



# Kalamazoo Public Library

For the  
Year Ended  
June 30, 2018

Financial  
Statements

# KALAMAZOO PUBLIC LIBRARY

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**INDEPENDENT AUDITORS' REPORT**

October 12, 2018

Board of Trustees  
Kalamazoo Public Library  
Kalamazoo, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Kalamazoo Public Library* (the "Library") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Independent Auditors' Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kalamazoo Public Library as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Implementation of GASB Statement No. 75*

As described in Note 18 to the financial statements, the Library implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in the current year. Accordingly, beginning net position of the governmental activities was restated. Our opinion is not modified with respect to this matter.

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

### *Other Information*

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018 on our consideration of the Kalamazoo Public Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

*Rehmann Lobson LLC*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

As management of the Kalamazoo Public Library (the "Library"), we offer readers of the Library financial statements this narrative review and analysis of the financial activities for the year ended June 30, 2018. 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 \$22,463,719 (*net position*).
- . The Library's total net position increased by \$1,716,035.
- . As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$16,654,283, an increase of \$1,813,433 in comparison with the prior year.
- . At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,288,080, or 71% 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, 2018.

**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 improvement 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 the 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 and other postemployment benefit plans immediately following the notes to the financial statements.

### *Government-wide Financial Analysis*

As noted earlier, net position may serve over time as a useful indicator of the Library's financial position. In the case of the Library, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$22,463,719 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

	Net Position	
	Governmental Activities	
	2018	2017
<b>Assets</b>		
Current and other assets	\$ 17,023,424	\$ 15,222,290
Capital assets, net	10,655,242	10,933,447
<b>Total assets</b>	<u>27,678,666</u>	<u>26,155,737</u>
Deferred outflows of resources	<u>1,385,393</u>	<u>1,327,553</u>
<b>Liabilities</b>		
Current and other liabilities	5,233,883	5,007,053
Long-term debt	630,071	598,087
<b>Total liabilities</b>	<u>5,863,954</u>	<u>5,605,140</u>
Deferred inflows of resources	<u>736,386</u>	<u>101,464</u>
<b>Net position</b>		
Net investment in capital assets	10,655,242	10,930,536
Restricted	5,090,255	4,824,766
Unrestricted	6,718,222	6,021,384
<b>Total net position</b>	<u>\$ 22,463,719</u>	<u>\$ 21,776,686</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 discussed below in terms of change in the schedule of changes in net position.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2018	2017
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 129,359	\$ 146,887
Operating grants and contributions	1,206,126	1,045,745
General revenues:		
Property taxes	10,855,903	10,516,620
District Court penal fines	139,847	152,515
State revenue	873,347	784,986
Unrestricted investment earnings	39,319	33,964
Other unrestricted revenues	109,573	104,948
<b>Total revenues</b>	<b>13,353,474</b>	<b>12,785,665</b>
<b>Expenses</b>		
Library services	11,637,405	11,697,689
Interest on long-term debt	34	236
<b>Total expenses</b>	<b>11,637,439</b>	<b>11,697,925</b>
<b>Change in net position</b>	<b>1,716,035</b>	<b>1,087,740</b>
Net position, beginning of year	21,776,686	20,688,946
Restatement for implementation of GASB 75	(1,029,002)	-
<b>Net position, end of year</b>	<b>\$ 22,463,719</b>	<b>\$ 21,776,686</b>

Governmental activities. Net position increased by \$1,716,035. The primary reasons for this increase are discussed below:

**Property Taxes.** Property tax revenues increased by \$339,283 during FY 2017-2018 as a result of an increase in the taxable value of commercial and residential real estate parcels throughout the Library District.

**State Aid.** Net State aid revenue increased from \$784,986 in 2016-17 to \$873,347 in the current year as a result of the Library's receipt of a larger payment from the Local Community Stabilization Authority representing reimbursement to the Library for lost personal property tax revenue.

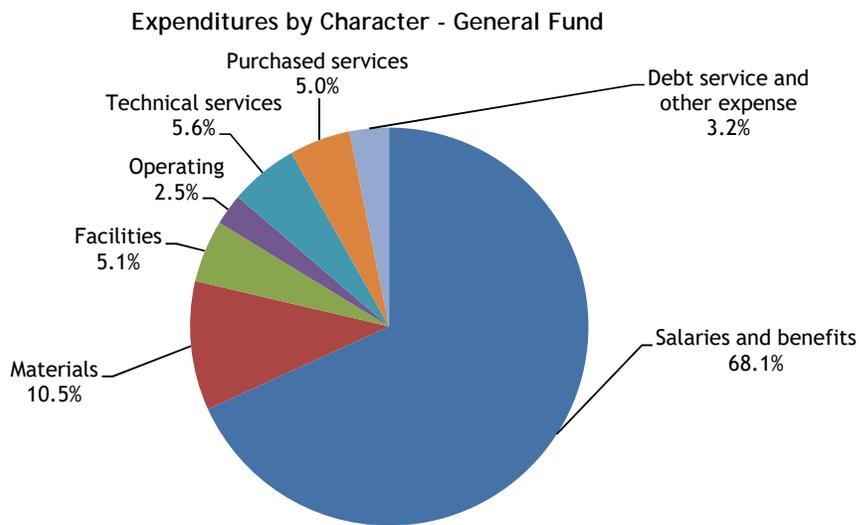
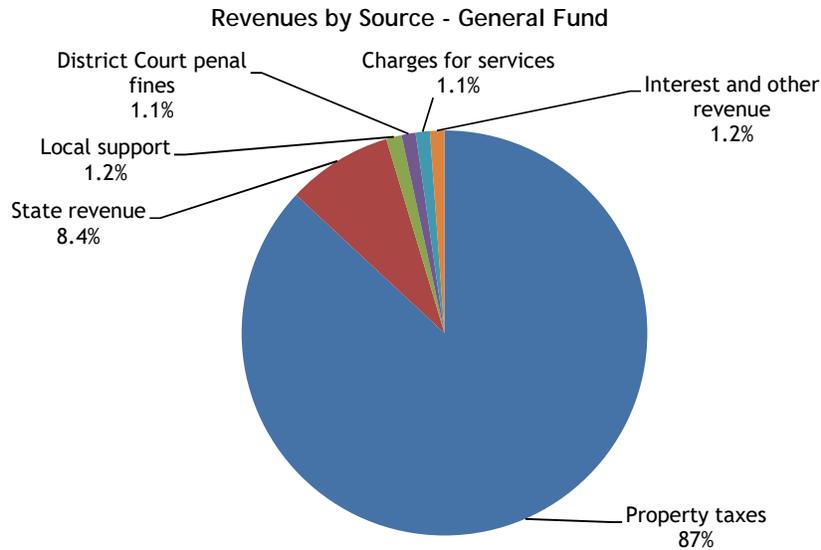
**Operating Grants and Contributions.** Operating grants increased by \$160,381 from the prior year. This category contains the investment earnings related to the endowment fund, due to the restrictions that exist on these endowed funds. Increases in endowment investment earnings for the current fiscal year are the result of the relative strength of the investment environment and the balanced investment strategy of the Library's endowment.

The Library adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result of this change beginning net position of governmental activities was decreased by \$1,029,002.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

### Governmental Funds



The fund balance of the Library's general fund increased by \$881,251 during the current fiscal year. The largest revenue source in this fund is property taxes which contribute 87.0% of the Library's general fund revenue. During fiscal year 2018, local property taxes increased \$339,283 or 3.2% compared to the prior year as discussed above. Library operating expenditures in the general fund remained flat in the current year and were \$497,005, or 4.2% under budget. Together, these reduced operating expenditures coupled with larger than expected property tax revenue resulted in a net increase in fund balance of \$881,251.

The total fund balance of the capital improvements fund increased by \$348,959 during the fiscal year due to the timing of capital improvement projects. Current reserves include the Central library boiler replacement, carpet replacement, technological upgrades and various structural and mechanical projects at Library branches.

The total fund balance of the endowment fund increased by \$248,378 during the current fiscal year as a result of the investment activity discussed above.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

### 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 personal property tax reimbursement through the Local Community Stabilization Authority increased the budget for State revenue.
- Local Support, District Court penal fines and Charges for Library Services (i.e., fines & fees) were reduced to more accurately reflect the Library's account of receipt of these revenue items during the fiscal year.
- Salaries and benefits increased due to the impact of new salaried positions and a lump sum contribution to reduce the unfunded portion of the Library's net pension liability; however these expenditure increases were offset by decreases in the Purchased Services, Other expense and Operating expense categories during the fiscal year.
- Increase in the general operating fund transfer to support future capital improvement projects.

The Library is not permitted to amend the budget after June 30, 2018 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 revenue or expenditures were generally the result of the timing of revenue recognition during the final months of the fiscal year, the timing of expenditures and efforts throughout the year to reduce operating costs. They included:

- Property tax revenue and payments in lieu of taxes received by Library after mid-May 2018 were higher than expected in the final budget.
- Salaried staff vacancies and the timing, hiring and availability of part-time hourly staff.
- Changes in library programs and services based upon strategic objectives.

### Capital Asset and Debt Administration

Capital Assets. As of June 30, 2018, the Library had invested \$10,655,242 in capital assets, net of depreciation. The decrease of \$278,205 or 2.5% 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, remodel of the Teen space at Central Library and the LED lighting upgrade at the Oshtemo branch.

	Capital Assets (Net of Depreciation)	
	2018	2017
Land	\$ 133,173	\$ 133,173
Building and improvements	7,933,929	8,237,089
Furniture, equipment, and automation	279,292	323,681
Materials	2,308,848	2,239,504
<b>Total</b>	<b>\$ 10,655,242</b>	<b>\$ 10,933,447</b>

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

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

*Long-Term Debt.* At June 30, 2018, the Library had \$630,071 in outstanding debt, which represents an increase of 5.3% from the prior year. The change is the net impact of increases to retirement incentive accruals and compensated absence accruals. The following table summarizes long-term debt as of the current and prior year-end dates.

	Long-term Debt	
	2018	2017
Installment purchase agreements/capital leases	\$ -	\$ 2,911
Retirement incentive	434,262	417,709
Compensated absences	195,809	177,467
<b>Total</b>	<b>\$ 630,071</b>	<b>\$ 598,087</b>

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

### *Economic Factors and Next Year's Budgets and Rates*

Local property taxes remain the Library's primary source of revenue and contribute 87% of general operating revenue. The Library's voted millage is applied to all areas within the 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 3.9487 millage rate is comprised of two separate millages. The first millage for 2.7715 mills was renewed in May 2009 for 20 years, and the second millage for 1.1772 mills was renewed in May 2014 also for 20 years. During fiscal year 2017-2018 the Library's property tax revenue rose by \$339,283 or 3.2% from the previous fiscal year.

During the current year the Library completed the remodel of the Teen space at Central Library, made technical upgrades to computer and network equipment at the Central Library and all branches, renovated the lower level restrooms at Central and upgraded to LED lighting at the Oshtemo branch. 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 that property tax revenues will remain flat after adjustments for tax captures within the City of Kalamazoo and Oshtemo Township. Other Library revenue also includes a conservative estimate of the Library's personal property tax reimbursement through the State of Michigan Local Community Stabilization Authority. Salaries and benefits will be established in accordance with contracts negotiated with the Library unions. Several major building repair and upgrade projects are anticipated to include water remediation at the Washington Square branch and the replacement of the public space carpet at the Oshtemo branch. The preliminary budget aligns with the Library's strategic priorities with a particular emphasis on early childhood literacy. As in prior years, specific budgets have been created and enhanced to support reading, view and listening pleasure through an widening variety of delivery options for books, magazines, movies and music.

# KALAMAZOO PUBLIC LIBRARY

## Management's Discussion and Analysis

The use of library services continues to be robust with good participation in summer reading games, circulation of materials and program attendance from the prior year. We see the continuation of these services as a high priority and will continue our efforts to improve and upgrade our operations and service delivery whenever possible. Kalamazoo Public Library is committed to continue to refine and focus its efforts, services and programs on the priorities that were identified by the Library community: early literacy; reading, viewing, and listening for pleasure for all ages; public internet access; and local information, both 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 Head of Finance & Budget, Kalamazoo Public Library, 315 South Rose Street, Kalamazoo, MI 49007.

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## BASIC FINANCIAL STATEMENTS

# KALAMAZOO PUBLIC LIBRARY

## Statement of Net Position

June 30, 2018

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 10,276,186
Investments	6,107,995
Receivables	240,629
Prepays and other assets	318,756
Beneficial interest in assets held by Foundation	79,858
Capital assets not being depreciated	133,173
Capital assets being depreciated, net	<u>10,522,069</u>
<b>Total assets</b>	<u>27,678,666</u>
<b>Deferred outflows of resources</b>	
Deferred pension amounts	1,333,255
Deferred other postemployment benefit amounts	<u>52,138</u>
<b>Total deferred outflows of resources</b>	<u>1,385,393</u>
<b>Liabilities</b>	
Payables and accrued liabilities	369,141
Long-term debt:	
Due in one year	256,294
Due in more than one year	373,777
Net pension liability	3,809,961
Net other postemployment benefit liability	<u>1,054,781</u>
<b>Total liabilities</b>	<u>5,863,954</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	700,727
Deferred other postemployment benefit amounts	<u>35,659</u>
<b>Total deferred inflows of resources</b>	<u>736,386</u>
<b>Net position</b>	
Investment in capital assets	10,655,242
Restricted	5,090,255
Unrestricted	<u>6,718,222</u>
<b>Total net position</b>	<u>\$ 22,463,719</u>

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

# KALAMAZOO PUBLIC LIBRARY

## Statement of Activities

For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Library services	\$ 11,637,405	\$ 129,359	\$ 1,206,126	\$ (10,301,920)
Interest on long-term debt	34	-	-	(34)
Total governmental activities	<u>\$ 11,637,439</u>	<u>\$ 129,359</u>	<u>\$ 1,206,126</u>	<u>(10,301,954)</u>
General revenues				
Property taxes				10,855,903
District Court penal fines				139,847
State revenue				873,347
Unrestricted investment earnings				39,319
Other unrestricted revenues				<u>109,573</u>
Total general revenues				<u>12,017,989</u>
Change in net position				1,716,035
Net position, beginning of year, as restated				<u>20,747,684</u>
Net position, end of year				<u>\$ 22,463,719</u>

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

# KALAMAZOO PUBLIC LIBRARY

## Balance Sheet

Governmental Funds

June 30, 2018

	Nonmajor				Total
	General Fund	Capital Improvement Fund	Endowment Fund	Special Revenue Fund	
<b>Assets</b>					
Cash and cash equivalents	\$ 6,769,441	\$ 2,741,038	\$ 238,126	\$ 527,581	\$ 10,276,186
Investments	1,939,820	-	4,168,175	-	6,107,995
Receivables	240,629	-	-	-	240,629
Beneficial interest in assets held by Foundation	-	-	-	79,858	79,858
Prepays and other assets	318,756	-	-	-	318,756
<b>Total assets</b>	<b>\$ 9,268,646</b>	<b>\$ 2,741,038</b>	<b>\$ 4,406,301</b>	<b>\$ 607,439</b>	<b>\$ 17,023,424</b>
<b>Liabilities</b>					
Accounts payable	\$ 240,193	\$ 34,910	\$ -	\$ 1,032	\$ 276,135
Accrued liabilities	93,006	-	-	-	93,006
<b>Total liabilities</b>	<b>333,199</b>	<b>34,910</b>	<b>-</b>	<b>1,032</b>	<b>369,141</b>
<b>Fund balances</b>					
Nonspendable	318,756	-	2,096,135	-	2,414,891
Restricted	328,611	-	2,310,166	355,343	2,994,120
Committed	-	2,706,128	-	-	2,706,128
Assigned	-	-	-	251,064	251,064
Unassigned	8,288,080	-	-	-	8,288,080
<b>Total fund balances</b>	<b>8,935,447</b>	<b>2,706,128</b>	<b>4,406,301</b>	<b>606,407</b>	<b>16,654,283</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,268,646</b>	<b>\$ 2,741,038</b>	<b>\$ 4,406,301</b>	<b>\$ 607,439</b>	<b>\$ 17,023,424</b>

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

# KALAMAZOO PUBLIC LIBRARY

## Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2018

Fund balances - total governmental funds	\$ 16,654,283
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	133,173
Capital assets being depreciated, net	10,522,069
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Retirement incentive	(434,262)
Compensated absences payable	(195,809)
Certain pension and other postemployment benefit related amounts, such as the net pension and other postemployment benefit liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(3,809,961)
Net other postemployment benefit liability	(1,054,781)
Deferred outflows related to the net pension liability	1,333,255
Deferred outflows related to the net other postemployment benefit liability	52,138
Deferred inflows related to the net pension liability	(700,727)
Deferred inflows related to the net other postemployment benefit liability	(35,659)
Net position of governmental activities	<u>\$ 22,463,719</u>

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

# KALAMAZOO PUBLIC LIBRARY

## Statement of Revenues, Expenditures and Change in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General Fund	Capital Improvement Fund	Endowment Fund	Nonmajor Special Revenue Fund	Total
<b>Revenues</b>					
Property taxes	\$ 10,855,903	\$ -	\$ -	\$ -	\$ 10,855,903
State revenue	1,051,314	-	-	-	1,051,314
Local support	154,785	55,000	-	382,731	592,516
District Court penal fines	139,847	-	-	-	139,847
Charges for services	129,359	-	-	-	129,359
Investment income	35,160	-	435,643	4,159	474,962
Other revenues	109,573	-	-	-	109,573
<b>Total revenues</b>	<b>12,475,941</b>	<b>55,000</b>	<b>435,643</b>	<b>386,890</b>	<b>13,353,474</b>
<b>Expenditures</b>					
Current - library services:					
Salaries and benefits	7,599,778	-	-	-	7,599,778
Materials	1,167,048	-	-	30,098	1,197,146
Facilities	564,154	-	-	-	564,154
Operating	283,573	-	-	-	283,573
Technical services	618,736	-	-	-	618,736
Purchased services	554,675	-	-	-	554,675
Other expense	353,781	-	25,265	21,947	400,993
Debt service:					
Principal	2,911	-	-	-	2,911
Interest	34	-	-	-	34
Capital outlay	-	318,041	-	-	318,041
<b>Total expenditures</b>	<b>11,144,690</b>	<b>318,041</b>	<b>25,265</b>	<b>52,045</b>	<b>11,540,041</b>
<b>Revenues over (under) expenditures</b>	<b>1,331,251</b>	<b>(263,041)</b>	<b>410,378</b>	<b>334,845</b>	<b>1,813,433</b>
<b>Other financing sources (uses)</b>					
Transfers in	-	612,000	-	-	612,000
Transfers out	(450,000)	-	(162,000)	-	(612,000)
<b>Total other financing sources (uses)</b>	<b>(450,000)</b>	<b>612,000</b>	<b>(162,000)</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>881,251</b>	<b>348,959</b>	<b>248,378</b>	<b>334,845</b>	<b>1,813,433</b>
<b>Fund balances, beginning of year</b>	<b>8,054,196</b>	<b>2,357,169</b>	<b>4,157,923</b>	<b>271,562</b>	<b>14,840,850</b>
<b>Fund balances, end of year</b>	<b>\$ 8,935,447</b>	<b>\$ 2,706,128</b>	<b>\$ 4,406,301</b>	<b>\$ 606,407</b>	<b>\$ 16,654,283</b>

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

# KALAMAZOO PUBLIC LIBRARY

## Reconciliation

Net Change in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ 1,813,433
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased/constructed	1,139,664
Depreciation expense	(1,417,869)
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	2,911
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	(16,553)
Change in compensated absences payable	(18,342)
Change in the net pension liability and related deferred amounts	222,091
Change in the net other postemployment benefit liability and related deferred amounts	<u>(9,300)</u>
Change in net position of governmental activities	<u>\$ 1,716,035</u>

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, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 10,652,248	\$ 10,649,167	\$ 10,855,903	\$ 206,736
State revenue	548,590	1,039,818	1,051,314	11,496
Local support	225,000	151,250	154,785	3,535
District Court penal fines	212,000	150,000	139,847	(10,153)
Charges for services	180,000	150,000	129,359	(20,641)
Investment income	15,000	15,000	35,160	20,160
Other revenues	113,600	107,044	109,573	2,529
<b>Total revenues</b>	<b>11,946,438</b>	<b>12,262,279</b>	<b>12,475,941</b>	<b>213,662</b>
<b>Expenditures</b>				
<b>Current:</b>				
Salaries and benefits	7,602,560	7,746,226	7,599,778	(146,448)
Materials	1,263,190	1,214,190	1,167,048	(47,142)
Facilities	659,651	659,651	564,154	(95,497)
Operating	381,005	337,215	283,573	(53,642)
Technical services	648,543	655,853	618,736	(37,117)
Purchased services	677,460	628,080	554,675	(73,405)
Other expense	446,180	398,980	353,781	(45,199)
<b>Debt service:</b>				
Principal	1,500	1,500	2,911	1,411
Interest expense	-	-	34	34
<b>Total expenditures</b>	<b>11,680,089</b>	<b>11,641,695</b>	<b>11,144,690</b>	<b>(497,005)</b>
Revenues over expenditures	266,349	620,584	1,331,251	710,667
<b>Other financing use</b>				
Transfers out	(190,000)	(450,000)	(450,000)	-
<b>Net change in fund balance</b>	<b>76,349</b>	<b>170,584</b>	<b>881,251</b>	<b>710,667</b>
Fund balances, beginning of year	8,054,196	8,054,196	8,054,196	-
<b>Fund balances, end of year</b>	<b>\$ 8,130,545</b>	<b>\$ 8,224,780</b>	<b>\$ 8,935,447</b>	<b>\$ 710,667</b>

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 generally considers revenues to be available if they are collected within 60 days (90 days for library penal fines) 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 acquisition cost 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 of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Library reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension and other postemployment benefit plans. A portion of these costs represent contributions subsequent to the plan subsequent to the plan measurement date.

# 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.

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Library reports deferred inflows of resources related to its pension and other postemployment benefit plans.

### *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.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

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.

### *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 2017 taxable valuation of the participating municipalities totaled \$2.768 billion before adjustments, on which taxes levied consisted of 3.9487 mills for operating purposes. This resulted in approximately \$10.9 million for general fund operating purposes. This amount was recognized in the general fund as property 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.

### *Pension and Other Postemployment Benefits*

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pension and other postemployment benefits, and related expenses, information about the fiduciary net position of the Plans and additions to/deductions from the plans fiduciary net position have been determined on the same basis as they are reported by the plans. 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, 2018, the Library incurred expenditures in budgetary funds in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
Debt service:			
Principal	\$ 1,500	\$ 2,911	\$ 1,411
Interest expense	-	34	34
Nonmajor governmental fund:			
Other expenses	21,800	21,947	147

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### 3. CASH AND INVESTMENTS

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

Cash and cash equivalents	\$ 10,276,186
Investments	<u>6,107,995</u>
Total cash and investments	<u>\$ 16,384,181</u>

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

Petty cash	\$ 250
Checking/savings accounts	10,275,937
Certificates of deposit (due within one year)	1,939,819
Certificates of deposit (due in one to five years)	836,428
Investments	<u>3,331,747</u>
Total cash and investments	<u>\$ 16,384,181</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, \$808,303 of the Library's bank balance of \$13,140,578 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.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

*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, 2018:

Common stock	\$ 2,189,515
Corporate bonds	369,064
Government bonds	173,397
Exchange traded mutual funds	<u>599,771</u>
 Total	 <u><u>\$ 3,331,747</u></u>

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. Following is a summary of the Library's investment ratings as of June 30, 2018:

Not Rated	\$ 2,839,705
S&P A+	147,798
S&P A	96,671
S&P AA+	173,397
S&P AA-	<u>74,176</u>
	 <u><u>\$ 3,331,747</u></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	\$ 2,789,286
1 - 5 years	492,042
6 - 10 years	<u>50,419</u>
 Total	 <u><u>\$ 3,331,747</u></u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

*Fair Value Measurements.* 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. These levels are determined by the Library's investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary. The Library had the following recurring fair value measurements as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Common stock	\$ 2,189,515	\$ -	\$ -	\$ 2,189,515
Corporate bonds	369,064	-	-	369,064
Government bonds	-	173,397	-	173,397
Exchange traded mutual funds	599,771	-	-	599,771
	<u>\$ 3,158,350</u>	<u>\$ 173,397</u>	<u>\$ -</u>	<u>\$ 3,331,747</u>

### *Statutory Authority*

State statutes authorize the Library to invest in:

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

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### 4. BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATION

Amounts shown as beneficial interest in assets held by 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, 2018 was \$79,858.

Additionally, funds for the benefit of the Library have been established at the Foundation for the receipt of gifts and bequests 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, 2018 was \$3,066,608.

### 5. RECEIVABLES AND PAYABLES

Receivables of governmental activities are comprised of the following:

Accounts receivable	\$	37,612
Taxes receivable		20,162
Due from other governments		<u>182,855</u>
Total	\$	<u>240,629</u>

Payables of governmental activities are comprised of the following:

Accounts	\$	276,135
Accrued liabilities		<u>93,006</u>
Total	\$	<u>369,141</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### 6. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2018 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	16,098,089	105,839	-	-	16,203,928
Furniture, equipment, and automation	1,691,291	78,953	-	-	1,770,244
Materials	4,371,269	954,872	(842,128)	-	4,484,013
	<u>22,160,649</u>	<u>1,139,664</u>	<u>(842,128)</u>	<u>-</u>	<u>22,458,185</u>
Less accumulated depreciation:					
Building & improvements	(7,861,000)	(408,999)	-	-	(8,269,999)
Furniture, equipment, and automation	(1,367,610)	(123,342)	-	-	(1,490,952)
Materials	(2,131,765)	(885,528)	842,128	-	(2,175,165)
	<u>(11,360,375)</u>	<u>(1,417,869)</u>	<u>842,128</u>	<u>-</u>	<u>(11,936,116)</u>
Total capital assets being depreciated, net	<u>10,800,274</u>	<u>(278,205)</u>	<u>-</u>	<u>-</u>	<u>10,522,069</u>
Total capital assets, net	<u>\$ 10,933,447</u>	<u>\$ (278,205)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,655,242</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### 7. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Library for the year ended June 30, 2018:

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
Installment purchase agreements/capital leases	\$ 2,911	\$ -	\$ (2,911)	\$ -	\$ -
Retirement incentive	417,709	24,912	(8,359)	434,262	60,485
Compensated absences	177,467	325,517	(307,175)	195,809	195,809
<b>Total long-term debt</b>	<b>\$ 598,087</b>	<b>\$ 350,429</b>	<b>\$ (318,445)</b>	<b>\$ 630,071</b>	<b>\$ 256,294</b>

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.

### 8. INTERFUND TRANSFERS

During the year ended June 30, 2018, interfund transfers consisted of the following:

Transfers Out	Transfers In Capital Improvement Fund
General fund	\$ 450,000
Endowment fund	162,000
	<u>\$ 612,000</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# 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 Special Revenue Fund	Total
<b>Nonspendable</b>					
Prepays	\$ 318,756	\$ -	\$ -	\$ -	\$ 318,756
Endowment	-	-	2,096,135	-	2,096,135
	<u>318,756</u>	<u>-</u>	<u>2,096,135</u>	<u>-</u>	<u>2,414,891</u>
<b>Restricted</b>					
ONEPlace	328,611	-	-	570	329,181
Endowment	-	-	2,310,166	-	2,310,166
Ready to read	-	-	-	97,792	97,792
Local history	-	-	-	79,858	79,858
Anti-racism	-	-	-	4,347	4,347
Gifts and memorials	-	-	-	8,142	8,142
Jochem fund	-	-	-	164,634	164,634
	<u>328,611</u>	<u>-</u>	<u>2,310,166</u>	<u>355,343</u>	<u>2,994,120</u>
<b>Committed</b>					
Capital projects	-	2,706,128	-	-	2,706,128
<b>Assigned</b>					
Library programs	-	-	-	251,064	251,064
<b>Unassigned</b>	<u>8,288,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,288,080</u>
<b>Total fund balances - governmental funds</b>	<u>\$ 8,935,447</u>	<u>\$ 2,706,128</u>	<u>\$ 4,406,301</u>	<u>\$ 606,407</u>	<u>\$ 16,654,283</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### 10. NET POSITION

The composition of the Library's restricted net position as of June 30, 2018 was as follows:

ONEPlace	\$	329,181
Ready to read		97,792
Local history		79,858
Anti-racism		4,347
Gifts and memorials		8,142
Jochem fund		164,634
Endowment (non-expendable)		2,096,135
Endowment (expendable)		<u>2,310,166</u>
Total restricted net position	\$	<u>5,090,255</u>

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

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

#### *Plan Description*

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) 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's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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 the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### *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 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.

Any DB 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.

### *Other Postemployment Benefits Provided*

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### *Contributions*

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, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2018.

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 19.03%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 19.03%
Pension Plus	3.00% - 6.40%	16.61% - 18.40%
Pension Plus 2	6.20%	19.74%
Defined Contribution	0.00%	13.54% - 15.27%

Required contributions to the pension plan from the Library were \$328,185 for the year ended June 30, 2018.

The table below summarizes OPEB contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	5.91% - 7.67%
Personal Healthcare Fund (PHF)	0.00%	5.69% - 7.42%

Required contributions to the OPEB plan from the Library were \$65,287 for the year ended June 30, 2018.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

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

At June 30, 2018, the Library reported a liability of \$3,083,161 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. 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, 2017, the Library's proportion was 0.01190%, which was a decrease of 0.00118% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the Library recognized pension expense of \$236,987. At June 30, 2018, 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	\$ 26,795	\$ 15,128	\$ 11,667
Changes in assumptions	337,785	-	337,785
Net difference between projected and actual earnings on pension plan investments	-	147,395	(147,395)
Changes in proportion and differences between employer contributions and proportionate share of contributions	805	265,297	(264,492)
	<u>365,385</u>	<u>427,820</u>	<u>(62,435)</u>
Library contributions subsequent to the measurement date	297,768	-	297,768
	<u>297,768</u>	<u>-</u>	<u>297,768</u>
Total	<u>\$ 663,153</u>	<u>\$ 427,820</u>	<u>\$ 235,333</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

\$297,768 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, 2019. Other amounts reported 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
2019	\$ (26,368)
2020	27,151
2021	(24,338)
2022	<u>(38,880)</u>
Total	<u>\$ (62,435)</u>

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

At June 30, 2018, the Library reported a liability of \$1,054,781 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The Library's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the Library's proportion was 0.01190%.

For the year ended June 30, 2018, the Library recognized OPEB expense of \$70,725. At June 30, 2018, the Library reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 11,230	\$ (11,230)
Net difference between projected and actual earnings on OPEB plan investments	-	24,429	(24,429)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>776</u>	<u>-</u>	<u>776</u>
	776	35,659	(34,883)
Library contributions subsequent to the measurement date	<u>51,362</u>	<u>-</u>	<u>51,362</u>
Total	<u>\$ 52,138</u>	<u>\$ 35,659</u>	<u>\$ 16,479</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

\$51,362 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ (8,444)
2020	(8,444)
2021	(8,444)
2022	(8,444)
2023	(1,107)
<b>Total</b>	<b>\$ (34,883)</b>

### 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 and OPEB liabilities in the September 30, 2016 actuarial valuation were 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)	7.5%
Pension Plus plan (hybrid)	7.0%
OPEB plans	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
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
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.
Other OPEB assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

Coverage election at retirement 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

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, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

### *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, 2017, 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%	5.60%	1.56%
Alternative investment pools	18.00%	8.70%	1.57%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	-0.10%	-0.01%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.00%	0.78%
Short-term investment pools	2.00%	-0.90%	-0.02%
	<u>100.00%</u>		5.45%
Inflation			<u>2.05%</u>
Investment rate of return			<u>7.50%</u>

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### *Discount Rate*

A discount rate of 7.5% was used to measure the total pension and OPEB liabilities (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 and OPEB plan investments of 7.5% (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 and OPEB 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 and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

### *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 7.5% (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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Library's proportionate share of the net pension liability	\$ 4,016,333	\$ 3,083,161	\$ 2,297,489

### *Sensitivity of Library's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the Library's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Library's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Library's proportionate share of the net OPEB liability	\$ 1,235,454	\$ 1,054,781	\$ 901,447

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### *Sensitivity of Library's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate*

The following presents the Library's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the Library's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
Library's proportionate share of the net OPEB liability	\$ 893,258	\$ 1,054,781	\$ 1,238,180

### *Pension and OPEB Plans Fiduciary Net Position*

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

### *Payable to the Pension Plan*

At June 30, 2018, the Library reported a payable of \$6,655 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2018.

### *Payable to the OPEB Plan*

At June 30, 2018, the Library reported a payable of \$2,853 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2018.

## 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](http://www.mersofmich.com).

### *Benefits Provided*

Pension benefits vary by division and are calculated as final average compensation (based on a 5 year period) and a multiplier of 1.5% and 2.0% for union and administration divisions, respectively. Participants are fully vested in the plan after 6 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or age 55 with 15 years of service. Members retiring after May 1, 1991 receive benefit increases of 2.5% (non-compounded) for cost-of-living adjustments.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### *Employees Covered by Benefit Terms*

At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	13
Active employees	<u>63</u>
Total membership	<u><u>90</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, 2018, employer contributions ranged from 8.36% to 12.22% 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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

### *Actuarial Assumptions*

The total pension liability in the December 31, 2017 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	7.75%, net of investment and administrative expense including inflation

Although no explicit price inflation assumptions are needed for the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 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 the December 31, 2017 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

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>0.25%</u>
Investment rate of return			<u>8.00%</u>

### *Discount Rate*

The discount rate used to measure the total pension liability as of December 31, 2017 was 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### *Changes in Net Pension Liability*

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2016	\$ 7,705,824	\$ 6,344,522	\$ 1,361,302
Changes for the year:			
Service cost	279,203	-	279,203
Interest	618,324	-	618,324
Differences between expected and actual experience	(103,007)	-	(103,007)
Employer contributions	-	585,242	(585,242)
Net investment income	-	857,312	(857,312)
Benefit payments, including refunds of employee contributions	(232,754)	(232,754)	-
Administrative expense	-	(13,532)	13,532
Net changes	561,766	1,196,268	(634,502)
Balances at December 31, 2017	\$ 8,267,590	\$ 7,540,790	\$ 726,800

### *Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the Library, calculated using the discount rate of 8.0%, as well as what the Library's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Library's net pension liability	\$ 1,990,817	\$ 726,800	\$ 315,425

### *Pension Plan Fiduciary Net Position*

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

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

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

For the year ended June 30, 2018, the Library recognized pension expense of \$535,414. 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	\$ 263,863	\$ 115,360	\$ 148,503
Changes in assumptions	205,159	-	205,159
Net difference between projected and actual earnings on pension plan investments	-	157,547	(157,547)
	<u>469,022</u>	<u>272,907</u>	<u>196,115</u>
Contributions subsequent to the measurement date	<u>201,080</u>	<u>-</u>	<u>201,080</u>
Total	<u>\$ 670,102</u>	<u>\$ 272,907</u>	<u>\$ 397,195</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, 2019. Other amounts reported as deferred outflows/inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ 82,812
2020	64,898
2021	(36,755)
2022	(152)
2023	67,085
2024-2025	<u>18,227</u>
Total	<u>\$ 196,115</u>

### *Payable to the Pension Plan*

At June 30, 2018, there were no amounts outstanding by the Library for contributions to the pension plan required for the year ended June 30, 2018.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

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

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

	MPSERS	MERS	Total
Net pension liability	\$ 3,083,161	\$ 726,800	\$ 3,809,961
Deferred outflows of resources	663,153	670,102	1,333,255
Deferred inflows of resources	427,820	272,907	700,727

### 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. OPERATING LEASES

The Library entered into a noncancelable operating leases for use of copiers and other office equipment. In addition, the Library is party to a lease for a building that will transform into a month-to-month lease on January 1, 2020. The future minimum rental payments for the noncancelable portions of these leases are as follows:

Year Ended June 30,	Amount
2019	\$ 55,981
2020	40,624
2021	<u>16,738</u>
	<u>\$ 113,343</u>

The Library recorded \$48,521 for rental expense related to these leases during the year ended June 30, 2018.

### 16. 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.

# KALAMAZOO PUBLIC LIBRARY

## Notes to Financial Statements

### *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.

## 17. TAX ABATEMENTS

The Library received reduced property tax revenues during 2018 as a result of industrial facilities tax exemptions (IFT's). The IFT's were entered into based upon the Plant Rehabilitation and Industrial Developments Librarys Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and promote the establishment of high-tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property. The abatements amounted to approximately \$55,000 in reduced tax revenues for fiscal year 2018.

## 18. RESTATEMENT

The Library adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result of this change beginning net position of governmental activities was decreased by \$1,029,002.



## REQUIRED SUPPLEMENTARY INFORMATION

# KALAMAZOO PUBLIC LIBRARY

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

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

	Year Ended June 30,			
	2018	2017	2016	2015
Library's proportionate share of the net pension liability	\$ 3,083,161	\$ 3,264,311	\$ 3,260,389	\$ 2,961,393
Library's proportion of the net pension liability	0.01190%	0.01308%	0.01335%	0.01344%
Library's covered payroll	\$ 948,495	\$ 1,046,905	\$ 1,128,273	\$ 1,129,713
Library's proportionate share of the net pension liability as a percentage of covered payroll	325.06%	311.81%	288.97%	262.14%
Plan fiduciary net position as a percentage of the total pension liability	64.21%	63.27%	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 MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of Library's Pension Contributions

	Year Ended June 30,			
	2018	2017	2016	2015
Statutorily required contribution	\$ 328,185	\$ 289,494	\$ 293,751	\$ 295,954
Contributions in relation to the statutorily required contribution	<u>(328,185)</u>	<u>(289,494)</u>	<u>(293,751)</u>	<u>(295,954)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Library's covered payroll	\$ 845,220	\$ 1,002,576	\$ 1,058,426	\$ 1,131,340
Contributions as a percentage of covered payroll	38.83%	28.88%	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

### MPERS Cost-Sharing Multiple-Employer Plan

#### Schedule of the Library's Proportionate Share of the Net Other Postemployment Benefit Liability

	Year Ended June 30, 2018
Library's proportion of the net OPEB liability	\$ 1,054,781
Library's proportionate share of the net OPEB liability	0.01190%
Library's covered payroll	\$ 948,495
Library's proportionate share of the net OPEB liability as a percentage of its covered payroll	111.21%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%

Note: GASB 75 was implemented in fiscal year 2018. 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's Other Postemployment Benefit Contributions

	Year Ended June 30, 2018
Statutorily required contribution	\$ 65,287
Contributions in relation to the statutorily required contribution	<u>(65,287)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Library's covered payroll	\$ 845,220
Contributions as a percentage of covered payroll	7.72%

Note: GASB 75 was implemented in fiscal year 2018. 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,			
	2018	2017	2016	2015
<b>Total pension liability</b>				
Service cost	\$ 279,203	\$ 260,862	\$ 246,610	\$ 237,109
Interest	618,324	539,607	480,599	431,669
Differences between expected and actual experience	(103,007)	351,817	(40,367)	-
Changes in assumptions	-	-	328,255	-
Benefit payments, including refunds of employee contributions	(232,754)	(122,247)	(82,897)	(77,984)
<b>Net change in total pension liability</b>	<b>561,766</b>	<b>1,030,039</b>	<b>932,200</b>	<b>590,794</b>
<b>Total pension liability, beginning of year</b>	<b>7,705,824</b>	<b>6,675,785</b>	<b>5,743,585</b>	<b>5,152,791</b>
<b>Total pension liability, end of year</b>	<b>8,267,590</b>	<b>7,705,824</b>	<b>6,675,785</b>	<b>5,743,585</b>
<b>Plan fiduciary net position</b>				
Employer contributions	585,242	570,604	411,948	275,201
Net investment income (loss)	857,312	623,272	(78,821)	294,748
Benefit payments, including refunds of employee contributions	(232,754)	(122,247)	(82,897)	(77,984)
Administrative expense	(13,532)	(12,275)	(11,485)	(10,916)
<b>Net change in plan fiduciary net position</b>	<b>1,196,268</b>	<b>1,059,354</b>	<b>238,745</b>	<b>481,049</b>
<b>Plan fiduciary net position, beginning of year</b>	<b>6,344,522</b>	<b>5,285,168</b>	<b>5,046,423</b>	<b>4,565,374</b>
<b>Plan fiduciary net position, end of year</b>	<b>7,540,790</b>	<b>6,344,522</b>	<b>5,285,168</b>	<b>5,046,423</b>
<b>Library's net pension liability</b>	<b>\$ 726,800</b>	<b>\$ 1,361,302</b>	<b>\$ 1,390,617</b>	<b>\$ 697,162</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>91.21%</b>	<b>82.33%</b>	<b>79.17%</b>	<b>87.86%</b>
<b>Covered payroll</b>	<b>\$ 3,390,601</b>	<b>\$ 3,196,686</b>	<b>\$ 3,084,448</b>	<b>\$ 2,945,321</b>
<b>Library's net pension liability as a percentage of covered payroll</b>	<b>21.44%</b>	<b>42.58%</b>	<b>45.08%</b>	<b>23.67%</b>

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 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%
2017	7,705,824	6,344,522	1,361,302	82.33%	3,196,686	42.58%
2018	8,267,590	7,540,790	726,800	91.21%	3,390,601	21.44%

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.

#### Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 281,186	\$ 281,186	\$ -	\$ 3,035,065	9.26%
2016	349,529	449,529	(100,000)	3,199,158	14.05%
2017	376,552	576,552	(200,000)	3,357,011	17.17%
2018	389,695	602,957	(213,262)	3,564,262	16.92%

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 (2017, based on the 12/31/2015 actuarial valuation):**

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	23 years
Asset valuation method	Open; 10-year smooth market
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

# KALAMAZOO PUBLIC LIBRARY

## Required Supplementary Information

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

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	2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The mortality tables were first used for the December 31, 2015 actuarial valuations.

## 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, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local support	\$ 32,000	\$ 381,764	\$ 382,731	\$ 967
Interest income	-	5,500	4,159	(1,341)
Total revenues	32,000	387,264	386,890	(374)
Expenditures				
Materials	36,600	31,600	30,098	(1,502)
Other expense	22,014	21,800	21,947	147
Total expenditures	58,614	53,400	52,045	(1,355)
Net change in fund balance	(26,614)	333,864	334,845	981
Fund balances, beginning of year	271,562	271,562	271,562	-
Fund balances, end of year	\$ 244,948	\$ 605,426	\$ 606,407	\$ 981

## INTERNAL CONTROL AND COMPLIANCE

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

October 12, 2018

Board of Trustees  
Kalamazoo Public Library  
Kalamazoo, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Kalamazoo Public Library* (the "Library"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 12, 2018.

#### 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.

*Rehmann Johnson LLC*