PUBLIC LIBRARIES OF SAGINAW, MICHIGAN

Annual Financial Statements

73-8000

and

Auditors' Report

June 30, 2004

RECEIVED
DEPT. OF TREASURY
NOV - 8 2004
LOCAL AUDIT & FINANCE DIV.

YEO & YEO

Michigan Department of Treasury
496 (2-04)

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type	Local Government Name	County
☐City ☐ Township ☐ Village ☒ Other	Public Libraries of Saginaw	Saginaw

Audit Date	Opinion Date	Date Accountant Report Submitted to Sate:
June 30, 2004	August 13, 2004	November 5, 2004

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY
NOV - 8 2004
LOCAL AUDIT & FINANCE DIV.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	☐	☐	☒
Reports on individual federal financial assistance programs (program audits).	☐	☐	☒
Single Audit Reports (ASLGU).	☐	☐	☒

Certified Public Accountant (Firm Name)			
Yeo & Yeo, CPA's			
Street Address	City	State	ZIP
3023 Davenport	Saginaw	MI	48602
Accountant Signature			

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PUBLIC LIBRARIES OF SAGINAW, MICHIGAN
LIST OF ELECTED AND APPOINTED OFFICIALS
JUNE 30, 2004

LIBRARY BOARD

CAROL SELBY	PRESIDENT
TINA GUTIERREZ	VICE PRESIDENT
JOAN B. BROWNELL	TREASURER
NEVILLE BRITTO	SECRETARY
RALPH MARTIN	BOARD MEMBER
ANN SCHNEIDER BRANCH	BOARD MEMBER
PAMELA CLARK	BOARD MEMBER

ADMINISTRATION

MARCIA WARNER	LIBRARY DIRECTOR

YEO & YEO

3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Independent Auditors' Report

To the Board
Public Libraries of Saginaw, Michigan
Saginaw, Michigan

We have audited the basic financial statements of the Public Libraries of Saginaw, Michigan, as of and for the year ended June 30, 2004, as listed in the table of contents. The financial statements are the responsibility of the Public Libraries of Saginaw, Michigan'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.

The Public Libraries of Saginaw, Michigan, the Saginaw Public Libraries Foundation and the Hoyt Trust are separate entities having significant interrelationships, however, each is funded separately. The Public Libraries of Saginaw, Michigan contractual expense to the Hoyt Trust is primarily for maintenance and occupancy expenses of the Hoyt Public Library. Our audits of the Hoyt Trust and Saginaw Public Libraries Foundation are under separate cover.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Public Libraries of Saginaw, Michigan, at June 30, 2004 and its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Yeo & Yeo, P.C.

Saginaw, Michigan
August 13, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Libraries of Saginaw, Michigan
Management's Discussion and Analysis
June 30, 2004

This section of the financial report presents our discussion and analysis of the Public Libraries of Saginaw financial performance during the year ended June 30, 2004. It is meant to provide an overall review of the Library's financial activities and provide a look at its past and current financial position. Readers should also review the Library's financial statements, immediately following this section, to enhance their understanding of the Library's financial performance.

This financial report is presented in the format required by the governmental Accounting Standards (GASB) in their Statement Number 34, issued in June of 2000. Certain comparative information between the current year and prior year is ordinarily required to be presented in the Management Discussion Analysis. The Library has elected to exclude certain necessary comparative information from the prior year, as permitted by GASB Statement Number 34 in the first year of adoption of the Statement. This decision was made considering the financial resources that would have been necessary to prepare this information for the prior year. Subsequent reports will include a prior year comparison of results, as required.

Using this Annual Report

This annual report consists of the following three parts:

Management's Discussion and Analysis (this section)
Basic Financial Statements
Required Supplemental Information
Other Supplemental Information

These statements are organized to help the reader understand the financial position of the Public Libraries of Saginaw as a whole. The Government-wide Financial Statements provide information about the activities of the Library as a whole. The fund financial statements provide the next level of detail, providing more detailed information about the Library's General Fund. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by required supplemental information that supports and further explains the financial statements with a comparison of the Library's budget for the year.

Government-Wide Financial Statements

The Government-wide statements are new and provide financial information of the Library as a whole. They report on the governmental activities of the Library, which includes most of the Library's basic services, including programming and technology. These activities are mostly funded by property taxes, penal fines and state shared revenue. These statements use the full accrual basis of accounting, similar to private sector companies. There are two Government-wide statements: The Statement of Net Assets and the Statement of Activities.

The **Statement of Net** assets includes all the assets and liabilities of the Library, whether short-term or long-term, and regardless of whether or not they are currently available. As a result, capital assets and long-term obligations of the Library are included in this statement.

The **Statement of Activities** accounts for current year revenues regardless of when cash is received or paid, consistent with the full accrual basis method of accounting. The intent of this statement is to summarize and simplify the user's analysis of the costs of various Library services.

When analyzed together, these two statements help the reader determine whether the Library is financially stronger or weaker as a result of the year's activities. Both statements report the Library's net assets, which is the difference between the library's assets and liabilities. The change in net assets is one way to measure the Library's financial health or position. Over time, increases and decreases in the Library's net assets are an indicator of whether the Library's financial health is improving or deteriorating. However, the Library's goal is to provide services to our patrons not generate profits as in the private sector. As a result, other non-financial factors should be considered in assessing the overall health of the Library. Such factors would include the condition of the Library's building and the property tax base of the library.

Fund Financial Statements

The fund financial statements focus on providing more detailed information about the major funds of the Library and not on the Library as a whole, as reported in the Government-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. The fund statements provide a detailed short-term view of the Library's operations and help in determining whether there are more or less financial resources available in the near future to finance the Library's programs and services provided.

In general, the fund financial statements have changed very little as a result of GASB 34 requirements and are comparable to prior year financial statements. The primary difference is that the Account Groups (General Fixed Assets and general Long-term Debt) are no longer reported.

Summary of Net Assets

Government Activities

Assets	
Current assets	$ 9,379,008
Capital assets	4,500,313
Total assets	13,879,321
Liabilities	
Current liabilities	177,925
Long-term liabilities	70,514
Total liabilities	248,439
Net Assets	
Total capital assets	4,500,313
Unrestricted	9,130,569
Total net assets	$ 13,630,882

The net assets for the Library were $13,630,882 at June 30, 2004. The largest portion of the Library's net assets consist of unrestricted net assets that will be used for funding future programming, capital improvements, material, technology upgrades, and for maintaining adequate cash flow to eliminate the need for borrowing.

Unrestricted net assets are similar but not identical to fund balance. A reconciliation of the difference between the change in net assets and a change in fund balance is included the basic financial statements.

Statement of Net Assets Operating Results

Revenues	
Program revenues	
Charge for services	$ 244,199
Operating grants and contributions	666,543
General revenue	
Property tax	3,887,173
Penal fines	515,141
State aid - unrestricted	117,785
Interest and investment earnings	111,253
Other	33,804
Transfers	15,950
Total revenues and transfers	5,591,848
Expenses	
Main Library	3,005,555
Zauel Library	841,351
Butman-Fish Library	728,176
Claytor Library	121,558
Ruth Brady Wickes Library	126,735
Depreciation - unallocated	173,999
Total expenses	4,997,374
Increase in net assets	594,474
Net assets - beginning of year	13,036,408
Net assets - end of year	$ 13,630,882

As shown above, the net assets for the Library increased by $594,474 during the year.

The *Statement of Activities* presented later in the government-wide financial statements provides greater detail on the Library's annual activity. As reported in the statement of activities, the cost of all government activities this year was $5.0 million. However, the amount that was ultimately financed by our taxpayers through property taxes was $3.9 million. Nearly 9.2% of the Library's revenue is from penal fines and 2% is from state shared revenue.

Up until July 1, 2004, the Library levied 4 mills in property taxes on city, Kochville and Zilwaukee properties. Beginning July 1, 2004, we are able to levy only 3.9947 mills because of the Headlee Tax rollback we experienced as a result of higher growth than expected in Kochville and Zilwaukee.

Local Property Tax History

Fiscal Year Revenue	% of Revenue	Local Property Tax
2004	70%	$ 3,887,173
2003	60%	3,686,937
2002	66%	3,779,060
2001	64%	3,622,279
2000	66%	3,692,845

Local property tax revenues in the table include the receipt of delinquent taxes from prior years.

Budgetary Highlights

The library added $719,477 to its fund balance this year. This exceeds our expectation of a balanced budget. Some of the overage was due to receiving more than $90,000 in delinquent taxes. The budgeted figure was based on several years' receipts and this year was an unusually large amount. This discrepancy was due to the settlement of a dispute between the city and Consumers Energy. Payments were being held in escrow until the dispute was settled. We expect in future years to return to the previous rate. $40,000 of it is accounted for by the expansion of Renaissance Zones in the city. We expect these amounts to remain steady for the near term.

Additionally, the $130,000 budgeted for the new Butman Fish library roof was not needed after a study completed by the Spicer Group indicated that a new roof was not needed. Instead, minor repairs were made to joints and continue as an ongoing part of regular maintenance.

The network fiber project was not completed and therefore under spent by $74,000. Critical Universal Service Fund reimbursements were denied based on a procedural difficulty. The project has been revised to include servers and networks in individual buildings. The wide area network fiber part of the project will be completed as USF funds become available.

Several changes in personnel during the year also aggregated into a significant amount of saving to the library. The Associate director left in the spring and the position was not filled. The Information Technology department had both high turnover and several months of vacancies. We had turnover in our reference department at Hoyt when our cataloger resigned and was replaced by someone from that department. The position took several months to fill. The final position reduced in the 1998 strategic plan was accomplished in this budget year as well.

Finally, a close watch on system expenditures, reduced delivery and programming costs due to collaboration with the Mid Eastern Michigan Library Cooperative, and computer costs in regular repair and replacement due to so much new equipment being purchased in the prior year resulted in a combined saving for the library with no change in quality or quantity of services.

Budget Adjustments

Mid year budget adjustments were minimal. The three items of any significance were unemployment increased by $7,000 needed to cover the unexpected departure of two employees. The second item of note was a $20,000 increase in health insurance premiums at the Zauel branch due to two employees opting for family coverage who had previously elected cash in lieu of medical and the addition of a spouse to medical coverage. In the Hoyt Trust budget, $10,000 was added to the building maintenance line for Hoyt Library to provide motors for the chandeliers in the main reference room. Lights had not been changed since the renovation, and when it needed to be done there was no way to do it short of closing down service for a week and building scaffolding. Motors to lower the lights now facilitate changing bulbs and ballasts.

End of the year budget adjustments were extremely minor and dealt mostly with small changes in benefit lines. The most variation was a $1,000 increase in Butman Fish heat and utilities. Much work was done to improve that system in the spring. Finally, a $1,200 increase was made in security guard service at Butman Fish. This was due to a simple miscalculation of the total annual hours set at budget time.

The Library's actual general fund revenues were more than the budget by $102,654 a variance of 1.9%. Actual general fund expenditures were more than the budget by $559,787 a variance of 10%.

Revenue Threats

There are several threats looming in the future for library revenue. After the 18% decline in penal fine receipts we experienced this year, we have seen an additional 3% drop in the first three months of the fiscal year according to figures received from Saginaw County. This is despite the County's efforts to collect on unpaid tickets through the issuance of warrants.

Current local taxes continue to be of concern although this year's revenue exceeded budget by about $42,000 and prior year's receipts by about $23,000. The majority of the increase is attributable to the Kochville and Zilwaukee tax base. Tax abatements will continue to affect our revenues, especially in the city. According to current city figures, personal property tax revenues will fall another 6% this year and IFT's 12%. Though we expect to see a slight increase in tax revenues overall this year due to some growth in real property revenue, even with the Headlee rollback of .0053 mill, we continue to believe declines in city population, demolition of property and the resultant loss in tax base will affect us even more as time goes on. In addition, an apparent loophole in Renaissance zone rules has started a trend of businesses moving from non-Renaissance zones in the city in which they paid taxes, to tax-free Renaissance zone properties that have been vacated. This results in a further loss to the city tax base and circumvents the good intentions of lawmakers to spur new business in the inner city. Funds that would have supported municipal and library services and improvements necessary to the well-being of our community are thus eliminated.

Lastly, we are still facing the sunset of the Sales Tax Inventory Reimbursement which is scheduled to end in 2008. This funding brings us $273,000 annually and would be sorely missed.

Requests for Information

This financial report is designed to provide a general overview for anyone interested in the Library's finances and to demonstrate the Library's accountability for the money it received. Questions concerning this report or requests for additional information should be addressed to:

Library Director
Public Libraries of Saginaw
505 Janes Avenue
Saginaw, MI 48607
Telephone number (989) 755-9833

Component Units

The component units' columns in the financial statements include the financial data of the Library's two component units, Hoyt Trust and Saginaw Public Libraries Foundation. These units, which have the same board members as the Public Libraries of Saginaw, Michigan are reported in separate columns to emphasize that they are legally separate from the Library.

The Library's financial statements include condensed financial statements of the Hoyt Trust. The Library's financial statements include complete financial statements of the

Saginaw Public Libraries Foundation. Complete audited financial statements of the Hoyt Trust and Saginaw Public Libraries Foundation can be obtained from the administrative offices of the Public Libraries of Saginaw, Michigan at 505 Janes Street, Saginaw, Michigan 48607.

BASIC FINANCIAL STATEMENTS

Public Libraries of Saginaw, Michigan
Statement of Net Assets
June 30, 2004

	Primary Government	Component Units
Assets		
Current assets		
Cash and cash equivalents	$ 8,614,420	$ 334,832
Investments	-	896,848
Accounts receivable	29,800	9,810
Interest receivable	29,680	263
Due from other governmental units	658,804	-
Prepaid expenses	46,304	-
Total current assets	9,379,008	1,241,753
Noncurrent assets		
Assets held by others	-	662,573
Capital assets, less accumulated depreciation of $1,323,461	4,500,313	4,647,061
Total noncurrent assets	4,500,313	5,309,634
Total assets	13,879,321	6,551,387
Liabilities		
Current liabilities		
Accounts payable	50,084	21,487
Accrued payroll and related liabilities	111,560	-
Deferred revenue	16,281	-
Total current liabilities	177,925	21,487
Noncurrent liabilities		
Accrued compensated absences	70,514	-
Total liabilities	248,439	21,487
Net Assets		
Invested in capital assets	4,500,313	4,647,061
Restricted for:		
Hoyt Trust	-	952,384
Saginaw Public Library Foundation	-	292,070
Unrestricted	9,130,569	638,385
Total net assets	$ 13,630,882	$ 6,529,900

See Accompanying Notes to Financial Statements

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Public Libraries of Saginaw, Michigan
Statement of Activities
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Component Units
Primary government						
Governmental activities						
Main library	$ 3,005,555	$ 206,829	$ 49,643	$ -	$ (2,749,083)	$ -
Zauel	841,351	37,370	616,900	-	(187,081)	-
Butman Fish	728,176	-	-	-	(728,176)	-
Claytor	121,558	-	-	-	(121,558)	-
Ruth Brady Wickes	126,735	-	-	-	(126,735)	-
Depreciation - unallocated	173,999	-	-	-	(173,999)	-
Total governmental activities	$ 4,997,374	$ 244,199	$ 666,543	$ -	(4,086,632)	-
Component units						
Hoyt Trust	$ 112,807	$ 189,775	$ 6,470	$ -	-	83,438
Saginaw Public Library Foundation	17,217	-	2,089	-	-	(15,128)
Total component activities	$ 130,024	$ 189,775	$ 8,559	$ -	-	68,310
General revenues						
Property taxes, levied for general purposes					3,887,173	-
Penal fines					515,141	-
State aid - unrestricted					117,785	-
Interest and investment earnings					111,253	25,659
Other					33,804	756
Realized gain on sale of investments					-	77,730
Transfers					15,950	(15,950)
Total general revenues, special items, and transfers					4,681,106	88,195
Change in net assets					594,474	156,505
Net assets - beginning					13,036,408	6,373,395
Net assets - ending					$ 13,630,882	$ 6,529,900

See Accompanying Notes to Financial Statements

Public Libraries of Saginaw, Michigan
Balance Sheet
General Fund
June 30, 2004

Assets	
Cash and cash equivalents	$ 8,614,420
Accounts receivable	29,800
Interest receivable	29,680
Due from other governmental units	658,804
Prepaid expenses	46,304
Total assets	$ 9,379,008
Liabilities	
Accounts payable	$ 50,084
Accrued payroll and related liabilities	111,560
Deferred revenue	59,281
Total liabilities	220,925
Fund balance	
Reserved for encumbrances	
Saginaw Public Library	24,208
Zauel Public Library	2,484
Designated by the board for	
Zauel operations	510,749
Technology upgrade	394,612
Repair, replacement and improvement	745,000
Materials	164,791
Procurements and operations	275,450
Undesignated	7,040,789
Total fund balance	9,158,083
Total liabilities and fund balance	$ 9,379,008

See Accompanying Notes to Financial Statements

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Public Libraries of Saginaw, Michigan
Reconciliation of the Balance Sheet of General Fund to the Statement of Net Assets
June 30, 2004

Total general fund balance		
Total net assets reported for governmental activities in the statement of net assets is different because:		$ 9,158,083
Deferred property taxes		43,000
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	$ 35,000	
Buildings and building improvements	1,650,799	
Furniture and equipment	533,662	
Leasehold improvements	3,604,313	
Accumulated depreciation	(1,323,461)	4,500,313
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances as of June 30, 2004 are as follows:		
Compensated absences payable		(70,514)
Net assets of governmental activities		$ 13,630,882

See Accompanying Notes to Financial Statements

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Public Libraries of Saginaw, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
Year Ended June 30, 2004

Revenues	
Current local taxes	$ 3,354,875
Interest on delinquent taxes	1,464
Payments in lieu of taxes	114,446
Delinquent taxes	101,654
Single business tax	273,198
Contract income	730,926
State aid	117,785
Grants	20,183
Contributions and gifts	63,213
Book fines and fees	56,376
Penal fines	515,141
Telefacsimile fees	3,524
Copy machines	11,506
Investment income	109,789
Microcomputer support and maintenance	3,582
Concessions	18,934
Processing data entry	36,251
Miscellaneous	51
Total revenues	5,532,898
Expenditures	
Main library	3,012,550
Zauel	840,352
Butman Fish	728,176
Claytor	121,558
Ruth Brady Wickes	126,735
Total expenditures	4,829,371
Excess of revenues over expenditures	703,527
Other financing sources	
Operating transfers in	15,950
Excess of revenues and other financing sources over expenditures	719,477
Fund balance, beginning of year	8,438,606
Fund balance, end of year	$ 9,158,083

See Accompanying Notes to Financial Statements

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Public Libraries of Saginaw, Michigan

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of General Fund to the Statement of Activities

Year Ended June 30, 2004

Net change in fund balances - general fund		$ 719,477
Total change in net assets reported for governmental activities in the statement of activities is 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.		
Depreciation expense	$ (173,999)	
Capital outlay	8,993	(165,006)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Property taxes		43,000
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 governmental funds.		
Change in compensated absences payable		(2,997)
Change in net assets of governmental activities		$ 594,474

See Accompanying Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Public Libraries of Saginaw, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to the Library. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies are described below.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

REPORTING ENTITY

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Public Libraries of Saginaw, Michigan and its component units. The component units discussed below are included in the Library's reporting entity because of the significance of their operational or financial relationships with the Library.

COMPONENT UNITS

The component units' columns in the financial statements include the financial data of the Library's two component units, Hoyt Trust and Saginaw Public Libraries Foundation. These units, which have the same board members as the Public Libraries of Saginaw, Michigan are reported in separate columns to emphasize that they are legally separate from the Library.

HOYT TRUST

The Hoyt Trust was established under the will of Jesse Hoyt in June of 1882. The endowment to the Hoyt Trust included money to construct the Hoyt Library. The funds of the Hoyt Trust are controlled by the Hoyt Trust Board and are reserved for the purpose of maintaining the Hoyt Library as a reference library per the terms of the will of Jesse Hoyt. By the 1920's the Hoyt Trust was no longer financially capable of supporting Hoyt Library services. The Hoyt Trust's inability to support the Hoyt Library lead to the merger of Hoyt Library and the Public Libraries of Saginaw with the Public Libraries of Saginaw renting the Hoyt Library from the Hoyt Trust. Since that time the Trust has continued to provide modest financial support to the Hoyt Library.

The Library's financial statements include condensed financial statements of the Hoyt Trust.

SAGINAW PUBLIC LIBRARIES FOUNDATION

The Saginaw Public Libraries Foundation was created to provide a means of giving into posterity to the Public Libraries of Saginaw. This foundation raises money to be used to purchase books and other library materials as a supplement to the regular library materials budget. Only a portion of the earnings from the Foundation investments are used annually, allowing the principal to remain to generate earnings for future library materials support and services.

The Library's financial statements include complete financial statements of the Saginaw Public Libraries Foundation. The Foundation assets are held in trust at Merrill Lynch. Complete audited financial statements of the Saginaw Public Library Foundation can be obtained from the administrative offices of the Public Libraries of Saginaw, Michigan at 505 Janes Street, Saginaw, Michigan 48607.

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. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

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

The Library reports only one fund as follows:

- The General Fund is used to record the operations of the Library which pertain to maintaining and operating of the Public Libraries of Saginaw, Michigan. Included are all transactions related to the approved current operating budget.

ASSETS, LIABILITIES AND EQUITY

Cash and investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired. Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Receivables and payables – All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Property taxes are assessed as of December 31 and the related taxes become a lien on March 1 of the following year. The Libraries' taxes are due in July with the final collection date on February 28 before they are added to the County tax rolls. The delinquent real property taxes of the City are purchased by Saginaw County. These taxes have been recorded as revenue in the current year.

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

Capital assets – Purchased or constructed capital assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than $5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Library does not have infrastructure assets. Buildings, furniture and equipment, and leasehold improvements are depreciated using the straight-line method over the following useful lives:

Building and building improvements	20 to 50 years
Furniture and equipment	5 to 10 years
Leasehold improvements	20 to 50 years

Compensated absences – Sick days are earned by employees at the rate of one per month. Unlimited unused sick days may be accumulated by an employee. Retiring employees who meet certain age and years of service requirements are paid for accumulated sick days to a maximum of 90 days at half of their normal rate.

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The amount reported includes fringe benefits.

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.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2 - BUDGETARY POLICIES AND DATA

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for the General Fund.

The Board adopts appropriations utilizing the modified-accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. A library is not considered to be in violation of the Act if reasonable procedures are in use by the library to detect violations.

The Public Libraries of Saginaw uses these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the Board a proposed budget by July 1 of each year. The budget includes proposed expenditures and the means of financing them.

2. A public hearing is conducted to obtain taxpayer comments.

3. The Library Director is authorized to transfer budgeted amounts between functions; however, any revisions that alter the total expenditures of any fund must be approved by the Board.

4. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

5. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. The budget was amended at its June meeting.

6. Encumbrance accounting is employed in the General Fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 3 - CASH AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

DEPOSITS - The Library shall deposit its funds in banks, savings and loan associations or credit unions having their principal offices in the State of Michigan.

INVESTMENTS - The Library is restricted to the following investments: Bonds, bills or notes of the U.S.; certificates of deposit; commercial paper rated prime; securities issued or guaranteed by agencies or instrumentalities of the U.S.; U.S. or federal agency obligation repurchase agreements composed of eligible collateral whose market value must be maintained equal to or greater than the amounts advanced, and with an undivided interest; bankers' acceptances; and mutual funds and investment pools that are composed entirely of the aforementioned investments that are legal and direct investment by the Library.

At year end, the Library's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Component Units
Cash and cash equivalents	$ 8,614,420	$ 334,832
Investments	-	896,848
Total	$ 8,614,420	$ 1,231,680

The breakdown between deposits and investments is as follows.

	Primary Government	Component Units
Bank deposits (checking and savings accounts, certificates of deposit)	$ 8,613,882	$ 334,832
Investments in securities, mutual funds and similar vehicles	-	896,848
Petty cash and cash on hand	538	-
	$ 8,614,420	$ 1,231,680

The carrying amount of the Library's and the component units' deposits with financial institutions, (excluding petty cash of $ 538) was $ 8,613,882 and $ 1,231,680, respectively and the bank balance was $ 8,644,857 and $ 1,591,192, respectively.

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the Library or its agent in the Library's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Library's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Library's name.

At June 30, 2004, the School District had no investments subject to categorization. At year end investments were as follows:

	Carrying Amount
Bank investment pools	$ 896,848

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the primary government and component unit for the current year was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Primary Government				
Governmental activities				
Capital assets not being depreciated				
Land	$ 35,000	$ -	$ -	$ 35,000
Capital assets being depreciated				
Building and building improvements	1,650,799	-	-	1,650,799
Furniture and equipment	524,669	8,993	-	533,662
Leasehold improvements	3,604,313	-	-	3,604,313
Total capital assets being depreciated	5,779,781	8,993	-	5,788,774
Less: Accumulated depreciation	1,149,462	173,999	-	1,323,461
Net capital assets being depreciated	4,630,319	(165,006)	-	4,465,313
Governmental activities capital assets, net	$ 4,665,319	$ (165,006)	$ -	$ 4,500,313
Component Units				
Capital assets not being depreciated				
Land and buildings	$ 4,647,061	$ -	$ -	$ 4,647,061

Depreciation for the fiscal year ended June 30, 2004, amounted to $173,999 for the primary government. The Component Units choose not to depreciate capital assets. The Library determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are 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 various components of deferred revenue are as follows:

	Unavailable	Unearned
Delinquent property taxes	$ 43,000	$ -
Grants and categorial payments received prior to meeting all eligibility requirements	-	16,281
	$ 43,000	$ 16,281

NOTE 6 - PENSION PLAN/MPSERS

PLAN DESCRIPTION

The Library has a defined benefit pension plan covering substantially all employees hired prior to August 10, 1994. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPSERS), which is a cost-sharing public employee retirement system (PERS). Full time employees hired after August 9, 1994 are covered under the Municipal Employees' Retirement Plan effective July 1, 1995.

MPSERS operates under the provisions of Public Act 300 of 1980, as amended. MPSERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to:

Office of Retirement Systems
P.O. Box 30171
Lansing, Michigan 48909-7671
(800) 381-5111

The pension plan provides retirement, survivor and disability benefits. A member may retire after reaching the age of 55 with 30 or more years of credited services or at age 60 with 10 or more years of credited service.

A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service; at age 60 with 10 or more years of credited service; or, at age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five fiscal years immediately preceding the pension effective date.

Benefits vest after 10 years of service. Vested employees may retire at or after age 55 and receive reduced retirement benefits. Pension provisions include death and disability benefits.

Employees who retire after reaching the above mentioned requirements are entitled to 1 ½ percent of their final average compensation multiplied by the number of years of credited service.

The Library is required by State statute to contribute to MPSERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPSERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPSERS funding for the three-year period beginning July 1, 2001 through June 30, 2004.

	Year Ended June 30, 2004	2003	2002
Funding percentage range	12.99%	12.17-12.99%	12.16-12.17%
Total library, payroll	$ 2,291,237	$ 2,204,751	$ 2,150,476
Total covered payroll	1,480,301	1,315,600	1,371,123
Library contributions	165,920	168,049	167,372
Employee MIP contributions	31,097	30,001	30,760
Portion of Library contributions covering health, dental and vision benefits	47%	47%	46%

TREND INFORMATION

Ten-year historical trend information is presented in the September 30, 2003 PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2002, the latest date for which information is available, approximates $42 billion and $38.4 billion, respectively.

The Library's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2003.

NOTE 7 - LONG-TERM DEBT

Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	$ 67,517	$ 2,997	$ -	$ 70,514

NOTE 8 - DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The Local Governmental Unit participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full time employees hired after August 9, 1994 of the Public Libraries of Saginaw. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by negotiations with the Libraries' collective bargaining unit and by Board resolution for non union employees. These agreements require a contribution of 8.4% of gross wages.

ANNUAL PENSION COSTS

For year ended June 30, 2004, the Public Libraries of Saginaw's annual pension cost of $ 40,399 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial

assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year to include inflation; (iii) and an additional percentage from 0.0% to 4.16% for merit and longevity. Both determined using techniques that smooth the effects of short-term volatility over a four year period.

Three year trend information as of December 31, 2003 follows:

	2003	2002	2001
Annual pension cost	$ 15,432	$ 14,186	$ 14,988
Percentage of APC contributed	100%	100%	100%
Net pension obligation	285,179	209,549	192,999
Actuarial value of assets	392,448	293,703	230,504
Actuarial accrued liability (AAL)	285,179	209,549	192,999
Unfunded (overfunded) AAL	(107,269)	(84,154)	(37,505)
Funded ratio	138%	140%	121%
Covered payroll	543,592	448,432	369,930
UAAL as a percentage of covered payroll	-20%	-19%	-10%

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 6, the Library provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS). All health care benefits are on a self-insured basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

The only requirements for insurance benefits are that the retiree or beneficiary make application and be in receipt of a monthly pension.

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2003, statewide expenditures of $ 606.7 million were recognized for post-retirement health care, dental and vision. This represented 21% of the total expenditures of the Michigan Public School Employees Retirement System.

NOTE 10 - OPERATING LEASE

The Library extended a prior lease agreement with First Ward Community Service, Inc., to lease the ground floor of the First Ward Community Service office building, at 1410 North Twelfth Street, Saginaw, Michigan. The expense for the year ended June 30, 2004 was $ 31,918. The Library has a month to month lease with First Ward for $ 2,660 per month.

NOTE 11 - RISK MANAGEMENT

The Library participated in a self-insurance program through the Middle Cities Association. This program provides substantially all the insurance needs of the Library including property, general liability, automobile, umbrella and library commission legal liability. Payments made for the year ended June 30, 2004 were $ 16,466. The contributions made by the Library fund the program at two times the expected claims. The possibility of additional claims does exist, but any liability to the Library would be immaterial due to the aggregate stop-loss coverage. There is also a possibility of a refund due the Library. Therefore, no contingent liabilities or assets have been recognized on the Library's financial statements for the year ended June 30, 2004. There have been no claims for commercial insurance for the last three years. The Library uses a commercial carrier for its workers' compensa-tion insurance.

NOTE 12 - FUND BALANCE

Reservations of fund balances are created to either (1) satisfy legal covenants that require a portion of the fund balance be segregated

or (2) identify the portion of the fund balance that is not appropriate for future expenditures. Specific reservations of the fund balance accounts are summarized below.

Reserved for encumbrances - This reserve was created to restrict the use of resources which have already been encumbered.

Reserved for Hoyt Library - This reserve was created to restrict the use of resources donated for the Hoyt Library.

Reserved for Saginaw Public Libraries Foundation - This reserve was created to restrict the use of resources donated for the Saginaw Public Libraries Foundation.

Designated for Zauel operations - This designation was created to indicate funds set aside for the operations of Zauel Library.

Designated for technology upgrade - This designation was created to indicate funds set aside for technology.

Designated for repair, replacement and improvement - This designation was created to indicate funds set aside for the repair, replacement and improvement of buildings and equipment.

Designated for materials - This designation was created to indicate funds set aside for library materials.

Designated for procurements and operations - This designation was created to indicate funds set aside for procurements and operations.

NOTE 13 – ENDOWMENT

The Saginaw Community Foundation holds endowment funds for the Saginaw Public Libraries in relation to the Kresge Challenge. This is an endowment challenge grant for nonprofit organizations from the Kresge Foundation. The Library expects to receive a total of $ 50,000 over the next five years, beginning in April 2005.

REQUIRED SUPPLEMENTAL INFORMATION

Public Libraries of Saginaw, Michigan
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

	Budgeted Amounts			
	Original	Final	Actual	Actual Over (Under) Final Budget
Revenues				
Current local taxes	$ 3,313,025	$ 3,313,025	$ 3,354,875	$ 41,850
Interest on delinquent taxes	800	800	1,464	664
Payments in lieu of taxes	75,000	75,000	114,446	39,446
Delinquent taxes	10,000	10,000	101,654	91,654
Single business tax	273,198	273,198	273,198	-
Contract income	730,926	730,926	730,926	-
State aid	105,686	105,686	117,785	12,099
Grants	-	-	20,183	20,183
Contributions and gifts	5,000	5,000	63,213	58,213
Book fines and fees	52,000	52,000	56,376	4,376
Penal fines	610,000	610,000	515,141	(94,859)
Telefacsimile fees	3,125	3,125	3,524	399
Copy machines	12,500	12,500	11,506	(994)
Investment interest	130,000	130,000	109,789	(20,211)
Microcomputer support and maintenance	7,000	7,000	3,582	(3,418)
Universal service fund	26,000	26,000	-	(26,000)
Concessions	19,500	19,500	18,934	(566)
Processing data entry	41,784	41,784	36,251	(5,533)
Miscellaneous	1,750	1,750	51	(1,699)
Total revenues	5,417,294	5,417,294	5,532,898	115,604
Expenditures				
Main library	3,453,396	3,352,068	3,012,550	(339,518)
Zauel	898,238	911,681	840,352	(71,329)
Butman Fish	904,448	857,157	728,176	(128,981)
Claytor	136,697	132,547	121,558	(10,989)
Ruth Brady Wickes	147,206	135,705	126,735	(8,970)
Total expenditures	5,539,985	5,389,158	4,829,371	(559,787)
Excess (deficiency) of revenues over expenditures	(122,691)	28,136	703,527	675,391
Other financing sources				
Operating transfer in - SPL Foundation	-	3,400	3,400	-
Operating transfer in - Hoyt Trust (Pribil Trust)	25,500	25,500	12,550	(12,950)
Total other financing sources	25,500	28,900	15,950	(12,950)
Excess (deficiency) of revenues and other financing sources over expenditures	(97,191)	57,036	719,477	662,441
Fund balance - beginning of year	8,438,606	8,438,606	8,438,606	-
Fund balance - end of year	$ 8,341,415	$ 8,495,642	$ 9,158,083	$ 662,441