

WAUKEGAN PUBLIC LIBRARY

Waukegan, Illinois

FINANCIAL STATEMENTS

Including Independent Auditors' Report
As of and for the Year Ended April 30, 2013

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CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
AS OF AND FOR THE FISCAL YEAR ENDED APRIL 30, 2013
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INDEPENDENT AUDITORS' REPORT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Members of the Library Board of Trustees
Waukegan Public Library
Waukegan, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit and the major fund of the Waukegan Public Library, a component unit of the City of Waukegan, Illinois, as of and for the year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise the Waukegan Public Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Members of the Library Board of Trustees
Waukegan Public Library

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit and the major fund of the Waukegan Public Library, as of April 30, 2013 and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Waukegan Public Library adopted the provisions of GASB Statement No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective May 1, 2012. Our opinions are not modified with respect to this matter.

Other Matters

The Waukegan Public Library has not presented a Management's Discussion and Analysis as required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economical, or historical context. Our opinions on the financial statements are not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waukegan Public Library's basic financial statements. The Schedule of Revenues - Budget and Actual - General Fund and Schedule of Expenditures - Budget and Actual - General Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues - Budget and Actual - General Fund and Schedule of Expenditures - Budget and Actual - General Fund are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the City of Waukegan's, of which the Waukegan Public Library is a component unit, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Waukegan Public Library's internal control over financial reporting and compliance.



Oak Brook, Illinois
October 29, 2013

BASIC FINANCIAL STATEMENTS

The basic financial Statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- ***Government-wide Financial Statements***
- ***Fund Financial Statements – Governmental Fund***

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
STATEMENT OF NET POSITION
AS OF APRIL 30, 2013

	<u>PRIMARY GOVERNMENT</u>	
	GOVERNMENTAL ACTIVITIES	COMPONENT UNIT
Assets		
Cash and investments	\$ 2,720,538	\$ 81,267
Receivables (net of allowance for uncollectibles):		
Grants	91,541	-
Property taxes	3,841,322	-
Other	23,509	130,036
Capital assets		
Land	71,486	-
Depreciable capital assets, net	<u>4,639,545</u>	<u>-</u>
 Total assets	 <u>11,387,941</u>	 <u>211,303</u>
Liabilities		
Accounts payable	78,482	-
Accrued salaries	21,000	-
Accrued interest payable	45,253	-
Other current liabilities	17,103	14,244
Unearned revenue	3,994,756	-
Long-term liabilities - due within one year	286,361	-
Long-term liabilities - due after one year	<u>3,563,610</u>	<u>-</u>
 Total liabilities	 <u>8,006,565</u>	 <u>14,244</u>
Net position		
Net investment in capital assets	1,251,867	-
Restricted for grant purposes	42,598	-
Restricted for endowment and library	-	58,698
Unrestricted	<u>2,086,911</u>	<u>138,361</u>
 Total net position	 <u>\$ 3,381,376</u>	 <u>\$ 197,059</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2013

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	COMPONENT UNIT FOUNDATION	
Primary Government						
Governmental activities						
Library services	\$ 4,053,014	\$ 103,726	\$ 175,130	\$ (3,774,158)	\$ -	
Total governmental activities	\$ 4,053,014	\$ 103,726	\$ 175,130	(3,774,158)	-	
Component Unit						
Foundation operations	\$ 59,565	\$ -	\$ 191,963	-	132,398	
General revenues:						
				3,829,217	-	
				85,193	-	
				2,146	44	
				21,464	-	
				3,938,020	44	
				163,862	132,442	
				3,217,514	64,617	
				\$ 3,381,376	\$ 197,059	

The notes to the financial statements are an integral part of this statement.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
GOVERNMENTAL FUND
BALANCE SHEET
AS OF APRIL 30, 2013

	GENERAL FUND
Assets	
Cash and investments	\$ 2,720,538
Receivables (net of allowance for doubtful accounts):	
Grants	91,541
Property taxes	3,841,322
Other	23,509
 Total assets	 \$ 6,676,910
Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 78,482
Accrued payroll	21,000
Other current liabilities	17,103
Unearned revenue	3,994,756
 Total liabilities	 4,111,341
Fund balance	
Restricted for capital projects	448,755
Restricted for grant purposes	42,598
Unassigned	2,074,216
 Total fund balance	 2,565,569
Total liabilities and fund balance	\$ 6,676,910

The notes to the financial statements are an integral part of this statement.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF APRIL 30, 2013

Total fund balance - general fund	\$	2,565,569
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Amounts reported for governmental activities in the Statement of Net Position are different because:

The cost of capital assets (land, buildings & improvements, and equipment) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Position includes those capital assets among the assets of the Library as a whole.

Cost of capital assets	\$	9,218,627	
Depreciation expense to date		<u>(4,507,596)</u>	
			4,711,031

Long-term liabilities applicable to the Library's 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 Position. Balances at April 30, 2013 are:

Debt certificates payable		(3,540,000)	
Capital lease		(157,862)	
Compensated absences		(152,109)	
Interest payable		<u>(45,253)</u>	
			<u>(3,895,224)</u>

Net position of governmental activities	\$	<u>3,381,376</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED APRIL 30, 2013

	ORIGINAL AND FINAL BUDGET	ACTUAL
Revenues		
Taxes	\$ 3,841,675	\$ 3,829,217
Intergovernmental	265,000	175,130
Charges for services	-	22,997
Fines and penalties	90,000	80,729
Interest	2,500	2,146
Miscellaneous	<u>47,530</u>	<u>106,657</u>
 Total revenues	 <u>4,246,705</u>	 <u>4,216,876</u>
Expenditures		
Current:		
Library services	3,734,256	3,618,824
Capital outlay	217,500	307,468
Debt service:		
Principal	150,000	196,626
Interest and fiscal charges	<u>140,263</u>	<u>148,610</u>
 Total expenditures	 <u>4,242,019</u>	 <u>4,271,528</u>
 Change in fund balance	 <u>\$ 4,686</u>	 (54,652)
 Fund balance, beginning of year		 <u>2,620,221</u>
 Fund balance, end of year		 <u>\$ 2,565,569</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2013

Net change in fund balance - general fund	\$	(54,652)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.		24,579
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The issuance of long-term debt (bonds, capital leases, etc.) provides current financial resources to the governmental funds, while its principal repayment consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets:

Principal repayments		196,626
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In the Statement of Activities, operating expenses are measured by the amounts incurred during the year. However, certain of these items are included in the governmental funds only to the extent that they require the expenditure of current financial resources:

Compensated absences	\$	(3,934)	
Interest payable		<u>1,243</u>	
			<u>(2,691)</u>

Change in Net Position - governmental activities	\$	<u>163,862</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Waukegan Public Library (“the Library”), Illinois have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units (hereinafter referred to as general accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library’s accounting policies are described below.

Reporting Entity

The Library operates and maintains the public library within the City of Waukegan. The Library is a legally separate entity whose Board is appointed by the Mayor of the City of Waukegan with the approval of the City Council. The Library may not issue bonded debt without the City’s approval and its property tax levy is subject to the City Council’s acceptance, and is therefore, considered to be a component unit of the City of Waukegan, Illinois. This report represents the financial activity of the Library for the year ended April 30, 2013.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and are reported with similar funds of the primary government. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the primary government.

Discretely Presented Component Unit

Waukegan Public Library Foundation

The government-wide financial statements include the Waukegan Public Library Foundation (Foundation) as a component unit. The Foundation is a legally separate organization. The board of the Foundation is elected by the Library Board. The Library can impose its will on the Library Foundation. As a component unit, the Foundation’s financial statements have been presented as a discrete column in the financial statements. The Foundation’s fiscal year end is December 31. The financial information presented for the Foundation is as of December 31, 2012.

Basis of Presentation

Government-wide Financial Statements

In June 2011, the GASB issued statement No. 63 – Financial Reporting of Deferred Outflows of Revenues, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The Library implemented this standard effective May 1, 2012.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONT'D

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Library. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues instead.

Fund Financial Statements

The accounts of the Library in the governmental fund financial statements are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures. Fund accounting segregates funds according to their intended purpose, and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Separate financial statements are provided for the governmental (General) fund, the only fund of the Library.

Measurement Focus, Basis of Accounting, and Financial Statement Preparation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under 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 and intended to be utilized. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental funds are used to account for the Library's general government activities. Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they are both "measurable and available".

"Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Library considers all revenues available if they are collected within 60 days after year-end, with the exception of the State of Illinois per capita library grant for which the availability period is one year. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest on investments associated with the current fiscal period are susceptible to accrual and are recognized as revenues of the current fiscal period. Other receipts become measurable and available when cash is received by the Library and are recognized as revenue at that time.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and accordingly, when such funds are received they are recorded as deferred revenues until earned.

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

**CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONT'D

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

Deposits and Investments

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

State statutes authorize the Library to invest in obligations of the U.S. Treasury, certain highly-rated commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. Investments are stated at fair value. Changes in fair value of investments are recorded as investment income.

Property Tax Revenues

Property taxes for 2012 attach as an enforceable lien on January 1, 2012, on property values assessed as of the same date. Taxes are levied by December of the fiscal year (by passage of a Tax Levy Ordinance). Tax bills that are prepared by Lake County are issued on May 1 and are payable in two installments on June 1st and September 1st.

The Library's 2012 tax rates per \$100 of assessed valuation, together with the related maximum tax rates, that where applicable, are as follows:

	<i>Lake County</i>
Library	.349

The Counties collect such taxes and remit them periodically. The allowance for uncollectible taxes has been stated at 0.2% of the tax levy or \$7,698 to reflect actual collection experience. The 2012 property tax levy is recognized as a receivable in fiscal 2013, net the allowance for uncollectible. The Library has determined that both installments of the 2012 levy are to be used to finance operations in fiscal 2014 and has deferred the corresponding revenue.

Capital Assets

Capital assets, which include buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$1,000 and a useful life greater than 1 year. 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Depreciation of capital assets is provided using the straight-line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Buildings and improvements	20-40
Furniture and equipment	5-20

**CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONT'D

Unearned/Deferred Revenues

The Library reports unearned/deferred revenues on its financial statements in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. The Library also defers 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 and unearned revenue reported in the financial statements were as follows:

	<i>Unavailable</i>	<i>Unearned</i>	<i>Totals</i>
Property taxes receivable for subsequent year	\$ -	\$ 3,841,322	\$ 3,841,322
Grants		91,541	91,541
Copier rebate revenue	-	61,893	61,893
Total	\$ -	\$ 3,994,756	\$ 3,994,756

Compensated Absences

The Library accrues accumulated unpaid vacation and associated employee-related costs when earned (or estimated to be earned) by the employee. There is no liability for accumulated sick days as they are not paid out to an employee. All vacation pay is accrued when incurred in the government-wide financial statements.

Equity classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent debt proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net positions that do not meet the definitions of "restricted" or "net investment in capital assets."

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

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONT'D

Fund Statements

Governmental fund equity is classified as fund balance. In accordance with Governmental Accounting Standards Board Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions, the Library classifies governmental fund balance as follows:

- a. Nonspendable - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted - Consists of fund balances with constraints place on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- c. Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the Library board. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the Library that originally created the commitment.
- d. Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following; 1) The Board may take official action to assign amounts. 2) All remaining positive spendable amounts in governmental funds, other than the general fund, that are neither restricted nor committed. Assignments may take place after the end of the reporting period.
- e. Unassigned - Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceeds amounts restricted, committed, or assigned for those purposes.

The Library considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the Library would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The budget is prepared by fund, function, department and object, and includes information on the past year, current year budget, current year estimates and requested budget for the next fiscal year. The proposed budget is presented to the Board of Trustees for review. The Board of Trustees holds public hearings and may add to, subtract from, or change budgeted amounts, but may not change the form of the budget. Any revisions that alter the total expenditures of any fund must be approved by the governing body. Expenditures may not legally exceed budgeted appropriations at the fund level.

Excess of Expenditures over Budget

For the year ended April 30, 2013, expenditures exceeded budget in the General Fund by \$29,509. This excess was funded by existing fund balance.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 AS OF AND FOR THE YEAR ENDED APRIL 30, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS

The Library follows the City's investment policy.

Permitted Deposits and Investments - Statutes authorize the Library to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds Investment Pool. The Library's investment policy allows the Library to invest in any type of security allowable in Illinois statutes regarding the investment on public funds.

Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, the price for which the investments could be sold. Illinois Funds is rated AAAM.

For disclosure purposes, for the Library, these amounts are segregated into three components: 1) cash on hand 2) deposits with financial institutions, which include amounts held in demand accounts, savings accounts and non-negotiable certificates of deposit; and 3) investments, which consist of investments in the Illinois Funds, as follows:

	<i>Library</i>	<i>Foundation</i>
Cash on hand	\$ 500	\$ -
Deposits with financial institutions	2,005,109	81,267
Illinois Funds	<u>714,929</u>	<u>-</u>
Total	<u>\$ 2,720,538</u>	<u>\$ 81,267</u>

Interest Rate Risk

The Library's investment policies seek to ensure preservation of capital in the Library's overall portfolio. Return on investment is of secondary importance to safety of principal and liquidity. The policy requires the Library's investment portfolio to be sufficiently liquid to enable the Library to meet all operating requirements as they come due. The Library has invested \$714,929 in the Illinois Funds which are due on demand.

Credit Risk

State Statues limit the investments in commercial paper to the top three ratings of two nationally recognized statistical rating organizations (NRSRO's). The Library's investment policy authorizes investments in any type of security allowed for in Illinois statutes regarding the investment of public funds.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 AS OF AND FOR THE YEAR ENDED APRIL 30, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS - CONT'D

Concentration of Credit Risk

The Library's investment policy requires diversification of the investment portfolio to minimize risk of loss resulting from over-concentration in a particular type of security, risk factor, issuer, or maturity.

Custodial Credit Risk - Deposits

With respect to deposits, custodial credit risk refers to the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Library's investment policy limits the exposure to deposit custodial credit risk by requiring all deposits in excess of FDIC insurable limits to be secured with collateralization pledged by the applicable financial institution to the extent of 102% of the value of the deposit. As of April 30, 2013, the bank balance of deposits with financial institutions was \$2,181,599 of which \$1,538,421 was uncollateralized and uninsured.

Custodial Credit Risk - Investments

With respect to investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library's investment policy requires all securities to be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

NOTE 4 – CAPITAL ASSETS

The Library's capital asset activity for the year ended April 30, 2013, was as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
Capital assets not being depreciated:				
Land	\$ 71,486	\$ -	\$ -	\$ 71,486
Total capital assets not being depreciated	<u>71,486</u>	<u>-</u>	<u>-</u>	<u>71,486</u>
Capital assets being depreciated:				
Buildings and improvements	7,239,069	192,801	-	7,431,870
Furniture and equipment	1,616,104	114,667	15,500	1,715,271
Total capital assets being depreciated	<u>8,855,173</u>	<u>307,468</u>	<u>15,500</u>	<u>9,147,141</u>
Less accumulated depreciation for:				
Buildings and improvements	3,269,329	163,509	-	3,432,838
Furniture and equipment	970,878	119,380	15,500	1,074,758
Total accumulated depreciation	<u>4,240,207</u>	<u>282,889</u>	<u>15,500</u>	<u>4,507,596</u>
Net capital assets being depreciated	<u>4,614,966</u>	<u>24,579</u>	<u>15,500</u>	<u>4,639,545</u>
Library activities capital assets, net	<u>\$ 4,686,452</u>	<u>\$ 24,579</u>	<u>\$ -</u>	<u>\$ 4,711,031</u>

The entire depreciation expense was charged to the Library activity function.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2013

NOTE 5 – LONG-TERM LIABILITIES

During the year ended April 30, 2013, the following is the long-term liability activity for the Library:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
Library activities:					
2010 General Obligation Debt Certificates	\$ 3,690,000	-	\$ 150,000	\$ 3,540,000	\$ 155,000
Capital lease	204,488	-	46,626	157,862	48,795
Compensated absences	148,175	3,934	-	152,109	82,566
	<u>\$ 4,042,663</u>	<u>\$ 3,934</u>	<u>\$ 196,626</u>	<u>\$ 3,849,971</u>	<u>\$ 286,361</u>

The compensated absences will be paid out of the general fund.

2010 General Obligation Debt Certificates

The 2010 general obligation debt certificates is a direct obligation and pledges the full faith and credit of the Library. The debt certificates were issued to finance construction of a new roof of the Library's existing building. Library debt certificates currently outstanding are as follows:

<i>Purpose</i>	<i>Interest Rates</i>	<i>Original Indebtedness</i>	<i>Carrying Amount</i>
Series 2010 General Obligation Debt Certificates dated September 30, 2010 are due in annual installments through January 1, 2030	2.00% - 4.38%	\$ 4,000,000	\$ 3,540,000
Total		<u>\$ 4,000,000</u>	<u>\$ 3,540,000</u>

Annual sinking fund redemptions begin January 1, 2030.

Annual debt service requirements to maturity for Library General Obligation Debt Certificates are as follows for governmental type activities:

	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	155,000	136,512	291,512
2015	160,000	132,638	292,638
2016	165,000	127,838	292,838
2017	170,000	122,887	292,887
2018	175,000	117,788	292,788
2019 – 2023	980,000	482,913	1,462,913
2024 – 2028	1,185,000	270,422	1,455,422
2029 – 2030	550,000	36,313	586,313
Total	<u>\$ 3,540,000</u>	<u>\$ 1,427,311</u>	<u>\$ 4,967,311</u>

The annual debt service on the notes will be met through a portion of the Library's share of the City of Waukegan's annual property tax levy.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2013

NOTE 5 – LONG-TERM LIABILITIES - CONT'D

Capital Lease

On May 30, 2011, the Library entered into a lease agreement as lessee for financing the acquisition of equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, the assets and obligations have been recorded at the present value of the future minimum lease payments as of the inception date. At April 30, 2013, \$245,376 of amounts included in capital assets were acquired via this capital lease. The future minimum lease obligations and the net present value of these minimum lease payments as of April 30, 2013, are as follows:

	<i>Total</i>
2014	54,974
2015	54,974
2016	54,974
2017	4,581
Total minimum lease payments	169,503
Less: amount representing interest	(11,641)
Present value of minimum lease payments	\$ 157,862

NOTE 6 – OPERATING LEASES

The Library leases equipment under a non-cancelable operating lease. Total costs for such leases were \$30,372 for the year ended April 30, 2013. At April 30, 2013, future minimum lease payments for the lease are as follows:

	<i>Total</i>
2014	\$ 25,310

NOTE 7 – LINE OF CREDIT

At April 30, 2013, the Library had a line of credit of \$500,000 with a maturity date of May 14, 2013. The line bears interest at prime plus .5% per year. The Library did not utilize the line during the year, and therefore, owed \$0 at the year end on the line. The Library did not renew the line of credit.

NOTE 8 – RISK MANAGEMENT

The Library is exposed to various risks of loss related to employee health benefits; workers' compensation claims; theft of, damage to, and destruction of assets; and natural disasters. These risks are provided for through participation in the City of Waukegan's self-insurance risk pool. The risk of any settlement is then spread to the City of Waukegan as a whole.

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2013

NOTE 9 – RETIREMENT SYSTEMS

Illinois Municipal Retirement Fund

The Library contributes to the Illinois Municipal Retirement Fund (IMRF) an agent multiple employer pension plan that acts as a common investment and administrative agent for local governments and school districts in Illinois through the City of Waukegan. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

Employees participating in IMRF are required to contribute 4.50 percent of their annual covered salary. The member rate is established by state statute. The City is required to contribute at an actuarially determined rate. The employer rate for calendar year 2012 was 13.75 percent of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis (overfunded liability amortized on an open basis). The amortization period at December 31, 2012 was 30 years.

The employees of the Library are pooled with the employees of City of Waukegan for purposes of actuarial valuation. Therefore, the amount of accumulated retirement liability and normal costs related specifically to Library personnel is not available.

NOTE 10 – OTHER INFORMATION

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 61, The Financial Reporting Entity: Omnibus; Statement No. 65, Items Previously Reported as Assets and Liabilities; Statement No. 66, Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62; Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25; and Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements.

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SUPPLEMENTARY SCHEDULES

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY - GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
FOR THE YEAR ENDED APRIL 30, 2013

	ORIGINAL AND FINAL BUDGET	ACTUAL
Revenues		
Taxes		
Property taxes	\$ 3,841,675	\$ 3,829,217
Intergovernmental		
State grants	265,000	175,130
Charges for services		
Licenses, permits & fees	-	22,997
Total charges for services	-	22,997
Fines and forfeitures		
Fines and penalties	90,000	80,729
Interest		
Interest income	2,500	2,146
Miscellaneous		
Donations	7,500	44,495
Sponsorships	30,830	40,698
Other	9,200	21,464
Total miscellaneous	47,530	106,657
Total revenues	\$ 4,246,705	\$ 4,216,876

CITY OF WAUKEGAN
WAUKEGAN PUBLIC LIBRARY - GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED APRIL 30, 2013

	ORIGINAL AND FINAL BUDGET	ACTUAL
Expenditures		
Public library		
Library services		
Personnel services	\$ 2,018,226	\$ 1,939,490
Personnel benefits	687,226	609,375
Professional services	583,321	597,090
Operating supplies	<u>445,483</u>	<u>472,869</u>
Total library services	<u>3,734,256</u>	<u>3,618,824</u>
Capital outlay	<u>217,500</u>	<u>307,468</u>
Debt Service		
Principal	150,000	196,626
Interest and fiscal charges	<u>140,263</u>	<u>148,610</u>
Total debt service	<u>290,263</u>	<u>345,236</u>
Total expenditures	<u>\$ 4,242,019</u>	<u>\$ 4,271,528</u>

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