

# Capital Area District Library



## FINANCIAL STATEMENTS

For The Year Ended  
December 31, 2008

# Capital Area District Library

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**INDEPENDENT AUDITORS' REPORT**

March 5, 2009

To the Board of Trustees  
Capital Area District Library  
Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of **CAPITAL AREA DISTRICT LIBRARY**, as of and for the year ended December 31, 2008, 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 financial position of the governmental activities and General Fund of Capital Area District Library, as of December 31, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



## MANAGEMENT'S DISCUSSION and ANALYSIS

# **Management, Discussion & Analysis**

## **Using this Annual Report**

This annual report consists of three parts: Management's Discussion & Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of the library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These Fund Financial Statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources & uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The Government Wide Financial Statement column provides both long and short-term information about the library's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

## Condensed Financial Information

The following table shows key information in a condensed format:

	<u>2008</u>	<u>2007</u>
Current Assets	\$14,211,966	\$14,235,190
Capital Assets	\$6,565,204	\$6,415,577
Total Assets:	<u>\$20,777,170</u>	<u>\$20,650,767</u>
Long-term liabilities	\$227,415	\$210,984
Other liabilities	\$10,946,644	\$10,921,537
Total Liabilities:	<u>\$11,174,059</u>	<u>\$11,132,521</u>
Net assets		
Invested in capital assets	\$6,565,204	\$6,415,577
Restricted by donor request	\$326,042	\$275,211
Unrestricted	\$2,711,865	\$2,827,458
Total net assets:	<u><b>\$9,603,111</b></u>	<u><b>\$9,518,246</b></u>
Revenue:		
Property taxes	\$10,541,848	\$10,260,563
Other	\$1,510,806	\$1,814,748
Total revenue:	\$12,052,654	\$12,075,311
Expenses - Library services	\$11,967,789	\$11,553,639
Change in net assets:	<u><b>\$84,865</b></u>	<u><b>\$521,672</b></u>

### The Library as a Whole

- The Library is reporting all financial statements that meet the requirements of GASB 34.
- The Library's net assets were \$9,603,111 on a full accrual basis. This represents an increase of \$84,865 over the previous year.
- The Library's primary source of revenue is from property taxes. For 2008, total tax collection was \$10,541,848. This represents approximately 87.5% of total revenue and is \$281,285 higher than the previous year's collection.

- The Library's second largest source of revenue is from Penal Fines. The 2008 collection was \$703,697. This was \$43,385 lower than the previous year's distribution.
- Another important revenue stream for the Library is interest income. In 2008, interest income generated was \$185,164. This was \$93,737 lower than 2007 due to lower short term interest rates.
- Salaries and fringe benefits are the largest overall expense of the Library. For 2008, this expense was \$7,641,392 representing 63.1% of the Library's total expenses.
- Library materials at \$1,712,608 are the second largest overall expense of the Library, representing 14.2% of the Library's total expenses. This is an increase of \$41,630 from the previous year.
- The third largest category of expenses for the Library is professional services. These include marketing, legal, and capital development plan expenses. For 2008, these expenses were \$745,197 or 6.2% of the total.
- Another category of expenses for the Library is technology related expenses. For 2008, these costs were \$505,514 and include spending for software, hardware, and internet costs.
- Total expenses for the year under the modified accrual method of accounting were \$12,100,985. This is an increase of \$608,708 from the previous year. Of these increases, \$283,556 was salary and benefit related, \$265,000 was the purchase of real estate, and approximately \$60,000 capital development plan related.

### **The Library's Fund**

Our analysis of the Library's major fund is included on pages 7 and 8 in the first column of the respective statements. The fund column provides detailed information about the most significant fund – not the Library as a whole.

- The fund balance of the General Fund reduced by \$48,331 for the year.
- The Library Board has the ability to create separate funds to help manage money for specific purposes. The Library maintains several of these to fund projects such as system expansion, technology upgrades, and capital improvements. These amounts are reflected as designated items on the balance sheet/statement of net assets.

### **Library Budgetary Highlights**

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in penal fines revenue, interest income, library materials, professional services, and capital project expenses.

The penal fines revenue budget was reduced \$46,000 to reflect a lower distribution from Ingham County. This lower amount was due to lower penal fine revenue collected on an overall basis throughout the county.

The interest income budget line was reduced by \$45,000 to reflect lower than budgeted short term rates on our money market funds. Rates declined throughout the year from over 4.25% in January to less than 1% at year end.

The materials budget was increased \$176,925 to reflect committed, but unspent funds from the prior year.

The professional services budget was increased by \$88,815 to account for additional legal and capital development plan costs.

The capital expense budget was increased \$404,000 to reflect an added project to replace the Downtown Lansing Library roof and to purchase real estate to use primarily as additional parking for Library staff.

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

At the end of the fiscal year, the Library had \$6.57 million invested in furniture, equipment, and books and materials. In 2008, the library added approximately \$1.54 million in new collection items consisting mainly of books, video materials, audio books, and music CD's, as well as \$504,000 in depreciable IT equipment, furniture and real estate.

The Library carries no long-term debt other than compensated absences.

## BASIC FINANCIAL STATEMENTS

**CAPITAL AREA DISTRICT LIBRARY**  
**Governmental Fund Balance Sheet/Statement of Net Assets**  
**December 31, 2008**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 2,069,004	\$ -	\$ 2,069,004
Investments	1,366,914	-	1,366,914
Taxes receivable	10,487,664	-	10,487,664
Accounts receivable	11,440	-	11,440
Interest receivable	8,523	-	8,523
Prepaid items	268,421	-	268,421
Capital assets, net	-	6,565,204	6,565,204
	<b><u>\$ 14,211,966</u></b>	<b><u>6,565,204</u></b>	<b><u>20,777,170</u></b>
<b><u>TOTAL ASSETS</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 192,422	-	192,422
Accrued salaries and benefits	270,318	-	270,318
Deferred/unearned revenue	10,483,904	-	10,483,904
Long-term liabilities due after one year - Compensated absences	-	227,415	227,415
	10,946,644	227,415	11,174,059
<b>Fund balances/Net assets</b>			
Fund balance - reserved:			
Prepays	268,421	(268,421)	-
Donations	326,042	(326,042)	-
Fund balance - unreserved:			
Designated for:			
System expansion	585,309	(585,309)	-
Contingency	1,179,568	(1,179,568)	-
Automation	388,534	(388,534)	-
Operations	69,250	(69,250)	-
Undesignated	448,198	(448,198)	-
	3,265,322	(3,265,322)	-
Total fund balances	<b><u>3,265,322</u></b>	<b><u>(3,265,322)</u></b>	<b><u>-</u></b>
<b><u>Total Liabilities and Fund balances</u></b>			
	<b><u>\$ 14,211,966</u></b>		
<b>Net assets:</b>			
Investment in capital assets		6,565,204	6,565,204
Restricted for other purposes		326,042	326,042
Unrestricted		2,711,865	2,711,865
		<b><u>9,603,111</u></b>	<b><u>9,603,111</u></b>
Total net assets		<b><u>\$ 9,603,111</u></b>	<b><u>\$ 9,603,111</u></b>

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

**CAPITAL AREA DISTRICT LIBRARY**  
**Reconciliation of Governmental Fund Balances**  
**to Statement of Net Assets**  
**December 31, 2008**

Fund balances - governmental fund \$ 3,265,322

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.

Add: capital assets	19,837,369
Deduct: accumulated depreciation	(13,272,165)

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.

Deduct: compensated absences	<u>(227,415)</u>
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Net assets of governmental activities	<u><u>\$ 9,603,111</u></u>
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The accompanying notes are an integral part of these financial statements.

**CAPITAL AREA DISTRICT LIBRARY**  
**Statement of Revenue, Expenditures**  
**and Changes in Fund Balances and Statement of Activities**  
**Governmental Fund**  
**For the Year Ended December 31, 2008**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenue</b>			
Property taxes	\$ 10,541,848	\$ -	\$ 10,541,848
Penal fines	703,697	-	703,697
State aid	156,794	-	156,794
Rental revenue	201,806	-	201,806
Interest income	185,164	-	185,164
Donations	112,705	-	112,705
Miscellaneous revenue	150,640	-	150,640
	<u>12,052,654</u>	<u>-</u>	<u>12,052,654</u>
<b>Expenditures/expenses</b>			
Library services:			
Salaries and benefits	7,641,392	16,431	7,657,823
Materials	1,712,608	(1,543,505)	169,103
Supplies	245,572	-	245,572
Professional services	745,197	-	745,197
Governance	23,143	-	23,143
Transportation/Staff Development	72,548	-	72,548
Maintenance and utilities	621,158	-	621,158
Technology	505,514	(215,343)	290,171
Capital outlay - equipment and furniture	370,486	(289,148)	81,338
Depreciation	-	1,898,369	1,898,369
Other	163,367	-	163,367
	<u>12,100,985</u>	<u>(133,196)</u>	<u>11,967,789</u>
Revenue over (under) expenditures/expenses	(48,331)	133,196	84,865
<b>Fund balance/net assets, beginning of year</b>	<u>3,313,653</u>	<u>6,204,593</u>	<u>9,518,246</u>
<b>Fund balance/net assets, end of year</b>	<u>\$ 3,265,322</u>	<u>\$ 6,337,789</u>	<u>\$ 9,603,111</u>

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

**CAPITAL AREA DISTRICT LIBRARY**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended December 31, 2008**

Net change in fund balances - governmental fund \$ (48,331)

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.

Add: capital outlay	2,047,996
Deduct: depreciation expense	(1,898,369)

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.

Deduct: increase in the accrual for compensated absences	(16,431)
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Change in net assets of governmental activities	\$ 84,865
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The accompanying notes are an integral part of these financial statements.

**CAPITAL AREA DISTRICT LIBRARY**  
**Statement of Revenue, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>With</u>
				<u>Final Budget</u>
<b>Revenue</b>				
Property taxes	\$ 10,516,000	\$ 10,536,500	\$ 10,541,848	\$ 5,348
Penal fines	750,000	704,000	703,697	(303)
State aid	156,000	156,800	156,794	(6)
Rental revenue	199,000	198,000	201,806	3,806
Interest income	235,000	190,000	185,164	(4,836)
Donations	80,000	85,000	112,705	27,705
Miscellaneous revenue	136,942	135,942	150,640	14,698
	<hr/>			
Total revenue	12,072,942	12,006,242	12,052,654	46,412
	<hr/>			
<b>Expenditures</b>				
Library services:				
Salaries and benefits	7,844,012	7,829,262	7,641,392	187,870
Materials	1,835,200	2,012,125	1,712,608	299,517
Supplies	291,100	271,100	245,572	25,528
Professional services	660,815	748,815	745,197	3,618
Governance	31,500	31,500	23,143	8,357
Transportation/Staff Development	92,175	78,175	72,548	5,627
Maintenance and utilities	643,631	632,931	621,158	11,773
Technology	524,575	560,929	505,514	55,415
Capital outlay - Equipment and furniture	49,200	453,009	370,486	82,523
Other	171,500	166,500	163,367	3,133
	<hr/>			
Total expenditures	12,143,708	12,784,346	12,100,985	683,361
	<hr/>			
Revenue over (under) expenditures	(70,766)	(778,104)	(48,331)	729,773
	<hr/>			
Fund balance, beginning of year	3,313,653	3,313,653	3,313,653	-
	<hr/>			
<b>Fund balance, end of year</b>	<b>\$ 3,242,887</b>	<b>\$ 2,535,549</b>	<b>\$ 3,265,322</b>	<b>\$ 729,773</b>
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The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Effective January 1, 1998, Capital Area District Library commenced official operations pursuant to the March 10, 1997 signed District Library Agreement. The District Library Agreement was originally entered into by the County of Ingham, except for the City of East Lansing and small portions of White Oak and Locke Townships, and the City of Lansing. In February 1999, three additional participating municipalities were recognized by the original participants – Delhi Township, Meridian Township and the City of Williamston. The Library is funded primarily through property taxes, state aid, penal fines, and donations. The voters of the districts approved a 1.56 mill tax for a four-year period, which began with a tax levy effective December 31, 2006. This millage provides funding of Library operations through December 31, 2010.

The Library is governed by a seven-member board. The board consists of five members appointed by the County of Ingham and two members appointed by the City of Lansing. The Library is not included as a component unit in any other primary government's financial statements. Based on the significance of any operations or financial relationships with the Library, there are no component units to be included in these financial statements.

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.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. 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 2008.

The sole major governmental fund, the General Fund, is reported as a separate column in the fund financial statements.

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

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### **C. 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.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-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.

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

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### D. Assets, liabilities and equity

#### 1. Cash and cash equivalents/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. Investments are recorded at fair value, based on quoted market prices.

#### 2. Receivables and payables

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts.

#### 3. 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 \$2,500 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.

Library books, CD's, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite being below the \$2,500 capitalization threshold.

The Library has a collection of art work presented for public exhibition and education that is being preserved for future generations. The proceeds from sales of any pieces of the collection are used to purchase other acquisitions. The collection is not capitalized or depreciated as part of capital assets, since at the time of donation it was impractical to determine a fair value due to the number of small pieces in the collection.

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:

<u>Assets</u>	<u>Years</u>
Furniture and equipment	3-10
Library books and materials	7

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

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### **4. Compensated absences**

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in government funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

### **5. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **6. Property taxes**

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

The Library's 2007 tax is levied and collectible on December 1, 2007 and is recognized as revenue in the year ended December 31, 2008, when the proceeds of the levy are budgeted and available for the financing operations. The 2007 taxable value of the district totaled \$7,026,195,410 (a portion of which is not captured from all jurisdictions), on which taxes levied consisted of 1.56 mills for operating purposes.

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

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### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. 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; expenditures at this level in excess of final budgeted amounts are a violation of Michigan law. A comparison of actual results of operations to the final amended budget is included in the Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual for the General Fund.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

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

<b>Statement of Net Assets:</b>	
Cash and cash equivalents	\$ 2,069,004
Investments	<u>1,366,914</u>
	<b><u>\$ 3,435,918</u></b>

These balances are disclosed in the notes as follows:

Petty cash	\$ 3,837
Bank deposits (checking and savings accounts)	1,171,598
Investments	<u>2,260,483</u>
	<b><u>\$ 3,435,918</u></b>

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

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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.

### **Investments**

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

<b><u>Deposit/Investment</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>	<b><u>Rating</u></b>
Michigan Governmental MMF	n/a	<b><u>\$ 2,260,483</u></b>	Moody's- Aaa

### **Investment and deposit 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, \$866,914 of the Library's bank balance of \$1,417,101 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. The investment listed above is not subject to custodial credit risk.

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

*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 does not have specific limits in excess of state law on concentration of credit risk.

### B. Capital assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental activities</b>				
Capital assets being depreciated				
Furniture and equipment	\$ 3,369,109	\$ 504,491	\$ 83,442	\$ 3,790,158
Library materials	15,377,896	1,543,505	874,190	16,047,211
Total capital assets being depreciated	18,747,005	2,047,996	957,632	19,837,369
Less accumulated depreciation for:				
Furniture and equipment	1,864,209	428,792	83,442	2,209,559
Library materials	10,467,219	1,469,577	874,190	11,062,606
Total accumulated depreciation	12,331,428	1,898,369	957,632	13,272,165
Total capital assets being depreciated, net	6,415,577	149,627	-	6,565,204
<b>Governmental activities capital assets, net</b>	<b>\$ 6,415,577</b>	<b>\$ 149,627</b>	<b>\$ -</b>	<b>\$ 6,565,204</b>

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

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### C. Deferred/Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue recorded in the governmental activities consisted entirely of unavailable property taxes.

### D. Long-term debt

The following is a summary of long-term debt outstanding of the Library for the year ended December 31, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Compensated absences	<u>\$ 210,984</u>	<u>\$ 16,431</u>	<u>\$ -</u>	<u>\$ 227,415</u>

Compensated absences represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the vacation policy, employees earn vacation time based on time of service with the Library. None of the balance above is due in one year.

## IV. OTHER INFORMATION

### A. Reservation of Fund Balance/Restricted Net assets

The Library has received donations that have been restricted for expenditures relating to the development of the Library's collection. Fund balance has been reserved in an amount equal to the donation less any expenditures.

The donations described above meet the criteria that require the amounts to be restricted on the statement of net assets.

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

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### **B. 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 these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **C. Defined Contribution Retirement Plan**

The Library provides pension benefits to certain full-time employees hired before January 1, 2002 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation with the Library's competitive bargaining units, the Library contributes 7 percent of employees' gross earnings. In accordance with these requirements, the Library contributed \$41,324 during the current year, and employees made no contributions.

### **D. Defined Benefit Plan**

#### **Plan Description**

The Library's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling (800) 767-6377.

#### **Funding Policy**

The Library is required to contribute and maintain the system based on an obligation established by board approval and requires a contribution from the union and non-union employees of 2.46%/3.30% and 12.03%, respectively. The current employer's contribution rate of annual covered payroll for union and non-union employees is 7%. The contribution requirements of plan members, are established and may be amended by the Library Board.

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

### Annual Pension Cost

For the year ended December 31, 2008, the Library's annual pension cost of \$247,474 for MERS was equal to the Library's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial report, was 28 years.

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/06	\$ 226,369	100%	\$ -
12/31/07	235,404	100	-
12/31/08	247,474	100	-

### Schedule of Funding Progress

	<u>For the Year Ended December 31,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial Value of Assets	\$1,407,473	\$1,897,473	\$ 2,488,085
Actuarial accrued liability			
AAL, entry age	1,387,610	2,072,365	2,663,138
Unfunded AAL (Overfunded)	(19,863)	174,622	175,053
Funded Ratio	101%	92%	93%
Covered payroll	2,989,797	3,266,454	3,304,852
Unfunded AAL as percentage of covered payroll	(.7%)	5.3%	5.3%

# CAPITAL AREA DISTRICT LIBRARY

## Notes to the Financial Statements

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### E. Lease Commitments

The Library entered into a four year operating lease for parking space rental.. Payments commenced October 1, 2008; scheduled future minimum lease payments under this agreement as of December 31, 2008, are summarized as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2009	\$ 48,000
2010	48,000
2011	48,000
2012	<u>36,000</u>
<b>Total</b>	<b><u>\$ 180,000</u></b>

Rent expense for the year related to this lease for the year ended December 31, 2008 was \$12,000.

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