# Ann Arbor District Library

Ann Arbor District Library

Year Ended
June 30, 2013

# Financial Statements

Rehmann
*Business wisdom delivered.*

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# ANN ARBOR DISTRICT LIBRARY

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Rehmann

**Rehmann Robson**
675 Robinson Rd.
Jackson, MI 49203
Ph: 517.787.6503
Fx: 517.788.8111
rehmann.com

## INDEPENDENT AUDITORS' REPORT

November 12, 2013

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the ***Ann Arbor District Library*** (the "Library"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

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

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

### *Independent Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Opinions*

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

*Other Matters*

*Required Supplementary Information*

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

*Other Information*

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

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Rehmann Lohan LLC

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# ANN ARBOR DISTRICT LIBRARY

## Management's Discussion and Analysis

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

### Financial Highlights

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

### Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the Library's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

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

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

## Management's Discussion and Analysis

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

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

### Government-Wide Financial Analysis

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

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

## Management's Discussion and Analysis

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

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

## Management's Discussion and Analysis

### Financial Analysis of the Government's Funds

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

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

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

The general fund is the chief operating fund of the Library. At the end of the current fiscal year, unassigned fund balance of the general fund was $7,670,532 while total fund balance was $7,829,050. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance each represent approximately 64% and 65% of total general fund expenditures.

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

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

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

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

### General Fund Budgetary Highlights

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

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

## Management's Discussion and Analysis

### Factors Bearing on the Library's Future

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

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

### Requests for Information

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

# BASIC FINANCIAL STATEMENTS

# ANN ARBOR DISTRICT LIBRARY

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

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

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

# ANN ARBOR DISTRICT LIBRARY

## Reconciliation

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

| | |
|---|---|
| **Fund balances - total governmental funds** | $ 8,191,090 |
| Amounts reported for *governmental activities* in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Capital assets | 32,040,668 |
| Accumulated depreciation | (9,545,943) |
| Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the funds. | |
| Compensated absences | (239,933) |
| **Net position of governmental activities** | $ 30,445,882 |

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

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

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

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

# ANN ARBOR DISTRICT LIBRARY

## Reconciliation

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

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds** | $ | 88,269 |
| Amounts reported for *governmental activities* in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | | |
| Capital outlay | | 117,830 |
| Depreciation expense | | (726,894) |
| Book value of assets disposed | | (12,796) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds. | | |
| Change in the accrual for compensated absences | | 16,973 |
| **Change in net position of governmental activities** | $ | (516,618) |

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

# ANN ARBOR DISTRICT LIBRARY

## Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2013

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

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

# NOTES TO FINANCIAL STATEMENTS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity**

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

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

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

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

*Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The Library had no business-type activities during the year ended 2013.

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

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

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

## Notes to Financial Statements

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

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

The Library reports the following major governmental fund -

The g*eneral fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for and reported in another fund.

Additionally, the Library reports the following fund type -

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

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

**Assets, liabilities and equity**

***Deposits and investments***

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

***Receivables and payables***

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

***Prepaid items***

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

## Notes to Financial Statements

*Capital assets*

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

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

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

*Compensated absences*

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

*Fund equity*

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

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

## 2. BUDGETARY INFORMATION

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

## Notes to Financial Statements

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

### 3. DEPOSITS AND INVESTMENTS

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

| | |
|---|---|
| **Statement of Net Position** | |
| Cash and cash equivalents | $ 3,698,944 |
| Investments | 4,637,857 |
| **Total** | $ 8,336,801 |

These balances are disclosed in the notes as follows:

| | |
|---|---|
| Petty cash | $ 2,200 |
| Bank deposits (checking, savings and certificates of deposit) | 3,696,744 |
| Investments | 4,637,857 |
| | $ 8,336,801 |

**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.

## Notes to Financial Statements

### Investments

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

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

## Notes to Financial Statements

**Deposit and investment risk**

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

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, $1,446,744 of the Library's bank balance of $3,808,674 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk. Although uninsured and unregistered, the Library's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the Library's name. Also, $273,084 of the investments listed above are unclassified as to custodial credit risk as the invested amount is part of an investment pool.

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

## Notes to Financial Statements

### 4. CAPITAL ASSETS

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

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

### 5. LONG-TERM DEBT

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

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

## Notes to Financial Statements

### 6. LEASES

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

| Year Ended June 30, | Amount |
|---|---|
| 2014 | $ 101,510 |
| 2015 | 47,985 |
| **Total future expenditures** | $ 149,495 |

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

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

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

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

### 8. DEFINED BENEFIT PENSION PLAN

**Plan Description**

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

**Funding Policy**

*Defined Benefit Plans*

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

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

*Hybrid Plans*

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

*Defined Contribution Plan*

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

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

## Notes to Financial Statements

### 9. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

### 10. DEFINED CONTRIBUTION PLAN

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

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

## Notes to Financial Statements

### 11. RISK MANAGEMENT

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

# COMBINING FUND FINANCIAL STATEMENTS

# ANN ARBOR DISTRICT LIBRARY

## Combining Balance Sheet

Nonmajor Permanent Funds
June 30, 2013

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

# ANN ARBOR DISTRICT LIBRARY

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

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

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