

# **Kalamazoo Public Library**

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**Financial Report  
with Supplemental Information  
June 30, 2013**

# **Kalamazoo Public Library**

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## Independent Auditor's Report

To the Board of Trustees  
Kalamazoo Public Library

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kalamazoo Public 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 Kalamazoo Public Library's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express 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 from material misstatement.

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

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

To the Board of Trustees  
Kalamazoo Public Library

**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 the Kalamazoo Public Library as of June 30, 2013 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As described in Note I to the financial statements, the Library adopted the provisions of Governmental Accounting Standards Board No. 62, No. 63, and No. 65 as of July 1, 2012. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule, 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.

*Plante & Morse, PLLC*

October 21, 2013

# Kalamazoo Public Library

## Management's Discussion and Analysis

As the management and board of the Kalamazoo Public 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 ended June 30, 2013.

### Financial Highlights

- The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$22,742,854. Of this amount, \$8,591,327 may be used to meet the Library's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$11,510,046, an increase of \$589,198 in comparison with the prior year. Approximately 17 percent of the total amount, \$2,010,539, is unassigned.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$2,010,539, or 21 percent of total General Fund expenditures.
- The Library's long-term debt decreased by \$1,014,129 (40 percent) during the current fiscal year, attributed to the payment of bond principal. During the current year, the Library entered into a capital lease for copiers.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains 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 the Library's finances, in a manner similar to a private sector business.

- **Statement of Net Position** - 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 Library's financial position is improving or deteriorating.
- **Statement of Activities** - The statement of activities presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, 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

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## Management's Discussion and Analysis (Continued)

Both of the government-wide financial statements distinguish functions of the 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 the 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. The 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 the 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.

The Library maintains five individual governmental funds: the General, Endowment, Capital Improvement, Debt Service, and Special Revenue 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, Capital Improvement Fund, and Endowment Fund, which are considered to be major funds, along with the Debt Service Fund and Special Revenue Fund, which are considered to be nonmajor funds.

The 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**

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## **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.

### **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 \$22,742,854 at the close of the most recent fiscal year.

By far, the most significant portion of the Library's net position (52 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. The Library used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the 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 the Library's net position (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 position (\$8,591,327) may be used to meet the Library's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Library is able to report positive balances in all three categories of net position, 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 Position

	2012-2013	2011-2012
<b>Assets</b>		
Current and other assets	\$ 11,964,595	\$ 11,329,423
Capital assets	<u>12,732,007</u>	<u>12,962,598</u>
Total assets	24,696,602	24,292,021
<b>Liabilities</b>		
Long-term debt (due in more than one year)	521,867	1,500,369
Other liabilities	<u>1,431,881</u>	<u>1,402,242</u>
Total liabilities	<u>1,953,748</u>	<u>2,902,611</u>
<b>Net Position</b>		
Net investment in capital assets	11,732,007	10,962,598
Restricted - Nonexpendable	2,096,135	2,096,135
Restricted - ONEplace, Ready to Read, and other	323,385	320,702
Unrestricted	<u>8,591,327</u>	<u>8,009,975</u>
Total net position	<u><b>\$ 22,742,854</b></u>	<u><b>\$ 21,389,410</b></u>

As of June 30, 2013, the Library's total net position totaled \$22,742,854. Of that total, 52 percent, or \$11,732,007, is invested in capital assets net of related debt; 9 percent, or \$2,096,135, represents the principal of a permanent nonexpendable trust; and 1 percent, or \$323,385, is net position for ONEplace nonprofit management center, the Ready to Read program, and other Library gifts and grants. The remaining balance of \$8,591,327, or 38 percent, is unrestricted net position including \$1,295,843 of interest and earnings on the endowment and \$1,690,392 assigned for capital projects. The increase in net position is due to the increase in capital assets net of related debt, which increased \$769,409 from \$10,962,598 in the prior year, and an increase in unrestricted net position of \$581,352.

# Kalamazoo Public Library

## Management's Discussion and Analysis (Continued)

### Kalamazoo Public Library Change in Net Position

	<u>2012-2013</u>	<u>2011-2012</u>
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 181,811	\$ 165,841
Operating grants and contributions	226,213	195,596
State grants	94,992	-
General revenue:		
Property taxes	10,470,688	11,016,155
State grants	61,872	78,069
District Court penal fines	279,650	292,421
Investment return	367,090	70,537
Other	135,216	99,126
Net loss on sale/disposal of assets	<u>(724)</u>	<u>(6,918)</u>
Total revenue	11,816,808	11,910,827
<b>Expenses - Program - Library</b>		
Salaries	4,643,361	4,474,643
Benefits	1,996,443	2,285,484
Materials	257,171	231,419
Facilities	488,704	451,050
Supplies	198,767	182,228
Technical services	451,178	462,004
Purchased services	511,751	562,317
Other	415,345	622,539
Capital outlay	175,393	-
Debt service interest	98,594	153,101
Depreciation expense	<u>1,226,657</u>	<u>1,195,213</u>
Total expenses	<u>10,463,364</u>	<u>10,619,998</u>
<b>Change in Net Position</b>	<b><u>\$ 1,353,444</u></b>	<b><u>\$ 1,290,829</u></b>

The Library's net position increased by \$1,353,444 during the current fiscal year as discussed below:

# Kalamazoo Public Library

## Management's Discussion and Analysis (Continued)

**Governmental Activities** - Governmental activities increased the Library's net position by \$1,353,444, accounting for all of the total increase in the net position of the Library. Key elements of this increase are attributable to meeting the bond payment schedule, the reduction in the employer share of employee medical benefit costs due to the Publicly Funded Health Insurance Contribution Act (PA 152 of 2011), growth in interest and earnings on the Library's permanent endowment fund, and continued realignment of staff and technologies to provide quality public service efficiently.

Overall, the Library's primary source of revenue, local property taxes, continued to decline, reducing funds available for providing public services. In fiscal year 2012-2013, local property tax revenue decreased by \$545,467 or 5.0 percent as compared to the prior year. The decline in property taxes was partially offset by the receipt of a restricted state appropriation to fund a portion of the required contributions for the Michigan Public Schools Retirement System defined benefit plan. Total expenditures decreased by \$156,634 with continued staff realignments, streamlining activities, the effect of PA 152 of 2011, and utilizing technologies to provide service to the public and provide operational support.

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

**The Library's Funds** - As we noted earlier, the Library uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader to consider whether the Library is being accountable for the resources of taxpayers and others who provide to it and may provide more insight into the Library's overall financial health.

As the Library completed this year, the governmental funds reported a combined fund balance of \$11,510,046, which is an increase of \$589,198 from last year.

The General Fund, the Library's principal operating fund, increased \$205,352 during the 2012-2013 year.

The Endowment Fund is a Permanent Fund, which had a fund balance that increased \$285,950. This fund is used to account for revenue received from a donor to fund non-recurring special projects and Library improvements.

The Capital Improvement Fund, which is used to account for revenue received for and expenses related to capital projects, had an increase in the fund balance of \$161,524 due to capital outlay activity that occurred during the 2012-2013 year.

The Debt Service Fund is a nonmajor fund, which had a fund balance that decreased \$26,485. This fund is used to account for funds reserved for the principal and interest payments on outstanding long-term bonds.

# **Kalamazoo Public Library**

## **Management's Discussion and Analysis (Continued)**

Finally, the Special Revenue Fund is also a nonmajor fund, which had a fund balance that decreased \$37,143. This fund is used for gifts received to support the Library's Ready to Read program and other gifts designated for specific library programs and memorials.

**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, unreserved fund balance may serve as a useful measure of the Library'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 \$11,510,046, an increase of \$589,198 in comparison with the prior year. Approximately 17 percent of this total amount, \$2,010,539, constitutes unassigned fund balance, which is available for spending at the 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 (\$177,585), the Ready to Read program (\$73,495), and other gifts and memorials (\$72,305); (2) committed to support cash flow needs for the first half of the following fiscal year (\$3,800,000) and debt service (\$30,586); (3) assigned to pay for future capital projects (\$1,690,392); (4) nonspendable including the principal of a permanent endowment fund for the Library (\$2,096,135) and prepaid expenditures for fiscal year 2012-2013 (\$223,081); or (5) assigned for the Endowment Fund interest and earnings (\$1,295,843) and operating fund encumbrances as of June 30, 2013 (\$40,085).

The General Fund is the chief operating fund of the Library. At the end of the current fiscal year, the unassigned fund balance of the General Fund totaled \$2,010,539 and the total fund balance was \$6,240,981. Unassigned fund balance represents 20.6 percent of total General Fund expenditures.

The Library's General Fund's fund balance increased by a total of \$205,352 during the current fiscal year. The increased fund balance was created by continued staff realignments and technology utilization and the reduction of the employer share of employee medical benefits costs due to the Publicly Funded Health Insurance Contribution Act (PA 152 of 2011).

### **General Fund Budgetary Highlights**

The Library's General Fund original budget for the fiscal year ended June 30, 2013 projected a net deficit of revenue and other sources under expenditures of \$47,211, reflecting reduced transfers to the Capital Improvement Plan of \$40,000 to maintain capital assets, the continued repayment of debt, and continuation of services. The revised General Fund budget at mid-year projected a net deficit of revenue and other sources under expenditures of \$504,506, reflecting revisions to salaries, benefits, and materials estimates as well as the restoration of capital improvement plan minimum support and budgeted contingencies for tax refunds and services.

# **Kalamazoo Public Library**

## **Management's Discussion and Analysis (Continued)**

### **Capital Assets and Debt Administration**

**Capital Assets** - The Library's investment in capital assets for its governmental and business-type activities as of June 30, 2013 amounts to \$12,732,007. This investment in capital assets includes land, buildings, furniture and equipment, computer systems, and library materials. The total decrease in the Library's investment in capital assets for the current fiscal year was 1.8 percent, reflecting depreciation expense and the disposal of assets. Details of the Library's capital assets are continued in the notes to the financial statements.

**Long-term Debt** - At the end of the current fiscal year, the Library had total bonded and installment debt outstanding of \$1,000,000, the entirety of which is backed by the full faith and credit of the government.

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

### **Economic Factors and Next Year's Budgets and Rates**

The Library's primary revenue source is local property taxes. It accounts for approximately 88.6 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 expire in 2014. During fiscal year 2012-2013, the Library's total property tax revenue decreased by \$545,467 (5.0 percent), including delinquent receipts over the previous year. Total governmental revenue decreased \$106,450 from the prior year and included increased investment return in the Endowment Fund, and increased restricted state appropriations for stabilization of the MPSERS unfunded accrued liability.

General Fund expenditures decreased by \$118,296 from the prior year. Staff salaries and benefit costs decreased by \$139,785 primarily as a result of the reduction of the employer share of staff medical benefits and continued staff realignments. The investment in materials in the collection increased by \$130,182 (14 percent), reflecting the purchase of multiple book copies for circulation and an increased emphasis on movies, music, and digital services which was offset by late in the year reductions in purchased services and unused budgeted contingencies for tax refunds and building operations.

# **Kalamazoo Public Library**

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## **Management's Discussion and Analysis (Continued)**

The Library began a renovation project late in the fiscal year funded through earnings on Endowment Fund investments and local history gifts from the Library's Local History and Community Information Service Fund at the Kalamazoo Community Foundation. With the use of a portion of those funds, the Library will soon have an activity room at central library adjacent to the children's room and an expanded Local History area. Other service enhancements during the year included expanded services to preschoolers and school age children, designation as a Family Place Library, and the addition of digital material delivery services. The Library also hopes to launch a digital lab in the spring of 2014.

Looking forward to fiscal year 2013-2014, 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.

Library use continues to be strong with an 8 percent increase in total circulation during the past fiscal year, strong participation in summer reading games, and good attendance at library programs. We see the continuation of these services as a high priority and only possible if the Library continues to streamline operations and services whenever possible. We will continue to focus efforts and services on the community-identified service priorities of early literacy; reading, viewing, and listening for pleasure; public internet access; and genealogy and local history.

These are challenging times for public service organizations such as libraries. Some Michigan libraries have experienced staff lay-offs, closed branches, significantly reduced hours, or had reductions in the availability of new circulating materials. The Library has made every effort possible during the past several years to avoid that happening here. We intend to continue our efforts in that regard well into the future.

The Library continues efforts to concentrate our service and programming efforts to deliver services the community needs. Looking forward to fiscal year 2013-2014, 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 the Library's finances for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Director for Administrative Services, Kalamazoo Public Library, 315 S. Rose St., Kalamazoo, MI 49007.

# Kalamazoo Public Library

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

	Major Funds			Nonmajor Funds		Statement of Net Position - Modified Accrual	Adjustments (Note 2)	Library as a Whole
	General Fund	Endowment Fund	Capital Improvement Fund	Debt Service Fund	Special Revenue Fund			Statement of Net Position - Full Accrual
<b>Assets</b>								
Cash	\$ 4,058,978	\$ 530,459	\$ 1,690,715	\$ 30,586	\$ 100,345	\$ 6,411,083	\$ -	\$ 6,411,083
Investments (Note 3)	2,112,995	2,861,519	-	-	-	4,974,514	-	4,974,514
Receivables (Note 6)	279,740	-	-	-	-	279,740	-	279,740
Prepays and other assets	234,275	-	-	-	-	234,275	-	234,275
Beneficial interest in assets held by the Foundation	9,219	-	-	-	55,764	64,983	-	64,983
Capital assets (Note 7):								
Nondepreciable assets - Land	-	-	-	-	-	-	133,173	133,173
Depreciable assets less accumulated depreciation	-	-	-	-	-	-	12,598,834	12,598,834
<b>Total assets</b>	<b>\$ 6,695,207</b>	<b>\$ 3,391,978</b>	<b>\$ 1,690,715</b>	<b>\$ 30,586</b>	<b>\$ 156,109</b>	<b>\$ 11,964,595</b>	12,732,007	24,696,602
<b>Liabilities</b>								
Accounts payable	\$ 245,406	\$ -	\$ 323	\$ -	\$ -	\$ 245,729	-	245,729
Salaries and wages payable	55,212	-	-	-	-	55,212	9,000	64,212
Retirement payable	118,130	-	-	-	-	118,130	-	118,130
Noncurrent liabilities (Note 8):								
Due within one year	-	-	-	-	-	-	1,003,810	1,003,810
Due in more than one year	-	-	-	-	-	-	521,867	521,867
<b>Total liabilities</b>	<b>418,748</b>	<b>-</b>	<b>323</b>	<b>-</b>	<b>-</b>	<b>419,071</b>	<b>1,534,677</b>	<b>1,953,748</b>
<b>Deferred Inflows of Resources - Unavailable revenue</b>	<b>35,478</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,478</b>	<b>(35,478)</b>	<b>-</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>454,226</b>	<b>-</b>	<b>323</b>	<b>-</b>	<b>-</b>	<b>454,549</b>		
<b>Fund Balance</b>								
Nonspendable:								
Prepays	223,081	-	-	-	-	223,081	(223,081)	-
Endowment	-	2,096,135	-	-	-	2,096,135	(2,096,135)	-
Restricted:								
ONEplace	167,276	-	-	-	10,309	177,585	(177,585)	-
Gifts and memorials	-	-	-	-	72,305	72,305	(72,305)	-
Ready to Read	-	-	-	-	73,495	73,495	(73,495)	-
Committed:								
Property taxes to be used in the next 150 days	3,800,000	-	-	-	-	3,800,000	(3,800,000)	-
Debt service	-	-	-	30,586	-	30,586	(30,586)	-
Assigned:								
General Fund - Future purchases	40,085	-	-	-	-	40,085	(40,085)	-
Endowment Fund - Interest and earnings	-	1,295,843	-	-	-	1,295,843	(1,295,843)	-
Capital projects - Future purchases	-	-	1,690,392	-	-	1,690,392	(1,690,392)	-
Unassigned	2,010,539	-	-	-	-	2,010,539	(2,010,539)	-
<b>Total fund balance</b>	<b>6,240,981</b>	<b>3,391,978</b>	<b>1,690,392</b>	<b>30,586</b>	<b>156,109</b>	<b>11,510,046</b>	<b>(11,510,046)</b>	<b>-</b>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<b>\$ 6,695,207</b>	<b>\$ 3,391,978</b>	<b>\$ 1,690,715</b>	<b>\$ 30,586</b>	<b>\$ 156,109</b>	<b>\$ 11,964,595</b>		
<b>Net Position</b>								
Net investment in capital assets							11,732,007	11,732,007
Restricted:								
Nonexpendable endowment							2,096,135	2,096,135
ONEplace, Ready to Read, and other							323,385	323,385
Unrestricted							8,591,327	8,591,327
<b>Total net position</b>							<b>\$ 22,742,854</b>	<b>\$ 22,742,854</b>

# Kalamazoo Public Library

## Statement of Activities/Governmental Fund Revenues, Expenditures, and Changes in Fund Balance Year Ended June 30, 2013

	Major Funds			Nonmajor Funds		Statement of Net Position - Modified Accrual	Adjustments (Note 2)	Library as a Whole
	General Fund	Endowment Fund	Capital Improvement Fund	Debt Service Fund	Special Revenue Fund			Statement of Net Position - Full Accrual
<b>Revenue</b>								
Property taxes	\$ 10,470,688	\$ -	\$ -	\$ -	\$ -	\$ 10,470,688	\$ -	\$ 10,470,688
District Court penal fines	279,650	-	-	-	-	279,650	-	279,650
Other	126,971	286	-	-	4,620	131,877	3,339	135,216
Operating grants and contributions	197,358	-	-	-	28,855	226,213	-	226,213
Net loss on sale/disposal of assets	-	-	-	-	-	-	(724)	(724)
Charges for services	181,811	-	-	-	-	181,811	-	181,811
State sources - Unrestricted	61,872	-	-	-	-	61,872	-	61,872
State sources - Restricted	94,992	-	-	-	-	94,992	-	94,992
Investment earnings	19,210	340,661	-	109	7,110	367,090	-	367,090
<b>Total revenue</b>	<b>11,432,552</b>	<b>340,947</b>	<b>-</b>	<b>109</b>	<b>40,585</b>	<b>11,814,193</b>	<b>2,615</b>	<b>11,816,808</b>
<b>Expenditures/Expenses</b>								
Salaries	4,632,309	-	-	-	-	4,632,309	11,052	4,643,361
Benefits	2,008,737	-	-	-	-	2,008,737	(12,294)	1,996,443
Materials	1,063,353	-	-	-	35,946	1,099,299	(842,128)	257,171
Facilities	488,704	-	-	-	-	488,704	-	488,704
Supplies	198,767	-	-	-	-	198,767	-	198,767
Technical services	453,013	-	-	-	-	453,013	(1,835)	451,178
Purchased services	511,751	-	-	-	-	511,751	-	511,751
Other	395,348	19,997	-	-	-	415,345	-	415,345
Capital outlay	-	-	309,476	-	-	309,476	(134,083)	175,393
Debt service - Principal	-	-	-	1,000,000	-	1,000,000	(1,000,000)	-
Debt service - Interest	-	-	-	107,594	-	107,594	(9,000)	98,594
Unallocated depreciation expense	-	-	-	-	-	-	1,226,657	1,226,657
<b>Total expenditures/expenses</b>	<b>9,751,982</b>	<b>19,997</b>	<b>309,476</b>	<b>1,107,594</b>	<b>35,946</b>	<b>11,224,995</b>	<b>(761,631)</b>	<b>10,463,364</b>
Excess (deficiency) of revenues over expenditures/expenses	1,680,570	320,950	(309,476)	(1,107,485)	4,639	589,198	764,246	1,353,444
<b>Other Financing (Uses) Sources</b>	<b>(1,475,218)</b>	<b>(35,000)</b>	<b>471,000</b>	<b>1,081,000</b>	<b>(41,782)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances/Net Position</b>	<b>205,352</b>	<b>285,950</b>	<b>161,524</b>	<b>(26,485)</b>	<b>(37,143)</b>	<b>589,198</b>	<b>764,246</b>	<b>1,353,444</b>
<b>Fund Balances/Net Position - Beginning of year</b>	<b>6,035,629</b>	<b>3,106,028</b>	<b>1,528,868</b>	<b>57,071</b>	<b>193,252</b>	<b>10,920,848</b>	<b>10,468,562</b>	<b>21,389,410</b>
<b>Fund Balances/Net Position - End of year</b>	<b>\$ 6,240,981</b>	<b>\$ 3,391,978</b>	<b>\$ 1,690,392</b>	<b>\$ 30,586</b>	<b>\$ 156,109</b>	<b>\$ 11,510,046</b>	<b>\$ 11,232,808</b>	<b>\$ 22,742,854</b>

# Kalamazoo Public Library

## Notes to Financial Statements June 30, 2013

### Note I - Summary of Significant Accounting Policies

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

#### **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 the 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.

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

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 position and the statement of activities) report information on all of the nonfiduciary activities of the Library. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally 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 statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (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 revenues are reported instead as general revenue.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **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 Library 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, 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.

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.

### Note I - Summary of Significant Accounting Policies (Continued)

The Library reports the following major governmental funds:

- The General Fund is the Library'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 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.
- The Capital Improvement Fund accounts for the capital improvements of the Library.

The Library reports the following nonmajor funds:

- 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 Special Revenue Fund is used to account for the restricted revenue received for the direct purpose to encourage parents and caregivers to share books with children from birth to five years of age. Other restricted revenue received is for program specific gifts and memorials.

#### **Assets, Liabilities, and Net Position or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity 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."

All property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepays and 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.

### Note I - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. In addition, library material items such as books, periodicals, and media are capitalized although they may have an initial cost less than \$1,000. 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

**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.

**Unearned 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** - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following: nonspendable, restricted, committed, assigned, and unassigned.

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

### Note 1 - Summary of Significant Accounting Policies (Continued)

- 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 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: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**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.

#### Property Tax Revenue

Property taxes 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 2012 tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended June 30, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2012 taxable valuation of the participating municipalities totaled \$2.679 billion before adjustments, on which taxes levied consisted of 3.9583 mills for operating purposes. This resulted in approximately \$10.5 million for General Fund operating purposes. This amount was recognized in the General Fund as tax revenue.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Accounting Change** - Effective July 1, 2012, the Library implemented the provisions of Governmental Accounting Standards Board No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. This statement did not have a significant impact on the Library's financial statements.

Effective July 1, 2012, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This 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 provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement impacted the format and report of the balance sheet at the government-wide level and also at the fund level.

Also effective July 1, 2012, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement 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. Debt issuance costs are now expensed in accordance with GASB No. 65.

# Kalamazoo Public Library

## Notes to Financial Statements June 30, 2013

### Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities

Net position reported in the statement of net position column is different than the fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

<b>Total Fund Balance - Modified Accrual Basis</b>	<b>\$ 11,510,046</b>
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 are not reported in the funds	12,732,007
Other long-term revenue, not available in the current period, is recorded as unearned in the funds	35,478
Bonds payable are not due and payable in the current period and are not reported in the funds	(1,018,744)
Accrued interest is not due and payable in the current period and is not reported in the funds	(9,000)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(212,473)
Retirement incentive liabilities do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(294,460)
<b>Total Net Position - Full Accrual Basis</b>	<b><u>\$ 22,742,854</u></b>

### Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities (Continued)

The change in net position reported in the statement of activities column is different than the change in fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

<b>Net Change in Fund Balances - Modified Accrual Basis</b>	<b>\$ 589,198</b>
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, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	996,790
Depreciation expense	(1,226,657)
Net book value of assets disposed of	(724)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	3,339
Value of capital lease financing is another financing source in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(20,579)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt	1,000,000
Repayment of capital lease obligation is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt	1,835
Change in accrued interest on bonds and assessments payable	9,000
Change in vacation accrual	12,294
Decrease in the amount of retirement incentive payable balances decreases the amount of salary expense during the year	(11,052)
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 1,353,444</u></b>

### Note 3 - 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 law also allows investments outside the state of Michigan when fully insured. 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 the Library authorizes the local unit to invest in bonds, securities, and other direct obligations of the United States or any agency.

The Library has designated six banks for the deposit of its funds. The investment policy adopted by the board for the investments other than the endowment funds is in accordance with Public Act 196 of 1997 and has authorized investments 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's deposits and investment policies are in accordance with statutory authority.

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

**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 \$2,377,226 of bank deposits (certificates of deposit, 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.

# Kalamazoo Public Library

## Notes to Financial Statements June 30, 2013

### Note 3 - Deposits and Investments (Continued)

**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 investment securities were uninsured and uncollateralized.

**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 policy does 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 and maturities:

Primary Government	Fair Value	Less than 1 Year	1-5 Years	More than 5 Years	More than 10 Years
Common stock	\$ 1,667,479	\$ -	\$ -	\$ -	\$ -
CDs	2,721,957	2,214,962	457,066	49,929	-
Corporate bonds	585,078	202,351	261,658	121,069	-
Total	\$ 4,974,514	\$ 2,417,313	\$ 718,724	\$ 170,998	\$ -

**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. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
<b>Primary Government</b>			
Corporate bonds	\$ 585,078	A	Standard & Poor's

# **Kalamazoo Public Library**

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## **Notes to Financial Statements June 30, 2013**

### **Note 4 - 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, 2013 was \$55,764.

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, 2013 was \$42,047.

### **Note 5 - Endowment**

The assets restricted for endowment consist of contributions of \$2,096,135, none of which is available for expenditure, and investment return of \$1,295,843, totaling \$3,391,978. Beginning July 1, 2007, up to 50 percent of the earned income, up to a maximum equal to 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 a law that limits the ability to spend net appreciation.

### **Note 6 - Receivables**

Receivables as of year end for the Library's individual major funds and the nonmajor funds are current. Taxes receivable are net of allowances for doubtful accounts of \$67,566.

# Kalamazoo Public Library

## Notes to Financial Statements June 30, 2013

### Note 7 - Capital Assets

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

<b>Governmental Activities</b>	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
Capital assets not being depreciated - Land	\$ 133,173	\$ -	\$ -	\$ 133,173
Capital assets being depreciated:				
Buildings	15,828,755	5,975	-	15,834,730
Furniture, equipment, and automation	2,953,222	148,687	(186,200)	2,915,709
Materials	4,684,957	842,128	(727,986)	4,799,099
Subtotal	23,466,934	996,790	(914,186)	23,549,538
Accumulated depreciation:				
Buildings	5,854,726	396,523	-	6,251,249
Furniture, equipment, and automation	2,447,834	183,536	(185,476)	2,445,894
Materials	2,334,949	646,598	(727,986)	2,253,561
Subtotal	10,637,509	1,226,657	(913,462)	10,950,704
Net capital assets being depreciated	12,829,425	(229,867)	(724)	12,598,834
Net capital assets	\$ 12,962,598	\$ (229,867)	\$ (724)	\$ 12,732,007

Depreciation expense was \$1,226,657 for the year ended June 30, 2013.

### Note 8 - Long-term Debt

The Library issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Library. Other long-term obligations included compensated absences, retirement incentives, and capital leases.

Long-term debt activity can be summarized as follows:

<b>Governmental Activities</b>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1996 limited tax bonds	\$ 2,000,000	\$ -	\$ (1,000,000)	\$ 1,000,000	\$ 1,000,000
Compensated absence liability	224,767	-	(12,294)	212,473	-
Retirement incentive liability	283,408	11,052	-	294,460	-
Copier capital lease	-	20,579	(1,835)	18,744	3,810
Total governmental activities	\$ 2,508,175	\$ 31,631	\$ (1,014,129)	\$ 1,525,677	\$ 1,003,810

# Kalamazoo Public Library

## Notes to Financial Statements June 30, 2013

### Note 8 - Long-term Debt (Continued)

Total interest expense for the year was \$107,594. Annual debt service requirements to maturity for the above bonds and capital lease obligations are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 1,003,810	\$ 54,850	\$ 1,058,660
2015	4,004	656	4,660
2016	4,209	451	4,660
2017	4,425	235	4,660
2018	2,296	34	2,330
Total	<u>\$ 1,018,744</u>	<u>\$ 56,226</u>	<u>\$ 1,074,970</u>

### Governmental Activities

**General Obligation Bonds** - \$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. Outstanding balance at June 30, 2013 is \$1,000,000.

**Capital Leases** - During the year, the Library entered into a new lease agreement as lessee for financing the purchase of copier equipment. The copiers are included in capital assets, with a cost basis of \$20,579 and accumulated depreciation of \$1,715. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Years Ending June 30	Amount
2014	\$ 4,660
2015	4,660
2016	4,660
2017	4,660
2018	2,330
Total	20,970
Less amount representing interest	<u>2,226</u>
Present value of net minimum lease payments	<u>\$ 18,744</u>

# Kalamazoo Public Library

## Notes to Financial Statements June 30, 2013

### Note 9 - Interfund Receivables, Payables, and Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

Transfer In Fund	Transfer Out Fund	Amount
Debt Service Fund	General Fund	\$ 1,081,000
Capital Improvement Fund	General Fund	400,000
	Endowment Fund	35,000
	Other governmental funds	36,000
Total capital improvement		471,000
General Fund	Special Revenue Fund	5,782
Total		<u>\$ 1,557,782</u>

In 2013, transfers totaling \$1,081,000 were used to finance debt requirements, \$471,000 was used for capital asset acquisitions, and \$5,782 was used for software and technologies to aid the sight impaired that are now available throughout the Library on general-use PCs and add-on equipment.

### Note 10 - Defined Benefit Pension Plan

#### 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.

### Note 10 - Defined Benefit Pension Plan (Continued)

The Michigan Public Schools 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.

**Pension Benefits** - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each MPERS participating employer is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 15.96 percent of covered payroll for the period from July 1, 2012 through September 30, 2012; 16.25 percent for the period from October 1, 2012 through January 31, 2013; and 15.21 percent for the period from February 1, 2013 through June 30, 2013. Beginning October 1, 2012 through January 31, 2013, employees were given the following plan options with the corresponding employer contribution rates:

	First Worked before July 1, 2010*	First Worked on or after July 1, 2010 Through September 3, 2012**	First Worked on or after September 4, 2012 and remain Pension Plus	First worked on or after September 4, 2012 and elect DC
Pension contributions	16.25 %	15.02 %	15.02 %	12.78 %
Health contributions	9.11 %	9.11 %	8.18 %	8.18 %

\* Basic, MIP Fixed, MIP Graded, MIP Plus

\*\* Pension Plus

For the period from February 1, 2013 through June 30, 2013, employees could transition to a defined contribution plan (DC), and could also elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP	Pension Plus	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health contributions	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Defined contribution plan employer contributions:							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

\* First worked September 4, 2012 or later

### Note 10 - Defined Benefit Pension Plan (Continued)

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The Library's required and actual contributions to the plan for the years ended June 30, 2013, 2012, and 2011 were \$235,107, \$166,681, and \$149,255, 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, 2012 through June 30, 2013. The Library's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2013, 2012, and 2011 were \$133,796, \$94,660, and \$102,102, respectively.

In 2012, Public Act 300 instituted several reforms to MPSERS, one of which was to cap the employer's share of the Unfunded Actuarial Accrued Liability (UAAL) on reported payroll at 20.96 percent. As a result, the balance of retirement costs will be funded with state appropriations, referred to as MPSERS UAAL Rate Stabilization payments. Payment amounts distributed to each district library will be based on the proration of each district library's respective total covered payroll for the immediately preceding fiscal year. Each district library will receive an invoice from the Office of Retirement Services (ORS), and the funds received are expected to be remitted back to ORS. On August 2, 2013, the Library was notified it would receive a UAAL Rate Stabilization revenue payment from the State of Michigan and would receive a related invoice from ORS, both in the amount of \$94,992, to be applied to the year ended June 30, 2013. This transaction occurred after the Library's budget for the year ended June 30, 2013 had been amended and finalized, resulting in the Library receiving additional state restricted revenue and incurring additional personnel expense, both of which were not originally budgeted for.

### Note 10 - Defined Benefit Pension Plan (Continued)

#### MERS

##### Plan Description

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 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 7.96 to 11.58 percent of annual covered payroll depending on the plan. The contribution requirements of plan members are established, and may be amended, by MERS.

**Annual Pension Cost** - For the year ended June 30, 2013, the Library's annual pension cost of \$282,926 for the plan was equal to the Library's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2011, 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) 3.0 to 4.0 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, 2013

### Note 10 - Defined Benefit Pension Plan (Continued)

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2013	2012	2011
Annual pension cost (APC)	\$ 282,926	\$ 277,426	\$ 293,107
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

  

	Fiscal Year Ended June 30		
	2012	2011	2010
Actuarial value of assets	\$ 4,345,863	\$ 3,880,823	\$ 3,397,515
Actuarial accrued liability (AAL) (entry age)	4,684,032	4,244,213	3,806,173
Unfunded AAL (UAAL)	338,169	363,390	408,658
Funded ratio	92.8 %	91.4 %	89.3 %
Covered payroll	2,787,310	2,745,388	2,695,219
UAAL as a percentage of covered payroll	12.1 %	13.2 %	15.2 %

### Note 11 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for each of these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 12 - 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.

### **Note 12 - Stewardship, Compliance, and Accountability (Continued)**

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, 2013.

### **Note 13 - Upcoming Accounting Pronouncements**

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 supplemental 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, 2013.

## **Required Supplemental Information**

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# Kalamazoo Public Library

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 10,411,680	\$ 10,519,522	\$ 10,470,688	\$ (48,834)
District Court penal fines	285,000	285,000	279,650	(5,350)
Other	310,255	325,875	343,539	17,664
Charges for services	150,000	162,280	181,811	19,531
State sources - Unrestricted	40,000	59,810	61,872	2,062
State sources - Restricted	-	-	94,992	94,992
Total revenue	<u>11,196,935</u>	<u>11,352,487</u>	<u>11,432,552</u>	<u>80,065</u>
<b>Expenditures/Expenses</b>				
Salaries	4,677,775	4,763,470	4,632,309	131,161
Benefits	2,131,634	2,069,145	2,008,737	60,408
Materials	1,069,630	1,087,180	1,063,353	23,827
Facilities	520,565	558,230	488,704	69,526
Supplies	219,085	257,830	198,767	59,063
Technical services	516,967	525,867	453,013	72,854
Purchased services	535,971	582,121	511,751	70,370
Other	451,519	537,789	395,348	142,441
Total expenditures/expenses	<u>10,123,146</u>	<u>10,381,632</u>	<u>9,751,982</u>	<u>629,650</u>
<b>Excess of Revenues Over Expenditures/Expenses</b>	1,073,789	970,855	1,680,570	709,715
<b>Other Financing Uses</b>	<u>(1,121,000)</u>	<u>(1,475,361)</u>	<u>(1,475,218)</u>	<u>143</u>
<b>Net Change in Fund Balances/Net Assets</b>	(47,211)	(504,506)	205,352	709,858
<b>Fund Balances/Net Assets - Beginning of year</b>	<u>5,361,932</u>	<u>6,035,629</u>	<u>6,035,629</u>	<u>-</u>
<b>Fund Balances/Net Assets - End of year</b>	<u><u>\$ 5,314,721</u></u>	<u><u>\$ 5,531,123</u></u>	<u><u>\$ 6,240,981</u></u>	<u><u>\$ 709,858</u></u>