

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

September 26, 2014

Board of Trustees
Kalamazoo Public Library
Kalamazoo, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Kalamazoo Public Library* (the "Library") as of and for the year ended June 30, 2014, and have issued our report thereon dated September 26, 2014. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 16, 2014, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Library solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated September 26, 2014. In addition, we noted certain other matters which are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on July 14, 2014.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Library's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Library is included in Note 1 to the financial statements.

For the year ended June 30, 2014, the Library modified its method for estimating the likelihood that a current employee covered under the retirement incentive program will remain employed until retirement, thereby qualifying for the supplemental payment. In previous years, the Library utilized an estimated percentage to quantify the liability (which is reported only in the full-accrual, government-wide statements). In the current year, the Library calculated the probability of each employee remaining until retirement following a statistical table provided by the Governmental Accounting Standards Board (GASB). The probability-adjusted liability by person was substantially higher than the calculation based on the estimated percentage used in the past. This change in estimate was accounted for in the current year statement of activities.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of earned but unused vacation time.
- Management's estimate of the liability for retirement incentive payments to qualifying employees is based on provisions of bargaining unit agreements, current hourly rates, and a table of probability factors from the GASB representing the likelihood that an employee will remain employed until retirement.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of delinquent personal property taxes receivable.
- The assumptions used in the actuarial valuations of the MERS defined-benefit pension benefits plan is based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Library's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment C to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Library, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Library's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the Kalamazoo Public Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

KALAMAZOO PUBLIC LIBRARY

Attachment A - Comments and Recommendations

For the June 30, 2014 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the Library's internal control over financial reporting is described in our report, dated September 26, 2014, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated September 26, 2014, on the financial statements of the Kalamazoo Public Library.

Best Practices for Capital Assets and Depreciation

Accounting standards require that assets with an estimated useful life beyond one year be capitalized and depreciated systematically in the Library's government-wide financial statements in order to spread the cost over the period of expected use. The Library's current policy specifies a threshold of \$1,000 for recording capital assets. This amount is quite low for a government the size of the Library and may be creating an unnecessary administrative burden to track, tag, and account for such assets. Conversely, the Library's practice has been to expense all building improvements and software purchases, items which technically qualify as "capital assets" and are often well over the \$1,000 threshold. While this inconsistency may not result in a material misstatement of the Library's financial statements, we recommend a comprehensive review and revision of the Library's capitalization policies and procedures. The Library may want to consider establishing different thresholds for capitalization based on the type of asset. For example, it may be prudent to only capitalize significant building improvements, while using a smaller threshold (such as \$5,000) for general equipment purchases. The Government Finance Officers Association (GFOA) has published various recommended practices that may be useful in developing this policy.

Documented Review and Approval of Cash Receipts

The Library has assigned a single individual with the responsibility for the preparing the deposit slip, physically (or at times, electronically) remitting the deposit to the bank, and comparing the bank deposit to the supporting documentation (i.e., cash register reports, remittance advices, subsidiary detail, etc.). We noted one instance in which the bank deposit did not agree to the supporting cash register report; however, there was no documentation or notation for the discrepancy. In order to safeguard the assets of the Library and provide for a clear audit trail, we recommend that variances between the supporting documentation and actual cash receipt be explained in writing and attached to the deposit. An independent individual should compare the general ledger posting to the deposit slip and supporting documentation to ensure the amounts agree. For administrative convenience, it would acceptable for this step to occur monthly as part of the bank reconciliation process. In order to document the controls in place, we encourage the individuals involved in both the preparation and review process to sign or initial and date the paperwork.

In addition, we noted one instance in which a check made out to the Library was inadvertently left in a drawer and not deposited for a period of nearly two months. The check was ultimately deposited with the bank and the revenue has been accounted for in the year-end financial statements. This appears to be an isolated incident.

KALAMAZOO PUBLIC LIBRARY

Attachment A - Comments and Recommendations

For the June 30, 2014 Audit

Budgetary Compliance

The Library uses an annual operating budget as a control mechanism over its expenditure of public funds. Budget and actual reports are reviewed at the Board level on a monthly basis. We noted certain instances in which the original and amended budgets as recorded in the Library's accounting software did not agree by character or in total to the budgets approved by the Board of Trustees. Management has indicated that this is result of unexplained inconsistencies in the accounting software, such that budget and actual reports sometimes require manual adjustments before being presented to the Board. Since the Library uses the accounting system to generate budget vs. actual reports regularly, we encourage management to work with its software vendor to develop a process for generating accurate budgetary reports. This will reduce the amount of administrative time required to manually adjust the system-generated reports, minimize the risk of human error, and allow for accurate information to be available on-demand.



KALAMAZOO PUBLIC LIBRARY

Attachment C - Management Representations

For the June 30, 2014 Audit

The following pages contain the written representations that we requested from management.

KALAMAZOO PUBLIC LIBRARY

Attachment C - Management Representations

For the June 30, 2014 Audit

The following pages contain the written representations that we requested from management.



Kalamazoo Public Library

www.kpl.gov

September 26, 2014

Rehmann Robson
2330 East Paris Ave. SE
Grand Rapids, MI 49546

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Kalamazoo Public Library*, as of and for the year ended June 30, 2014, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position and results of operations, and the budgetary comparison for the general fund of the Library in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 26, 2014.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 16, 2014, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

Central
315 South Rose
Kalamazoo, MI 49007
269.342.9837

Eastwood
1112 Gayle
Kalamazoo, MI 49048
269.553.7810

Oshtemo
7265 West Main
Kalamazoo, MI 49009
269.553.7980

Alma Powell
1000 West Paterson
Kalamazoo, MI 49007
269.553.7960

Washington Square
1244 Portage
Kalamazoo, MI 49001
269.553.7970

7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
9. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
10. All component units, as well as joint ventures with an equity interest, if applicable, are included and other joint ventures and related organizations are properly disclosed.
11. All funds and activities are properly classified.
12. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
13. All components of net position and fund balance classifications have been properly reported.
14. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
15. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
16. All interfund and intra-entity transactions and balances have been properly classified and reported.
17. Special items and extraordinary items, if any, have been properly classified and reported.
18. Deposit and investment risks have been properly and fully disclosed.
19. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
20. All required supplementary information is measured and presented within the prescribed guidelines.
21. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Information Provided

22. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
23. All transactions have been recorded in the accounting records and are reflected in the financial statements.
24. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
25. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
26. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
27. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
28. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
29. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
30. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
31. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.

32. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
33. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.

34. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
35. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
36. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

37. With respect to the supplementary information accompanying the financial statements:
 - a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Required Supplementary Information

38. With respect to the required supplementary information accompanying the financial statements:
 - a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.



Ann Rohrbaugh, Library Director



Diane Schiller, Assistant Director for Administrative Services