



# Kalamazoo Public Library

For the  
Year Ended  
June 30, 2015

Financial  
Statements

# KALAMAZOO PUBLIC LIBRARY

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**INDEPENDENT AUDITORS' REPORT**

October 22, 2015

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, 2015, 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, 2015, 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.

*Implementation of GASB Statement No. 68*

As described in Note 16, the Library implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

*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 for the pension plans, 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 October 22, 2015 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 Loborn LLC*

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## 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, 2015. 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 Library implemented GASB Statement No. 68 in the current year which required the Library to recognize its net pension liability for the MERS plan and its proportionate share of the net pension liability for the MPERS plan on the government-wide statements.
- . The assets and deferred outflows of resources of the Library exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20,462,758 (*net position*).
- . The Library's total net position increased by \$441,265.
- . As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$13,178,184, an increase of \$1,151,361 in comparison with the prior year.
- . At the end of the current fiscal year, unassigned fund balance of the general fund was \$6,423,100, or 60% 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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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, 2015.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

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.

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 four 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, 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 for the pension plans immediately following the notes to the financial statements.

### *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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,462,758 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.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

	Net Position	
	Governmental Activities	
	2015	2014
<b>Assets</b>		
Current and other assets	\$ 13,439,479	\$ 12,551,630
Capital assets, net	11,393,890	11,899,907
<b>Total assets</b>	<u>24,833,369</u>	<u>24,451,537</u>
Deferred outflows of resources	642,789	-
<b>Liabilities</b>		
Current and other liabilities	3,919,850	472,191
Long-term liabilities	764,886	729,680
<b>Total liabilities</b>	<u>4,684,736</u>	<u>1,201,871</u>
Deferred inflows of resources	328,664	-
<b>Net position</b>		
Net investment in capital assets	11,379,395	11,879,933
Restricted	4,371,883	4,235,385
Unrestricted	4,711,480	7,134,348
<b>Total net position</b>	<u>\$ 20,462,758</u>	<u>\$ 23,249,666</u>

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 Library's ongoing obligations to its general programs.

The decrease in unrestricted net position and the corresponding increases in current and other liabilities, deferred outflows of resources and deferred inflows of resources resulted from the implementation of GASB 68 which required the Library to report amounts related to the MPSERS and MERS pension plans in its government-wide statements.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

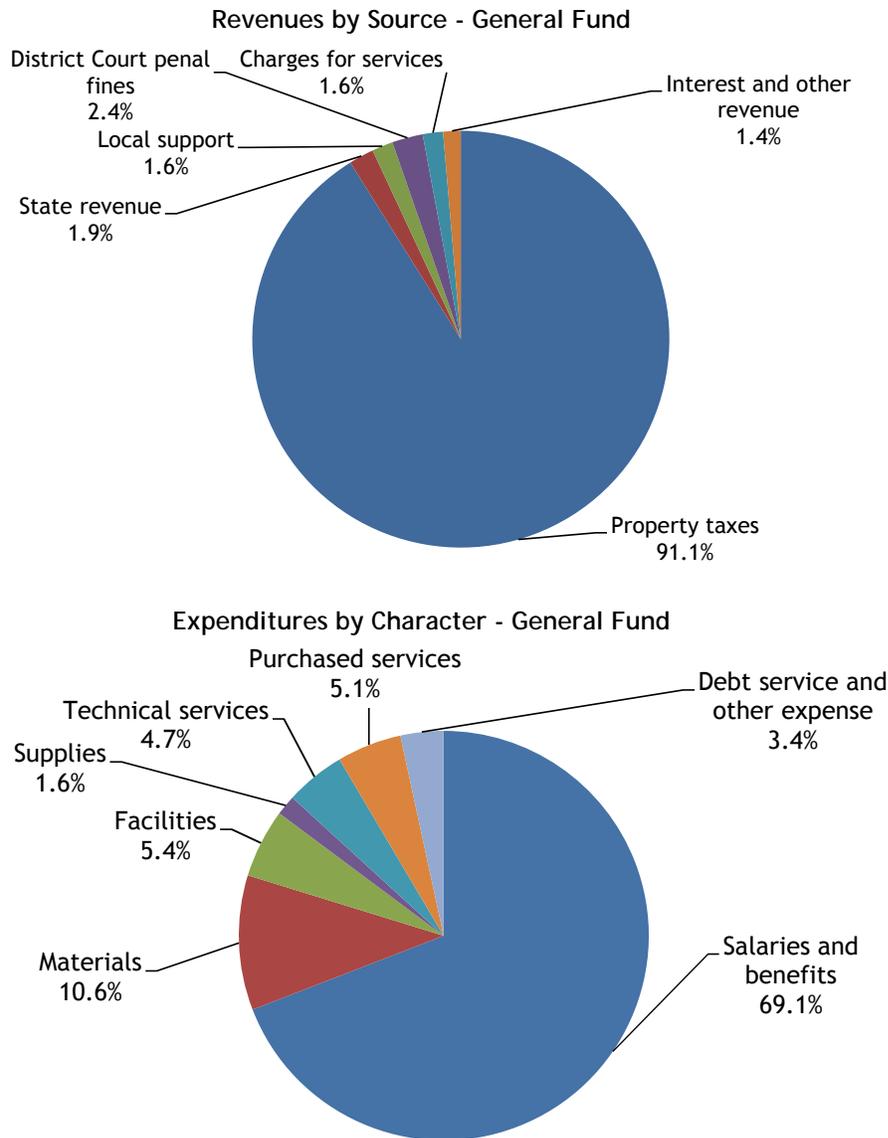
	Changes in Net Position	
	Governmental Activities	
	2015	2014
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 179,346	\$ 176,721
Operating grants and contributions	408,180	607,032
General revenues:		
Property taxes	10,404,524	10,321,415
District Court penal fines	273,904	254,027
State revenue	73,004	73,071
Unrestricted investment earnings	201,819	506,756
Other unrestricted revenues	140,099	133,299
<b>Total revenues</b>	<b>11,680,876</b>	<b>12,072,321</b>
<b>Expenses</b>		
Library services	11,238,760	11,519,642
Interest on long-term debt	851	45,867
<b>Total expenses</b>	<b>11,239,611</b>	<b>11,565,509</b>
<b>Change in net position</b>	<b>441,265</b>	<b>506,812</b>
Net position, beginning of year	23,249,666	22,742,854
Restatement for implementation of GASB 68	(3,228,173)	-
<b>Net position, end of year</b>	<b>\$ 20,462,758</b>	<b>\$ 23,249,666</b>

Governmental activities. Net position increased by \$441,265. This was primarily the result of the reduction in the cost of library services, particularly a significant reduction in the refunding of taxes as a result of Michigan Tax Tribunal decisions, and the timing of capital improvement project expenditures.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

### Government Funds



The fund balance of the Library’s general fund increased by \$774,713 during the current fiscal year. The largest revenue source in this fund is property taxes which contribute 91.1% of the Library’s general fund revenue. During fiscal year 2015, local property taxes increased \$135,725 or 1.3% compared to the prior year while grants and contributions targeted for ONEPlace and other specific services decreased. Operating expenses in the general fund increased \$67,926 or 0.7% during the same period, resulting in a net increase of fund balance of \$774,713.

The total fund balance of the capital improvements fund increased by \$234,710 during the fiscal year due to the timing of capital improvement projects. Current reserves include \$250,000 for Integrated Library Systems replacement and upgrades, \$350,000 for Building Repairs and \$25,000 for Computer Server Replacement.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

The total fund balance of the endowment fund increased by \$158,524 during the current fiscal year as a result of the receipt of dividend and interest earnings and growth in market value.

### *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:

- Recognition of the final impact and accounting of the Michigan Public School Employees Retirement System Unfunded Accrued Liability Stabilization expenditures and reimbursement by the State of Michigan.
- Recognition of Property Tax adjustments as recorded by settlement amounts from each of the library district's participating governmental units.

The Library is not permitted to amend the budget after June 30, 2015 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:

- The timing of the receipt of payments in lieu of property taxes.
- Reductions and changes to library programs and services based upon strategic objectives.
- Renegotiation and elimination of anticipated contracts for services.
- Vacancies in staff positions at year-end.

### Capital Asset and Debt Administration

*Capital Assets.* As of June 30, 2015, the Library had invested \$11,393,890 in capital assets, net of depreciation. The decrease of \$506,017 or 4.3% from the prior year results from depreciation expense and from changes in the Library's capitalization policy resulting in the write off of certain items previously capitalized. The following schedule presents capital asset balances, net of depreciation, as of the current and prior year year-end dates. Major asset additions in the current year included the acquisition of new materials, new telecommunications system software and equipment district wide, audio visual equipment upgrades for the central library's public and staff meeting spaces, and Hearing Loop technology additions for public meeting spaces at central library to better serve the hearing impaired.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

	Capital Assets (Net of Depreciation)	
	2015	2014
Land	\$ 133,173	\$ 133,173
Building and improvements	8,813,454	9,211,561
Furniture, equipment, and automation	321,635	367,158
Materials	2,125,628	2,188,015
<b>Total</b>	<b>\$ 11,393,890</b>	<b>\$ 11,899,907</b>

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

*Long-Term Debt.* At June 30, 2015, the Library had \$764,886 in outstanding debt, which represents a decrease of 4.8% from the prior year. The reduction in long-term debt of \$35,206 represents the timely payment of principal amounts due on the obligations. The following table summarizes long-term debt as of the current and prior year-end dates.

	Long-term Debt	
	2015	2014
Installment purchase agreements/capital leases	\$ 14,495	\$ 19,974
Retirement incentive	522,797	498,382
Compensated absences	227,594	211,324
<b>Total</b>	<b>\$ 764,886</b>	<b>\$ 729,680</b>

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

### *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 Schools Districts within Oshtemo Township, Portage and Comstock Schools 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 in May 2014 also for 20 years. During fiscal year 2014-2015 the Library's property tax revenue increased by \$83,109 or 0.8% including delinquent receipts from the previous year, halting the trend of previous year decreases to property tax revenue.

During the current year the Library replaced internal telecommunications system hardware and software, improved public meeting room spaces with new audio visual equipment and controls and the addition of Hearing Loop technology for the hearing impaired, continued to expand and deliver 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.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

Looking forward to the next fiscal year, the Library's preliminary budget anticipates property tax revenues increasing 1.5% after adjustments for tax captures within the City of Kalamazoo and Oshtemo Township and the addition of two additional staff positions including a children's librarian and facilities management assistant. Several major building repair and upgrade projects are anticipated including work on the exterior marble tile at Central library; rebuilding the Central library freight elevator; replacement and installation of generators at Central library, Oshtemo, and Eastwood; replacement of the lighting control system at Central library; and the purchase of a new delivery vehicle. The preliminary budget continues the Library's strategic priorities with particular emphasis on early childhood literacy. As in prior years, specific budgets have been enhanced to support reading, view, and listening for pleasure through an ever widening variety of delivery options for books, magazines, movies and music.

The use of library services continues to be strong with a 2% increase in total circulation, 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, services and programs on the community-identified services priorities of early literacy; reading, viewing, and listening for pleasure for all ages; public internet access; and local information, historic and current.

### *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.

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## BASIC FINANCIAL STATEMENTS

# KALAMAZOO PUBLIC LIBRARY

## Statement of Net Position

June 30, 2015

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 7,449,979
Investments	5,338,235
Receivables	225,075
Prepays and other assets	354,602
Beneficial interest in Foundation	71,588
Capital assets not being depreciated	133,173
Capital assets being depreciated, net	<u>11,260,717</u>
<b>Total assets</b>	<u>24,833,369</u>
<b>Deferred outflows of resources</b>	
Deferred pension amounts	<u>642,789</u>
<b>Liabilities</b>	
Payables and accrued liabilities	261,295
Long-term debt:	
Due in one year	341,932
Due in more than one year	422,954
Net pension liability	<u>3,658,555</u>
<b>Total liabilities</b>	<u>4,684,736</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	<u>328,664</u>
<b>Net position</b>	
Net investment in capital assets	11,379,395
Restricted	4,371,883
Unrestricted	<u>4,711,480</u>
<b>Total net position</b>	<u><u>\$ 20,462,758</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, 2015

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Library services	\$ 11,238,760	\$ 179,346	\$ 408,180	\$ (10,651,234)
Interest on long-term debt	851	-	-	(851)
Total governmental activities	<u>\$ 11,239,611</u>	<u>\$ 179,346</u>	<u>\$ 408,180</u>	<u>(10,652,085)</u>
General revenues				
Property taxes				10,404,524
District Court penal fines				273,904
State revenue				73,004
Unrestricted investment earnings				201,819
Other unrestricted revenues				<u>140,099</u>
Total general revenues				<u>11,093,350</u>
Change in net position				441,265
Net position, beginning of year, as restated				<u>20,021,493</u>
Net position, end of year				<u>\$ 20,462,758</u>

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

# KALAMAZOO PUBLIC LIBRARY

## Balance Sheet

Governmental Funds

June 30, 2015

	Nonmajor				Total
	General Fund	Capital Improvement Fund	Endowment Fund	Special Revenue Fund	
<b>Assets</b>					
Cash and cash equivalents	\$ 5,079,911	\$ 2,019,821	\$ 245,427	\$ 104,820	\$ 7,449,979
Investments	1,624,796	-	3,713,439	-	5,338,235
Receivables	225,075	-	-	-	225,075
Beneficial interest in Foundation	-	-	-	71,588	71,588
Prepays and other assets	354,602	-	-	-	354,602
<b>Total assets</b>	<b>\$ 7,284,384</b>	<b>\$ 2,019,821</b>	<b>\$ 3,958,866</b>	<b>\$ 176,408</b>	<b>\$ 13,439,479</b>
<b>Liabilities</b>					
Accounts payable	\$ 141,530	\$ 858	\$ -	\$ 5,058	\$ 147,446
Accrued liabilities	113,849	-	-	-	113,849
<b>Total liabilities</b>	<b>255,379</b>	<b>858</b>	<b>-</b>	<b>5,058</b>	<b>261,295</b>
<b>Fund balances</b>					
Nonspendable	354,602	-	2,096,135	-	2,450,737
Restricted	251,303	-	1,862,731	161,714	2,275,748
Assigned	-	2,018,963	-	9,636	2,028,599
Unassigned	6,423,100	-	-	-	6,423,100
<b>Total fund balances</b>	<b>7,029,005</b>	<b>2,018,963</b>	<b>3,958,866</b>	<b>171,350</b>	<b>13,178,184</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,284,384</b>	<b>\$ 2,019,821</b>	<b>\$ 3,958,866</b>	<b>\$ 176,408</b>	<b>\$ 13,439,479</b>

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

# KALAMAZOO PUBLIC LIBRARY

## Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2015

Fund balances - total governmental funds	\$ 13,178,184
Amounts reported for <i>governmental activities</i> 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	11,260,717
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	(14,495)
Retirement incentive	(522,797)
Compensated absences payable	(227,594)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(3,658,555)
Deferred outflows related to the net pension liability	642,789
Deferred inflows related to the net pension liability	(328,664)
Net position of governmental activities	<u>\$ 20,462,758</u>

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, 2015

	General Fund	Capital Improvement Fund	Endowment Fund	Nonmajor	Total
				Special Revenue Fund	
<b>Revenues</b>					
Property taxes	\$ 10,457,140	\$ -	\$ -	\$ -	\$ 10,457,140
State revenue	223,335	-	-	-	223,335
Local support	188,123	28,900	-	40,826	257,849
District Court penal fines	273,904	-	-	-	273,904
Charges for services	179,346	-	-	-	179,346
Interest income	16,750	-	181,704	3,365	201,819
Other revenues	140,099	-	-	-	140,099
<b>Total revenues</b>	<b>11,478,697</b>	<b>28,900</b>	<b>181,704</b>	<b>44,191</b>	<b>11,733,492</b>
<b>Expenditures</b>					
Current - library services:					
Salaries and benefits	6,985,233	-	-	1,466	6,986,699
Materials	1,073,448	-	-	27,904	1,101,352
Facilities	549,553	-	-	-	549,553
Supplies	159,542	-	-	-	159,542
Technical services	478,766	-	-	-	478,766
Purchased services	513,880	-	-	14,376	528,256
Other expense	337,232	-	23,180	17,031	377,443
Debt service:					
Principal	5,479	-	-	-	5,479
Interest	851	-	-	-	851
Capital outlay	-	394,190	-	-	394,190
<b>Total expenditures</b>	<b>10,103,984</b>	<b>394,190</b>	<b>23,180</b>	<b>60,777</b>	<b>10,582,131</b>
<b>Revenues over (under) expenditures</b>	<b>1,374,713</b>	<b>(365,290)</b>	<b>158,524</b>	<b>(16,586)</b>	<b>1,151,361</b>
<b>Other financing sources (uses)</b>					
Transfers in	-	600,000	-	-	600,000
Transfers out	(600,000)	-	-	-	(600,000)
<b>Total other financing sources (uses)</b>	<b>(600,000)</b>	<b>600,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>774,713</b>	<b>234,710</b>	<b>158,524</b>	<b>(16,586)</b>	<b>1,151,361</b>
<b>Fund balances, beginning of year</b>	<b>6,254,292</b>	<b>1,784,253</b>	<b>3,800,342</b>	<b>187,936</b>	<b>12,026,823</b>
<b>Fund balances, end of year</b>	<b>\$ 7,029,005</b>	<b>\$ 2,018,963</b>	<b>\$ 3,958,866</b>	<b>\$ 171,350</b>	<b>\$ 13,178,184</b>

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

# 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, 2015

Net change in fund balances - total governmental funds \$ 1,151,361

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased/constructed	1,036,478
Depreciation expense	(1,424,566)
Loss on disposal of capital assets	(117,929)

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	(52,616)
------------------------------------------------------	----------

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.

Principal payments on installment purchase agreements / capital leases	5,479
------------------------------------------------------------------------	-------

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	(24,415)
Change in compensated absences payable	(16,270)
Change in the net pension liability and related deferred amounts	<u>(116,257)</u>

Change in net position of governmental activities	<u>\$ 441,265</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, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 10,370,670	\$ 10,390,424	\$ 10,457,140	\$ 66,716
State revenue	306,788	223,400	223,335	(65)
Local support	193,275	183,025	188,123	5,098
District Court penal fines	260,000	255,000	273,904	18,904
Charges for services	170,000	175,000	179,346	4,346
Interest income	14,000	13,650	16,750	3,100
Other revenues	136,100	139,600	140,099	499
<b>Total revenues</b>	<b>11,450,833</b>	<b>11,380,099</b>	<b>11,478,697</b>	<b>98,598</b>
<b>Expenditures</b>				
<b>Current:</b>				
Salaries and benefits	7,195,775	7,111,109	6,985,233	(125,876)
Materials	1,155,512	1,147,235	1,073,448	(73,787)
Facilities	589,122	610,922	549,553	(61,369)
Supplies	213,052	190,852	159,542	(31,310)
Technical services	552,147	549,547	478,766	(70,781)
Purchased services	599,119	586,339	513,880	(72,459)
Other expense	474,245	457,175	337,232	(119,943)
<b>Debt service:</b>				
Principal	5,479	5,479	5,479	-
Interest expense	851	851	851	-
<b>Total expenditures</b>	<b>10,785,302</b>	<b>10,659,509</b>	<b>10,103,984</b>	<b>(555,525)</b>
Revenues over (under) expenditures	665,531	720,590	1,374,713	654,123
<b>Other financing sources (uses)</b>				
Transfers out	(600,000)	(600,000)	(600,000)	-
Net change in fund balance	65,531	120,590	774,713	654,123
Fund balances, beginning of year	6,254,292	6,254,292	6,254,292	-
Fund balances, end of year	\$ 6,319,823	\$ 6,374,882	\$ 7,029,005	\$ 654,123

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

## 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 Library 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 *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 change 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.

### *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity*

#### *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 penal fines, state aid payments, and other miscellaneous amounts due from individuals and organizations.

### *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 \$5,000 (\$25,000 for building improvements or renovations) and an estimated life in excess of two years. In addition, library material items such as books, periodicals, and media are capitalized as a collection although they may have an initial cost less than \$5,000. 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 - 40
Furniture, equipment, and automation	5 - 7
Materials	5

### *Deferred Outflows/Inflows of Resources*

In addition to assets and liabilities, the Library's balance sheet includes deferred outflows of resources and deferred inflows of resources. These amounts represent a consumption/acquisition of net position that applies to a future period(s) and, accordingly, will not be recognized as expense/revenue until that time. The Library's deferred outflows/inflows of resources are related to the net pension liability. More detailed information can be found in Notes 11, 12 and 13.

# 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 2014 taxable valuation of the participating municipalities totaled \$2.653 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.

### *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### *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, 2015, 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	\$ 7,449,979
Investments	<u>5,338,235</u>
Total cash and investments	<u>\$ 12,788,214</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

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

Petty cash	\$ 250
Checking/savings accounts	7,449,728
Certificates of deposit (due within one year)	1,775,787
Certificates of deposit (due in one to five years)	608,293
Certificates of deposit (due in six to ten years)	152,865
Investments	<u>2,801,291</u>
Total cash and investments	<u>\$ 12,788,214</u>

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, \$1,833,380 of the Library's bank balance of \$10,054,656 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, 2015:

Common stock	\$ 2,215,977
Corporate bonds	310,206
Government bonds	<u>275,108</u>
Total	<u>\$ 2,801,291</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

*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, 2015:

Not Rated	\$ 2,215,977
S&P A	49,634
S&P AA	505,583
S&P BBB	30,097
	<hr/>
	\$ 2,801,291
	<hr/>

*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	\$ 2,215,977
Less than 1 year	80,582
1 - 5 years	400,332
6 - 10 years	104,400
	<hr/>
Total	\$ 2,801,291
	<hr/>

### *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.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

- 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, 2015 was \$71,588.

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, 2015 was \$27,300.

### 5. RECEIVABLES AND PAYABLES

Receivables of governmental activities are comprised of the following:

Accounts receivable	\$	237
Taxes receivable		28,378
Due from other governments		<u>196,460</u>
Total	\$	<u>225,075</u>

Payables of governmental activities are comprised of the following:

Accounts	\$	147,446
Accrued liabilities		<u>113,849</u>
Total	\$	<u>261,295</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### 6. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2015 was as follows:

	Beginning of Year	Additions	Disposals	Transfers	End of Year
Capital assets not being depreciated:					
Land	\$ 133,173	\$ -	\$ -	\$ -	\$ 133,173
Capital assets being depreciated:					
Building & improvements	15,860,098	-	-	-	15,860,098
Furniture, equipment, and automation	2,772,609	178,030	(1,464,872)	-	1,485,767
Materials	4,884,987	858,448	(865,736)	-	4,877,699
	<u>23,517,694</u>	<u>1,036,478</u>	<u>(2,330,608)</u>	<u>-</u>	<u>22,223,564</u>
Less accumulated depreciation:					
Building & improvements	(6,648,537)	(398,107)	-	-	(7,046,644)
Furniture, equipment, and automation	(2,405,451)	(105,624)	1,346,943	-	(1,164,132)
Materials	(2,696,972)	(920,835)	865,736	-	(2,752,071)
	<u>(11,750,960)</u>	<u>(1,424,566)</u>	<u>2,212,679</u>	<u>-</u>	<u>(10,962,847)</u>
Total capital assets being depreciated, net	<u>11,766,734</u>	<u>(388,088)</u>	<u>(117,929)</u>	<u>-</u>	<u>11,260,717</u>
Total capital assets, net	<u>\$ 11,899,907</u>	<u>\$ (388,088)</u>	<u>\$ (117,929)</u>	<u>\$ -</u>	<u>\$ 11,393,890</u>

Of the amounts reported in capital assets, \$26,979 of equipment was purchased through outstanding capital leases. Related accumulated depreciation at year-end amounted to \$10,494.

### 7. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Library for the year ended June 30, 2015:

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
Installment purchase agreements/capital leases	\$ 19,974	\$ -	\$ (5,479)	\$ 14,495	\$ 5,684
Retirement incentive	498,382	37,078	(12,663)	522,797	108,654
Compensated absences	211,324	278,877	(262,607)	227,594	227,594
Total long-term debt	<u>\$ 729,680</u>	<u>\$ 315,955</u>	<u>\$ (280,749)</u>	<u>\$ 764,886</u>	<u>\$ 341,932</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.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### 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 \$ 10,930

\$5,900 copier installment purchase agreement, due in monthly installments of \$123 with a 0.0% interest rate through November 2017 3,565

Total installment debt \$ 14,495

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

Year Ending June 30,	Principal	Interest
2016	\$ 5,684	\$ 451
2017	5,900	236
2018	<u>2,911</u>	<u>34</u>
Total	<u><u>\$ 14,495</u></u>	<u><u>\$ 721</u></u>

## 8. INTERFUND TRANSFERS

During the year ended June 30, 2015, the Library's general fund transferred \$600,000 to the capital projects fund to set-aside amounts 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
<b>Nonspendable</b>					
Prepays	\$ 354,602	\$ -	\$ -	\$ -	\$ 354,602
Endowment	-	-	2,096,135	-	2,096,135
	<u>354,602</u>	<u>-</u>	<u>2,096,135</u>	<u>-</u>	<u>2,450,737</u>
<b>Restricted</b>					
ONEPlace	251,303	-	-	922	252,225
Endowment	-	-	1,862,731	-	1,862,731
Ready to read	-	-	-	78,205	78,205
Local history	-	-	-	73,870	73,870
Anti-racism	-	-	-	3,858	3,858
Gifts and memorials	-	-	-	4,859	4,859
	<u>251,303</u>	<u>-</u>	<u>1,862,731</u>	<u>161,714</u>	<u>2,275,748</u>
<b>Assigned</b>					
Capital projects	-	2,018,963	-	-	2,018,963
Library programs	-	-	-	9,636	9,636
	<u>-</u>	<u>2,018,963</u>	<u>-</u>	<u>9,636</u>	<u>2,028,599</u>
<b>Unassigned</b>	<u>6,423,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,423,100</u>
<b>Total fund balances - governmental funds</b>	<u>\$ 7,029,005</u>	<u>\$ 2,018,963</u>	<u>\$ 3,958,866</u>	<u>\$ 171,350</u>	<u>\$ 13,178,184</u>

### 10. NET POSITION

The composition of the Library's restricted net position as of June 30, 2015 was as follows:

ONEPlace	\$ 252,225
Ready to read	78,205
Local history	73,870
Anti-racism	3,858
Gifts and memorials	4,859
Endowment (non-expendable)	2,096,135
Endowment (expendable)	1,862,731
<b>Total restricted net position</b>	<u>\$ 4,371,883</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

The composition of the Library's net investment in capital assets as of June 30, 2015 was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 133,173
Capital assets being depreciated, net	11,260,717
	<u>11,393,890</u>
Related debt:	
Capital lease / installment purchase agreement	14,495
	<u>14,495</u>
Net investment in capital assets	<u>\$ 11,379,395</u>

### 11. COST-SHARING MULTIPLE-EMPLOYER RETIREMENT PLAN

Library employees who participated in the Michigan Public School Employees' Retirement System (MPSERS) while being employees of the school district, are allowed by statute to continue their participation in 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.

#### *General Information about the Pension Plan*

*Plan Description.* The Library contributes to the MPSERS, a cost-sharing multiple-employer pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Services with oversight from a 12-member board. Benefit provisions are established and may be amended by state statute. The Office of Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report can be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

The *Member Investment Plan* (MIP) includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through April 1, 1990 (the date the Library became independent of the school system). Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7 %* plan.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

*Benefits Provided.* MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

Plan	Eligibility Based on Years of Service	Vesting
Member Investment Plan (MIP)	Age 46 with 30 years or age 60 with 10 years	10 years
Basic	Age 55 with 30 years or Age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

*Contributions.* Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. In addition, the Library is invoiced an amount for "MPSERS UAAL Stabilization." This additional contribution is offset by State aid payments equal to the amounts actually billed by the Office of Retirement Services. Employer contribution requirements for pension as a percentage of covered payroll were 18.34% and 23.07% for the plan years ending September 30, 2014 and 2015, respectively. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The Library's contribution to MPSERS under all pension plans for the year ended June 30, 2015, inclusive of the MPSERS UAAL Stabilization, was \$401,094.

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2015, the Library reported a liability of \$2,961,393 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The Library's proportion of the net pension liability was based on a projection of the Library's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2014, the Library's proportion (as calculated by MPSERS) was 0.01344468%.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

For the year ended June 30, 2015, the Library recognized pension expense of \$239,548. At June 30, 2015, the Library reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes in assumptions	\$ 109,269	\$ -	\$ 109,269
Net difference between projected and actual earnings on pension plan investments	-	327,383	(327,383)
Changes in proportion and differences between Library contributions and proportionate share of contributions	-	1,281	(1,281)
	<u>109,269</u>	<u>328,664</u>	<u>(219,395)</u>
Library contributions subsequent to the measurement date	321,522	-	321,522
	<u>321,522</u>	<u>-</u>	<u>321,522</u>
<b>Total</b>	<u>\$ 430,791</u>	<u>\$ 328,664</u>	<u>\$ 102,127</u>

The amount of deferred outflows of resources related to Library contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ (53,765)
2017	(53,765)
2018	(53,765)
2019	<u>(58,100)</u>
<b>Total</b>	<u>\$ (219,395)</u>

*Actuarial Assumptions.* The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.5%
Salary increases	3.5% to 12.3%, including wage inflation at 3.5%
Investment rate of return	8% (7% for the Pension Plus plan)
Cost of living adjustments	3.0% annual, non-compounded for MIP members
Healthcare cost trend rate	8.5% year 1 graded to 3.5% year 12

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

The mortality table used in this valuation was the RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	4.80%	1.34%
Alternative investment pools	18.00%	8.50%	1.53%
International equity pools	16.00%	6.10%	0.98%
Fixed income pools	10.50%	1.50%	0.16%
Real estate and infrastructure pools	10.00%	5.30%	0.53%
Absolute return pools	15.50%	6.30%	0.98%
Short-term investment pools	2.00%	-0.20%	-0.02%
	<u>100.00%</u>		5.50%
Inflation			<u>2.50%</u>
Investment rate of return			<u>8.00%</u>

*Discount Rate.* The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Library contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the Library, calculated using the discount rate of 8.0%, as well as what the Library's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Library's proportionate share of the net pension liability	\$ 3,904,339	\$ 2,961,393	\$ 2,166,947

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

*Payable to the Pension Plan.* At June 30, 2015, the Library reported a payable of \$20,900 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2015.

### *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. Employer contribution requirements for other postemployment as a percentage of covered payroll were 6.45% and 2.71% for the plan years ending September 30, 2014 and 2015, respectively. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

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

The Library's contributions to MPSERS for other postemployment benefits amounted to \$41,517 for the year ended June 30, 2015.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### 12. AGENT MULTIPLE-EMPLOYER PENSION PLAN

*General Information About the Plan*

*Plan Description.* The Library participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan that provides certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, state-wide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

*Benefits Provided.* Pension benefits vary by division and are calculated as final average compensation (based on a 5 year period) and a multiplier of 1.5% and 2.0% for union and administration divisions, respectively. Participants are fully vested in the plan after 6 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or age 55 with 15 years of service. Members retiring after May 1, 1991 receive benefit increases of 2.5% (non-compounded) for cost-of-living adjustments. Members are not required to contribute to the Plan.

*Employees Covered by Benefit Terms.* At December 31, 2014, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	10
Active employees	58
Total membership	76

*Contributions.* The Library is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions as a percentage of payroll for the year ended June 30, 2015 were 7.96% and 11.49% for union and administration divisions, respectively.

*Net Pension Liability.* The Library's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3% to 4%
Salary increases	4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.25%, net of investment expense and including inflation

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3% to 4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted for the period from December 31, 2003 through December 31, 2008.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.52%
Diversifying strategies	10.00%	6.56%	0.66%
	<u>100.00%</u>		
Inflation			3.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.25%</u>

*Discount Rate.* The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### *Changes in Net Pension Liability*

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2013	\$ 5,152,791	\$ 4,565,374	\$ 587,417
Changes for the year:			
Service cost	237,109	-	237,109
Interest	431,669	-	431,669
Employer contributions	-	275,201	(275,201)
Net investment income	-	294,748	(294,748)
Benefit payments, including refunds of employee contributions	(77,984)	(77,984)	-
Administrative expense	-	(10,916)	10,916
Net changes	590,794	481,049	109,745
Balances at December 31, 2014	\$ 5,743,585	\$ 5,046,423	\$ 697,162

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the Library, calculated using the discount rate of 8.25%, as well as what the Library's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Library's net pension liability	\$ 1,596,624	\$ 697,162	\$ (46,787)

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### *Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended June 30, 2015, the Library recognized pension expense of \$313,283. The Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 71,664	\$ -	\$ 71,664
Contributions subsequent to the measurement date	140,334	-	140,334
<b>Total</b>	<b>\$ 211,998</b>	<b>\$ -</b>	<b>\$ 211,998</b>

The amount of deferred outflows of resources related to Library contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ 17,916
2017	17,916
2018	17,916
2019	17,916
<b>Total</b>	<b>\$ 71,664</b>

*Payable to the Pension Plan.* At June 30, 2015, the Library reported a payable of \$23,619 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

## 13. COMBINING SCHEDULES FOR LIBRARY'S PENSION PLANS

The net pension liability, deferred inflows of resources, and deferred outflows of resources for each defined benefit pension plan are reported in the statement of net position as follows:

	MPSERS	MERS	Total
Net pension liability	\$ 2,961,393	\$ 697,162	\$ 3,658,555
Deferred outflows of resources	430,791	211,998	642,789
Deferred inflows of resources	328,664	-	328,664

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### 14. 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.

### 15. 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.

### 16. RESTATEMENT

The Library adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$3,228,173.

### 17. SUBSEQUENT EVENT

Subsequent to year-end, the Board of Trustees approved a discretionary payment of \$100,000 to MERS to reduce the Library's net pension liability. The funds were disbursed on September 22, 2015.



## REQUIRED SUPPLEMENTARY INFORMATION

# KALAMAZOO PUBLIC LIBRARY

## Required Supplementary Information

### MPERS Cost-Sharing Multiple-Employer Plan

#### Schedule of the Library's Proportionate Share of the Net Pension Liability

	Year Ended June 30, 2015
Library's proportion of the net pension liability	0.01344468%
Library's proportionate share of the net pension liability	\$ 2,961,393
Library's covered-employee payroll	1,129,713
Library's proportionate share of the net pension liability as a percentage of its covered-employee payroll	262.14%
Plan fiduciary net position as a percentage of the total pension liability	66.20%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# KALAMAZOO PUBLIC LIBRARY

## Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of Library Contributions

	Year Ended June 30, 2015
Contractually required contribution	\$ 401,094
Contributions in relation to the contractually required contribution	<u>(401,094)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Library's covered-employee payroll	\$ 1,131,340
Contributions as a percentage of covered employee payroll	35.45%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# KALAMAZOO PUBLIC LIBRARY

## Required Supplementary Information

### MERS Agent Multiple-Employer Defined Benefit Pension Plan

#### Schedule of Changes in the Library's Net Pension Liability and Related Ratios

	Year Ended June 30, 2015
Total pension liability	
Service cost	\$ 237,109
Interest	431,669
Benefit payments, including refunds of employee contributions	(77,984)
Net change in total pension liability	<u>590,794</u>
Total pension liability, beginning of year	<u>5,152,791</u>
Total pension liability, end of year	<u><u>\$ 5,743,585</u></u>
Plan fiduciary net position	
Employer contributions	275,201
Employee contributions	294,748
Benefit payments, including refunds of employee contributions	(77,984)
Administrative expense	(10,916)
Net change in plan fiduciary net position	<u>481,049</u>
Plan fiduciary net position, beginning of year	<u>4,565,374</u>
Plan fiduciary net position, end of year	<u>5,046,423</u>
Library's net pension liability	<u><u>\$ 697,162</u></u>
Plan fiduciary net position as a percentage of total pension liability	87.86%
Covered-employee payroll	<u><u>\$ 2,945,321</u></u>
Library's net pension liability as a percentage of covered-employee payroll	23.67%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# KALAMAZOO PUBLIC LIBRARY

## Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 5,743,585	\$ 5,046,423	\$ 697,162	87.86%	\$ 2,945,321	23.67%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# KALAMAZOO PUBLIC LIBRARY

## Required Supplementary Information

### MERS Agent Multiple-Employer Defined Benefit Pension Plan

#### Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2015	\$ 281,186	\$ 281,186	\$ -	\$ 3,035,065	9.26%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

#### Notes to Schedule of Contributions

Valuation Date December 31, 2014  
 Notes Actuarially determined contribution rates are calculated as of the June 30 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry-age normal  
 Amortization method Level percent of payroll, open  
 Remaining amortization period 24 years  
 Asset valuation method 10 year  
 Inflation 3.0% to 4.0%  
 Salary increases 4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)  
 Investment rate of return 8.0%  
 Retirement age Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations.  
 Mortality 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

## 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, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local support	\$ 28,000	\$ 34,133	\$ 40,826	\$ 6,693
Interest income	-	-	3,365	3,365
<b>Total revenues</b>	<b>28,000</b>	<b>34,133</b>	<b>44,191</b>	<b>10,058</b>
<b>Expenditures</b>				
Salaries and benefits	539	1,725	1,466	(259)
Materials	28,250	31,750	27,904	(3,846)
Purchased services	13,087	16,287	14,376	(1,911)
Other expense	15,509	28,315	17,031	(11,284)
<b>Total expenditures</b>	<b>57,385</b>	<b>78,077</b>	<b>60,777</b>	<b>(17,300)</b>
<b>Net change in fund balance</b>	<b>(29,385)</b>	<b>(43,944)</b>	<b>(16,586)</b>	<b>27,358</b>
Fund balances, beginning of year	187,936	187,936	187,936	-
<b>Fund balances, end of year</b>	<b>\$ 158,551</b>	<b>\$ 143,992</b>	<b>\$ 171,350</b>	<b>\$ 27,358</b>

## INTERNAL CONTROL AND COMPLIANCE

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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*

October 22, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 22, 2015.

#### 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 2015-001 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.

*Rehmann Lobson LLC*

# KALAMAZOO PUBLIC LIBRARY

## Schedule of Findings and Responses

For the Year Ended June 30, 2015

2015-001 - Segregation of Incompatible Duties (repeat comment)

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 capital asset schedules at year-end, which are completed only for financial reporting purposes. These schedules are not subject to an independent review process. We noted a minor omission in the initial schedules we were provided, which was not material but was significant 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. To the extent that information has been independently reviewed, the reviewer should sign/initial and date the document as evidence of the process.

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, 2015

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.

