



Kalamazoo Public Library

For the
Year Ended
June 30, 2016

Financial
Statements

KALAMAZOO PUBLIC LIBRARY

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INDEPENDENT AUDITORS' REPORT

September 21, 2016

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 remaining fund information of the *Kalamazoo Public Library* (the "Library") as of and for the year ended June 30, 2016, 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 remaining fund information of the Kalamazoo Public Library as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules 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 September 21, 2016 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.

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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, 2016. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- . The assets 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 \$20,688,946 (*net position*).
- . The Library's total net position increased by \$226,188.
- . As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$13,761,785, an increase of \$583,601 in comparison with the prior year.
- . At the end of the current fiscal year, unassigned fund balance of the general fund was \$6,785,590, or 61% 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, 2016.

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

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

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

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

The Library maintains 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 fund 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.

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Library's financial position. In the case of the Library, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,688,946 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance.

	Net Position	
	Governmental Activities	
	2016	2015
Assets		
Current and other assets	\$ 13,976,099	\$ 13,439,479
Capital assets, net	11,144,822	11,393,890
Total assets	<u>25,120,921</u>	<u>24,833,369</u>
Deferred outflows of resources	<u>1,276,343</u>	<u>642,789</u>
Liabilities		
Current and other liabilities	4,865,320	3,919,850
Long-term liabilities	778,019	764,886
Total liabilities	<u>5,643,339</u>	<u>4,684,736</u>
Deferred inflows of resources	<u>64,979</u>	<u>328,664</u>
Net position		
Net investment in capital assets	11,136,011	11,379,395
Restricted	4,257,528	4,371,883
Unrestricted	5,295,407	4,711,480
Total net position	<u>\$ 20,688,946</u>	<u>\$ 20,462,758</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 increase in unrestricted net position is primarily related to capital asset depreciation, the timing of planned capital projects, and the timing of shifting from in-house to hosted software and contractual arrangements for hosted computer servers.

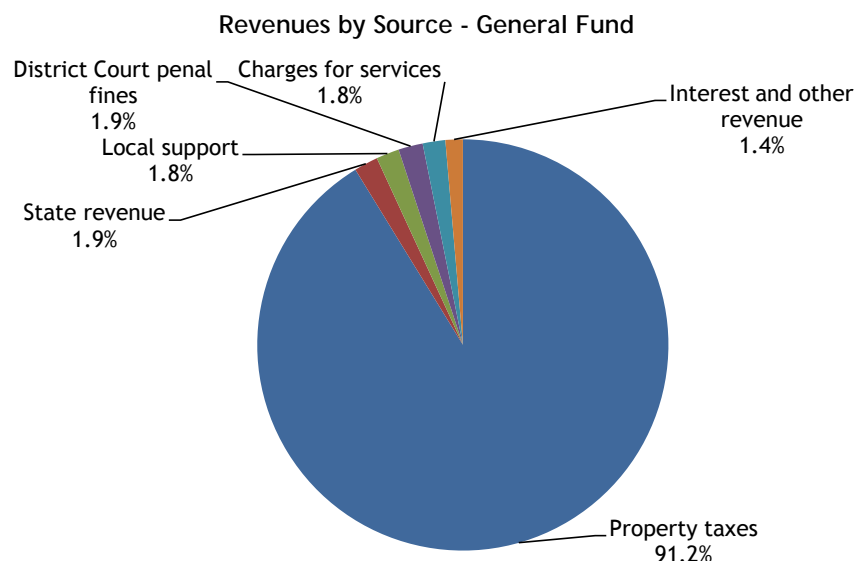
KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 207,315	\$ 179,346
Operating grants and contributions	393,534	408,180
General revenues:		
Property taxes	10,651,798	10,404,524
District Court penal fines	222,994	273,904
State revenue	82,072	73,004
Unrestricted investment earnings (loss)	(68,495)	201,819
Other unrestricted revenues	140,896	140,099
Total revenues	11,630,114	11,680,876
Expenses		
Library services	11,403,475	11,238,760
Interest on long-term debt	451	851
Total expenses	11,403,926	11,239,611
Change in net position	226,188	441,265
Net position, beginning of year	20,462,758	23,249,666
Restatement for implementation of GASB 68	-	(3,228,173)
Net position, end of year	\$ 20,688,946	\$ 20,462,758

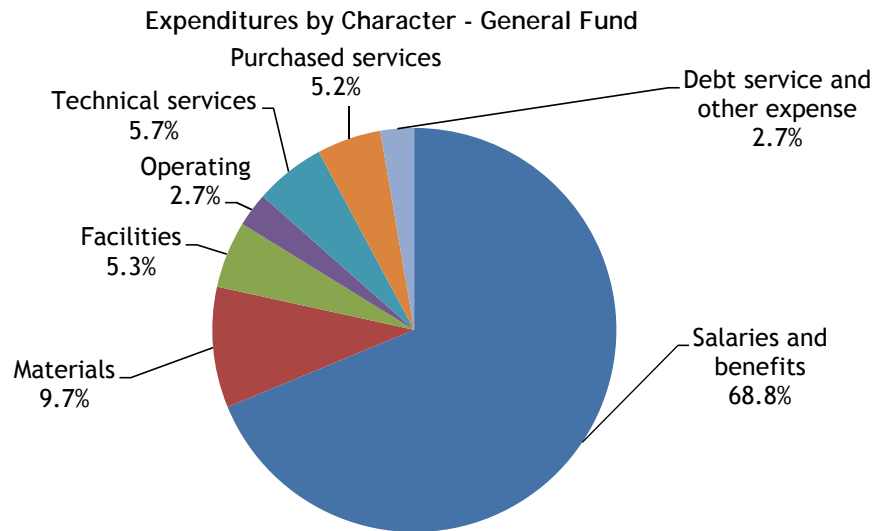
Governmental activities. Net position increased by \$226,188. This was primarily the result of capital asset depreciation, the timing of planned capital projects, and the timing of shifting from in-house to hosted software and contractual arrangements for hosted computer servers.

Governmental Funds



KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis



The fund balance of the Library's general fund increased by \$493,905 during the current fiscal year. The largest revenue source in this fund is property taxes which contribute 91.2% of the Library's general fund revenue. During fiscal year 2016, local property taxes increased \$247,274 or 2.4% compared to the prior year. Operating expenses in the general fund increased \$554,576 or 5.4% during the same period, resulting in a net increase of fund balance of \$493,905.

The total fund balance of the capital improvements fund increased by \$198,284 during the fiscal year due to the timing of capital improvement projects. Current reserves include building repair such as roof replacements and public restroom refurbishment, the server migration project, Oshtemo branch utilities, and Central library boiler replacement.

The total fund balance of the endowment fund decreased by \$114,332 during the current fiscal year as a result of stock market value losses.

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 impact and accounting of the Michigan Public School Employees Retirement System Unfunded Accrued Liability Stabilization expenditures and reimbursement by the State of Michigan.
- Increase in the general operating fund support of future capital improvement projects.

The Library is not permitted to amend the budget after June 30, 2016 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:

- Final tax settlements for the 2015 tax year resulting in a larger increase in property tax support than anticipated.

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Management's Discussion and Analysis

- Salaried staff vacancies, the timing of retirements, and of timing hiring and availability of part-time hourly staff.
- The long-term shift in material collections to a greater concentration of electronic formats.
- The timing of shifting to hosted environments for both software applications and computer server contracts.
- Changes in library programs and services based upon strategic objectives.

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2016, the Library had invested \$11,144,822 in capital assets, net of depreciation. The decrease of \$249,068 or 2.2% from the prior year results primarily from current year additions offset with current year depreciation expense. 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, refurbishment of the Central library freight elevator, Central library lighting upgrades and air handling equipment replacement, refurbishment of the Central Library exterior marble tile, repair of the Eastwood roof, the purchase of a new delivery vehicle, and improvements to self-checkout computer equipment.

	Capital Assets (Net of Depreciation)	
	2016	2015
Land	\$ 133,173	\$ 133,173
Building and improvements	8,643,765	8,813,454
Furniture, equipment, and automation	268,975	321,635
Materials	2,098,909	2,125,628
Total	<u>\$ 11,144,822</u>	<u>\$ 11,393,890</u>

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

Long-Term Debt. At June 30, 2016, the Library had \$778,019 in outstanding debt, which represents an increase of 1.7% from the prior year. The change is the net impact of increased retirement incentive accruals offset by decreases in debt and compensated absence accruals. The following table summarizes long-term debt as of the current and prior year-end dates.

	Long-term Debt	
	2016	2015
Installment purchase agreements/capital leases	\$ 8,811	\$ 14,495
Retirement incentive	542,041	522,797
Compensated absences	227,167	227,594
Total	<u>\$ 778,019</u>	<u>\$ 764,886</u>

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

KALAMAZOO PUBLIC LIBRARY

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Local property taxes remain the Library's primary source of revenue and contribute 91% of general operating revenue. The Library's voted millage is applied to all areas within Kalamazoo Public School District, Mattawan and Otsego School Districts within Oshtemo Township, Portage and Comstock School Districts within the city of Kalamazoo, and Comstock School District within Kalamazoo Township.

The Library's 3.9583 millage rate is comprised of two separate millages. The first for 2.7782 mills was renewed in May 2009 for 20 years, and the second millage for 1.1801 mills was renewed in May 2014 also for 20 years. During fiscal year 2015-2016 the Library's property tax revenue increased by \$247,274 or 2.4% including delinquent receipts from the previous year, reflecting continued stabilization of the Library's property tax revenue.

During the current year the Library completed a complete refurbishment of the Central Library freight elevator, purchased a new delivery vehicle, replaced the Central Library lighting control system, refurbished and repaired the Central Library exterior marble tile and the Eastwood branch roof. Programs and services offered continued to concentrate on 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, continuing sponsorship of first grade visits to the library and First Saturday programming for children and youth.

Looking forward to the next fiscal year, the Library's preliminary budget anticipates property tax revenues decreasing 0.8% after adjustments for tax captures within the City of Kalamazoo and Oshtemo Township. Salaries and benefits projected include the addition of a graphic artist position to support marketing and communication efforts and the continuation of an additional 1.5% of covered staff salaries in support of unfunded liabilities of the library's retirement plan in the Municipal Employees Retirement System (MERS). Projected contractual costs for hosted software applications and a partnership with Kalamazoo Regional Educational Service Agency for storage and management of the library's electronic data as well as general price increases result in the preliminary budget net of expenditures exceeding revenue by \$117,066, supported by unassigned fund balance.

The use of library services continues to be strong although down in circulation of materials and program attendance from the prior year. As is the case with many other libraries, circulation and attendance peaks in a recession economy and slows down as the economy recovers. Other areas of use remain strong with continued interest in our Ready to Read program and the distribution of gift books to children and attendance at the library's Party in the Park event. Teen program attendance has surpassed our targets for the year as has use of the library's Wi-Fi and the local history room, programming, and materials. Kalamazoo Public Library is committed to continue to refine and focus efforts, services and programs on the community identified service 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.

BASIC FINANCIAL STATEMENTS

KALAMAZOO PUBLIC LIBRARY

Statement of Net Position

June 30, 2016

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 7,948,797
Investments	5,265,652
Receivables	188,212
Prepays and other assets	492,626
Beneficial interest in Foundation	80,812
Capital assets not being depreciated	133,173
Capital assets being depreciated, net	11,011,649
Total assets	25,120,921
Deferred outflows of resources	
Deferred pension amounts	1,276,343
Liabilities	
Payables and accrued liabilities	214,314
Long-term debt:	
Due in one year	381,807
Due in more than one year	396,212
Net pension liability	4,651,006
Total liabilities	5,643,339
Deferred inflows of resources	
Deferred pension amounts	64,979
Net position	
Net investment in capital assets	11,136,011
Restricted	4,257,528
Unrestricted	5,295,407
Total net position	\$ 20,688,946

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

KALAMAZOO PUBLIC LIBRARY

Statement of Activities

For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Library services	\$ 11,403,475	\$ 207,315	\$ 393,534	\$ (10,802,626)
Interest on long-term debt	451	-	-	(451)
Total governmental activities	<u>\$ 11,403,926</u>	<u>\$ 207,315</u>	<u>\$ 393,534</u>	<u>(10,803,077)</u>
General revenues				
Property taxes				10,651,798
District Court penal fines				222,994
State revenue				82,072
Unrestricted investment earnings (loss)				(68,495)
Other unrestricted revenues				<u>140,896</u>
Total general revenues				<u>11,029,265</u>
Change in net position				226,188
Net position, beginning of year				<u>20,462,758</u>
Net position, end of year				<u>\$ 20,688,946</u>

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

KALAMAZOO PUBLIC LIBRARY

Balance Sheet

Governmental Funds

June 30, 2016

	Nonmajor				
	General Fund	Capital Improvement Fund	Endowment Fund	Special Revenue Fund	Total
Assets					
Cash and cash equivalents	\$ 5,412,408	\$ 2,229,526	\$ 209,500	\$ 97,363	\$ 7,948,797
Investments	1,630,618	-	3,635,034	-	5,265,652
Receivables	188,212	-	-	-	188,212
Beneficial interest in Foundation	-	-	-	80,812	80,812
Prepays and other assets	492,626	-	-	-	492,626
Total assets	\$ 7,723,864	\$ 2,229,526	\$ 3,844,534	\$ 178,175	\$ 13,976,099
Liabilities					
Accounts payable	\$ 155,888	\$ 12,279	\$ -	\$ 1,081	\$ 169,248
Accrued liabilities	45,066	-	-	-	45,066
Total liabilities	200,954	12,279	-	1,081	214,314
Fund balances					
Nonspendable	492,626	-	2,096,135	-	2,588,761
Restricted	244,694	-	1,748,399	168,300	2,161,393
Assigned	-	2,217,247	-	8,794	2,226,041
Unassigned	6,785,590	-	-	-	6,785,590
Total fund balances	7,522,910	2,217,247	3,844,534	177,094	13,761,785
Total liabilities and fund balances	\$ 7,723,864	\$ 2,229,526	\$ 3,844,534	\$ 178,175	\$ 13,976,099

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, 2016

Fund balances - total governmental funds	\$ 13,761,785
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Amounts reported for *governmental activities* in the statement of net position are different because:

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

Capital assets not being depreciated	133,173
Capital assets being depreciated, net	11,011,649

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	(8,811)
Retirement incentive	(542,041)
Compensated absences payable	(227,167)

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	(4,651,006)
Deferred outflows related to the net pension liability	1,276,343
Deferred inflows related to the net pension liability	(64,979)

Net position of governmental activities	<u>\$ 20,688,946</u>
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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, 2016

	Nonmajor				
	General Fund	Capital Improvement Fund	Endowment Fund	Special Revenue Fund	Total
Revenues					
Property taxes	\$ 10,651,798	\$ -	\$ -	\$ -	\$ 10,651,798
State revenue	219,460	-	-	-	219,460
Local support	213,443	5,000	-	37,703	256,146
District Court penal fines	222,994	-	-	-	222,994
Charges for services	207,315	-	-	-	207,315
Interest income (loss)	18,633	-	(90,676)	3,548	(68,495)
Other revenues	140,896	-	-	-	140,896
Total revenues	11,674,539	5,000	(90,676)	41,251	11,630,114
Expenditures					
Current - library services:					
Salaries and benefits	7,275,295	-	-	-	7,275,295
Materials	1,023,525	-	-	16,066	1,039,591
Facilities	564,752	-	-	-	564,752
Operating	287,848	-	-	-	287,848
Technical services	598,606	-	-	-	598,606
Purchased services	545,132	-	-	2,282	547,414
Other expense	279,341	-	23,656	17,159	320,156
Debt service:					
Principal	5,684	-	-	-	5,684
Interest	451	-	-	-	451
Capital outlay	-	406,716	-	-	406,716
Total expenditures	10,580,634	406,716	23,656	35,507	11,046,513
Revenues over (under) expenditures	1,093,905	(401,716)	(114,332)	5,744	583,601
Other financing sources (uses)					
Transfers in	-	600,000	-	-	600,000
Transfers out	(600,000)	-	-	-	(600,000)
Total other financing sources (uses)	(600,000)	600,000	-	-	-
Net change in fund balances	493,905	198,284	(114,332)	5,744	583,601
Fund balances, beginning of year	7,029,005	2,018,963	3,958,866	171,350	13,178,184
Fund balances, end of year	\$ 7,522,910	\$ 2,217,247	\$ 3,844,534	\$ 177,094	\$ 13,761,785

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, 2016

Net change in fund balances - total governmental funds	\$ 583,601
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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	1,124,927
Depreciation expense	(1,372,202)
Loss on disposal of capital assets	(1,793)

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	5,684
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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	(19,244)
Change in compensated absences payable	427
Change in the net pension liability and related deferred amounts	(95,212)

Change in net position of governmental activities	<u>\$ 226,188</u>
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The accompanying notes are an integral part of these financial statements.

KALAMAZOO PUBLIC LIBRARY

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 10,532,419	\$ 10,561,874	\$ 10,651,798	\$ 89,924
State revenue	74,000	211,388	219,460	8,072
Local support	185,000	185,000	213,443	28,443
District Court penal fines	255,000	255,000	222,994	(32,006)
Charges for services	175,000	215,000	207,315	(7,685)
Interest income	15,000	15,000	18,633	3,633
Other revenues	136,590	139,600	140,896	1,296
Total revenues	11,373,009	11,582,862	11,674,539	91,677
Expenditures				
Current:				
Salaries and benefits	7,214,450	7,442,918	7,275,295	(167,623)
Materials	1,142,376	1,157,131	1,023,525	(133,606)
Facilities	631,061	634,706	564,752	(69,954)
Operating	348,793	337,793	287,848	(49,945)
Technical services	652,471	675,160	598,606	(76,554)
Purchased services	605,108	590,166	545,132	(45,034)
Other expense	313,799	327,318	279,341	(47,977)
Debt service:				
Principal	5,684	5,684	5,684	-
Interest expense	451	451	451	-
Total expenditures	10,914,193	11,171,327	10,580,634	(590,693)
Revenues over expenditures	458,816	411,535	1,093,905	682,370
Other financing sources (uses)				
Transfers in	-	3,099	-	(3,099)
Transfers out	(400,000)	(600,000)	(600,000)	-
Total other financing sources (uses)	(400,000)	(596,901)	(600,000)	(3,099)
Net change in fund balance	58,816	(185,366)	493,905	679,271
Fund balances, beginning of year	7,029,005	7,029,005	7,029,005	-
Fund balances, end of year	\$ 7,087,821	\$ 6,843,639	\$ 7,522,910	\$ 679,271

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 certificates of deposit, 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.

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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 2015 taxable valuation of the participating municipalities totaled \$2.709 billion before adjustments, on which taxes levied consisted of 3.9583 mills for operating purposes. This resulted in approximately \$10.7 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 resources are 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, 2016, 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	\$ 7,948,797
Investments	<u>5,265,652</u>
Total cash and investments	<u>\$ 13,214,449</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	7,948,547
Certificates of deposit (due within one year)	1,983,150
Certificates of deposit (due in one to five years)	600,651
Investments	<u>2,681,851</u>
Total cash and investments	<u>\$ 13,214,449</u>

These deposits are in various 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, \$1,607,121 of the Library's bank balance of \$10,644,730 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, 2016:

Common stock	\$ 2,087,647
Corporate bonds	415,874
Government bonds	<u>178,330</u>
Total	<u>\$ 2,681,851</u>

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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, 2016:

Not Rated	\$ 2,087,647
S&P A	283,551
S&P AA	310,653
	<u>\$ 2,681,851</u>

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	\$ 2,087,647
1 - 5 years	434,894
6 - 10 years	159,310
	<u>159,310</u>
Total	<u>\$ 2,681,851</u>

Fair Value. The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of year-end, the Library's investments were all considered to be Level 1.

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.

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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, 2016 was \$80,812.

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, 2016 was \$28,196.

5. RECEIVABLES AND PAYABLES

Receivables of governmental activities are comprised of the following:

Accounts receivable	\$ 1,222
Taxes receivable	20,823
Due from other governments	<u>166,167</u>
Total	<u>\$ 188,212</u>

Payables of governmental activities are comprised of the following:

Accounts	\$ 169,248
Accrued liabilities	<u>45,066</u>
Total	<u>\$ 214,314</u>

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Notes to Financial Statements

6. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2016 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	237,991	-	-	16,098,089
Furniture, equipment, and automation	1,485,767	65,183	(23,615)	-	1,527,335
Materials	4,877,699	821,753	(807,015)	-	4,892,437
	<u>22,223,564</u>	<u>1,124,927</u>	<u>(830,630)</u>	<u>-</u>	<u>22,517,861</u>
Less accumulated depreciation:					
Building & improvements	(7,046,644)	(407,680)	-	-	(7,454,324)
Furniture, equipment, and automation	(1,164,132)	(116,050)	21,822	-	(1,258,360)
Materials	(2,752,071)	(848,472)	807,015	-	(2,793,528)
	<u>(10,962,847)</u>	<u>(1,372,202)</u>	<u>828,837</u>	<u>-</u>	<u>(11,506,212)</u>
Total capital assets being depreciated, net	<u>11,260,717</u>	<u>(247,275)</u>	<u>(1,793)</u>	<u>-</u>	<u>11,011,649</u>
Total capital assets, net	<u>\$ 11,393,890</u>	<u>\$ (247,275)</u>	<u>\$ (1,793)</u>	<u>\$ -</u>	<u>\$ 11,144,822</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 \$15,294.

7. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Library for the year ended June 30, 2016:

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
Installment purchase agreements/capital leases	\$ 14,495	\$ -	\$ (5,684)	\$ 8,811	\$ 5,900
Retirement incentive	522,797	31,552	(12,308)	542,041	148,740
Compensated absences	227,594	282,523	(282,950)	227,167	227,167
Total long-term debt	<u>\$ 764,886</u>	<u>\$ 314,075</u>	<u>\$ (300,942)</u>	<u>\$ 778,019</u>	<u>\$ 381,807</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.

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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 \$ 6,721

\$5,900 copier installment purchase agreement, due in monthly installments of \$123 with a 0.0% interest rate through November 2017 2,090

Total installment debt \$ 8,811

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
2017	\$ 5,900	\$ 236
2018	<u>2,911</u>	<u>34</u>
Total	<u>\$ 8,811</u>	<u>\$ 270</u>

8. INTERFUND TRANSFERS

During the year ended June 30, 2016, 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
Nonspendable					
Prepays	\$ 492,626	\$ -	\$ -	\$ -	\$ 492,626
Endowment	-	-	2,096,135	-	2,096,135
	<u>492,626</u>	<u>-</u>	<u>2,096,135</u>	<u>-</u>	<u>2,588,761</u>
Restricted					
ONEPlace	244,694	-	-	570	245,264
Endowment	-	-	1,748,399	-	1,748,399
Ready to read	-	-	-	80,324	80,324
Local history	-	-	-	81,812	81,812
Anti-racism	-	-	-	852	852
Gifts and memorials	-	-	-	4,742	4,742
	<u>244,694</u>	<u>-</u>	<u>1,748,399</u>	<u>168,300</u>	<u>2,161,393</u>
Assigned					
Capital projects	-	2,217,247	-	-	2,217,247
Library programs	-	-	-	8,794	8,794
	<u>-</u>	<u>2,217,247</u>	<u>-</u>	<u>8,794</u>	<u>2,226,041</u>
Unassigned	<u>6,785,590</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,785,590</u>
Total fund balances - governmental funds	<u>\$ 7,522,910</u>	<u>\$ 2,217,247</u>	<u>\$ 3,844,534</u>	<u>\$ 177,094</u>	<u>\$ 13,761,785</u>

10. NET POSITION

The composition of the Library's restricted net position as of June 30, 2016 was as follows:

ONEPlace	\$ 245,264
Ready to read	80,324
Local history	81,812
Anti-racism	852
Gifts and memorials	4,742
Endowment (non-expendable)	2,096,135
Endowment (expendable)	<u>1,748,399</u>
Total restricted net position	<u>\$ 4,257,528</u>

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Notes to Financial Statements

The composition of the Library's net investment in capital assets as of June 30, 2016 was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 133,173
Capital assets being depreciated, net	<u>11,011,649</u>
	11,144,822
Related debt:	
Capital lease / installment purchase agreement	<u>8,811</u>
Net investment in capital assets	<u>\$ 11,136,011</u>

11. COST-SHARING MULTIPLE-EMPLOYER RETIREMENT PLAN

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

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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Notes to Financial Statements

DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21-year period for the 2015 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2015.

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	22.52% - 23.07%
Member Investment Plan (MIP)	3.0% - 7.0%	22.52% - 23.07%
Pension Plus	3.0% - 6.4%	21.99%
Defined Contribution	0.0%	17.72% - 18.76%

The Library's contribution to MPSERS under all pension plans for the year ended June 30, 2016 was \$293,751.

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

At June 30, 2016, the Library reported a liability of \$3,260,389 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The Library's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the Library's proportion was 0.01335%, which was a decrease of 0.00009% from its proportion measured as of September 30, 2014.

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Notes to Financial Statements

For the year ended June 30, 2016, the Library recognized pension expense of \$270,529. At June 30, 2016, 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
Differences between expected and actual experience	\$ -	\$ 10,799	\$ (10,799)
Changes in assumptions	80,278	-	80,278
Net difference between projected and actual earnings on pension plan investments	16,642	-	16,642
Changes in proportion and differences between employer contributions and proportionate share of contributions	405	18,859	(18,454)
	<u>97,325</u>	<u>29,658</u>	<u>67,667</u>
Library contributions subsequent to the measurement date	253,532	-	253,532
Total	<u>\$ 350,857</u>	<u>\$ 29,658</u>	<u>\$ 321,199</u>

\$253,532 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 4,105
2018	4,105
2019	(197)
2020	<u>59,654</u>
Total	<u>\$ 67,667</u>

Notes to Financial Statements

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. 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 period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, 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%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity pools	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.90%
Inflation			<u>2.10%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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 Library's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Library's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the Library's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Library's proportionate share of the net pension liability	\$ 4,203,478	\$ 3,260,389	\$ 2,465,327

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.

Payable to the Pension Plan

At June 30, 2016, the Library reported a payable of \$7,748 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016.

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 contributions range from 2.71% to 6.83% of covered payroll. 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 enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. 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. 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. 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 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPSERS to each entity, including interest, and will then be refunded to individual employees.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

The Library's contributions to MPSERS for other postemployment benefits amounted to \$103,685 for the year ended June 30, 2016.

12. AGENT MULTIPLE-EMPLOYER PENSION PLAN

Plan Description

The Library's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. 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.

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.

Employees Covered by Benefit Terms.

At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>60</u>
Total membership	<u><u>80</u></u>

Contributions

The employer 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. For the year ended June 30, 2016, employer contributions ranged from 8.04% to 11.84% of annual payroll. Effective July 1, 2016, the Library approved an additional employer contribution for all employees of 1.5% of annual payroll. In addition, the employer may establish contribution rates to be paid by its covered employees. Currently, members are not required to make any contributions.

Net Pension Liability

The Library's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.25%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 2.5%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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%	0.51%
Diversifying strategies	10.00%	6.56%	0.66%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.50%</u>
Investment rate of return			<u>8.25%</u>

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Discount Rate

The discount rate used to measure the total pension liability is 8.25% for 2015. 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.

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, 2014	\$ 5,743,585	\$ 5,046,423	\$ 697,162
Changes for the year:			
Service cost	246,610	-	246,610
Interest	480,599	-	480,599
Differences between expected and actual results	(40,367)	-	(40,367)
Changes in assumptions	328,255	-	328,255
Employer contributions	-	411,948	(411,948)
Net investment income (loss)	-	(78,821)	78,821
Benefit payments, including refunds of employee contributions	(82,897)	(82,897)	-
Administrative expense	-	(11,485)	11,485
Net changes	932,200	238,745	693,455
Balances at December 31, 2015	\$ 6,675,785	\$ 5,285,168	\$ 1,390,617

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	\$ 2,452,992	\$ 1,390,617	\$ 515,373

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Pension Plan Fiduciary Net Position

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

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

For the year ended June 30, 2016, the Library recognized pension expense of \$15,288. 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
Difference between expected and actual experience	\$ -	\$ 35,321	\$ (35,321)
Changes in assumptions	287,223	-	287,223
Net difference between projected and actual earnings on pension plan investments	460,348	-	460,348
	<u>747,571</u>	<u>35,321</u>	<u>712,250</u>
Contributions subsequent to the measurement date	177,915	-	177,915
Total	<u>\$ 925,486</u>	<u>\$ 35,321</u>	<u>\$ 890,165</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2017. 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
2017	\$ 155,552
2018	155,552
2019	155,551
2020	137,638
2021	35,984
2022	35,986
2023	<u>35,987</u>
Total	<u>\$ 712,250</u>

KALAMAZOO PUBLIC LIBRARY

Notes to Financial Statements

Payable to the Pension Plan

At June 30, 2016, there were no amounts outstanding by the Library for contributions to the pension plan required for the year ended June 30, 2016.

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	\$ 3,260,389	\$ 1,390,617	\$ 4,651,006
Deferred outflows of resources	350,857	925,486	1,276,343
Deferred inflows of resources	29,658	35,321	64,979

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

Contingencies

The Library receives revenues from the other governmental units. This revenue is allocated to the Library based on various factors, which may be reviewed at some future date. Any changes in revenue allocation factors cannot be determined at this time, although the Library expects such amounts, if any, not to be material.

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.



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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,	
	2016	2015
Library's proportionate share of the net pension liability	\$ 3,260,389	\$ 2,961,393
Library's proportion of the net pension liability	0.01335%	0.01344%
Library's covered-employee payroll	\$ 1,128,273	\$ 1,129,713
Library's proportionate share of the net pension liability as a percentage of its covered-employee payroll	288.97%	262.14%
Plan fiduciary net position as a percentage of the total pension liability	63.17%	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

MPERS Cost-Sharing Multiple-Employer Plan

Schedule of Library Contributions

	Year Ended June 30,	
	2016	2015
Contractually required contribution	\$ 293,751	\$ 295,954
Contributions in relation to the contractually required contribution	<u>(293,751)</u>	<u>(295,954)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Library's covered-employee payroll	\$ 1,058,426	\$ 1,131,340
Contributions as a percentage of covered employee payroll	27.75%	26.16%

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,	
	2016	2015
Total pension liability		
Service cost	\$ 246,610	\$ 237,109
Interest	480,599	431,669
Differences between expected and actual experience	(40,367)	-
Changes in assumptions	328,255	-
Benefit payments, including refunds of employee contributions	(82,897)	(77,984)
Net change in total pension liability	932,200	590,794
Total pension liability, beginning of year	5,743,585	5,152,791
Total pension liability, end of year	6,675,785	5,743,585
Plan fiduciary net position		
Employer contributions	411,948	275,201
Net investment income	(78,821)	294,748
Benefit payments, including refunds of employee contributions	(82,897)	(77,984)
Administrative expense	(11,485)	(10,916)
Net change in plan fiduciary net position	238,745	481,049
Plan fiduciary net position, beginning of year	5,046,423	4,565,374
Plan fiduciary net position, end of year	5,285,168	5,046,423
Library's net pension liability	\$ 1,390,617	\$ 697,162
Plan fiduciary net position as a percentage of total pension liability	79.17%	87.86%
Covered-employee payroll	\$ 3,084,448	\$ 2,945,321
Library's net pension liability as a percentage of covered-employee payroll	45.08%	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%
2016	6,675,785	5,285,168	1,390,617	79.17%	3,084,448	45.08%

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%
2016	449,529	449,529	-	3,199,158	14.05%

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 Actuarially determined contribution rates are calculated as of the December 31 that is 18 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	23 years
Asset valuation method	10 year
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
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, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

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, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local support	\$ 24,500	\$ 36,813	\$ 37,703	\$ 890
Interest income	735	1,120	3,548	2,428
Total revenues	25,235	37,933	41,251	3,318
Expenditures				
Materials	31,750	33,350	16,066	(17,284)
Purchased services	-	2,282	2,282	-
Other expense	10,226	26,589	17,159	(9,430)
Total expenditures	41,976	62,221	35,507	(26,714)
Revenues over (under) expenditures	(16,741)	(24,288)	5,744	30,032
Other financing uses				
Transfers out	-	(3,090)	-	(3,090)
Net change in fund balance	(16,741)	(27,378)	5,744	33,122
Fund balances, beginning of year	171,350	171,350	171,350	-
Fund balances, end of year	\$ 154,609	\$ 143,972	\$ 177,094	\$ 33,122

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

September 21, 2016

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 remaining fund information of the *Kalamazoo Public Library* (the "Library"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated September 21, 2016.

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. 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.

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*.

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

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