

Ann Arbor District
Library



Year Ended
June 30, 2012

Financial
Statements

ANN ARBOR DISTRICT LIBRARY

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INDEPENDENT AUDITORS' REPORT

November 8, 2012

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of *Ann Arbor District 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. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of Ann Arbor District Library as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund 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 the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

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

Rehmann Lohman

MANAGEMENT'S DISCUSSION AND ANALYSIS

ANN ARBOR DISTRICT LIBRARY

Management's Discussion and Analysis

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

Financial Highlights

- The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$30,962,500 (net assets). Of this amount, \$7,484,698 (unrestricted net assets) may be used to meet the Library's ongoing obligations.
- The Library's total net assets decreased by \$401,129 during the year.
- As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$8,102,821, an increase of \$237,322 in comparison with the prior year. Approximately 93% or \$7,558,967 is available for spending at the Library's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$7,558,967 or 65% percent of total general fund expenditures.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the 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 the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the government'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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

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

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

ANN ARBOR DISTRICT LIBRARY

Management's Discussion and Analysis

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

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by \$30,962,500 at the close of the most recent fiscal year.

	Library's Net Assets	
	Governmental Activities	
	2012	2011
Current and other assets	\$ 8,762,369	\$ 8,825,857
Capital assets, net	23,116,585	23,767,116
Total assets	31,878,954	32,592,973
Current liabilities outstanding	659,548	960,358
Other liabilities	256,906	268,986
Total liabilities	916,454	1,229,344
Net assets:		
Invested in capital assets, net of related debt	23,116,585	23,767,116
Restricted	361,217	360,688
Unrestricted	7,484,698	7,235,825
Total net assets	\$30,962,500	\$31,363,629

ANN ARBOR DISTRICT LIBRARY

Management's Discussion and Analysis

Library's Change Net Assets		
Governmental Activities		
	2012	2011
Revenues:		
Property taxes	\$10,875,521	\$11,163,808
State penal fines	195,152	228,735
State aid	81,780	82,270
Interest income	181,475	109,690
Copier revenue	35,435	38,280
Grants and memorials	112,832	153,477
Library fines, fees and other	445,007	456,382
Non-resident fees	16,414	17,087
Total revenues	11,943,616	12,249,729
Expenses:		
Personnel costs	7,545,867	7,644,753
Purchased services	1,000,497	1,060,553
Repairs and maintenance	256,196	258,737
Rent	178,837	192,176
Materials, supplies and expense	2,264,905	2,255,818
Other operating costs	353,268	407,018
Depreciation expense	745,175	760,883
Total expenses	12,344,745	12,579,938
Change in net assets	(401,129)	(330,209)
Net assets:		
Beginning of year	31,363,629	31,693,838
End of year	<u>\$30,962,500</u>	<u>\$31,363,629</u>

As noted earlier, the Library decreased net assets during the year ended June 30, 2012 by approximately \$401,000. At the fund level, capital outlay is expenditure, but in the government-wide reporting model, this capital addition is added into capital assets. Also, at the government-wide level, depreciation is an expense. For the year ended June 30, 2012, depreciation expense exceed capitalized capital outlay by \$649,213, causing most of the decrease in net assets above.

ANN ARBOR DISTRICT LIBRARY

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$8,102,821 an increase of \$237,322 in comparison with the prior year. Approximately 93% of this total amount (\$7.6 million) constitutes unassigned fund balance, which is available for spending at the Library's discretion.

The General Fund is the chief operating fund of the Library. At the end of the current fiscal year, unassigned fund balance of the general fund was \$7,558,967 while total fund balance was \$7,741,604. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance each represent approximately 65% and 69% of total General Fund expenditures.

The fund balance of the Library's general fund increased by \$236,793, during the current fiscal year. The unassigned fund balance increased by \$281,243.

Capital Assets. The Library's investment in capital assets as of June 30, 2012, amounted to \$23,116,585 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, and equipment.

	Library's Capital Assets (Net of Depreciation)	
	2012	2011
Land	\$ 2,108,183	\$ 2,108,183
Buildings and construction in progress	19,985,296	20,480,380
Vehicles	7,212	12,020
Equipment	1,015,894	1,166,533
Total capital assets, net	\$23,116,585	\$23,767,116

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

General Fund Budgetary Highlights

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

ANN ARBOR DISTRICT LIBRARY

Management's Discussion and Analysis

Factors Bearing on the Library's Future

The following factors were considered in preparing the Library's budget for the 2012-2013 fiscal years:

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

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Associate Director, 343 S. Fifth Avenue, Ann Arbor, Michigan 48104.

BASIC FINANCIAL STATEMENTS

ANN ARBOR DISTRICT LIBRARY

Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds	Adjustments	Statement of Net Assets
Assets					
Cash and cash equivalents	\$ 3,519,510	\$ 361,217	\$ 3,880,727	\$ -	\$ 3,880,727
Investments	4,516,835	-	4,516,835	-	4,516,835
Due from other governmental units	213,500	-	213,500	-	213,500
Prepaid expenditures/expenses	151,307	-	151,307	-	151,307
Capital assets:					
Assets not being depreciated	-	-	-	2,108,183	2,108,183
Assets being depreciated	-	-	-	21,008,402	21,008,402
Total assets	\$ 8,401,152	\$ 361,217	\$ 8,762,369	23,116,585	31,878,954
Liabilities					
Accounts payable - vendors	\$ 341,747	\$ -	\$ 341,747	-	341,747
Accrued payroll and benefits	317,801	-	317,801	-	317,801
Long-term liabilities -					
Due within one year	-	-	-	30,000	30,000
Due after one year	-	-	-	226,906	226,906
Total liabilities	659,548	-	659,548	256,906	916,454
Fund balances					
Fund balance - nonexpendable:					
Prepaid expenditures	151,307	-	151,307	(151,307)	-
Permanent corpus	-	325,000	325,000	(325,000)	-
Fund balance - assigned for encumbrances	31,330	-	31,330	(31,330)	-
Fund balance - assigned for endowment	-	36,217	36,217	(36,217)	-
Fund balance - unassigned	7,558,967	-	7,558,967	-	-
Total fund balances	7,741,604	361,217	8,102,821	(543,854)	-
Total liabilities and fund balances	\$ 8,401,152	\$ 361,217	\$ 8,762,369		
Net assets					
Investment in capital assets				23,116,585	23,116,585
Restricted for endowments - nonexpendable				325,000	325,000
Restricted for endowments - expendable				36,217	36,217
Unrestricted				7,484,698	7,484,698
Total net assets				\$ 30,962,500	\$ 30,962,500

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

ANN ARBOR DISTRICT LIBRARY

Reconciliation of Governmental Fund Balances to Statement of Net Assets

June 30, 2012

Fund balances - total governmental funds \$ 8,102,821

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.

Capital assets	32,113,419
Accumulated depreciation	(8,996,834)

Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences	(256,906)
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Net assets of governmental activities	<u>\$ 30,962,500</u>
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The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY

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

	General Fund	Other Governmental Funds	Total Governmental Funds	Adjustments	Statement of Net Activities
Revenue					
Property taxes, net	\$ 10,875,521	\$ -	\$ 10,875,521	\$ -	\$ 10,875,521
State penal fines	195,152	-	195,152	-	195,152
State aid	81,780	-	81,780	-	81,780
Interest income	180,946	529	181,475	-	181,475
Copier revenue	35,435	-	35,435	-	35,435
Grants and memorials	112,832	-	112,832	-	112,832
Library fines, fees and other	445,007	-	445,007	-	445,007
Non-resident fees	16,414	-	16,414	-	16,414
Total revenue	11,943,087	529	11,943,616	-	11,943,616
Expenditures/expenses					
Current:					
Personnel costs	7,557,947	-	7,557,947	(12,080)	7,545,867
Purchased services	1,000,497	-	1,000,497	-	1,000,497
Repairs and maintenance	256,196	-	256,196	-	256,196
Rent	178,837	-	178,837	-	178,837
Materials, supplies and expense	2,264,905	-	2,264,905	-	2,264,905
Other operating costs	351,950	-	351,950	1,318	353,268
Depreciation expense	-	-	-	745,175	745,175
Capital outlay/maintenance expense	95,962	-	95,962	(95,962)	-
Total expenditures/expenses	11,706,294	-	11,706,294	638,451	12,344,745
Net change in fund balances	236,793	529	237,322	(237,322)	-
Change in net assets	-	-	-	(401,129)	(401,129)
Fund balance/net assets, beginning of year	7,504,811	360,688	7,865,499	23,498,130	31,363,629
Fund balance/net assets, end of year	\$ 7,741,604	\$ 361,217	\$ 8,102,821	\$ 22,859,679	\$ 30,962,500

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

ANN ARBOR DISTRICT LIBRARY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund

Balance to Statement of Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds \$ 237,322

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay costs	95,962
Depreciation expense	(745,175)
Book value of assets disposed	(1,318)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Decrease in the accrual for compensated absences	12,080
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Change in net assets of governmental activities	<u>\$ (401,129)</u>
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The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY

Statement of Revenues, Expenditures and Changes

in Fund Balances - Budget and Actual
General Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenue				
Property taxes, net	\$ 11,092,000	\$ 11,092,000	\$ 10,875,521	\$ (216,479)
State penal fines	250,000	250,000	195,152	(54,848)
State aid	-	-	81,780	81,780
Interest income	62,000	62,000	180,946	118,946
Copier revenue	38,000	38,000	35,435	(2,565)
Grants and memorials	90,000	90,000	112,832	22,832
Library fines, fees and other	485,000	485,000	445,007	(39,993)
Non-resident fees	17,000	17,000	16,414	(586)
Total revenue	12,034,000	12,034,000	11,943,087	(90,913)
Expenditures				
Current:				
Salaries and wages	5,684,000	5,684,000	5,663,109	20,891
Employee benefits	1,510,000	1,510,000	1,470,555	39,445
Employment taxes	435,000	435,000	424,283	10,717
Purchased services:				
Custodial services	210,000	210,000	179,421	30,579
Professional services	194,000	239,000	183,557	55,443
Utilities	455,000	455,000	404,722	50,278
Property insurance	87,000	87,000	69,041	17,959
Communications	175,000	175,000	163,756	11,244
Repairs and maintenance	278,000	278,000	256,196	21,804
Rent	220,000	220,000	178,837	41,163
Materials	1,850,000	1,850,000	1,820,926	29,074
Operating supplies and expense	448,000	448,000	443,979	4,021
Library programming	250,000	250,000	243,981	6,019
Seminars, conferences and travel	22,000	22,000	14,572	7,428
Grant and memorial expenses	90,000	90,000	93,397	(3,397)
Capital outlay	126,000	126,000	95,962	30,038
Total expenditures	12,034,000	12,079,000	11,706,294	372,706
Net change in fund balances	-	(45,000)	236,793	281,793
Fund balance, beginning of year	7,504,811	7,504,811	7,504,811	-
Fund balance, end of year	\$ 7,504,811	\$ 7,459,811	\$ 7,741,604	\$ 281,793

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

NOTES TO FINANCIAL STATEMENTS

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Pursuant to Public Act 145 of 1993 (Proposal A), effective July 1, 1996, school districts in Michigan are not allowed to levy a millage for public libraries. The Library was, therefore, spun off from the Ann Arbor Public Schools (the "Schools") to operate as an independent body with its own board of trustees and its own tax levy. The Library has received voter approval to levy up to 2.0 mills. The Library levied 1.55 mills for the year ending June 30, 2012. Assets and liabilities of the Library were transferred as of July 1, 1996. The Library is governed by an elected Board (the "Library Board") which consists of seven members elected at large from the Library District.

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

The Library has implemented the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

Library-Wide and Fund Financial Statements

The Library-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The Library had no business type activities during the year ended 2012.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Library reports the following major governmental 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 and reported in another fund.

Additionally, the Library reports the following fund types:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Library-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities and equity

Deposits and investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans). There were no such interfund loans outstanding at June 30, 2012.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the Library wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

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

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

Compensated absences

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

Fund equity

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

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

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year-end.

The General fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Library Board. The budget for the General Fund is adopted on a functional basis. Variances with the Final Budget are shown on the Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual for the General Fund.

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

3. DEPOSITS AND INVESTMENTS

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

Statement of net assets

Cash and cash equivalents	\$ 3,880,727
Investments	<u>4,516,835</u>

Total	<u>\$ 8,397,562</u>
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These balances are disclosed in the notes as follows:

Petty cash	\$ 2,000
Bank deposits (checking and savings accounts)	3,878,727
Investments	<u>4,516,835</u>
	<u>\$ 8,397,562</u>

Statutory Authority

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the United States, certain commercial paper, repurchase agreements, banker acceptances and mutual funds composed of otherwise legal investments.

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

Investments

The Library chooses to disclose its investments by specifically identifying each. As of year-end, the Library had the following investments:

Investment	Maturity	Fair Value	Rating
Northern Inst. Govt. Select MMkt	n/a	\$ 48,832	n/a
Marshall Govt Money Market	n/a	138,454	n/a
Federated Govt Ultrashort Duration Fund	n/a	63,685	n/a
Vanguard GNMA Fund	n/a	149,047	n/a
MI Municipal Bond Auth 5.250%	10/1/2012	101,962	S&P - AAA
Jackson MI Comm. College 3.150%	5/1/2014	130,278	S&P - AA-
Lincoln MI Cons School Dist. 3.500%	5/1/2014	104,053	S&P - AA-
Grand Rapids MI Bldg Auth 3.100%	10/1/2014	89,407	S&P - AA
Fed Home Loan Bank 1.750%	10/29/2014	154,494	S&P - AAA
St. Johns MI Public Schs 4.350%	5/1/2016	108,677	S&P - AA-
Chippewa Valley MI Sch Dist 4.250%	5/1/2016	52,751	S&P - AA-
Federal Farm Credit Bank 2.000%	10/15/2016	100,066	S&P - AAA
Jenison MI Public Schs 4.750%	5/1/2017	111,960	Moody - Aa2
Federal Farm Credit Bank 2.500%	12/6/2017	53,530	S&P - AAA
Avondale MI School Dist. 4.000%	5/1/2018	80,886	S&P - AA-
St. Johns MI Public Schs 5.050%	5/1/2018	177,642	S&P - AA-
Fed Home Loan Bank Step Up 0.750%	10/26/2018	200,450	S&P - AA+
Fed Home Loan Bank 1.750%	2/21/2019	50,050	S&P - AAA
Alma MI Public School Dist. 4.150%	5/1/2019	157,866	S&P - AA
Federal Farm Credit Bank 1.750%	6/12/2019	74,171	S&P - AAA
Fed Home Loan Mtg Corp Step Up 1.125%	1/30/2020	201,801	S&P - AA+
Monroe Cnty MI General Obligation 5.500%	5/1/2020	107,539	S&P - AA-
MI State G.O. Bond 4.140%	11/1/2020	55,904	S&P - AA-
Federal Farm Credit Bank 2.350%	6/21/2021	133,010	S&P - AAA
Federal Farm Credit Bank 2.840%	1/11/2022	200,978	S&P - AAA
Fed Home Loan Bank 2.640%	2/8/2022	50,261	S&P - AAA
Fed Home Loan Bank Step Up 1.000%	4/25/2022	250,503	S&P - AA+
Fed Home Loan Bank Step Up 1.000%	5/24/2022	250,363	S&P - AA+
Fed Home Loan Bank 2.500%	6/27/2022	100,053	S&P - AAA
U of M Higher Ed Revenue 4.926%	4/1/2024	59,973	S&P - AAA
Oakland Cnty MI General Obligation 5.750%	4/1/2025	54,859	S&P - AAA
Fed Nat'l Mtg Assn Step Up 1.000%	3/22/2027	201,058	S&P - AA+
Fed Home Loan Bank Step Up 1.000%	4/30/2027	250,538	S&P - AA+
Fed Home Loan Bank Step Up 1.500%	4/30/2027	200,659	S&P - AA+
Fed Nat'l Mtg Assn Step Up 1.500%	5/24/2027	251,075	S&P - AA+
		<u>\$ 4,516,835</u>	

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates of investments are shown in the investment schedule above.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$1,173,445 of the Library's bank balance of \$4,123,667 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk. Although uninsured and unregistered, the Library's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the Library's name. Also, \$400,018 of the investments listed above are unclassified as to custodial credit risk as the invested amount is part of an investment pool.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy restricts commercial paper in any one fund to no more than 33% at any time. All investments held at year-end are reported above.

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,108,183	\$ -	\$ -	\$ 2,108,183
Capital assets, being depreciated:				
Buildings and improvements	25,972,421	15,923	-	25,988,344
Vehicles	183,256	-	-	183,256
Communications equipment	429,943	1,092	-	431,035
Computer equipment	1,307,407	62,615	(6,590)	1,363,432
Furniture and equipment	1,302,241	-	-	1,302,241
Other equipment	720,596	16,332	-	736,928
Total capital assets being depreciated	29,915,864	95,962	(6,590)	30,005,236
Less accumulated depreciation for:				
Buildings and improvements	(5,492,041)	(511,007)	-	(6,003,048)
Vehicles	(171,236)	(4,808)	-	(176,044)
Communications equipment	(403,162)	(9,802)	-	(412,964)
Computer equipment	(1,057,625)	(110,608)	5,272	(1,162,961)
Furniture and equipment	(690,615)	(63,672)	-	(754,287)
Other equipment	(442,252)	(45,278)	-	(487,530)
Total accumulated depreciation	(8,256,931)	(745,175)	5,272	(8,996,834)
Total assets being depreciated, net	21,658,933	(649,213)	(1,318)	21,008,402
Governmental activities capital assets, net	\$ 23,767,116	\$ (649,213)	\$ (1,318)	\$ 23,116,585

5. LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Library for the year ended June 30, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Sick and vacation leave pay	\$ 268,986	\$ -	\$ (12,080)	\$ 256,906	\$ 30,000

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

6. LEASES

The Library leases equipment under operating leases. The future minimum lease payments under non-cancelable leases at June 30 are summarized as follows:

Year Ended June 30,	Amount
2013	<u>\$ 450</u>

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

Year Ended June 30,	Amount
2013	\$ 101,510
2014	<u>\$ 47,985</u>
Total future expenditures	<u>\$ 149,495</u>

Total rental expense under the above leases for the year ended June 30, 2012 was \$178,837.

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

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

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

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

B. DEFINED BENEFIT PENSION PLAN

Library employees hired prior to July 1, 1996 are eligible to participate in the Michigan Public School Employees Retirement System (MPERS). The Plan Description, Funding Policy and Description of Other Post Employment Benefits follows.

Plan Description. MPERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy. Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000. Member contributions are matched at a rate of 50% by the employer up to a maximum of 1%. The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rates for the year ended June 30, 2012 as a percentage of payroll ranged from 20.66 to 24.46 percent for MIP members and 19.16 to 23.23 percent for Pension Plus members. The contribution requirements of plan members and the Library are established by Michigan State statute and may be amended only by action of the State Legislature. The Library's contributions to MPERS for the years ended June 30, 2012, 2011 and 2010 were \$222,152, \$182,427, and \$187,572, respectively, equal to the required contributions for each year.

9. OTHER POSTEMPLOYMENT BENEFITS

Retirees hired prior to July 1, 1996 have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

ANN ARBOR DISTRICT LIBRARY

Notes to Financial Statements

10. DEFINED CONTRIBUTION PLAN

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

The Library contributes 10% of the eligible salaried employees' base pay. There are no employee matching requirements; however, employees can contribute the maximum amount as required by current IRS guidelines into any one of six mutual funds with variable degrees of risk. Both employee and employer contributions are portable, thus in the event an employee terminates employment with the Library, the Plan benefits travel with the employee. Upon retirement, an eligible employee receives the tax-deferred contributions plus interest earnings on the contributions. The employer and employee contribution requirements for the Plan year ended June 30, 2012, were \$356,537 and \$240,564, respectively.

11. RISK MANAGEMENT

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

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS**

ANN ARBOR DISTRICT LIBRARY

Combining Balance Sheet

Nonmajor Permanent Funds
June 30, 2012

	Holtrey Endowment	Keniston Endowment	Total
Assets			
Cash and cash equivalents	\$ 330,952	\$ 30,265	\$ 361,217
Fund balances			
Nonexpendable			
Permanent fund corpus	\$ 300,000	\$ 25,000	\$ 325,000
Expendable permanent fund	30,952	5,265	36,217
Total fund balances	\$ 330,952	\$ 30,265	\$ 361,217

ANN ARBOR DISTRICT LIBRARY

Combining Statement of Revenues, Expenditures

and Changes in Fund Balances

Nonmajor Permanent Funds

For the Year Ended June 30, 2012

	Holtrey Endowment	Keniston Endowment	Totals
Revenues			
Investment income	\$ 499	\$ 30	\$ 529
Grants and memorials	-	-	-
Total revenue	<u>499</u>	<u>30</u>	<u>529</u>
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	499	30	529
Fund balances - beginning of year	<u>330,453</u>	<u>30,235</u>	<u>360,688</u>
Fund balances - end of year	<u>\$ 330,952</u>	<u>\$ 30,265</u>	<u>\$ 361,217</u>