

Metropolitan Library System

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



METROPOLITAN LIBRARY SYSTEM

FINANCIAL STATEMENTS

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METROPOLITAN LIBRARY SYSTEM

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Metropolitan Library System

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 Metropolitan Library System (the "Library") as of and for the years ended June 30, 2014 and 2013, 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; 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 auditors consider 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

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 Library as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014 the Library adopted new accounting guidance, Statement No. 67 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-7 and the schedule of funding progress—defined benefit pension plan, the schedule of employer contributions—defined benefit pension plan, the schedule of changes in net position liability—defined benefit pension plan, the schedule of net pension liability—defined benefit pension plan, the schedule of contributions from employer—defined benefit pension plan, the schedule of investment returns—defined benefit pension plan, and notes to the required supplementary information on pages 55-61 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, 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 audits 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014, on our consideration of the 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 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.

A handwritten signature in black ink that reads "Finley & Cook, PLLC". The signature is written in a cursive style with a large, looping initial 'F'.

Shawnee, Oklahoma
October 14, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of the Metropolitan Library System (the “Library”) provides an overall review of the Library’s financial condition and results of operations for the fiscal years ended June 30, 2014 and 2013. Readers should read this information in conjunction with the Library’s financial statements.

FINANCIAL HIGHLIGHTS

For the year ended June 30, 2014, the Library’s General Fund reported an ending balance of \$28,702,947 versus \$30,237,969, for the year ended June 30, 2013. The comparison reflects a decrease of \$1,535,022 or 5% of the June 30, 2013, General Fund ending fund balance. Of the June 30, 2014 and 2013, year-end totals, \$13,676,554 and \$14,021,912, respectively, was unassigned, indicating that none had been restricted, committed, or assigned to specific purposes within the General Fund. For the year ended June 30, 2014, \$14,930,398 of the balance was assigned, with \$7,438,236 assigned to Library capital improvement projects and \$7,492,162 assigned to cash flow requirements. For the year ended June 30, 2013, \$16,128,950 of the balance was assigned, with \$7,438,236 assigned to Library capital improvement projects and \$8,690,714 assigned to cash flow requirements. Nonspendable totals for the years ended June 30, 2014 and 2013, were \$95,995 and \$87,107, respectively.

Over the years, the Library administration, with the Library Commission’s approval, has prudently used or committed the money from the assigned fund balances to alleviate summer cash flow problems and provide funds for capital improvement projects. The Library does not have legal authority to raise tax dollars for capital improvement projects through bond issues as most other local government entities do. Therefore, the money in the assigned fund balances provides opportunities for the Library to improve and maintain its facilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management’s discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Library:

The first statements are *government-wide financial statements* that provide information about the Library’s overall financial status.

The remaining statements are *fund financial statements* that focus on individual parts of the Library, reporting the Library’s operations in more detail than the Library-wide statements. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Library’s budget for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

The Library has three kinds of funds—governmental funds, proprietary funds, and fiduciary funds.

Governmental funds encompass two funds: the General Fund and the Gifts and Grants Fund.

General Fund: Represents unrestricted resources that are available for ongoing general library operations. This is the Library's primary operating fund. It includes income from special services, such as copy services, lost book fees, overdue book fines, and other miscellaneous services.

Gifts and Grants Fund: Includes all gifts and grants. Gifts and grants include funds provided by intergovernmental grants and other third parties' gifts and grants. All of these funds are generally restricted as to use. Therefore, each fund accounts for its receipts and disbursements of the restricted functions.

The proprietary fund is the Library's insurance fund, an internal service fund. The insurance fund is used to maintain the Library's health and dental self-insurance plan.

Fiduciary funds are reported in the fiduciary fund financial statements but are excluded from government-wide reporting. They include the Pension Fund, the Flex Benefit Fund, and the Defined Contribution Fund. Fiduciary fund financial statements report assets that cannot be used to fund the Library's general operations.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the Library's financial statements.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information, such as a comparative statement between budgeted and actual resources and appropriations, and the schedule of funding progress for the defined benefit pension plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

THE LIBRARY SYSTEM AS A WHOLE

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<i>Statements of Net Position</i>			
Assets:			
Current	\$ 32,275,087	33,672,343	36,106,444
Capital assets	<u>15,694,872</u>	<u>16,067,960</u>	<u>15,364,470</u>
Total assets	<u>47,969,959</u>	<u>49,740,303</u>	<u>51,470,914</u>
Liabilities:			
Accounts payable and accrued expenses	888,527	1,115,945	1,019,329
Compensated absences payable	<u>265,744</u>	<u>268,561</u>	<u>294,266</u>
Total liabilities	<u>1,154,271</u>	<u>1,384,506</u>	<u>1,313,595</u>
Net position:			
Net investment in capital assets	15,694,872	16,067,960	15,364,470
Restricted	85,732	78,218	98,484
Unrestricted	<u>31,035,084</u>	<u>32,209,619</u>	<u>34,694,365</u>
Total net position	<u>\$ 46,815,688</u>	<u>48,355,797</u>	<u>50,157,319</u>
<i>Changes in Net Position</i>			
Beginning net position	<u>\$ 48,355,797</u>	<u>50,157,319</u>	<u>50,759,823</u>
Revenues:			
Property taxes	31,357,148	30,354,504	29,695,771
State aid	289,550	287,392	286,073
Charges for services	1,996,522	1,824,080	1,803,804
Operating grants and contributions	290,176	265,088	233,771
Loss from disposals	(1,186,985)	(1,105,783)	(1,026,069)
Investment earning (losses)	<u>442,437</u>	<u>(407,625)</u>	<u>423,159</u>
Total revenues	<u>33,188,848</u>	<u>31,217,656</u>	<u>31,416,509</u>
Expenses:			
Public library services	19,446,009	18,684,302	17,388,064
Administrative services	11,435,449	10,785,270	11,396,894
Depreciation—unallocated	<u>3,847,499</u>	<u>3,549,606</u>	<u>3,234,055</u>
Total expenses	<u>34,728,957</u>	<u>33,019,178</u>	<u>32,019,013</u>
Ending net position	<u>\$ 46,815,688</u>	<u>48,355,797</u>	<u>50,157,319</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

As financial information is accumulated on a continuous and consistent basis, financial statements and expenditure reports for governmental funds are presented to the Library Commission each month for its acknowledgement.

For the years ended June 30, governmental fund balances changed as follows:

<u>2014</u>	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Revenues	\$ 33,380,486	290,177	33,670,663
Expenditures	<u>(34,915,508)</u>	<u>(282,663)</u>	<u>(35,198,171)</u>
Net (decrease) increase	<u>\$ (1,535,022)</u>	<u>7,514</u>	<u>(1,527,508)</u>

<u>2013</u>	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Revenues	\$ 31,703,873	265,088	31,968,961
Expenditures	<u>(34,302,908)</u>	<u>(285,354)</u>	<u>(34,588,262)</u>
Net decrease	<u>\$ (2,599,035)</u>	<u>(20,266)</u>	<u>(2,619,301)</u>

<u>2012</u>	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Revenues	\$ 32,039,522	233,771	32,273,293
Expenditures	<u>(32,884,941)</u>	<u>(349,793)</u>	<u>(33,234,734)</u>
Net decrease	<u>\$ (845,419)</u>	<u>(116,022)</u>	<u>(961,441)</u>

General Fund:

The Library is primarily funded by a 5.2 mill ad valorem (property) tax. For the year ended June 30, 2014, the Oklahoma County's assessed property value had an increase of 2.3% versus 1.9% for the year ended June 30, 2013. Actual tax collections increased 2.1% for the year ended June 30, 2014, over the year ended June 30, 2013, as compared to a 0.7% increase in the year ended June 30, 2013, over the previous year. Investment income for the Library increased to \$442,437 in the year ended June 30, 2014, from \$407,625 in investment losses in the year ended June 30, 2013. The increase was primarily due to the change in fair values of investments.

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL ANALYSIS OF THE LIBRARY’S FUNDS, CONTINUED

General Fund, Continued:

Major expenditure categories increased in 2014 from 2013, showing an overall increase of \$612,600, or 1.8%. Within categories, personal services increased 4.4% above the previous year’s increase of 8.6%. Maintenance and operations expenses increased, totaling a 0.5% change. Capital outlays decreased 4.9%. All of the increases in expenses were because of normal price increases. Capital outlays were significantly higher in 2013 due to the opening of the Almonte Library.

Gifts and Grants Fund:

During the years ended June 30, 2014 and 2013, \$290,177 and \$265,088, respectively, of gifts and grants funds were received. For the year ended June 30, 2014, the largest contributor to the Library was the Friends of the Metropolitan Library System (the “Friends”), which gave 14 grants for various Library activities with a total amount of \$202,415. For the year ended June 30, 2013, the largest contributors were the Friends, which gave 12 grants totaling \$196,000, and the Library Endowment Trust, which gave 3 grants totaling \$26,315. Other major grantors for the fiscal year ended June 30, 2014, included the Sonic Corporation (\$20,000), the Oklahoma Arts Council (\$17,300), and the Library Endowment Trust (\$11,942).

Proprietary Fund:

	<u>Insurance Fund</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues	\$ 2,728,167	2,617,647	2,697,351
Expenses	<u>(2,373,360)</u>	<u>(2,178,075)</u>	<u>(2,467,216)</u>
Net increase	<u>\$ 354,807</u>	<u>439,572</u>	<u>230,135</u>

The total insurance premium contributed by both the employer and the employees to this fund was \$2,543,200 in the year ended June 30, 2014, versus \$2,304,480 and \$2,282,459 in the years ended June 30, 2013 and 2012, respectively. Claims expense for 2014 was \$2,373,360 compared to \$2,178,075 and \$2,467,216 for 2013 and 2012, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund budget for the year ended June 30, 2014, was \$58,176,882, a decrease of \$529,469, or 0.1%, over the June 30, 2013, budget of \$58,706,351. The biggest contributor to the decrease in the year ended June 30, 2014, budget over the previous year was a decrease in the capital reserve, which decreased \$1,198,552 due to those reserve monies being moved to the June 30, 2014, expenditures budget for anticipated capital expenditures.

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

GENERAL FUND BUDGETARY HIGHLIGHTS, CONTINUED

Actual results compared to budgeted results were as follows:

	<u>2014</u>	
<u>Revenues</u>	<u>Budgeted</u>	<u>Actual on a Budgeted Basis</u>
Revenues	\$ 29,145,514	29,130,713
Expenditures	\$ 43,246,484	33,508,304

	<u>2013</u>	
<u>Revenues</u>	<u>Budgeted</u>	<u>Actual on a Budgeted Basis</u>
Revenues	\$ 28,491,844	32,781,841
Expenditures	\$ 42,577,401	34,084,125

	<u>2012</u>	
<u>Revenues</u>	<u>Budgeted</u>	<u>Actual on a Budgeted Basis</u>
Revenues	\$ 28,028,102	31,957,876
Expenditures	\$ 39,919,982	33,067,552

CAPITAL ASSETS AND LONG-TERM DEBT

The Library’s investment in depreciable capital assets, net of accumulated depreciation, at June 30, 2014, was \$15,379,301, and at June 30, 2013, was \$15,752,389. Of the total depreciable capital assets at June 30, 2014, 48% consisted of furniture, equipment, vehicles, and buildings, while the remaining 52% consisted of books and materials. The previous year, those percentages were 50% and 50%, respectively. Nondepreciable assets at June 30, 2014 and 2013, represented land owned by the Library in the amount of \$315,571.

The Library has no long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

ECONOMIC ENVIRONMENT AND NEXT YEAR'S BUDGET

The Library's primary revenue is ad valorem (property) tax. Barring a voter-approved change in the mill levy, the annual growth in the Oklahoma County's property values is the most important factor in the Library's revenue outlook. Currently, the Library collects 5.2 mills of the assessed property values. With voters' approval, the number of mills could increase to 6.21 mills.

In November of 2012, the state voters passed two state questions that have a negative impact on the amount of taxes the Library receives. The first question lowers the cap on the tax increases from 5% to 3%, and the second question eliminates the tax on intangible assets.

In general, the Library expects a small growth in the tax revenue for the next year. The Oklahoma County Assessor has certified a 3.9% growth in property values for fiscal year ended June 30, 2015, as opposed to 2.3% in the year ended June 30, 2014. Investment income is expected to be neutral. Real estate prices are rising as new construction and population growth continue, so the Library expects continued incremental growth in revenue for the foreseeable future.

For the year ended June 30, 2015, the Board of Commissioners has approved a General Fund budget of \$57,299,864, versus \$58,176,882 for the year ended June 30, 2014. Of the total budget for the year ended June 30, 2015, \$37,551,715 was for operating costs, \$5,883,134, was for capital projects, and \$13,865,015 was for other assigned funds. Of the total budget amount for the year ended June 30, 2014, \$36,956,460 was for operating costs, \$6,290,024 was for capital projects, and \$14,930,398 was for other assigned funds.

CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Metropolitan Library System, comply with finance-related laws and regulations, and demonstrate the Library's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Library's Business Office at 300 Park Avenue, Oklahoma City, OK 73102.

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF NET POSITION

<i>June 30,</i>	<i>2014</i>	<i>2013</i>
	<u>Governmental Activities</u>	
Assets		
Current assets:		
Cash	\$ 15,217,879	8,826,222
Investments	15,700,396	23,453,652
Ad valorem taxes receivable, net of allowance for uncollectible taxes of \$48,590 and \$61,436 as of June 30, 2014 and 2013, respectively	1,187,619	1,207,006
Accounts receivable	40,512	35,572
Accrued interest receivable	32,686	62,784
Prepaid expenses	95,995	87,107
Total current assets	<u>32,275,087</u>	<u>33,672,343</u>
Noncurrent assets:		
Nondepreciable capital assets	315,571	315,571
Depreciable capital assets, net	<u>15,379,301</u>	<u>15,752,389</u>
Total noncurrent assets	<u>15,694,872</u>	<u>16,067,960</u>
Total assets	<u>47,969,959</u>	<u>49,740,303</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	888,527	1,115,945
Compensated absences payable	<u>265,744</u>	<u>268,561</u>
Total current liabilities	<u>1,154,271</u>	<u>1,384,506</u>
Total liabilities	<u>1,154,271</u>	<u>1,384,506</u>
Net Position		
Net investment in capital assets	15,694,872	16,067,960
Restricted	85,732	78,218
Unrestricted	<u>31,035,084</u>	<u>32,209,619</u>
Total net position	<u>\$ 46,815,688</u>	<u>48,355,797</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2014

	REVENUES				
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		<u>Net (Expenses) Revenues/ Changes in Net Assets</u>
Government activities:					
Public library services	\$ (19,446,009)	766,405	290,176	-	(18,389,428)
Administrative services	(11,435,449)	1,230,117	-	-	(10,205,332)
Depreciation—unallocated	(3,847,499)	-	-	-	(3,847,499)
	<u>\$ (34,728,957)</u>	<u>1,996,522</u>	<u>290,176</u>	<u>-</u>	<u>(32,442,259)</u>
General revenues:					
Property taxes, levied for general purposes					31,357,148
State aid					289,550
Loss from disposals					(1,186,985)
Investment earnings					<u>442,437</u>
Total general revenues					<u>30,902,150</u>
Changes in net position					(1,540,109)
Net position, beginning of year					<u>48,355,797</u>
Net position, end of year					<u>\$ 46,815,688</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2013

	REVENUES			Net (Expenses) Revenues/ Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Government activities:				
Public library services	\$ (18,684,302)	747,417	265,088	-
Administrative services	(10,785,270)	1,076,663	-	-
Depreciation—unallocated	(3,549,606)	-	-	-
	<u>\$ (33,019,178)</u>	<u>1,824,080</u>	<u>265,088</u>	<u>-</u>
General revenues:				
Property taxes, levied for general purposes				30,354,504
State aid				287,392
Loss from disposals				(1,105,783)
Investment losses				(407,625)
Total general revenues				<u>29,128,488</u>
Changes in net position				(1,801,522)
Net position, beginning of year				<u>50,157,319</u>
Net position, end of year				<u>\$ 48,355,797</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

BALANCE SHEETS—GOVERNMENTAL FUNDS

June 30, 2014

	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 12,990,468	85,732	13,076,200
Investments	15,700,396	-	15,700,396
Ad valorem taxes receivable, net of allowance	1,187,619	-	1,187,619
Accrued interest receivable	32,686	-	32,686
Prepaid expenses	95,995	-	95,995
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 30,007,164</u>	<u>85,732</u>	<u>30,092,896</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 352,063	-	352,063
Accrued salaries	398,162	-	398,162
Total liabilities	<u>750,225</u>	<u>-</u>	<u>750,225</u>
Deferred inflows of resources:			
Accrued property taxes not available for spending	553,992	-	553,992
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and deferred inflows of resources	<u>1,304,217</u>	<u>-</u>	<u>1,304,217</u>
Fund balances:			
Nonspendable	95,995	-	95,995
Restricted	-	85,732	85,732
Assigned	14,930,398	-	14,930,398
Unassigned	13,676,554	-	13,676,554
Total fund balances	<u>28,702,947</u>	<u>85,732</u>	<u>28,788,679</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 30,007,164</u>	<u>85,732</u>	<u>30,092,896</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

BALANCE SHEETS—GOVERNMENTAL FUNDS, CONTINUED

June 30, 2013

	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 6,976,832	78,218	7,055,050
Investments	23,453,652	-	23,453,652
Ad valorem taxes receivable, net of allowance	1,207,006	-	1,207,006
Accrued interest receivable	62,784	-	62,784
Prepaid expenses	87,107	-	87,107
	<u>31,787,381</u>	<u>78,218</u>	<u>31,865,599</u>
Total assets	\$ 31,787,381	78,218	31,865,599
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 656,002	-	656,002
Accrued salaries	342,281	-	342,281
Total liabilities	<u>998,283</u>	<u>-</u>	<u>998,283</u>
Deferred inflows of resources:			
Accrued property taxes not available available for spending	551,129	-	551,129
	<u>551,129</u>	<u>-</u>	<u>551,129</u>
Total liabilities and deferred inflows of resources	<u>1,549,412</u>	<u>-</u>	<u>1,549,412</u>
Fund balances:			
Nonspendable	87,107	-	87,107
Restricted	-	78,218	78,218
Assigned	16,128,950	-	16,128,950
Unassigned	14,021,912	-	14,021,912
Total fund balances	<u>30,237,969</u>	<u>78,218</u>	<u>30,316,187</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 31,787,381</u>	<u>78,218</u>	<u>31,865,599</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

**RECONCILIATIONS OF THE BALANCE SHEETS—GOVERNMENTAL FUNDS
TO THE STATEMENTS OF NET POSITION**

<i>June 30,</i>	<i>2014</i>	<i>2013</i>
Reconciliation of Fund Balances to Net Position		
Total fund balances—governmental funds	\$ 28,788,679	30,316,187
Amounts reported for governmental activities in the statements of net assets are different because:		
Certain assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Capital assets, net of accumulated depreciation	15,694,872	16,067,960
Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	553,992	551,129
Net position of Internal Service Fund separately reported as proprietary fund	2,043,889	1,689,082
Compensated absences in governmental activities are not financial expenditures and therefore are not reported as a liability in governmental funds.	<u>(265,744)</u>	<u>(268,561)</u>
Net position of governmental activities	<u>\$ 46,815,688</u>	<u>48,355,797</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES—GOVERNMENTAL FUNDS**

Year Ended June 30, 2014

	General <u>Fund</u>	Gifts and <u>Grants Fund</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 31,354,285	-	31,354,285
Collections on book fines and copy services	766,405	-	766,405
Gifts and grants	-	290,177	290,177
State revenue	289,550	-	289,550
Investment income	442,436	-	442,436
Other	527,810	-	527,810
Total revenues	<u>33,380,486</u>	<u>290,177</u>	<u>33,670,663</u>
Expenditures:			
Personal services	22,641,562	41,880	22,683,442
Maintenance and operations:			
Contractual services	3,887,164	219,595	4,106,759
Commodities	1,260,357	4,679	1,265,036
Capital outlays	7,126,425	16,509	7,142,934
Total expenditures	<u>34,915,508</u>	<u>282,663</u>	<u>35,198,171</u>
Net changes in fund balances	(1,535,022)	7,514	(1,527,508)
Fund balances, beginning of year	<u>30,237,969</u>	<u>78,218</u>	<u>30,316,187</u>
Fund balances, end of year	<u>\$ 28,702,947</u>	<u>85,732</u>	<u>28,788,679</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES—GOVERNMENTAL FUNDS, CONTINUED**

Year Ended June 30, 2013

	General <u>Fund</u>	Gifts and <u>Grants Fund</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 30,705,493	-	30,705,493
Collections on book fines and copy services	747,417	-	747,417
Gifts and grants	-	265,088	265,088
State revenue	287,392	-	287,392
Investment losses	(407,625)	-	(407,625)
Other	371,196	-	371,196
Total revenues	<u>31,703,873</u>	<u>265,088</u>	<u>31,968,961</u>
Expenditures:			
Personal services	21,689,792	20,395	21,710,187
Maintenance and operations:			
Contractual services	3,649,567	174,804	3,824,371
Commodities	1,470,643	(2,483)	1,468,160
Capital outlays	7,492,906	92,638	7,585,544
Total expenditures	<u>34,302,908</u>	<u>285,354</u>	<u>34,588,262</u>
Net changes in fund balances	(2,599,035)	(20,266)	(2,619,301)
Fund balances, beginning of year	<u>32,837,004</u>	<u>98,484</u>	<u>32,935,488</u>
Fund balances, end of year	<u>\$ 30,237,969</u>	<u>78,218</u>	<u>30,316,187</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

**RECONCILIATIONS OF NET CHANGES IN GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL ACTIVITIES CHANGES IN NET POSITION**

<i>Years Ended June 30,</i>	<i>2014</i>	<i>2013</i>
Net changes in fund balances—total governmental funds	\$ (1,527,508)	(2,619,301)
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:		
Depreciation expense	(3,847,499)	(3,549,606)
Capital additions	<u>4,661,396</u>	<u>5,358,879</u>
	<u>813,897</u>	<u>1,809,273</u>
Disposals of capital assets are not considered to be expenditures in the governmental funds. Receipts of funds from the sale of capital assets are considered revenue in the governmental funds. They are, however, recorded as overall loss in the statements of activities.	(1,186,985)	(1,105,783)
Compensated absences are not considered to be expenditures in the governmental funds. They are, however, recorded as expenses in the statements of activities.	2,818	25,705
Because some property taxes will not be collected for several months after the Library's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are instead counted as deferred revenues. They are, however, recorded as revenues in the statements of activities.	(142,128)	(142,676)
Uncollectible property taxes receivable that have been written-off are not considered to be revenues in the governmental funds. They are, however, recorded as a reduction of recognized revenue in the statements of activities.	144,990	(208,312)
The statements of activities include net activity of the Internal Service Fund, which is shown as a proprietary fund in the fund financial statements.	<u>354,807</u>	<u>439,572</u>
Changes in net position of governmental activities	<u>\$ (1,540,109)</u>	<u>(1,801,522)</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

BALANCE SHEETS—PROPRIETARY FUND

<i>June 30,</i>	<i>2014</i>	<i>2013</i>
	<u>Governmental Activities— Internal Service Fund</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,141,679	1,771,172
Stop-loss reimbursement receivable	40,512	35,572
Total assets	<u>2,182,191</u>	<u>1,806,744</u>
Liabilities		
Claims payable	<u>138,302</u>	<u>117,662</u>
Net Position		
Unrestricted	<u>\$ 2,043,889</u>	<u>1,689,082</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION—PROPRIETARY FUND**

<i>Years Ended June 30,</i>	<i>2014</i>	<i>2013</i>
	Governmental Activities— Internal Service Fund	
Operating revenues:		
Insurance premiums	\$ 2,543,200	2,304,480
Stop-loss reimbursement	155,893	284,906
Refunds and miscellaneous	28,100	26,131
Total operating revenues	<u>2,727,193</u>	<u>2,615,517</u>
Operating expenses:		
Claims	<u>2,373,360</u>	<u>2,178,075</u>
Net operating income	<u>353,833</u>	<u>437,442</u>
Non-operating revenues:		
Interest income	<u>974</u>	<u>2,130</u>
Changes in net position	354,807	439,572
Net position, beginning of year	<u>1,689,082</u>	<u>1,249,510</u>
Net position, end of year	<u>\$ 2,043,889</u>	<u>1,689,082</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS—PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2014</i>	<i>2013</i>
	Governmental Activities— Internal Service Fund	
Cash flows from operating activities:		
Cash received from other fund for services	\$ 2,543,200	2,304,480
Receipts from reinsurance	150,953	370,255
Payments of claims	(2,352,720)	(2,163,290)
Other receipts	28,100	26,131
Net cash provided by operating activities	369,533	537,576
Cash flows from investing activities:		
Interest on investments	974	2,130
Net cash provided by investing activities	974	2,130
Net increase in cash and cash equivalents	370,507	539,706
Cash and cash equivalents, beginning of year	1,771,172	1,231,466
Cash and cash equivalents, end of year	\$ 2,141,679	1,771,172
Reconciliation of net operating income to net cash provided by operating activities:		
Net operating income	\$ 353,833	437,442
Adjustments to reconcile net operating income to net cash provided by operating activities:		
(Increase) decrease in receivables	(4,940)	85,349
Increase in claims payable	20,640	14,785
Net cash provided by operating activities	\$ 369,533	537,576

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM**STATEMENTS OF FIDUCIARY NET POSITION—FIDUCIARY FUNDS***June 30, 2014*

	Pension <u>Fund</u>	Flex Benefit <u>Fund</u>	Defined Contribution <u>Fund</u>	Total Fiduciary <u>Funds</u>
Assets				
Cash	\$ 1,566,962	32,258	-	1,599,220
Receivables (unsettled trades and accrued income)	50,714	-	-	50,714
Investments:				
Corporate bonds	1,199,386	-	-	1,199,386
Common stock	12,405,869	-	-	12,405,869
Mutual funds	12,154,062	-	13,065,248	25,219,310
Guaranteed interest account	-	-	1,684,595	1,684,595
Total investments	<u>25,759,317</u>	<u>-</u>	<u>14,749,843</u>	<u>40,509,160</u>
Total assets	<u>27,376,993</u>	<u>32,258</u>	<u>14,749,843</u>	<u>42,159,094</u>
Liabilities				
Employee benefits payable	-	7,258	-	7,258
Prepayment from the Library	-	25,000	-	25,000
Total liabilities	<u>-</u>	<u>32,258</u>	<u>-</u>	<u>32,258</u>
Net Position				
Net position restricted for pensions and insurance	<u>\$ 27,376,993</u>	<u>-</u>	<u>14,749,843</u>	<u>42,126,836</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION—FIDUCIARY FUNDS, CONTINUED

June 30, 2013

	Pension <u>Fund</u>	Flex Benefit <u>Fund</u>	Defined Contribution <u>Fund</u>	Total Fiduciary <u>Funds</u>
Assets				
Cash	\$ 1,216,126	38,830	-	1,254,956
Receivables (unsettled trades and accrued income)	61,395	-	-	61,395
Investments:				
Corporate bonds	2,389,485	-	-	2,389,485
Common stock	10,314,191	-	-	10,314,191
Mutual funds	9,856,905	-	10,027,621	19,884,526
Guaranteed interest account	-	-	2,020,532	2,020,532
Total investments	<u>22,560,581</u>	<u>-</u>	<u>12,048,153</u>	<u>34,608,734</u>
Total assets	<u>23,838,102</u>	<u>38,830</u>	<u>12,048,153</u>	<u>35,925,085</u>
Liabilities				
Employee benefits payable	-	13,830	-	13,830
Prepayment from the Library	-	25,000	-	25,000
Total liabilities	<u>-</u>	<u>38,830</u>	<u>-</u>	<u>38,830</u>
Net Position				
Net position restricted for pensions and insurance	<u>\$ 23,838,102</u>	<u>-</u>	<u>12,048,153</u>	<u>35,886,255</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION—FIDUCIARY FUNDS

Year Ended June 30, 2014

	Pension <u>Fund</u>	Flex Benefit <u>Fund</u>	Defined Contribution <u>Fund</u>	Total Fiduciary <u>Funds</u>
Additions				
Contributions:				
Employer	\$ 1,130,104	-	908,420	2,038,524
Employee	98,634	562,156	713,300	1,374,090
Total contributions	<u>1,228,738</u>	<u>562,156</u>	<u>1,621,720</u>	<u>3,412,614</u>
Investment income:				
Interest	100,473	-	54,370	154,843
Dividends	477,520	-	-	477,520
Net increase in fair value of investments	3,254,299	-	2,054,832	5,309,131
Direct investment expenses	(131,737)	-	(33,214)	(164,951)
Net investment income	<u>3,700,555</u>	<u>-</u>	<u>2,075,988</u>	<u>5,776,543</u>
Total additions	<u>4,929,293</u>	<u>562,156</u>	<u>3,697,708</u>	<u>9,189,157</u>
Deductions				
Benefits paid	1,322,954	559,610	995,298	2,877,862
Administrative expense	67,448	2,546	720	70,714
Total deductions	<u>1,390,402</u>	<u>562,156</u>	<u>996,018</u>	<u>2,948,576</u>
Net increase in net position	3,538,891	-	2,701,690	6,240,581
Net position restricted for pensions and insurance, beginning of year	<u>23,838,102</u>	<u>-</u>	<u>12,048,153</u>	<u>35,886,255</u>
Net position restricted for pensions and insurance, end of year	<u>\$ 27,376,993</u>	<u>-</u>	<u>14,749,843</u>	<u>42,126,836</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION—FIDUCIARY FUNDS,
CONTINUED**

Year Ended June 30, 2013

	Pension <u>Fund</u>	Flex Benefit <u>Fund</u>	Defined Contribution <u>Fund</u>	Total Fiduciary <u>Funds</u>
Additions				
Contributions:				
Employer	\$ 1,074,744	-	850,894	1,925,638
Employee	108,805	579,215	493,504	1,181,524
Total contributions	<u>1,183,549</u>	<u>579,215</u>	<u>1,344,398</u>	<u>3,107,162</u>
Investment income:				
Interest	136,768	-	51,903	188,671
Dividends	493,658	-	-	493,658
Net increase in fair value of investments	1,941,039	-	1,339,786	3,280,825
Direct investment expenses	(115,231)	-	(26,887)	(142,118)
Net investment income	<u>2,456,234</u>	<u>-</u>	<u>1,364,802</u>	<u>3,821,036</u>
Total additions	<u>3,639,783</u>	<u>579,215</u>	<u>2,709,200</u>	<u>6,928,198</u>
Deductions				
Benefits paid	1,201,505	576,325	256,747	2,034,577
Administrative expense	59,839	2,890	560	63,289
Miscellaneous	6,552	-	-	6,552
Total deductions	<u>1,267,896</u>	<u>579,215</u>	<u>257,307</u>	<u>2,104,418</u>
Net increase in net position	2,371,887	-	2,451,893	4,823,780
Net position restricted for pensions and insurance, beginning of year	<u>21,466,215</u>	<u>-</u>	<u>9,596,260</u>	<u>31,062,475</u>
Net position restricted for pensions and insurance, end of year	<u>\$ 23,838,102</u>	<u>-</u>	<u>12,048,153</u>	<u>35,886,255</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Metropolitan Library System's (the "Library") financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Reporting Entity

The Library is a corporate body for public purposes created under Title 65 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. There are no component units included within the reporting entity.

Under the Oklahoma Metropolitan Library Act (the "Act"), the Library is governed by the Metropolitan Library Commission of Oklahoma County (the "Commission"). Effective July 31, 2007, Section 554 of the Act was amended, increasing the number of Commission voting members from 19 to 27. Commission members include: 13 voting members who are appointees of the City of Oklahoma City; 1 voting member who is an appointee of the Oklahoma County Commissioners; 1 voting member each from the cities of Bethany, Choctaw, Del City, Edmond, Harrah, Jones, Luther, Midwest City, Nicoma Park, the Village, and Warr Acres; and 2 ex-officio members—the Mayor of Oklahoma City and the Chairman of the Oklahoma County Commissioners, for a total of 27 voting members. The Commission also includes one nonvoting member, the Librarian, who conducts Library operations.

Basis of Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Library does not have any activities classified as business-type activities. Internal Service Fund activity is eliminated in the fund financial statements to avoid "doubling up" revenues and expenses. Fiduciary funds are excluded from the government-wide and fund financial statements, but are reported separately in the fiduciary fund financial statements.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation, Continued

Government-Wide Financial Statements

In the government-wide statements of net position, the Library's governmental activities are reported using the accrual basis of accounting. The Library's net position is reported in three parts—net investment in capital assets, restricted, and unrestricted. Revenues are recognized when earned and expenses are recognized when incurred.

The government-wide statements of activities report both the gross and net cost of each of the Library's programs and functions. The functions are also supported by general government revenues. The statements of activities reduce gross expenses (including depreciation) by related program revenues, operating grants and contributions, and capital grants and contributions. Program revenues must be directly associated with the function. Charges for services include charges and fees to customers for fines and charges for services provided. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

All interfund transactions between governmental funds and internal service funds are eliminated in the government-wide statements.

The net costs are normally covered by general revenue (property taxes, state aid, other taxes, etc.).

The government-wide focus is more on the sustainability of the Library as an entity and the changes in the Library's net position resulting from the current year's activities.

Fund Financial Statements

Fund financial statements report detailed information about the Library. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Nonmajor funds, if any, are aggregated and presented in a single column.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation, Continued

Fund Financial Statements, Continued

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

Fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans. Employer and participant contributions are recognized in the period in which the contributions are due and the Library has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the plan.

The Library reports the following major governmental funds:

General Fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund:

Gifts and Grants Fund—The Library accounts for resources received from various gifts and grants. These resources are restricted to, or designated for, specific purposes by a grantor.

Additionally, the Library reports the following fund types:

Proprietary Fund:

Internal Service Fund—Revenues and expenses related to services provided to the Library for employee insurance are accounted for in the internal service fund, the insurance fund.

Fiduciary Funds:

Employee Benefit Trust Funds—The Pension Fund, the Flex Benefit Fund, and the Defined Contribution Fund are used to report assets held in trust for members and beneficiaries of the plans, and the assets cannot be used to support the Library's operating programs.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

The government-wide financial statements are presented on the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements.

Revenues are recognized when earned and expenses are recognized when a liability is incurred. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The fiduciary fund financial statements are in conformity with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*.

Modified Accrual

The fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Capital Assets

Capital assets purchased or acquired with an original cost of \$500 or more and all books and materials are reported at historical cost or estimated historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	30 years
Furniture and fixtures	7 years
Computer equipment	4 years
Vehicles	5 years
Books and materials	5 years

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Compensated Absences

The Library accrues accumulated unpaid annual leave when it has been earned by the employee. Generally, up to 75% of annual leave must be taken during the calendar year earned and compensated absences are reported as current liabilities. Eligible employees who end their employment with the Library are reimbursed for each day of accumulated annual leave.

Annual Budget

The Library is required by state law to prepare an annual budget. The Oklahoma County Excise Board formally approves an annual budget for the General Fund.

Cash

The Library considers all cash on-hand, demand deposits, money market checking, and certificates of deposit held at an individual bank which are subject to early withdrawal penalties, no matter what the maturity period, to be cash.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments held at June 30, 2014 and 2013, with original maturities greater than 1 year are stated at fair value.

Investment Earnings

Investment earnings principally consist of interest income and fair market value adjustments as the investments are presented at fair value. Investment earnings (losses) for the years ended June 30 were as follows:

	<u>2014</u>	<u>2013</u>
Interest income	\$ 189,445	299,612
Fair market value adjustment	<u>252,992</u>	<u>(707,237)</u>
Investment earnings (losses)	<u>\$ 442,437</u>	<u>(407,625)</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property Tax Revenues

The Library is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property within Oklahoma County. The County Assessor, upon receipt of the certification of tax levies from the Oklahoma County Excise Board, extends the tax levies on the tax roll for submission to the County Treasurer prior to October 1. The County Treasurer must commence tax collection within 15 days of receipt of the tax rolls. The first half of taxes are due prior to January 1. The second half are due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 1. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has 2 years to redeem the property by paying the taxes and penalty owed. If at the end of 2 years the owner has not done so, the purchaser is issued a deed to the property. The Oklahoma County Assessor's Office bills and collects the property taxes and remits to the Library its share.

Property Taxes Receivable

Property taxes receivable by the Library include uncollected taxes assessed as of October 1, 2013 and 2012, and earlier. The Library considers prior years' experience in estimating uncollectible property taxes. The balance in the allowance account was \$48,590 and \$61,436 as of June 30, 2014 and 2013, respectively. No provision has been made in the other funds for uncollectible amounts. All property taxes earned at year-end but not yet received are included in receivables reported on the government-wide statements. At June 30, 2014 and 2013, the Library wrote-off \$96,400 and \$275,732, respectively, of property taxes receivable as an uncollectible amount which related to the property taxes receivable of 2006 and earlier years. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Any remaining property taxes due are deferred until they become available.

Changes in the allowance for the years ended June 30 were as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 61,436	128,856
Provision added to allowance during the year	-	208,312
Charge-offs	(96,400)	(275,732)
Recoveries	83,554	-
Balance, end of year	<u>\$ 48,590</u>	<u>61,436</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred Inflows of Resources

Deferred inflows of resources represents the portion of property taxes receivable that will be collected this year but are not available soon enough to pay current periods expenditures and are deferred.

State Revenues

The Library receives revenue from the State and the Oklahoma Department of Libraries to administer certain categorical library programs.

Interfund Transfers

During the course of normal operations, the Library has transactions between funds, including expenditures and transfers of resources to provide services and purchase assets. Transactions that are normal and recurring between funds are recorded as operating transfers.

Interfund transfers were used to transfer grant receipts from the Gifts and Grants Fund to the General Fund. For the purpose of the statements of activities, all interfund transfers between individual governmental funds have been eliminated.

Contributed Facilities and Services

The Library operates several branches located in government-owned buildings and receives certain services without charge. The estimated fair rental value of the premises and services is not reported in the accompanying statements of revenues, expenditures, and changes in fund balances.

Grants

The Library records income from grants in the period received or to the extent of expenses paid prior to reimbursement by a grant.

Income Taxes

The Library was established under the provisions of the Oklahoma Constitution and as such is exempt from income taxes under the Internal Revenue Code as a unit of government.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Prepaid Expenses

The Library uses the consumption method to record prepaid expenses. Prepaid expenses are payments in advance of the receipt of goods or services in exchange transactions and are usually made for insurance and rent. Prepaid expenses are reported as financial resources at the time of prepayment, and expenditures for prepaid services are recognized when the related services are received. Included in prepaid expenses is \$25,000 paid by the Library to the Flex Benefit Fund, which the Flex Benefit Fund reflects a liability.

Restricted Resources

The Library records gifts and grants as restricted when the donor specifies a restriction on the timing or use of the gift or grant. Expenses are allocated first to the restricted resource. If additional expense is incurred, the expense is allocated to unrestricted funds when the restriction has been depleted.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Equity Classification

Government-Wide Financial Statements

Equity is classified as net position and displayed in three components:

- (a) Net investment in capital assets—consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted—consists of net position with constraints placed on the use either by (i) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (ii) law through constitutional provisions or enabling legislation.
- (c) Unrestricted—all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classification, Continued

Government-Wide Financial Statements, Continued

It is the Library's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. The classifications are defined as:

- (a) Nonspendable fund balance—includes amounts that cannot be spent because they are either (i) not in spendable form or (ii) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash, including prepaid expenses.

It is the responsibility of the Library's Finance Director to identify and report all nonspendable funds appropriately in the Library's financial statements.

- (b) Restricted fund balance—consists of amounts with constraints placed on the use of resources either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.

It is the responsibility of the Library's Finance Director to identify and report all restricted funds appropriately in the Library's financial statements. The Library has identified the Gifts and Grants Fund as a restricted fund balance.

- (c) Committed fund balance—reflects specific purposes pursuant to constraints imposed by formal action of the Library's highest level of decision-making authority. Also, such constraints can only be removed or changed by the same form of formal action.

For purposes of the committed fund balance, the Commission is considered the Library's highest level of decision-making authority. Funds set aside by the Commission as committed fund balances require the passage of a resolution by a majority vote of the members of the Commission. The passage of such a resolution must take place prior to the Library's fiscal year-end in order for it to be applicable to the Library's fiscal year-end, although it is permitted for the specific amount of the commitment to be determined after the fiscal year-end if additional information is required in order to determine the exact amount to be committed. The Commission has the authority to remove or change the commitment of funds with a majority vote.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classification, Continued

Fund Statements, Continued

- (d) Assigned fund balance—reflects amounts that are constrained by the Library’s intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Assigned funds cannot cause a deficit in the unassigned fund balance.

For purposes of the assigned fund balance, the Commission is considered the Library’s highest level of decision-making authority. Any funds that the Finance Director assigns for specific purposes must be reported to the Commission at its next regular meeting. The assignment of funds shall be recorded in the Commission’s official meeting minutes.

- (e) Unassigned fund balance—is the residual classification for the General Fund only. Unassigned fund balance essentially consists of excess funds that have not been classified in the above four fund balance categories.

It is the Library’s policy to first use the restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The Library’s policy for the use of the unrestricted fund balance amounts require that committed amounts be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classification, Continued

Fund Statements, Continued

Effective July 1, 2010, the Library implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The following tables show the fund balance classifications as shown on the governmental funds balance sheets in accordance with GASB 54 as of June 30:

	2014		
	General Fund	Gifts and Grants Fund	Total Governmental Funds
Fund balances:			
Nonspendable:			
Prepaid expenses	\$ 95,995	-	95,995
Restricted:			
Grants or gifts received for special programs	-	85,732	85,732
Assigned:			
Cash flow	6,500,000	-	6,500,000
Reserve for additional location	812,162	-	812,162
Reserve for extra payday	180,000	-	180,000
Capital improvement:			
Belle Isle Library	950,000	-	950,000
Bethany Library	442,957	-	442,957
Capitol Hill Library	538,000	-	538,000
Del City Library	589,276	-	589,276
New Edmond Library	4,000,000	-	4,000,000
Village Library	491,481	-	491,481
Warr Acres Library	426,522	-	426,522
Total assigned	14,930,398	-	14,930,398
Unassigned	13,676,554	-	13,676,554
Total fund balances	\$ 28,702,947	85,732	28,788,679

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classification, Continued

Fund Statements, Continued

	2013		
	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Fund balances:			
Nonspendable:			
Prepaid expenses	\$ 87,107	-	87,107
Restricted:			
Grants or gifts received for special programs	-	78,218	78,218
Assigned:			
Cash flow	6,000,000	-	6,000,000
Integrated Library System	500,000	-	500,000
Reserve for additional location	2,070,714	-	2,070,714
Reserve for extra payday	120,000	-	120,000
Capital improvement:			
Belle Isle Library	950,000	-	950,000
Bethany Library	442,957	-	442,957
Capitol Hill Library	538,000	-	538,000
Del City Library	589,276	-	589,276
New Edmond Library	4,000,000	-	4,000,000
Village Library	491,481	-	491,481
Warr Acres Library	426,522	-	426,522
Total assigned	<u>16,128,950</u>	-	<u>16,128,950</u>
Unassigned	<u>14,021,912</u>	-	<u>14,021,912</u>
Total fund balances	<u>\$ 30,237,969</u>	<u>78,218</u>	<u>30,316,187</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used, under which purchase orders, contracts, and other commitments for the expenditures of resources are recorded as expenditures of the applicable funds. This is an extension of the formal budgetary integration in the General Fund. Encumbrances do not represent any further constraint on the use of amounts than is already communicated by governmental fund balance classification as restricted, committed, or assigned. As of June 30, 2014 and 2013, approximately \$1,671,000 and \$1,436,000, respectively, of encumbrances were outstanding.

Recent Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Library adopted this statement effective July 1, 2013. The adoption had no significant impact on the Library's financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—An Amendment of GASB Statements No. 10 and No. 62* (GASB 66). GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Library adopted this statement effective July 1, 2013. The adoption had no significant impact on the financial statements of the Library.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In June 2012, GASB issued GASB 67. GASB 67 addresses reporting by pension plans that administer benefits for governments and outlines basic framework for the separately issued financial reports of defined benefit pension plans, and details note disclosure requirements for defined benefit and defined contribution pension plans. The Library adopted GASB 67 effective July 1, 2013. The adoption changed various reporting terminology, footnote disclosures, and required supplementary information to be disclosed.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for financial statements for periods beginning after June 15, 2014. While not required to be implemented as of June 30, 2014, if implemented a pension liability or deferred outflows of approximately \$1,056,000 would have been reflected in the statement of net position of the Library. The Library will be required to implement GASB 68, as of July 1, 2014.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70). GASB 70 will require a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. A government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. This statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. This statement is effective for periods beginning after June 15, 2013. The statement had no significant impact on the financial statements of the Library.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through October 14, 2014, the date that the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

(2) CASH AND INVESTMENTS

The Library's investment policies are governed by State statutes. Permissible investments include direct obligations of the U.S. government and agencies; negotiable certificates of deposit of savings and loan associations and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Non-negotiable certificates of deposit are considered to be cash equivalents. Collateral is required for demand deposits and certificates of deposit on all amounts not covered by Federal Deposit Insurance Corporation insurance.

Custodial Credit Risk

Custodial Credit Risk—Deposits

For deposits, custodial credit risk is the risk that in the event of the failure of a counterparty, the Library will not be able to recover the value of its deposits. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. At June 30, 2014 and 2013, the carrying amount of the Library's cash and cash equivalents was \$15,217,879 and \$8,826,222, respectively, and the bank balances were \$15,587,149 and \$9,234,088, respectively. The difference in balances was primarily due to outstanding checks.

The fair value of investments pledged to secure deposits was approximately \$23,615,000 and \$10,412,000 at June 30, 2014 and 2013, respectively. The deposits were fully insured as of June 30, 2014 and 2013.

Custodial Credit Risk—Investments

Investments are made under the custody of the Library Treasurer in accordance with investment policies complying with State statutes and Library policy.

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the Library will not be able to recover the value of its investments. Investment securities are exposed to custodial risk if they are uninsured, are not registered in the name of the Library, or are held by a counterparty or the counterparty's trust department but not in the name of the Library. While the investment policy does not specifically address custodial credit risk, all investments are insured and collateralized.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Interest Rate Risk and Credit Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest changes. Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The following tables provide information concerning credit risk.

As of June 30, the Library had the following investments and maturities:

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>2014</u>				<u>%</u>
			<u>Investment Maturities</u>				
			<u>(In Years)</u>				
			<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More</u>		
Federal Home Loan Bank Federal National Mortgage Association	Aaa	\$ 9,823,754	-	9,823,754	-	63%	
Federal Home Loan Mortgage Corporation	Aaa	3,915,552	-	3,915,552	-	25%	
	Aaa	<u>1,961,090</u>	<u>-</u>	<u>-</u>	<u>1,961,090</u>	<u>12%</u>	
		<u>\$ 15,700,396</u>	<u>-</u>	<u>13,739,306</u>	<u>1,961,090</u>	<u>100%</u>	

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>2013</u>				<u>%</u>
			<u>Investment Maturities</u>				
			<u>(In Years)</u>				
			<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More</u>		
Federal Home Loan Bank Federal National Mortgage Association	Aaa	\$ 11,656,824	-	7,811,670	3,845,154	50%	
Federal Home Loan Mortgage Corporation	Aaa	7,930,892	-	6,015,016	1,915,876	34%	
	Aaa	<u>3,865,936</u>	<u>-</u>	<u>1,958,962</u>	<u>1,906,974</u>	<u>16%</u>	
		<u>\$ 23,453,652</u>	<u>-</u>	<u>15,785,648</u>	<u>7,668,004</u>	<u>100%</u>	

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Pension Fund

The cash and investments of the Pension Fund are invested in various assets with the Bank of Oklahoma and may be used only for the payment of benefits to the members of the pension plan (see Note 6). The composition of the pension fund at fair value as of June 30 is shown in the following table:

	<u>2014</u>	Exposure as a Percentage of Total <u>Investment</u>	<u>2013</u>	Exposure as a Percentage of Total <u>Investment</u>
Cash	\$ 1,566,962	5%	1,216,126	5%
Fixed income:				
Corporate bonds	1,199,386	4%	2,389,485	10%
Bond funds (pooled fixed income)	<u>8,103,944</u>	30%	<u>6,550,378</u>	27%
	<u>9,303,330</u>		<u>8,939,863</u>	
Equities:				
Common stock	12,405,869	45%	10,314,191	43%
Equity funds	<u>4,050,118</u>	15%	<u>3,306,527</u>	14%
	<u>16,455,987</u>		<u>13,620,718</u>	
Receivables:				
Unsettled trades and accrued income	<u>50,714</u>	<u>1%</u>	<u>61,395</u>	<u>1%</u>
	<u>\$ 27,376,993</u>	<u>100%</u>	<u>23,838,102</u>	<u>100%</u>

Investment Allocation Policy—On March 28, 1983, the Commission appointed a Board of Administrators for the pension plan—the Library Retirement Pension Board (the “Pension Board”). The Pension Board has the responsibility for the management of the Pension Fund and has the responsibility for reviewing the pension plan and reporting on its status to the Commission annually. The Pension Board consists of the three officers of the Commission and three designated Library staff employees. Overall investment guidelines provide for diversification and allow investment in domestic and international equities, fixed-income securities, and cash equivalents.

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Pension Fund, Continued

The following are the investment allocation limits:

	<u>Upper Limit</u>
Domestic large cap equities	50%
Domestic small cap equities	9%
International equities	9%
Fixed-income investments	45%
Cash equivalents	5%

The Pension Fund addresses custodial credit risk, with the policy providing for the engagement of a custodian who accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured, or called items; and provides periodic accounting to the Commission. At June 30, 2014 and 2013, the Pension Fund held \$27,376,993 and \$23,838,102, respectively, in cash, investments, and receivables. This amount was held by the investment counterparty, in the name of the pension plan.

Pursuant to the Prudent Investor Rule, Oklahoma statutes restrict Pension Fund investing.

During the years ended June 30, 2014 and 2013, the Pension Board made no significant investment policy changes.

Method Used to Value Investments—Pension plan investments are reported at fair value. Debt and equity securities are reported at fair value, as determined by the Plan’s custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, and investment expenses, which includes investment management and custodial fees and all other significant investment related costs.

Custodial Credit Risk—Custodial credit risk is the risk that in the event of the failure of a counterparty, the Library will not be able to recover the value of its investments. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Library, or are held by a counterparty or the counterparty’s trust department but not in the name of the Library. All cash, cash equivalents, and investments of the Pension Fund are insured and collateralized.

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Pension Fund, Continued

Rate of Return—For the year ended June 30, 2014 and 2013, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.27% and 11.14%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Concentration of Credit Risk—The investment policy limits the concentration of equity investments to no more than 5% in any one issuer. Except as noted on the table below, no investment with a single firm exceeds 5% of the Pension Fund’s net position.

The following table presents the individual investments exceeding the 5% threshold at June 30:

		2014		
<u>Classification of Investment</u>	<u>Name of Investment</u>	<u>Shares Held</u>	<u>Cost</u>	<u>Fair Value</u>
Bond fixed income fund	Pimco Total Return	<u>247,764</u>	<u>\$ 2,710,184</u>	<u>2,717,974</u>
		2013		
<u>Classification of Investment</u>	<u>Name of Investment</u>	<u>Shares Held</u>	<u>Cost</u>	<u>Fair Value</u>
Bond fixed income fund	Pimco Total Return	<u>192,661</u>	<u>\$ 2,122,386</u>	<u>2,073,031</u>

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Pension Fund held no foreign investments at June 30, 2014 or 2013. As such, no Pension Fund investments were subject to foreign currency risk.

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Pension Fund, Continued

Credit Risk—Fixed-income investments are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The following table provides information as of June 30 concerning credit risk:

<u>S&P 500 Rating</u>	<u>2014</u>		<u>2013</u>	
	<u>Fair Value</u>	Percentage of Total Fixed-Income Investments at <u>Fair Value</u>	<u>Fair Value</u>	Percentage of Total Fixed-Income Investments at <u>Fair Value</u>
AA+	\$ -	N/A	354,064	15%
AA	67,729	6%	69,961	3%
A+	-	N/A	205,669	9%
A	816,239	68%	1,008,393	41%
A-	315,418	26%	323,246	14%
BBB+	-	N/A	221,568	9%
BBB	-	<u>N/A</u>	<u>206,584</u>	<u>9%</u>
	<u>\$ 1,199,386</u>	<u>100%</u>	<u>2,389,485</u>	<u>100%</u>

At June 30, 2014 and 2013, the Pension Fund held \$8,103,944 and \$6,550,378, respectively, of pooled fixed income funds. The pooled funds are not rated nor is there a credit rating available.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Pension Fund, Continued

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, the Pension Fund had the following fixed-income investments with maturities:

<u>Investment Type</u>	2014			
	<u>Investment Maturities at Fair Value (in Years)</u>			
	<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More, Less than 10</u>	<u>Total Fair Value</u>
Corporate bonds	\$ 382,046	817,340	-	1,199,386

<u>Investment Type</u>	2013			
	<u>Investment Maturities at Fair Value (in Years)</u>			
	<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More, Less than 10</u>	<u>Total Fair Value</u>
Corporate bonds	\$ 940,666	991,329	457,490	2,389,485

Defined Contribution Fund

The investments of the Defined Contribution Fund are invested in mutual funds and a guaranteed interest account with Mass Mutual Life Insurance Company and may be used only for the payment of benefits to the participants of the defined contribution plan (see Note 6).

The following table presents the fair value of the defined contribution plan's investments by type at June 30:

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2014</u>	<u>2013</u>
Guaranteed interest account	\$ 1,684,595	2,020,532
Mutual funds	13,065,248	10,027,621
	<u>\$ 14,749,843</u>	<u>12,048,153</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Defined Contribution Fund, Continued

Custodial Credit Risk—Custodial credit risk is the risk that in the event of the failure of a counterparty, the Library will not be able to recover the value of its investments. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Library, or are held by a counterparty or the counterparty’s trust department but not in the name of the Library. While the trust agreement does not specifically address custodial credit risk, all investments are insured and collateralized.

Concentration of Credit Risk—Except as noted below, no single investment exceeds 5% of the Defined Contribution Fund’s total investments. The following table presents the individual investments exceeding the 5% threshold at June 30:

2014		
<u>Classification of Investment</u>	<u>Name of Investment</u>	<u>Fair Value</u>
Mutual fund	Select Strategies Bond	\$ 770,909
Mutual fund	Select Growth Opportunities	745,192
Mutual fund	Destination Retirement 2020	1,228,939
Mutual fund	Destination Retirement 2030	1,190,256
Mutual fund	Destination Retirement 2040	790,560
Mutual fund	American Century Equity Growth Fund	1,798,946
Guaranteed interest account	Guaranteed interest account	1,684,595

2013		
<u>Classification of Investment</u>	<u>Name of Investment</u>	<u>Fair Value</u>
Mutual fund	Select Strategies Bond	\$ 804,538
Mutual fund	Destination Retirement 2020	1,218,195
Mutual fund	Destination Retirement 2030	913,196
Mutual fund	American Century Equity Growth Fund	1,305,074
Guaranteed interest account	Guaranteed interest account	2,020,532

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) COLLECTIONS

The Library has not capitalized existing inexhaustible collections, including research books, because the values are not readily determinable.

(4) CAPITAL ASSETS

Capital assets of the Library at June 30 consisted of the following:

	<u>Balance at</u> <u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 315,571	-	-	315,571
Capital assets being depreciated:				
Library books	18,737,528	3,932,939	(3,866,519)	18,803,948
Furniture and fixtures	4,755,737	174,335	(117,314)	4,812,758
Computer equipment	3,262,036	467,765	(204,433)	3,525,368
Vehicles	488,128	86,357	(73,213)	501,272
Buildings and improvements	5,955,349	-	-	5,955,349
Total capital assets being depreciated	<u>33,198,778</u>	<u>4,661,396</u>	<u>(4,261,479)</u>	<u>33,598,695</u>
Less accumulated depreciation:				
Library books	10,817,297	2,721,348	(2,720,419)	10,818,226
Furniture and fixtures	3,335,064	279,867	(111,452)	3,503,479
Computer equipment	1,653,326	560,446	(190,018)	2,023,754
Vehicles	325,273	61,450	(52,605)	334,118
Buildings and improvements	<u>1,315,429</u>	<u>224,388</u>	<u>-</u>	<u>1,539,817</u>
Total accumulated depreciation	<u>17,446,389</u>	<u>3,847,499</u>	<u>(3,074,494)</u>	<u>18,219,394</u>
Total capital assets being depreciated, net	<u>15,752,389</u>	<u>813,897</u>	<u>(1,186,985)</u>	<u>15,379,301</u>
Capital assets, net	<u>\$ 16,067,960</u>	<u>813,897</u>	<u>(1,186,985)</u>	<u>15,694,872</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL ASSETS, CONTINUED

	<u>Balance at</u> <u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 315,571	-	-	315,571
Capital assets being depreciated:				
Library books	17,881,414	4,278,119	(3,422,005)	18,737,528
Furniture and fixtures	4,470,697	391,043	(106,003)	4,755,737
Computer equipment	2,805,784	668,768	(212,516)	3,262,036
Vehicles	582,316	20,949	(115,137)	488,128
Buildings and improvements	5,955,349	-	-	5,955,349
Total capital assets being depreciated	<u>31,695,560</u>	<u>5,358,879</u>	<u>(3,855,661)</u>	<u>33,198,778</u>
Less accumulated depreciation:				
Library books	10,656,911	2,506,742	(2,346,356)	10,817,297
Furniture and fixtures	3,160,496	271,117	(96,549)	3,335,064
Computer equipment	1,361,493	489,425	(197,592)	1,653,326
Vehicles	376,656	57,998	(109,381)	325,273
Buildings and improvements	1,091,105	224,324	-	1,315,429
Total accumulated depreciation	<u>16,646,661</u>	<u>3,549,606</u>	<u>(2,749,878)</u>	<u>17,446,389</u>
Total capital assets being depreciated, net	<u>15,048,899</u>	<u>1,809,273</u>	<u>(1,105,783)</u>	<u>15,752,389</u>
Capital assets, net	<u>\$ 15,364,470</u>	<u>1,809,273</u>	<u>(1,105,783)</u>	<u>16,067,960</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) COMPENSATED ABSENCES

Compensated absences are liquidated through the General Fund. Generally, up to 75% of annual leave must be taken during the calendar year earned and compensated absences are reported as current liabilities.

	<u>Balance at</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2014</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>1 Year</u>
Compensated absences	\$ 268,561	1,002,127	(1,004,944)	265,744	265,744

	<u>Balance at</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2013</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>1 Year</u>
Compensated absences	\$ 294,266	973,222	(998,927)	268,561	268,561

(6) RETIREMENT PLANS

Defined Benefit Plan

Plan Description: The Metropolitan Library System Pension Plan (the “Plan”) is a single-employer plan that covers some full-time employees of the Library. The Plan is a defined benefit plan which provides for retirement benefits based on length of service and salary. The Plan was amended effective January 1, 2008. This latest amendment lowered the vesting schedule from 5-year cliff vesting to 3 years. Death, early and late retirement, and deferred vested benefits are also available under the Plan. Assets of the Plan are held separately and may be used only for the payment of benefits to the members of the Plan. Actuarial valuations are performed annually on July 1.

The Plan’s membership consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Retirees, disabled participants, and beneficiaries currently receiving benefits	89	82
Terminated vested participants	11	12
Active participants	50	58
	<u>150</u>	<u>152</u>

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) RETIREMENT PLANS, CONTINUED

Defined Benefit Plan, Continued

Plan Description, Continued: Effective August 29, 2005, the Plan was frozen and no new employees are eligible to participate. A defined contribution plan was established for new employees.

Benefit payments for the Plan are as follows:

- a) The normal monthly retirement benefit will be 2.5% of an employee's average monthly earnings multiplied by years of credited service up to a maximum of 32 years. "Average monthly earnings" means the average of the employee's highest 60 consecutive completed calendar months of employment by the Library.
- b) The early retirement benefit will be the greater of the actuarial equivalent of the employee's accrued benefit at normal retirement date or the aggregate value of the employee's participant contributions plus interest credited.
- c) The late retirement benefits will be the greater of: 1) the normal retirement pension determined under the Plan, taking into account service and compensation credited after normal retirement age; or 2) the accrued benefit, determined as the later of normal retirement age or the end of the prior plan year, actuarially adjusted for late retirement.

Funding Policy: Participating employees contribute 4% of their compensation to the Plan. The Library contributes any additional amount necessary to fund normal cost and to amortize unfunded past service costs over a period of 30 years. The actuarial required contributions for 2014 and 2013 were \$1,130,104 and \$1,074,744, respectively, which equaled the annual pension cost, as currently defined, for the years then ended. The actuarial required contribution for 2015 is \$812,823.

The Plan does not issue stand-alone financial statements and related required supplementary information. The information is included within these financial statements, notes to the financial statements, and the required supplementary information.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) RETIREMENT PLANS, CONTINUED

Defined Benefit Plan, Continued

Net Pension Obligation (Benefit) and Annual Pension Cost: The required contribution is determined as part of the July 1st actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The actuarial assumptions included:

	<u>2014</u>	<u>2013</u>
Investment rate of return	7%	7%
Projected salary increases	5%	5%
Post-retirement increases	7%	7%
Mortality	RP-2000	up 84

The Library has contributed the actuarially required contribution annually. As a result, there was no net pension obligation as of June 30, 2014 or 2013.

Three-year trend information is as follows:

<u>3-Year Trend Information</u>					
<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Valuation of Assets (a)</u>	<u>Present Value of Future Benefits (b)</u>	<u>Excess of Plan Assets Over Present Value of Future Benefits (a)-(b)</u>
2014	\$ 1,130,104	100.0%	27,376,993	19,769,644	7,607,349
2013	1,074,744	100.0%	23,838,102	19,232,188	4,605,914
2012	1,114,433	100.0%	21,466,215	18,078,488	3,387,727

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) RETIREMENT PLANS, CONTINUED

Defined Benefit Plan, Continued

Net Pension Obligation (Benefit) and Annual Pension Cost, Continued: The funded status of the Plan as of July 1, 2014, the most recent actuarial valuation date, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
July 1, 2014	\$ 25,541,216	28,432,529	2,891,313	90%	2,196,275	132%

For purposes of this schedule, the AAL for the Plan is determined using the entry age normal funding method. Note that the annual required contribution for the Plan is calculated using the aggregate actuarial cost method.

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

Additional Disclosures Required by GASB 67

Net Pension Liability of the Library

The components of the net pension liability of the participating employers at June 30, 2014, were as follows:

Total pension liability	\$ 28,432,529
Plan fiduciary net position	<u>27,376,993</u>
Library's net pension liability	<u>\$ 1,055,536</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>96.29%</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) RETIREMENT PLANS, CONTINUED

Defined Benefit Plan, Continued

Additional Disclosures Required by GASB 67, Continued

Net Pension Liability of the Library, Continued

Actuarial assumptions—The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	None
Salary increases:	5%
Investment rate of return:	7% net of pension plan investment expense

Mortality rates were based on the RP-2000 Health Annuitant Mortality Table for males and females. Prior to the July 1, 2014, actuarial valuation, the actuarial assumptions utilized the 1983 Group Annuity Mortality Tables for pre- and post-retirement funding, as well as GASB purposes. The change in actuarial assumptions resulted in an increase in the total pension liability of \$246,053 for the year ended June 30, 2014.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 2009 to June 2013.

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 June 30, 2014 (see discussion of the pension plan's investment policy), are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income securities	5.02%
Domestic equity	8.89%
International equity	9.24%
Cash equivalents	2.00%

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) RETIREMENT PLANS, CONTINUED

Defined Benefit Plan, Continued

Additional Disclosures Required by GASB 67, Continued

Net Pension Liability of the Library, Continued

Discount rate—The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates equal to the differences between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensibility of the net pension liability to changes in the discount rate—The following presents the net pension liability of the employers calculated using the discount rate of 7.0%, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease <u>(6.0%)</u>	Current Discount Rate (7.0%)	1% Increase <u>(8.0%)</u>
Employers' net pension liability (asset)	\$ 3,853,776	<u>1,055,536</u>	<u>(1,388,638)</u>

Defined Contribution Plan

Effective August 29, 2005, the Metropolitan Library System Defined Contribution Plan (the “Contribution Plan”) was established. The Contribution Plan is intended to be a governmental plan as defined in Internal Revenue Code Section 414(d), and is to be approved and qualified by the Internal Revenue Service as satisfying the governmental plan requirements of Sections 401(a) and 501(a) and other pertinent provisions of the Internal Revenue Code of 1986. Under the Contribution Plan, the employer’s contribution shall be discretionary, to be determined by the employer, and is available to all participants. During 2014 and 2013, the Library contributed 10% of each participant’s compensation. Participants are fully vested in the employer’s contributions after 3 years. Participants may make voluntary contributions of 4% or 6% of compensation before tax. Participants are fully vested in the voluntary contributions. Participants may direct the Contribution Plan’s trustee in the investment of their individual account balances. Normal retirement age is the later of a participant’s 65th birthday or the 5th anniversary of the first day of the plan year in which participation in the Contribution Plan commenced. For the years ended June 30, 2014 and 2013, the Library’s contribution to the Contribution Plan was \$908,920 and \$850,894, respectively.

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) RETIREMENT PLANS, CONTINUED

Deferred Compensation Plan

The Library offers its employees a Deferred Compensation Plan as authorized by Section 457 of the Internal Revenue Code, as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the Oklahoma Statutes.

The Deferred Compensation Plan is available to all Library employees. Employees may direct the investment of their contributions in available investment options offered by the Deferred Compensation Plan. All interest, dividends, and investment fees are allocated to employees' accounts. For the years ended June 30, 2014 and 2013, employee contributions to the Deferred Compensation Plan totaled \$145,683 and \$162,639, respectively.

(7) SELF-INSURANCE RISK OF LOSS

The Library operates a self-insurance plan to fund its employee health benefits. The Library purchased insurance policies to limit its maximum possible benefit cost on both an employee basis and an aggregate basis. The Library has a contract with a third-party administrator to operate the self-insurance plan. For the year ended June 30, 2014, the Library has limited its risk of loss by purchasing insurance to pay an individual's claim in excess of \$75,000 per year, as compared to \$70,000 for the year ended June 30, 2013.

The carrying amount of liabilities for unpaid claims is equal to the amount of claims unpaid but due at year-end. This amount has been determined by the third-party administrator.

Changes in the claims liability amounts for the years ended June 30 were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 117,662	102,877	74,265
Current year claims	2,373,360	2,178,075	2,467,216
Claim payments	<u>(2,352,720)</u>	<u>(2,163,290)</u>	<u>(2,438,604)</u>
Balance, end of year	<u>\$ 138,302</u>	<u>117,662</u>	<u>102,877</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters for which the Library carries commercial insurance. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past 3 years.

(9) COMMITMENTS AND CONTINGENCIES

Operating Leases

On an ongoing basis, the Library leases 19 branch library buildings from the area cities and Oklahoma City. All of the branch buildings, except for the Del City library building, and Almonte Shopping Center library building are leased for \$1 per year. The terms of the leases are for a period of 1 year and automatically renew each year for a total term of 10 years unless written notice is given by either party of its intent not to renew. The Library provides for all maintenance, utilities, repairs, and liability insurance for all leased buildings. The Del City library building is leased for \$400 per month. The Almonte Shopping Center library building is leased for approximately \$7,000 per month. On occasion, the Library makes contributions towards the construction of a new library building. The purpose of the contribution is for the Library to have partial say in the design of the building since the design and construction of the building can affect the operations of the Library. During the years ended June 30, 2014 and 2013, the Library made no such contribution.

Total lease and equipment rental expense for the years ended June 30, 2014 and 2013, was \$90,300 and \$82,925, respectively.

Legal

From time to time, the Library is involved in certain legal proceedings arising in the normal course of business. In the opinion of management and counsel, the ultimate disposition of such proceedings will not have a material effect on the Library's financial statements.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

SUPPLEMENTARY INFORMATION REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 34

METROPOLITAN LIBRARY SYSTEM

Schedule I

BUDGETARY COMPARISON SCHEDULE—GENERAL FUND (UNAUDITED)

Year Ended June 30, 2014

	Budgeted Amounts— <u>Original</u>	Budgeted Amounts— <u>Final</u>	Actual Amounts— Modified <u>Accrual Basis</u>	Modified Accrual to Budgetary Basis <u>Adjustments</u>	Actual Amounts— Budgetary <u>Basis</u>	Variance with Final Budget— Positive <u>(Negative)</u>
Budgetary fund balance, beginning of year:						
Carryover funds	\$ 12,902,418	12,902,418	14,109,018	1,107,255	13,001,763	99,345
Capital reserve	16,128,950	16,128,950	16,128,950	-	16,128,950	-
	<u>29,031,368</u>	<u>29,031,368</u>	<u>30,237,968</u>	<u>1,107,255</u>	<u>29,130,713</u>	<u>99,345</u>
Resources (inflows):						
Property taxes	28,418,861	28,418,861	31,354,285	(22,250)	31,376,535	2,957,674
Collections on book fines and copy services	468,000	468,000	766,405	-	766,405	298,405
State revenue	258,653	258,653	289,550	-	289,550	30,897
Investment (losses) earnings	-	-	442,436	243,291	199,145	199,145
Other	-	-	527,810	(348,859)	876,669	876,669
Total resources (inflows)	<u>29,145,514</u>	<u>29,145,514</u>	<u>33,380,486</u>	<u>(127,818)</u> ⁽¹⁾	<u>33,508,304</u>	<u>4,362,790</u>
Charges to appropriations (outflows):						
Personal services	24,022,831	24,022,831	22,641,562	54,888	22,586,674	1,436,157
Maintenance and operations:						
Contractual services	5,050,906	5,050,906	3,887,164	(139,875)	4,027,039	1,023,867
Commodities	1,452,366	1,452,366	1,260,357	(22,194)	1,282,551	169,815
Capital outlays—operations	12,720,381	12,720,381	7,126,425	(432,522)	7,558,947	5,161,434
Total charges to appropriations (outflows)	<u>43,246,484</u>	<u>43,246,484</u>	<u>34,915,508</u>	<u>(539,703)</u> ⁽²⁾	<u>35,455,211</u>	<u>7,791,273</u>
Change in budgetary fund balance	(14,100,970)	(14,100,970)	(1,535,022)	411,885	(1,946,907)	12,154,063
Budgetary fund balance, end of year:						
Carryover funds	-	-	13,772,548	1,519,140	12,253,408	12,253,408
Capital reserve	14,930,398	14,930,398	14,930,398	-	14,930,398	-
	<u>\$ 14,930,398</u>	<u>14,930,398</u>	<u>28,702,946</u>	<u>1,519,140</u>	<u>27,183,806</u>	<u>12,253,408</u>

See Independent Auditors' Report.

See accompanying notes to Required Supplemental Information.

METROPOLITAN LIBRARY SYSTEM

Schedule I, Continued

BUDGETARY COMPARISON SCHEDULE—GENERAL FUND (UNAUDITED), CONTINUED

Year Ended June 30, 2013

	Budgeted Amounts— <u>Original</u>	Budgeted Amounts— <u>Final</u>	Actual Amounts— Modified <u>Accrual Basis</u>	Modified Accrual to Budgetary Basis <u>Adjustments</u>	Actual Amounts— Budgetary <u>Basis</u>	Variance with Final Budget— Positive <u>(Negative)</u>
Budgetary fund balance, beginning of year:						
Carryover funds	\$ 10,880,866	10,880,866	13,503,363	2,404,006	11,099,357	218,491
Capital reserve	19,333,641	19,333,641	19,333,641	-	19,333,641	-
	<u>30,214,507</u>	<u>30,214,507</u>	<u>32,837,004</u>	<u>2,404,006</u>	<u>30,432,998</u>	<u>218,491</u>
Resources (inflows):						
Property taxes	27,784,378	27,784,378	30,705,493	41,693	30,663,800	2,879,422
Collections on book fines and copy services	450,000	450,000	747,417	-	747,417	297,417
State revenue	257,466	257,466	287,392	-	287,392	29,926
Investment (losses) earnings	-	-	(407,625)	(732,961)	325,336	325,336
Other	-	-	371,196	(386,700)	757,896	757,896
Total resources (inflows)	<u>28,491,844</u>	<u>28,491,844</u>	<u>31,703,873</u>	<u>(1,077,968)</u> ⁽¹⁾	<u>32,781,841</u>	<u>4,289,997</u>
Charges to appropriations (outflows):						
Personal services	23,232,501	23,232,501	21,689,792	61,763	21,628,029	1,604,472
Maintenance and operations:						
Contractual services	4,965,343	4,965,343	3,649,567	(107,420)	3,756,987	1,208,356
Commodities	1,571,822	1,571,822	1,470,643	(125,631)	1,596,274	(24,452)
Capital outlays—operations	12,807,735	12,807,735	7,492,906	390,071	7,102,835	5,704,900
Total charges to appropriations (outflows)	<u>42,577,401</u>	<u>42,577,401</u>	<u>34,302,908</u>	<u>218,783</u> ⁽²⁾	<u>34,084,125</u>	<u>8,493,276</u>
Change in budgetary fund balance	(14,085,557)	(14,085,557)	(2,599,035)	(1,296,751)	(1,302,284)	12,783,273
Budgetary fund balance, end of year:						
Carryover funds	-	-	14,109,019	1,107,255	13,001,764	13,001,764
Capital reserve	16,128,950	16,128,950	16,128,950	-	16,128,950	-
	<u>\$ 16,128,950</u>	<u>16,128,950</u>	<u>30,237,969</u>	<u>1,107,255</u>	<u>29,130,714</u>	<u>13,001,764</u>

See Independent Auditors' Report.

See accompanying notes to Required Supplemental Information.

**BUDGETARY COMPARISON SCHEDULE—GENERAL FUND (UNAUDITED),
CONTINUED**

<i>Years Ended June 30,</i>	<i>2014</i>	<i>2013</i>
Budget-to-actual reconciliation:		
(1) Revenues on a budgetary basis are based on cash received rather than the modified accrual basis used for financial reporting, and the Revolving Fund is not reported as part of the General Fund for budgetary purposes.	\$ (127,818)	(1,077,968)
(2) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting. In addition, the Revolving Fund is not reported as part of the General Fund for budgetary purposes. Reserves for future cash flow and improvement needs were included in the budgetary basis, but not in the GAAP basis.	<u>539,703</u>	<u>(218,783)</u>
Total budget-to-actual reconciliation	<u>\$ 411,885</u>	<u>(1,296,751)</u>

Note: Under the budgetary basis of accounting, revenues are recognized when they are received rather than when they are earned. Purchases of materials, outside services, and capital outlays are recognized as expenditures when the commitment to purchase is made (encumbered).

See Independent Auditors' Report.
See accompanying notes to Required Supplemental Information.

METROPOLITAN LIBRARY SYSTEM

SUPPLEMENTARY INFORMATION REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 25

METROPOLITAN LIBRARY SYSTEM

SCHEDULE OF FUNDING PROGRESS—DEFINED BENEFIT PENSION PLAN PER GASB 25

June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2010	\$ 20,026,476	25,103,798	5,077,322	80%	2,816,071	180%
July 1, 2011	21,089,287	26,611,547	5,522,260	79%	2,857,692	193%
July 1, 2012	21,868,195	26,808,086	4,939,891	82%	2,617,869	189%
July 1, 2013	23,051,652	27,879,489	4,827,837	83%	2,607,287	185%
July 1, 2014	25,541,216	28,432,529	2,891,313	90%	2,196,275	132%

^(*) 10 years of history not available.

See Independent Auditors' Report.
See accompanying notes to Required Supplemental Information.

METROPOLITAN LIBRARY SYSTEM

**SCHEDULE OF EMPLOYER CONTRIBUTIONS—
DEFINED BENEFIT PENSION PLAN PER GASB 25**

June 30, 2014

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Employers Contributions</u>	<u>Percentage Contributed</u>
June 30, 2005	\$ 1,573,250	1,573,250	100%
June 30, 2006	719,272	719,272	100%
June 30, 2007	550,340	550,340	100%
June 30, 2008	802,450	802,450	100%
June 30, 2009	712,700	712,700	100%
June 30, 2010	1,012,622	1,012,622	100%
June 30, 2011	996,982	996,982	100%
June 30, 2012	1,114,433	1,114,433	100%
June 30, 2013	1,074,744	1,074,744	100%
June 30, 2014	1,130,104	1,130,104	100%

See Independent Auditors' Report.

See accompanying notes to Required Supplemental Information.

METROPOLITAN LIBRARY SYSTEM

**SUPPLEMENTARY INFORMATION REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 67**

METROPOLITAN LIBRARY SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY—
DEFINED BENEFIT PENSION PLAN PER GASB 67

Last 2 Fiscal Years

	<u>2014</u>	<u>2013</u>
Total pension liability		
Service cost	\$ 459,906	523,417
Interest	1,937,455	1,871,153
Differences between expected and actual experience	(767,420)	(121,662)
Changes in assumptions	246,053	-
Benefit payments, including refunds of member contributions	<u>(1,322,954)</u>	<u>(1,201,505)</u>
Net change in total pension liability	553,040	1,071,403
Total pension liability—beginning	<u>27,879,489</u>	<u>26,808,086</u>
Total pension liability—ending ^(a)	<u>\$ 28,432,529</u>	<u>27,879,489</u>
Plan fiduciary net position		
Contributions—Library	\$ 1,130,104	1,074,744
Contributions—employees	98,634	108,805
Net investment income	3,700,555	2,456,234
Benefit payments, including refunds of member contributions	<u>(1,390,402)</u>	<u>(1,267,896)</u>
Net change in plan fiduciary net position	3,538,891	2,371,887
Plan fiduciary net position—beginning	<u>23,838,102</u>	<u>21,466,215</u>
Plan fiduciary net position—ending ^(b)	<u>\$ 27,376,993</u>	<u>23,838,102</u>
Plan's net pension liability (a - b)	<u>\$ 1,055,536</u>	<u>4,041,387</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.
See accompanying notes to Required Supplemental Information.

METROPOLITAN LIBRARY SYSTEM

**SCHEDULE OF NET PENSION LIABILITY—
DEFINED BENEFIT PENSION PLAN PER GASB 67**

Last 2 Fiscal Years

	<u>2014</u>	<u>2013</u>
Total pension liability	\$ 28,432,529	27,879,489
Plan fiduciary net position	<u>27,376,993</u>	<u>23,838,102</u>
Plan's net pension liability	<u>\$ 1,055,536</u>	<u>4,041,387</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>96.29%</u>	<u>85.50%</u>
Covered-employee payroll	<u>\$ 2,196,275</u>	<u>2,607,287</u>
Plan's net pension liability as a percentage of covered-employee payroll	<u>48.06%</u>	<u>155.00%</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.
See accompanying notes to Required Supplemental Information.

METROPOLITAN LIBRARY SYSTEM

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER—
DEFINED BENEFIT PENSION PLAN PER GASB 67**

Last 4 Fiscal Years

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ <u>1,130,104</u>	<u>1,074,744</u>	<u>1,114,433</u>	<u>996,982</u>
Contributions in relation to the actuarially determined contribution	<u>1,130,104</u>	<u>1,074,744</u>	<u>1,114,433</u>	<u>996,982</u>
Contribution deficiency	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ <u>2,196,275</u>	<u>2,607,287</u>	<u>2,617,869</u>	<u>2,857,692</u>
Contributions as a percentage of covered-employee payroll	<u>51.46%</u>	<u>41.22%</u>	<u>42.57%</u>	<u>34.89%</u>

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.
See accompanying notes to Required Supplemental Information.

METROPOLITAN LIBRARY SYSTEM

**SCHEDULE OF INVESTMENT RETURNS—DEFINED BENEFIT PENSION PLAN
PER GASB 67**

Last 2 Fiscal Years

	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	15.27%	11.14%

Information to present a 10-year history is not readily available.

See Independent Auditors' Report.
See accompanying notes to Required Supplemental Information.

METROPOLITAN LIBRARY SYSTEM

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

DEFINED BENEFIT PENSION PLAN (SCHEDULES II THROUGH VII)

The information presented in Schedule II through Schedule VII was determined as part of an actuarial valuation by an independent enrolled actuary (Daily Access Corporation) at the dates indicated. Additional information as of the July 1, 2014, valuation follows:

Actuarial cost method:	Aggregate cost method
Amortization method:	None
Asset valuation method:	5-year smoothed market
	An expected actuarial value is equal to fair market value of assets less a decreasing fraction (4/5, 3/5, 2/5, and 1/5) of the gain or loss for each of the preceding four years, with gains being subtracted and losses being added. The gain or loss for a year is determined by calculating the difference between the expected value of the assets for the year and the fair market value of the assets at the valuation date. The expected value of the assets for the year is the fair market value of the assets at the valuation date of the prior year brought forward, with 7% interest to the valuation date for the current year, plus contributions minus benefit disbursements, all adjusted with 7% interest to the valuation date for the current year. The result will not exceed the corridor of 80% to 120% of fair market value.

Actuarial assumptions

Investment rate of return:	7%
Projected salary increases:	5%
Cost-of-living adjustment:	None

See Independent Auditors' Report.



**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**

To the Commissioners
Metropolitan Library System

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Metropolitan Library System (the "Library") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 14, 2014. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information and an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statement No. 67 by the Library.

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.

(Continued)

**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, CONTINUED**

Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 14, 2014

METROPOLITAN LIBRARY SYSTEM

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2014

There are no findings noted for the 2014 audit.

METROPOLITAN LIBRARY SYSTEM

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

June 30, 2014

Finding 2013-01

Investments

Comment

During the audit, we noted adequate controls were not present surrounding investments. In order to adequately control the investment process, one individual should authorize the purchase/sale, a second individual or party should be the custodian of the securities, and a third individual should record the investment transaction. We noted the Library has one individual responsible for authorizing the purchase/sale of investments and for recording the investment activities. All investments are held by the Bank of Oklahoma; as such, custodial responsibility is assigned to an independent party. We recommend that a different individual be responsible for authorizing investment purchases/sales activities as described above.

Management Response

We understand and agree with the comment and have begun to have the Executive Director be responsible for authorization of investment purchases and sales.

2014 Follow up

We noted this was not a finding for 2014, as the Executive Director was responsible for the authorization of investment purchases and sales.