 2,569,754	\$ 2,695,219
UAAL as a percentage of covered payroll	32%	20%	15%

Note 10 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the Library director and adopted by the Library board of trustees; subsequent amendments are approved by the Library board of trustees. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (budgetary comparison schedule - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a functional level; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. There were no significant budget overruns during the year ended June 30, 2012.

Note 11 - Upcoming Accounting Pronouncement

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the Library's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued by the GASB in March 2012 and will be required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Library as of June 30, 2014.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Library is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ending June 30, 2015.

Required Supplemental Information

Kalamazoo Public Library

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Property taxes	\$ 10,808,006	\$ 10,961,949	\$ 11,016,155	\$ 54,206
State grants	13,000	62,545	78,069	15,524
Charges for services	145,000	145,000	165,841	20,841
District Court penal fines	285,000	285,000	292,421	7,421
Investment return	15,000	15,000	14,249	(751)
Other	292,280	300,255	232,673	(67,582)
Total revenue	11,558,286	11,769,749	11,799,408	29,659
Expenditures				
Salaries	4,833,043	4,652,593	4,494,478	158,115
Benefits	2,295,071	2,376,343	2,286,353	89,990
Materials	1,070,000	1,070,000	933,171	136,829
Facilities	493,672	499,672	451,050	48,622
Supplies	206,609	211,609	182,228	29,381
Technical services	472,091	487,157	462,004	25,153
Purchased services	558,424	589,814	562,317	27,497
Other	394,944	552,294	498,677	53,617
Total expenditures	10,323,854	10,439,482	9,870,278	569,204
Excess of Revenue Over Expenditures	1,234,432	1,330,267	1,929,130	598,863
Other Financing Sources (Uses)				
Operating transfers in	7,500	7,500	10,460	2,960
Operating transfers out	(1,235,000)	(1,535,000)	(1,535,000)	-
Total other financing uses	(1,227,500)	(1,527,500)	(1,524,540)	2,960
Net Changes in Fund Balance	6,932	(197,233)	404,590	601,823
Fund Balance - Beginning of year	4,591,371	5,565,448	5,631,039	(65,591)
Fund Balance - End of year	\$ 4,598,303	\$ 5,368,215	\$ 6,035,629	\$ 536,232

Other Supplemental Information

Kalamazoo Public Library

Combining Balance Sheet - Nonmajor Governmental Funds June 30, 2012

	Special Revenue Funds		Nonmajor Governmental Funds
	Ready to Read	Gifts and Memorials	
Assets			
Cash	\$ 66,537	\$ 49,279	\$ 115,816
Grants receivable	-	-	-
Beneficial interest in assets held by Foundation	-	78,558	78,558
Total assets	<u>\$ 66,537</u>	<u>\$ 127,837</u>	<u>\$ 194,374</u>
Liabilities - Accounts payable	\$ 1,081	\$ 41	\$ 1,122
Fund Balances - Restricted	<u>65,456</u>	<u>127,796</u>	<u>193,252</u>
Total liabilities and fund balances	<u>\$ 66,537</u>	<u>\$ 127,837</u>	<u>\$ 194,374</u>

Kalamazoo Public Library

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2012

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Ready to Read	Gifts and Memorials	
Revenue			
Investment return	\$ -	\$ 5,404	\$ 5,404
Other	24,405	40,550	64,955
Total revenue	24,405	45,954	70,359
Expenditures - Recreational and cultural			
Materials	2,160	41,679	43,839
Other	4,577	349	4,926
Total expenditures	6,737	42,028	48,765
Excess of Revenue Over Expenditures	17,668	3,926	21,594
Other Financing Uses - Operating transfer out	-	(10,460)	(10,460)
Net Change in Fund Balances	17,668	(6,534)	11,134
Fund Balances - Beginning of year	47,788	134,330	182,118
Fund Balances - End of year	\$ 65,456	\$ 127,796	\$ 193,252