



Kalamazoo Public Library

For the
Year Ended
June 30, 2014

Financial
Statements

KALAMAZOO PUBLIC LIBRARY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of Fund Balances for Governmental Funds to Net Position of Governmental Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	22
Reconciliation of Net Change in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	24
Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual - General Fund	25
Notes to the Financial Statements	27
Required Supplementary Information	
Schedules of Funding Progress and Employer Contributions: MERS Agent Multiple-employer Defined Benefit Pension Plan	44
Supplementary Information	
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual - Nonmajor Special Revenue Fund	46
Internal Control and Compliance	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49
Schedule of Findings and Responses	51



INDEPENDENT AUDITORS' REPORT

September 26, 2014

Board of Trustees
Kalamazoo Public Library
Kalamazoo, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Kalamazoo Public Library* (the "Library") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kalamazoo Public Library as of June 30, 2014, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library’s basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is 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 have also issued our report dated September 26, 2014 on our consideration of the Kalamazoo Public Library's 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 the 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 the Library's internal control over financial reporting and compliance.

Rehmann Johnson LLC

This page intentionally left blank

MANAGEMENT'S DISCUSSION AND ANALYSIS

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

As management of the Kalamazoo Public Library (the "Library"), we offer readers of the Library financial statements this narrative review and analysis of the financial activities for the year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- . The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$23,249,666 (*net position*).
- . The Library's total net position increased by \$506,812.
- . As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$12,026,823, an increase of \$516,777 in comparison with the prior year.
- . At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,676,550, or 49% of general fund expenditures and transfers out. The Library Board has adopted a policy to maintain a minimum fund balance of \$3,800,000 in the general fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including the management's discussion and analysis, and budgetary schedules.

Government-wide Statements

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

The *statement of activities* presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the government-wide financial statements display functions of the Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The Library had no business-type activities as of and for the year ended June 30, 2014.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

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

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

The Library maintains five governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund, capital projects fund, and endowment each of which is a major fund for financial reporting purposes as defined by GASB Statement No. 34.

The Library adopts an annual appropriated budget for the general fund and special revenue fund. Budgetary comparison statements and schedules have been provided herein to demonstrate compliance with those budgets.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Library's financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules of funding progress and employer contributions immediately following the notes to the financial statements.

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Library's financial position. In the case of the Library, assets exceeded liabilities by \$23,249,666 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance.

	Net Position	
	Governmental Activities	
	2014	2013
Current and other assets	\$ 12,551,630	\$ 11,964,595
Capital assets, net	11,899,907	12,732,007
Total assets	24,451,537	24,696,602
Other liabilities	472,191	428,071
Long-term liabilities	729,680	1,525,677
Total liabilities	1,201,871	1,953,748
Net position		
Net investment in capital assets	11,879,933	11,732,007
Restricted	4,235,385	3,715,363
Unrestricted	7,134,348	7,295,484
Total net position	\$ 23,249,666	\$ 22,742,854

A portion of the Library's net position reflects investment in capital assets net of related debt (e.g., land, building and improvements, equipment, and materials, less any related debt used to acquire those assets that is still outstanding). The Library uses these capital assets to provide services to the patrons it serves; consequently, these assets are not available for future spending. Although the Library's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Library's net position represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net position* may be used to meet the District's ongoing obligations to its general programs.

KALAMAZOO PUBLIC LIBRARY

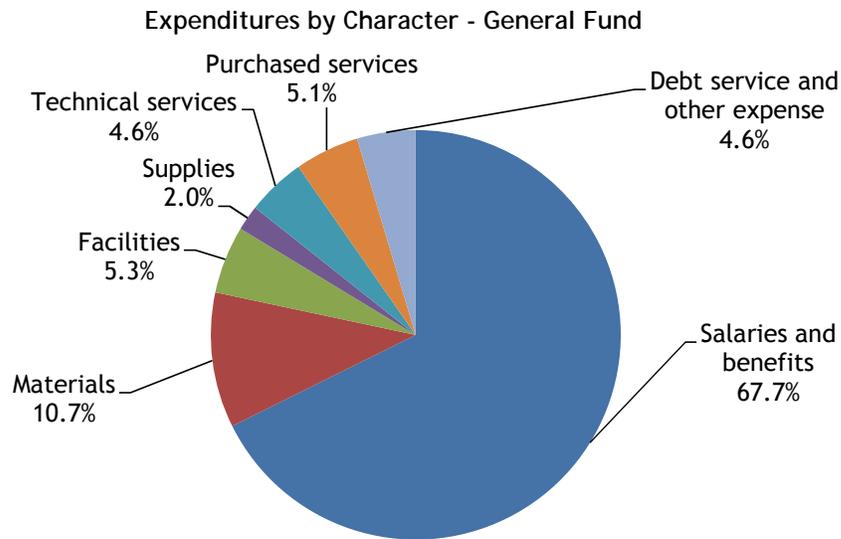
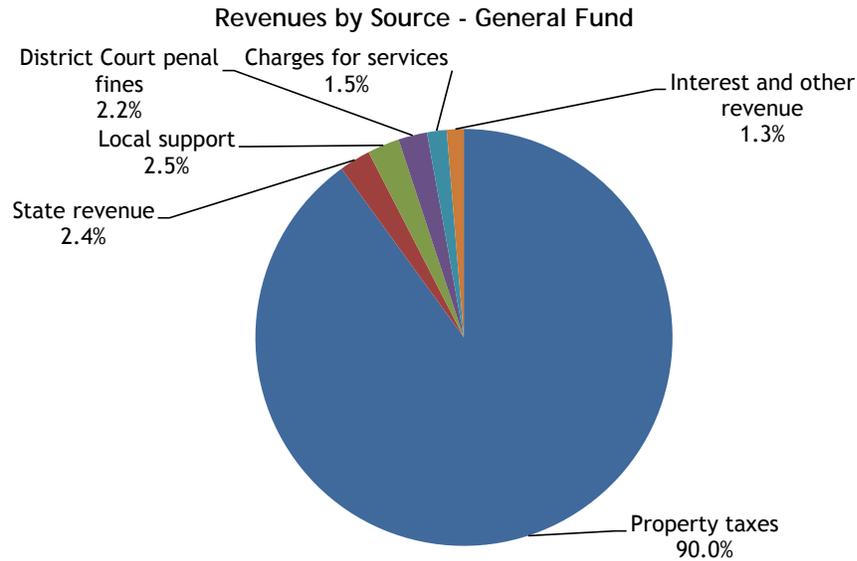
Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 176,721	\$ 181,811
Operating grants and contributions	607,032	329,450
General revenues:		
Property taxes	10,321,415	10,470,688
District Court penal fines	254,027	279,650
State revenue	73,071	61,872
Unrestricted investment earnings	506,756	367,090
Other unrestricted revenues	133,299	126,971
Total revenues	<u>12,072,321</u>	<u>11,817,532</u>
Expenses		
Library services	11,519,642	10,365,494
Interest on long-term debt	45,867	98,594
Total expenses	<u>11,565,509</u>	<u>10,464,088</u>
Change in net position	506,812	1,353,444
Net position, beginning of year	<u>22,742,854</u>	<u>21,389,410</u>
Net position, end of year	<u>\$ 23,249,666</u>	<u>\$ 22,742,854</u>

Governmental activities. Net position increased by \$506,812. This was primarily the result of the increase in operating grants and contributions grants and investment returns on the Endowment Fund offset by an increase in Library services expenses due to net capital investments and estimates and employee retirement expenses. During fiscal year 2013-2014, grants received for ONEPlace non-profit management services totaled \$260,000 from a variety of local organizations including the Irving S. Gilmore Foundation, the Kalamazoo Community Foundation, the Dorothy U Dalton Foundation, United Way, and Greenleaf Trust. Other restricted revenues received during the year included funding for the Michigan Public Schools Employee Retirement System (MPERS) unfunded liabilities from the State of Michigan. Unrestricted investment earnings also increased during the year, contributed by the increase in earnings on the Library's Endowment Fund.

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis



The fund balance of the Library's general fund increased by \$13,311 during the current fiscal year. The largest revenue source in this fund is property taxes which contribute 90.0% of the Library's general fund revenue. During fiscal year 2013-2014, local property taxes decreased \$149,273 or 1.4% compared to the prior year while grants and contributions targeted for ONEPlace and other specific services increased. Operating expenses in the general fund increased \$284,076 or 2.9% during the same period, resulting in a net increase of fund balance of \$13,311.

The fund balance of the debt service fund decreased by \$30,586 due to completion of the repayment of the Library's outstanding bonds. The \$30,586 of fund balance contributed to the final principal and interest payment made on bonds outstanding from the construction and renovation projects completed in 1998.

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

The total fund balance of the capital improvements fund increased by \$93,861 during the fiscal year due to the timing of currently funded projects and the reserve of funds for future capital improvement needs. Current reserves include the Integrated Library Systems reserve, major building repairs, telephone system replacement, computer server replacements, and a reserve for the replacement of the library's delivery van.

The total fund balance of the endowment fund increased by \$408,364 during the current fiscal year due to returns and market value growth on the investment of the permanent endowment fund balance of \$2,096,135.

General Fund Budgetary Highlights

Amendments to the original adopted budget are passed in order to reflect changes in information and circumstances. Some of the more significant changes between the original adopted and final amended budgets were:

- The amended budgeted for state revenue was increased from the original budget to reflect an arrangement with the Michigan Department of Education that provided for payments to employers participating in the MPSERS retirement plan. These payments were in turn invoiced to the participating governments and repaid to the State.
- Salary and wages expense, along with the related employee benefit expense, increased \$236,803 in the amended budget from the original budget reflecting the expenditure recognition for the invoices received for participating employers in the MPSERS retirement plan and the addition of reserves for the payment of benefits upon retirement for current salaried staff.
- Transfers out in the amended budget reflected an increased transfer of operating funds to the capital improvement fund of \$400,000 to fund current year capital projects.

The Library is not permitted to amend the budget after June 30, 2014 in accordance with State law. Therefore, the budget is estimated as close to actual as possible, with the understanding that small variances are expected. Variances between the final amended budget and actual expenditures were generally the result of the timing of expenditures and efforts throughout the year to reduce operating costs. They included:

- Salaries and benefits variance of \$200,033 under the final amended budget was the result of matching the MPSERS unfunded liability invoices and payments to the actual date of receipt, the release of reserves held for staff retirements, staff position vacancies and the timing of their replacements, and the timing of changes to public desk and hourly support positions including the opening of the new digital lab.
- Book publishing dates and the timing and cost of providing downloadable materials to the public contributed much of the \$71,568 underrun of the amended budget for Materials during fiscal year 2013-2014.
- Technical and purchased services variances of \$63,055 and \$59,672, respectively, were heavily influenced by changes made in service contracts purchased by the library during the second half of the year. These budgeted services include contracted services, software and licensing, security, and telecommunications.

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2014, the Library had invested \$11,899,907 in capital assets, net of depreciation. The decrease of \$832,100 or 6.5% from the prior year results from depreciation expense. The following schedule presents capital asset balances, net of depreciation, as of the current and prior year year-end dates. Major capital asset additions in the current year were materials acquisitions, computer equipment and building renovation for the Library's new digital Lab - the Hub, and gaming equipment for the teen area at Central Library.

	Capital Assets (Net of Depreciation)	
	2014	2013
Land	\$ 133,173	\$ 133,173
Building and improvements	9,211,561	9,583,481
Furniture, equipment, and automation	367,158	469,815
Materials	2,188,015	2,545,538
Total	\$ 11,899,907	\$ 12,732,007

Additional information on the Library's capital assets can be found in Note 6 of this report.

Long-Term Debt. At June 30, 2014, the Library had \$729,680 in outstanding debt, which represents a decrease of 52.2% from the prior year. The reduction in long-term debt of \$795,997 represents the timely payment of principal amounts due on the obligations. The general obligations have now been repaid in full. The following table summarizes long-term debt as of the current and prior year-end dates.

	Long-term Debt	
	2014	2013
General obligation bonds	\$ -	\$ 1,000,000
Installment purchase agreements/capital leases	19,974	18,744
Retirement incentive	498,382	294,460
Compensated absences	211,324	212,473
Total	\$ 729,680	\$ 1,525,677

Additional information on the Library's long-term debt can be found in Note 7 of this report.

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Local property taxes remain the Library's primary source of revenue and contribute 90% of general operating revenue. The Library's voted millage is applied to all areas within Kalamazoo Public School District, Mattawan and Otsego School Districts within Oshtemo Township, Portage and Comstock School Districts within the City of Kalamazoo, and Comstock School District within Kalamazoo Township.

The Library's 3.9583 millage rate is comprised of two separate millages. The first for 2.7782 mills was renewed in May 2009 for 20 years, and the second millage for 1.1801 mills was renewed during the current fiscal year also for 20 years. During fiscal year 2013-2014 the Library's property tax revenue decreased by \$149,273 or 1.4% including delinquent receipts from the previous year, continuing the trend over the past several years reducing general operating revenue available for continuing library services.

During the current year the Library completed a renovation projects to enhance service delivery through a new children's Story Place activity room at central library, an expanded Local History area, and the opening of the Hub - the Library's new digital lab. Initiatives begun during the previous year continued to expand with activities and programs for preschoolers and school age children, Family Place Library programs, and digital materials. The Library enjoys a strong partnership with Kalamazoo Public Schools, sponsoring first grade visits to the library and First Saturday programming for children and youth.

Looking forward to the next fiscal year, the Library's preliminary budget anticipates the stabilization of property tax revenue and, with the repayment of the long-term bonds completed, funding available from operating revenue to support necessary capital improvement repairs and replacement. In particular, during fiscal year 2014-2015, the Library anticipates beginning the process to replace the Library's internal telecommunications system, replace Central library's lighting control system, and repair the Eastwood branch roof. The preliminary budget also anticipates continuation and expansion of children's services in support of the Library's continued strategic priorities with particular attention to early childhood literacy. As in prior years, specific budgets have been enhanced to support reading, viewing, and listening for pleasure through an ever widening variety of delivery options for books, magazines, movies, and music.

The Library will continue rearranging and maintaining our public spaces with projects such as re-carpeting and rearrangement of the children's area at Oshtemo, rearrangement of central library's first floor rotunda to provide better access to materials and relocation of seating from the first to the second floor. Plans for the year also include expansion of digital signage to the branches and new calendar software and a revised website homepage to expand access to mobile devices.

The use of library services continues to be strong with a 2% increase in total circulation during the past fiscal year, strong participation in summer reading games, and good attendance at library programs. We see the continuation of these services as a high priority and continue our efforts to streamline operations and service delivery whenever possible. Kalamazoo Public Library is committed to continue to focus efforts and services on the community-identified service priorities of early literacy; reading viewing, and listening for pleasure; and public internet access.

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Director for Administrative Services, Kalamazoo Public Library, 315 S. Rose St., Kalamazoo, MI 49007.

BASIC FINANCIAL STATEMENTS

KALAMAZOO PUBLIC LIBRARY

Statement of Net Position

June 30, 2014

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 6,181,975
Investments	5,801,958
Receivables	210,724
Prepays and other assets	294,026
Beneficial interest in Foundation	62,947
Capital assets not being depreciated	133,173
Capital assets being depreciated, net	<u>11,766,734</u>
Total assets	<u>24,451,537</u>
Liabilities	
Payables and accrued liabilities	472,191
Long-term debt:	
Due in one year	252,520
Due in more than one year	<u>477,160</u>
Total liabilities	<u>1,201,871</u>
Net position	
Net investment in capital assets	11,879,933
Restricted	4,235,385
Unrestricted	<u>7,134,348</u>
Total net position	<u><u>\$ 23,249,666</u></u>

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

KALAMAZOO PUBLIC LIBRARY

Statement of Activities

For the Year Ended June 30, 2014

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Library services	\$ 11,519,642	\$ 176,721	\$ 607,032	\$ (10,735,889)
Interest on long-term debt	45,867	-	-	(45,867)
Total governmental activities	<u>\$ 11,565,509</u>	<u>\$ 176,721</u>	<u>\$ 607,032</u>	<u>(10,781,756)</u>
General revenues				
Property taxes				10,321,415
District Court penal fines				254,027
State revenue				73,071
Unrestricted investment earnings				506,756
Other unrestricted revenues				<u>133,299</u>
Total general revenues				<u>11,288,568</u>
Change in net position				506,812
Net position, beginning of year				<u>22,742,854</u>
Net position, end of year				<u>\$ 23,249,666</u>

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

KALAMAZOO PUBLIC LIBRARY

Balance Sheet

Governmental Funds

June 30, 2014

	General Fund	Debt Service Fund	Capital Improvement Fund
Assets			
Cash and cash equivalents	\$ 4,122,779	\$ -	\$ 1,813,200
Investments	2,120,051	-	-
Receivables	210,724	-	-
Beneficial interest in Foundation	-	-	-
Prepays and other assets	294,026	-	-
Total assets	\$ 6,747,580	\$ -	\$ 1,813,200
Liabilities			
Accounts payable	\$ 311,824	\$ -	\$ 28,947
Accrued liabilities	128,848	-	-
Total liabilities	440,672	-	28,947
Deferred inflows of resources			
Unavailable revenue	52,616	-	-
Fund balances			
Nonspendable	294,026	-	-
Restricted	256,293	-	-
Assigned	27,423	-	1,784,253
Unassigned	5,676,550	-	-
Total fund balances	6,254,292	-	1,784,253
Total liabilities, deferred inflows of resources and fund balances	\$ 6,747,580	\$ -	\$ 1,813,200

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



	Nonmajor	
Endowment Fund	Special Revenue Fund	Total
\$ 118,435	\$ 127,561	\$ 6,181,975
3,681,907	-	5,801,958
-	-	210,724
-	62,947	62,947
-	-	294,026
<u>\$ 3,800,342</u>	<u>\$ 190,508</u>	<u>\$ 12,551,630</u>
\$ -	\$ 2,572	\$ 343,343
-	-	128,848
-	2,572	472,191
-	-	52,616
2,096,135	-	2,390,161
1,704,207	178,750	2,139,250
-	9,186	1,820,862
-	-	5,676,550
<u>3,800,342</u>	<u>187,936</u>	<u>12,026,823</u>
<u>\$ 3,800,342</u>	<u>\$ 190,508</u>	<u>\$ 12,551,630</u>

This page intentionally left blank

KALAMAZOO PUBLIC LIBRARY

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2014

Fund balances - total governmental funds \$ 12,026,823

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets not being depreciated	133,173
Capital assets being depreciated, net	11,766,734

The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.

Deferred inflows for unavailable revenue	52,616
--	--------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Installment purchase agreements/capital leases	(19,974)
Retirement incentive	(498,382)
Compensated absences payable	(211,324)

Net position of governmental activities \$ 23,249,666

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

KALAMAZOO PUBLIC LIBRARY

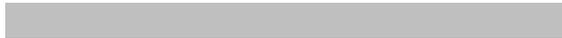
Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2014

	General Fund	Debt Service Fund	Capital Improvement Fund
Revenues			
Property taxes	\$ 10,321,415	\$ -	\$ -
State revenue	278,348	-	-
Local support	286,286	-	10,000
District Court penal fines	254,027	-	-
Charges for services	176,721	-	-
Interest income	16,681	122	-
Other revenues	133,299	-	-
Total revenues	11,466,777	122	10,000
Expenditures			
Current - library services:			
Salaries and benefits	6,790,674	-	-
Materials	1,070,958	-	-
Facilities	536,589	-	-
Supplies	198,263	-	-
Technical services	465,325	-	-
Purchased services	509,375	-	-
Other expense	459,353	-	-
Debt service:			
Principal	4,670	1,000,000	-
Interest	851	54,016	-
Capital outlay	-	-	381,814
Total expenditures	10,036,058	1,054,016	381,814
Revenues over (under) expenditures	1,430,719	(1,053,894)	(371,814)
Other financing sources (uses)			
Transfers in	11,692	1,035,000	465,675
Transfers out	(1,435,000)	(11,692)	-
Issuance of long-term debt	5,900	-	-
Total other financing sources (uses)	(1,417,408)	1,023,308	465,675
Net change in fund balances	13,311	(30,586)	93,861
Fund balances, beginning of year	6,240,981	30,586	1,690,392
Fund balances, end of year	\$ 6,254,292	\$ -	\$ 1,784,253

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



	Nonmajor		
Endowment Fund	Special Revenue Fund		Total
\$ -	\$ -		\$ 10,321,415
-	-		278,348
-	80,213		376,499
-	-		254,027
-	-		176,721
482,129	7,824		506,756
158	7,960		141,417
<u>482,287</u>	<u>95,997</u>		<u>12,055,183</u>
-	1,309		6,791,983
-	6,555		1,077,513
-	-		536,589
-	-		198,263
-	-		465,325
-	13,656		523,031
21,197	29,701		510,251
-	-		1,004,670
-	-		54,867
-	-		381,814
<u>21,197</u>	<u>51,221</u>		<u>11,544,306</u>
<u>461,090</u>	<u>44,776</u>		<u>510,877</u>
-	-		1,512,367
(52,726)	(12,949)		(1,512,367)
-	-		5,900
<u>(52,726)</u>	<u>(12,949)</u>		<u>5,900</u>
408,364	31,827		516,777
<u>3,391,978</u>	<u>156,109</u>		<u>11,510,046</u>
<u>\$ 3,800,342</u>	<u>\$ 187,936</u>		<u>\$ 12,026,823</u>

KALAMAZOO PUBLIC LIBRARY

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$ 516,777
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased/constructed	957,217
Depreciation expense	(1,777,716)
Loss on disposal of capital assets	(11,601)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end.	
Changes in deferred inflows for unavailable revenues	17,138
Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but is reported as a decrease in long-term liabilities on the statement of net position.	
Issuance of long-term debt	(5,900)
Principal payments on bonds and capital leases payable	1,004,670
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.	
Change in retirement incentives payable	(203,922)
Change in compensated absences payable	1,149
Change in accrued interest on bonds payable	9,000
Change in net position of governmental activities	<u>\$ 506,812</u>

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

KALAMAZOO PUBLIC LIBRARY

Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual General Fund For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 10,408,337	\$ 10,371,760	\$ 10,321,415	\$ (50,345)
State revenue	59,810	306,788	278,348	(28,440)
Local support	188,275	191,775	286,286	94,511
District Court penal fines	285,000	260,000	254,027	(5,973)
Charges for services	162,280	170,000	176,721	6,721
Interest income	9,200	15,500	16,681	1,181
Other revenues	127,600	128,117	133,299	5,182
Total revenues	11,240,502	11,443,940	11,466,777	22,837
Expenditures				
Current:				
Salaries and benefits	6,753,904	6,990,707	6,790,674	(200,033)
Materials	1,118,476	1,142,526	1,070,958	(71,568)
Facilities	569,322	588,007	536,589	(51,418)
Supplies	244,658	209,413	198,263	(11,150)
Technical services	539,650	528,380	465,325	(63,055)
Purchased services	596,097	569,047	509,375	(59,672)
Other expense	452,144	522,386	459,353	(63,033)
Debt service:				
Principal	4,670	4,670	4,670	-
Interest expense	851	851	851	-
Total expenditures	10,279,772	10,555,987	10,036,058	(519,929)
Revenues over (under) expenditures	960,730	887,953	1,430,719	542,766
Other financing sources (uses)				
Transfers in	-	-	11,692	11,692
Transfers out	(1,054,000)	(1,454,000)	(1,435,000)	(19,000)
Issuance of long-term debt	-	-	5,900	(5,900)
Total other financing sources (uses)	(1,054,000)	(1,454,000)	(1,417,408)	(13,208)
Net change in fund balance	(93,270)	(566,047)	13,311	579,358
Fund balances, beginning of year	6,240,981	6,240,981	6,240,981	-
Fund balances, end of year	\$ 6,147,711	\$ 5,674,934	\$ 6,254,292	\$ 579,358

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

This page intentionally left blank

NOTES TO FINANCIAL STATEMENTS

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Kalamazoo Public Library (the "Library") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. These basic financial statements contain only the activity of the Library, a district library pursuant to 1989 PA 24, effective April 2, 1990. The participating municipalities include the City of Kalamazoo, Kalamazoo Township, Oshtemo Township, and a portion of Texas Township. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by charges for services and tax revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net position and statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

State revenue, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital improvement fund* is used to account for and report financial resources that are assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *endowment fund* accounts for resources that are restricted to the extent that only earnings, and not principal, may be used to support the Library's programs. The endowment was created as a legally-established trust.

The Library reports the following nonmajor fund:

The *special revenue fund* is used to account for donor-restricted grants and gifts that are required to be expended for a specified purpose.

Budgetary Data

The annual budget is prepared by the Library's management and adopted by the Board of Trustees; subsequent amendments are approved by the Board of Trustees. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenues, expenditures and changes in fund balance - budget and actual - general fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a categorical level; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Board is included in the financial statements.

Cash and Cash Equivalents and Investments

The Library considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Investments consist of common stock, government bonds and corporate bonds. Investments are stated at fair value. Certificates of deposit include accrued interest earnings.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Receivables

Receivables consist of unpaid delinquent personal property taxes, state aid payments, and other miscellaneous amounts due from individuals and organizations. Taxes receivable are reported of an allowance for uncollectible accounts of \$54,702.

Prepays and Other Assets

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

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide statements (statement of net position). Capital assets are defined by the Library as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. In addition, library material items such as books, periodicals, and media are capitalized although they may have an initial cost less than \$1,000. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of revenues, expenditures and changes in fund balances) and are subsequently capitalized on the government-wide statements.

Depreciation is recorded over the estimated useful lives of the assets, using the straight-line method as follows:

	Years
Building and improvements	10 - 50
Furniture, equipment, and automation	3 - 20
Materials	5

Deferred Inflows of Resources

In addition to liabilities, the Library's balance sheet includes deferred inflows of resources. This amount represents an acquisition of net position that applies to a future period(s) and, accordingly, will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues for the governmental funds report unavailable revenues for delinquent personal property taxes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Compensated Absences

Vacation leave is accrued as the benefits are earned by the employees and is vested by the employee up to a maximum balance determined by longevity and employee class. At termination of employment, employees are compensated for the balance accrued. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Sick leave benefits accumulate, but do not vest and are not payable upon termination of employment. No liability is reported for unpaid accumulated sick leave.

Retirement Incentive

Most employees are eligible for a retirement incentive program. The program provides for a supplemental payment upon retirement from the Library, based on provisions of bargaining unit agreements, current pay rates, and years of service.

Operating Leases

The Library leases certain equipment through operating leases. The payments are typically due monthly over the term of the lease. The remaining payments due on such leases are not material to the financial statements.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Trustees. A formal resolution of the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. Assigned fund balance is reported for amounts that are constrained by the Library's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Trustees has delegated the authority for making fund balance assignments to the Library Director or designee. Unassigned fund balance is the residual classification for the general fund.

The Library's Board of Trustees has adopted a minimum fund balance policy which requires total fund balance of the general fund to be at least \$3,800,000. If the general fund balance falls below the minimum range, the Library will replenish shortages or deficiencies using budget strategies and timeframes as detailed in the policy.

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

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Property Taxes

Property taxes are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 15, with the final collection date of February 28 before they are added to the county tax rolls. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2013 taxable valuation of the participating municipalities totaled \$2.651 billion before adjustments, on which taxes levied consisted of 3.9583 mills for operating purposes. This resulted in approximately \$10.5 million for general fund operating purposes. This amount was recognized in the general fund as tax revenue.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted resources are utilized first when allowable costs are incurred where both restricted and unrestricted net position is available.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2014, the Library did not incur expenditures in budgetary funds in excess of the amounts appropriated.

3. CASH AND INVESTMENTS

Cash and investments are reported on the statement of net position as follows:

Cash and cash equivalents	\$ 6,181,975
Investments	<u>5,801,958</u>
Total cash and investments	<u>\$ 11,983,933</u>

Cash and investments are comprised of the following at year-end:

Petty cash	\$ 325
Checking/savings accounts	6,181,650
Certificates of deposit (due within one year)	2,295,828
Certificates of deposit (due in one to five years)	756,456
Investments	<u>2,749,674</u>
Total cash and investments	<u>\$ 11,983,933</u>

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

These deposits are in five (5) financial institutions located in Michigan. State policy limits the Library's investing options to financial institutions located in Michigan. All accounts are in the name of the Library and a specific fund or common account.

Deposit and Investment Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for certificates of deposit have been summarized above.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year-end, \$1,734,375 of the Library's bank balance of \$9,340,226 was exposed to credit risk because it was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk - Investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a policy for custodial credit risk. At year end, substantially all of the investment securities were uninsured and uncollateralized. Following is a summary of the Library's investments as of June 30, 2014:

Common stock	\$ 2,092,988
Corporate bonds	483,959
Government bonds	<u>172,727</u>
Total	<u>\$ 2,749,674</u>

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. Following is a summary of the Library's investment ratings as of June 30, 2014:

Not Rated	\$ 2,092,988
S&P A	306,173
S&P AA	102,823
S&P AAA	172,727
Moody's Aa3	<u>74,963</u>
	<u>\$ 2,749,674</u>

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for investments held at year-end are summarized as follows:

No maturity	\$ 2,092,988
Less than 1 year	101,988
1 - 5 years	451,240
6 - 10 years	<u>103,458</u>
Total	<u>\$ 2,749,674</u>

Statutory Authority

State statutes authorize the Library to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

4. BENEFICIAL INTEREST IN FOUNDATION

Amounts shown as beneficial interest in Foundation represent monies placed with the Kalamazoo Community Foundation (the "Foundation") by the Library, specifying itself as the beneficiary. The Library and the Foundation are unrelated entities. The Library has the right, at any time, to request from the Foundation all or a portion of the current balance of such monies held by the Foundation. The Foundation, as custodian of such funds, continues to report the funds as assets of the Foundation, with a corresponding liability, agency nonendowed funds. The balance of these funds as of June 30, 2014 was \$62,947.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Additionally, funds for the benefit of the Library have been established at the Foundation for the receipt of gifts from donors other than the Library. The terms of these funds allow annual distributions of gifts and/or income thereon, subject to the Foundation's unilateral variance power to redirect distributions. No asset is recorded for these funds, other than the annual grant (if any). The balance in these funds as of June 30, 2014 was \$37,118.

5. RECEIVABLES AND PAYABLES

Receivables of governmental activities are comprised of the following:

Accounts receivable	\$ 6,452
Taxes receivable	119,780
Due from other governments	139,194
Allowance for uncollectible accounts	<u>(54,702)</u>
Total	<u><u>\$ 210,724</u></u>

Payables of governmental activities are comprised of the following:

Accounts	\$ 343,343
Accrued liabilities	<u>128,848</u>
Total	<u><u>\$ 472,191</u></u>

6. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2014 was as follows:

	Beginning of Year	Additions	Disposals	Transfers	End of Year
Capital assets not being depreciated:					
Land	<u>\$ 133,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,173</u>
Capital assets being depreciated:					
Building & improvements	15,834,730	25,368	-	-	15,860,098
Furniture, equipment, and automation	2,915,709	76,508	(219,608)	-	2,772,609
Materials	<u>4,799,099</u>	<u>855,341</u>	<u>(769,453)</u>	<u>-</u>	<u>4,884,987</u>
	<u>23,549,538</u>	<u>957,217</u>	<u>(989,061)</u>	<u>-</u>	<u>23,517,694</u>

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

	Beginning of Year	Additions	Disposals	Transfers	End of Year
Less accumulated depreciation:					
Building & improvements	\$ (6,251,249)	\$ (397,288)	\$ -	\$ -	\$ (6,648,537)
Furniture, equipment, and automation	(2,445,894)	(167,564)	208,007	-	(2,405,451)
Materials	(2,253,561)	(1,212,864)	769,453	-	(2,696,972)
	<u>(10,950,704)</u>	<u>(1,777,716)</u>	<u>977,460</u>	<u>-</u>	<u>(11,750,960)</u>
Total capital assets being depreciated, net	<u>12,598,834</u>	<u>(820,499)</u>	<u>(11,601)</u>	<u>-</u>	<u>11,766,734</u>
Total capital assets, net	<u>\$ 12,732,007</u>	<u>\$ (820,499)</u>	<u>\$ (11,601)</u>	<u>\$ -</u>	<u>\$ 11,899,907</u>

Of the amounts reported in capital assets, \$26,979 of equipment was purchased through outstanding capital leases. Related accumulated depreciation at year-end amount to \$5,785.

7. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Library for the year ended June 30, 2014:

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
General obligation bonds	\$ 1,000,000	-	(1,000,000)	\$ -	\$ -
Installment purchase agreements/capital leases	<u>18,744</u>	<u>5,900</u>	<u>(4,670)</u>	<u>19,974</u>	<u>5,479</u>
Total installment debt	<u>1,018,744</u>	<u>5,900</u>	<u>(1,004,670)</u>	<u>19,974</u>	<u>5,479</u>
Retirement incentive	294,460	204,814	(892)	498,382	35,717
Compensated absences	<u>212,473</u>	<u>281,579</u>	<u>(282,728)</u>	<u>211,324</u>	<u>211,324</u>
Total long-term debt	<u>\$ 1,525,677</u>	<u>\$ 492,293</u>	<u>\$ (1,288,290)</u>	<u>\$ 729,680</u>	<u>\$ 252,520</u>

The Library issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Compensated absences and retirement incentives are typically paid out of the general fund. During the year ended June 30, 2014, the Library paid off the balance of its 1996 limited tax bonds.

Installment Purchase Agreements / Capital Leases

\$20,579 copier capital lease, due in monthly installments of \$388 including interest at an imputed rate of 5.0% through June 2018	\$ 14,934
\$5,900 copier installment purchase agreement, due in monthly installments of \$123 with a 0.0% interest rate through November 2017	<u>5,040</u>
Total installment debt	<u>\$ 19,974</u>

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

The annual requirements to pay principal and interest on long-term debt outstanding (excluding compensated absences) at year-end are as follows:

Year Ending June 30,	Principal	Interest
2015	\$ 5,479	\$ 656
2016	5,684	451
2017	5,900	236
2018	<u>2,911</u>	<u>34</u>
Total	<u>\$ 19,974</u>	<u>\$ 1,377</u>

8. INTERFUND TRANSFERS

Interfund transfers reported in the fund financial statements are comprised of the following:

Transfers In	Transfers Out				Totals
	General Fund	Debt Service Fund	Endowment Fund	Nonmajor Fund Special Revenue	
General fund	\$ -	\$ 11,692	\$ -	\$ -	\$ 11,692
Debt service fund	1,035,000	-	-	-	1,035,000
Capital improvement fund	<u>400,000</u>	<u>-</u>	<u>52,726</u>	<u>12,949</u>	<u>465,675</u>
Totals	<u>\$ 1,435,000</u>	<u>\$ 11,692</u>	<u>\$ 52,726</u>	<u>\$ 12,949</u>	<u>\$ 1,512,367</u>

The transfer from the general fund to the debt service fund was to finance the repayment of bonds payable. Since the bonds were paid off during the year, the debt service fund was then closed by transferring the remaining balance back to the general fund. Transfers into the capital projects fund include amounts being set-aside for future construction and technology purchases.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

9. FUND BALANCES - GOVERNMENTAL FUNDS

The Library has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balance classifications are based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Capital Improvement Fund	Endowment Fund	Nonmajor Fund Special Revenue	Total
Nonspendable					
Prepays	\$ 294,026	\$ -	\$ -	\$ -	\$ 294,026
Endowment	-	-	2,096,135	-	2,096,135
	<u>294,026</u>	<u>-</u>	<u>2,096,135</u>	<u>-</u>	<u>2,390,161</u>
Restricted					
ONEPlace	256,293	-	-	1,922	258,215
Endowment	-	-	1,704,207	-	1,704,207
Ready to read	-	-	-	86,039	86,039
Local history	-	-	-	68,524	68,524
Anti-racism	-	-	-	18,470	18,470
Gifts and memorials	-	-	-	3,795	3,795
	<u>256,293</u>	<u>-</u>	<u>1,704,207</u>	<u>178,750</u>	<u>2,139,250</u>
Assigned					
Encumbrances	27,423	-	-	-	27,423
Capital projects	-	1,784,253	-	-	1,784,253
Library programs	-	-	-	9,186	9,186
	<u>27,423</u>	<u>1,784,253</u>	<u>-</u>	<u>9,186</u>	<u>1,820,862</u>
Unassigned	<u>5,676,550</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,676,550</u>
Total fund balances - governmental funds	<u>\$ 6,254,292</u>	<u>\$ 1,784,253</u>	<u>\$ 3,800,342</u>	<u>\$ 187,936</u>	<u>\$ 12,026,823</u>

10. NET POSITION

The composition of the Library's restricted net position as of June 30, 2014 was as follows:

ONEPlace	\$ 258,215
Ready to read	86,039
Local history	68,524
Anti-racism	18,470
Gifts and memorials	3,795
Endowment (non-expendable)	2,096,135
Endowment (expendable)	<u>1,704,207</u>
Total restricted net position	<u>\$ 4,235,385</u>

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

The composition of the Library's net investment in capital assets as of June 30, 2014 was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 133,173
Capital assets being depreciated, net	<u>11,766,734</u>
	11,899,907
Related debt:	
Capital lease / installment purchase agreement	<u>19,974</u>
Net investment in capital assets	<u>\$ 11,879,933</u>

11. RETIREMENT PLANS

Library employees who participated in the Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing, multiple-employer public school employee defined benefit plan, while being employees of the school district, are allowed by statute to continue their participation in the MPSERS or to elect to participate in the Municipal Employees' Retirement System (MERS), an agent multiple-employer public employee defined benefit plan. New employees of the Library, as of April 2, 1990, can only participate in the MERS plan.

Michigan Employees' Retirement System (MERS) Defined Benefit Pension Plan

Plan Description. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer, defined benefit pension plan. The System is administered by the MERS retirement board. MERS provides retirement and disability benefits, as well as death benefits to plan members and beneficiaries.

Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy. The Library is required to contribute at an actuarially determined rate; the contribution rate for the union and administrator divisions based on the most recent actuarial valuation were 8.04% and 11.84% of annual covered payroll, respectively. Participating employees are not required to contribute to the plan. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library Board of Trustees.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

For the year ended June 30, 2014, the annual pension cost of \$270,110 was equal to the required and actual contributions of the Library. The required contributions were determined as part of the December 31, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year (1.0%, 2.0%, and 3.0% for calendar years 2014, 2015 and 2016, respectively) compounded annually, attributable to inflation, and (c) additional projected salary increases attributable to seniority/merit, of 0.0% to 13.0% per year, depending on age.. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library’s unfunded actuarial accrued liability is being amortized over a period of 25 years as a level percentage of projected payroll on an open basis. The latest actuarial valuation was performed as of December 31, 2013.

Three-Year Trend Information			
Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 277,426	100%	\$ -
2013	282,926	100%	-
2014	270,110	100%	-

Funded Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the plan was 92 percent funded. The actuarial accrued liability for benefits was \$5,296,309, and the actuarial value of assets was \$4,847,695, resulting in an unfunded actuarial accrued liability (UAAL) of \$448,614. The covered payroll (annual payroll of active employees covered by the plan) was \$2,867,351. The UAAL amounted to 16 percent of covered payroll.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Michigan Public School Employees' Retirement System (MPERS) Retirement Plan

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

Funding Policy. Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan (“MIP”) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through April 1, 1990, the date in which the Library became independent from Kalamazoo Public Schools, contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the year ended June 30, 2014 as a percentage of payroll ranged from 24.32 to 24.79 percent.

The contribution requirements of plan members and the Library are established by Michigan State statute and may be amended only by action of the State Legislature. The Library's contributions to MPSERS under all plans for the years ended June 30, 2014, 2013, and 2012 were \$277,858, \$235,107, and \$166,681, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

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

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

Deferred Compensated Plan

The Library offers a supplemental retirement program in accordance with Section 403(b) of the Internal Revenue Code (IRC) that will provide for payments on retirement, as well as death benefits in the event of death prior to retirement. The benefits of the Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and are managed by these individuals. As such, these amounts have not been included in the accompanying financial statements.

12. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage during the past year.

KALAMAZOO PUBLIC LIBRARY

■ Notes to Financial Statements

13. EFFECT OF UPCOMING CHANGES IN ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will be effective for the Library's fiscal year ending June 30, 2015. This statement will require the recognition of a "net pension liability" on the statement of net position, equal to the unfunded portion of the Library's defined benefit pension plans, as defined and calculated in accordance with the new standard. While the exact amount of this liability is not readily determinable at this time, management estimates that it may approximate \$3,000,000 for the MPSERS plan and \$450,000 for the MERS plan. GASB 68 will require the net pension liability to be recorded for the year ending June 30, 2015, by restating beginning net position as of July 1, 2014.



REQUIRED SUPPLEMENTARY INFORMATION

KALAMAZOO PUBLIC LIBRARY

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2008	\$ 2,495,725	\$ 3,276,122	\$ 780,397	76.2%	\$ 2,420,624	32.2%
12/31/2009	2,925,156	3,433,773	508,617	85.2%	2,569,754	19.8%
12/31/2010	3,397,515	3,806,173	408,658	89.3%	2,695,219	15.2%
12/31/2011	3,880,823	4,244,213	363,390	91.4%	2,745,388	13.2%
12/31/2012	4,345,863	4,684,032	338,169	92.8%	2,787,310	12.1%
12/31/2013	4,847,695	5,296,309	448,614	91.5%	2,867,351	15.6%

Schedule of Employer Contributions		
Year Ended	Annual Required Contribution	Percentage of ARC Contributed
06/30/2009	\$ 242,417	100%
06/30/2010	250,807	100%
06/30/2011	293,107	100%
06/30/2012	277,426	100%
06/30/2013	282,926	100%
06/30/2014	270,110	100%

SUPPLEMENTARY INFORMATION

KALAMAZOO PUBLIC LIBRARY

Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual Nonmajor Special Revenue Fund For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local support	\$ 25,000	\$ 79,564	\$ 80,213	\$ 649
Interest income	-	-	7,824	7,824
Other revenues	-	7,960	7,960	-
Total revenues	25,000	87,524	95,997	8,473
Expenditures				
Salaries and benefits	-	1,615	1,309	(306)
Materials	29,500	28,250	6,555	(21,695)
Supplies	7,000	-	-	-
Purchased services	3,109	21,615	13,656	(7,959)
Other expense	8,411	36,652	29,701	(6,951)
Total expenditures	48,020	88,132	51,221	(36,911)
Revenues over (under) expenditures	(23,020)	(608)	44,776	45,384
Other financing uses				
Transfers out	-	(12,949)	(12,949)	-
Net change in fund balance	(23,020)	(13,557)	31,827	45,384
Fund balances, beginning of year	156,109	156,109	156,109	-
Fund balances, end of year	\$ 133,089	\$ 142,552	\$ 187,936	\$ 45,384

INTERNAL CONTROL AND COMPLIANCE

This page intentionally left blank

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

September 26, 2014

Board of Trustees
Kalamazoo Public Library
Kalamazoo, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Kalamazoo Public Library* (the "Library"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated September 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2014-FS-01 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Kalamazoo Public Library's Response to Findings

The Library's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rehmann Johnson LLC". The signature is written in a cursive, flowing style.

KALAMAZOO PUBLIC LIBRARY

Schedule of Findings and Responses

For the Year Ended June 30, 2014

2014-FS-01 - Segregation of Incompatible Duties

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the Library's assets, and to prevent or detect misstatements to the financial statements. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the Library's unique circumstances.

Condition. As is the case with many organizations of similar size, the Library lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. In particular, journal entries (a transaction type that has additional risk as it bypasses the established controls over receipts, disbursements and payroll) are not consistently subjected to review and approval by an individual independent of the preparation. Similarly, the Library is required to prepare various schedules and perform calculations at year-end, many of which are completed only for financial reporting purposes. These schedules are not subject to an independent review process. We noted a variety of minor errors or omissions in the initial schedules we were provided, none of which were material to the financial statements.

Cause. This condition was caused by the Library's limited resources and the small size of its accounting staff.

Effect. As a result of this condition, the Library is exposed to an increased risk that misstatements (whether caused by error or fraud) might not be prevented or detected by management in a timely manner.

Recommendation. We encourage management to continue to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible. We encourage the Library to retain a copy of supporting documentation reviewed with initials to evidence this review.

View of Responsible Officials. Library administration agrees with the findings and will adjust review and control measures to further strengthen the internal control structure by requiring review, reconciliation and approval of accounting functions where possible. While total segregation and independent review will never be possible with the level and qualifications of staff currently in place, it is possible to increase internal control measures by requiring the additional review and approval by the Assistant Director. It is the opinion of management that the additional time spent will result in greater accuracy and should ensure appropriate documentation is retained. The effect upon the workflow of business office personnel in general should be well worth the result of more uniform documentation and the reduction of some level of errors. While this additional review and approval will not eliminate the risk of misstatement, it will improve documentation and some level of error.

KALAMAZOO PUBLIC LIBRARY

Schedule of Findings and Responses For the Year Ended June 30, 2014

With current staffing, year-end schedules will, unfortunately, still be at risk for errors due to staffing and work loads of business office personnel. The Library has in the past and will attempt, when possible, in the future to have schedules prepared and reviewed by different staff in a timely fashion. But, in many cases, the Library does not and will most likely never have that capacity due to limited resources and personnel with access to specific information necessary to prepare some of the schedules.

