

Metropolitan Library System

Financial Statements

June 30, 2015 and 2014

(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, 2015 and 2014, 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 audits 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, 2015 and 2014, 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 Notes 1 and 2 to the financial statements, in 2015 the Library adopted new accounting guidance, Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions—and amendment of GASB Statement No. 27* (GASB 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). The implementation of GASB 68 and GASB 71 resulted in the restatement of the 2014 financial statements. Our opinion is not modified with respect to these matters.

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 budgetary comparison schedule—General Fund, 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 55–62 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 20, 2015, 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, flowing style.

Shawnee, Oklahoma
October 20, 2015

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, 2015 and 2014. Readers should read this information in conjunction with the Library’s financial statements.

FINANCIAL HIGHLIGHTS

For the year ended June 30, 2015, the Library’s General Fund reported an ending balance of \$28,520,415 versus \$28,702,947 for the year ended June 30, 2014. The comparison reflects a decrease of \$182,532, or 0.6%, of the June 30, 2014, General Fund ending fund balance. Of the June 30, 2015 and 2014, year-end totals, \$14,560,806 and \$13,676,554, respectively, was unassigned, indicating that none of this amount had been restricted, committed, or assigned to specific purposes within the General Fund. For the year ended June 30, 2015, \$13,865,015 of the balance was assigned, with \$6,825,015 assigned to Library capital improvement projects and \$7,040,000 assigned to cash flow requirements. 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. Nonspendable totals for the years ended June 30, 2015 and 2014, were \$94,594 and \$95,995, respectively.

Over the years, the Library administration, with the approval of the Metropolitan Library Commission of Oklahoma County (the “Commission”), 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.

During 2015, the requirement to implement GASB Statement No. 68 resulted in the Library recognizing a net pension liability of approximately \$3,472,000, \$1,056,000, and \$4,041,000 at June 30, 2015, 2014, and 2013, respectively.

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 government-wide statements.

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>2015</u>	<u>2014</u> <i>(Restated)</i>	<u>2013</u> <i>(Restated)</i>
<i>Statements of Net Position</i>			
Assets:			
Current	\$ 32,514,465	32,275,087	33,672,343
Capital assets	<u>15,278,942</u>	<u>15,694,872</u>	<u>16,067,960</u>
Total assets	<u>47,793,407</u>	<u>47,969,959</u>	<u>49,740,303</u>
Deferred outflows of resources related to the pension plan	<u>2,406,454</u>	<u>211,122</u>	<u>-</u>
Liabilities:			
Accounts payable and accrued expenses	1,128,458	888,527	1,115,945
Compensated absences payable	324,039	265,744	268,561
Net pension liability	<u>3,472,023</u>	<u>1,055,536</u>	<u>4,041,387</u>
Total liabilities	<u>4,924,520</u>	<u>2,209,807</u>	<u>5,425,893</u>
Deferred inflows of resources related to the pension plan	<u>1,772,054</u>	<u>2,288,510</u>	<u>-</u>
Net position:			
Net investment in capital assets	15,278,942	15,694,872	16,067,960
Restricted	85,873	85,732	78,218
Unrestricted	<u>28,138,472</u>	<u>27,902,160</u>	<u>28,168,232</u>
Total net position	<u>\$ 43,503,287</u>	<u>43,682,764</u>	<u>44,314,410</u>
<i>Changes in Net Position</i>			
Beginning net position	<u>\$ 43,682,764</u>	<u>44,314,410</u>	<u>46,115,932</u>
Revenues:			
Property taxes	32,537,954	31,357,148	30,354,504
State aid	281,497	289,550	287,392
Charges for services	1,520,321	1,996,522	1,824,080
Operating grants and contributions	364,209	290,176	265,088
Loss from disposals	(34,768)	(1,186,985)	(1,105,783)
Investment earning (losses)	<u>387,000</u>	<u>442,437</u>	<u>(407,625)</u>
Total revenues	<u>35,056,213</u>	<u>33,188,848</u>	<u>31,217,656</u>
Expenses:			
Public library services	18,677,104	18,891,847	18,684,302
Administrative services	11,586,727	11,081,148	10,785,270
Depreciation—unallocated	<u>4,971,859</u>	<u>3,847,499</u>	<u>3,549,606</u>
Total expenses	<u>35,235,690</u>	<u>33,820,494</u>	<u>33,019,178</u>
Ending net position	<u>\$ 43,503,287</u>	<u>43,682,764</u>	<u>44,314,410</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 Commission each month for its acknowledgement.

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

<u>2015</u>	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Revenues	\$ 34,211,359	364,209	34,575,568
Expenditures	<u>(34,393,891)</u>	<u>(364,068)</u>	<u>(34,757,959)</u>
Net (decrease) increase	<u>\$ (182,532)</u>	<u>141</u>	<u>(182,391)</u>

<u>2014</u>	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Revenues	\$ 33,380,487	290,176	33,670,663
Expenditures	<u>(34,915,509)</u>	<u>(282,662)</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>

General Fund:

The Library is primarily funded by a 5.2 mill ad valorem (property) tax. For the year ended June 30, 2015, the Oklahoma County’s assessed property value had an increase of 3.8% versus 2.3% for the year ended June 30, 2014. Actual tax collections increased 3.9% for the year ended June 30, 2015, over the year ended June 30, 2014, as compared to a 2.1% increase in the year ended June 30, 2014, over the previous year. Investment income for the Library decreased to \$387,000 in the year ended June 30, 2015, from \$442,437 in investment income in the year ended June 30, 2014. The decrease was primarily due to decreased investment appreciation in the year ended June 30, 2015.

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL ANALYSIS OF THE LIBRARY’S FUNDS, CONTINUED

General Fund, Continued:

Major expenditure categories decreased in 2015 from 2014, showing an overall decrease of \$521,618, or 1.5%. Within categories, personal services decreased 0.1% compared to the previous year’s increase of 4.4%. Maintenance and operations expenses increased, totaling a 3.3% change. Capital outlays decreased 9.6%.

Gifts and Grants Fund:

During the years ended June 30, 2015 and 2014, \$364,209 and \$290,176, respectively, of gifts and grants funds were received. For the year ended June 30, 2015, the largest contributors were the Friends of the Metropolitan Library System (the “Friends”), which gave 9 grants totaling \$162,500, and the Library Endowment Trust, which gave 3 grants totaling \$146,500. For the year ended June 30, 2014, the largest contributor were the Friends, which gave 14 grants for various Library activities with a total amount of \$202,415. Other major grantors for the fiscal year ended June 30, 2015, included the Sonic Corporation (\$20,000) and PiPhi (\$10,000).

Proprietary Fund:

	<u>Insurance Fund</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues	\$ 2,625,470	2,572,274	2,617,647
Expenses	<u>(2,383,193)</u>	<u>(2,217,467)</u>	<u>(2,178,075)</u>
Net increase	<u>\$ 242,277</u>	<u>354,807</u>	<u>439,572</u>

The total insurance premium contributed by both the employer and the employees to this fund was \$2,570,328 in the year ended June 30, 2015, versus \$2,543,200 and \$2,304,480 in the years ended June 30, 2014 and 2013, respectively. Claims expense for 2015 was \$2,383,193 compared to \$2,217,467 and \$2,178,075 for 2014 and 2013, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund budget for the year ended June 30, 2015, was \$54,914,989, a decrease of \$3,261,893, or 5.6%, over the June 30, 2014, budget of \$58,176,882. The biggest contributor to the decrease in the year ended June 30, 2015, budget over the previous year was a decrease in the capital reserve, which decreased \$2,005,521 due to those monies being moved to the June 30, 2015, 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>2015</u>	
<u>Revenues</u>	<u>Budgeted</u>	<u>Actual on a Budgeted Basis</u>
Revenues	\$ 30,268,862	35,438,928
Expenditures	\$ 41,049,974	34,658,541

	<u>2014</u>	
<u>Revenues</u>	<u>Budgeted</u>	<u>Actual on a Budgeted Basis</u>
Revenues	\$ 29,145,514	33,508,304
Expenditures	\$ 43,246,484	35,455,211

	<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

CAPITAL ASSETS AND LONG-TERM DEBT

The Library’s investment in depreciable capital assets, net of accumulated depreciation, at June 30, 2015, was \$14,963,371, and at June 30, 2014, was \$15,379,301. Of the total depreciable capital assets at June 30, 2015, 47% consisted of furniture, equipment, vehicles, and buildings, while the remaining 53% consisted of books and materials. The previous year, those percentages were 48% and 52%, respectively. Nondepreciable assets at June 30, 2015 and 2014, 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 general, the Library expects a small growth in the tax revenue for the next year. The Oklahoma County Assessor has certified a 4.8% growth in property values for fiscal year ended June 30, 2016, as opposed to 3.9% in the year ended June 30, 2015. 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, 2016, the Commission has approved a General Fund budget of \$58,437,303, versus \$54,914,989 for the year ended June 30, 2015. Of the total budget amount for the year ended June 30, 2016, \$38,660,009 was for operating costs, \$5,545,273 was for capital projects, and \$14,232,021 was for other assigned funds. 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.

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>2015</i>	<i>2014</i>
		<i>(Restated)</i>
	<u>Government-wide</u>	
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 10,678,027	15,217,879
Investments	20,421,981	15,700,396
Ad valorem taxes receivable, net of allowance for uncollectible taxes of \$33,207 and \$48,590 as of June 30, 2015 and 2014, respectively	1,191,171	1,187,619
Accounts receivable	95,389	40,512
Accrued interest receivable	33,303	32,686
Prepaid expenses	94,594	95,995
Total current assets	<u>32,514,465</u>	<u>32,275,087</u>
Noncurrent assets:		
Nondepreciable capital assets	315,571	315,571
Depreciable capital assets, net	14,963,371	15,379,301
Total noncurrent assets	<u>15,278,942</u>	<u>15,694,872</u>
Total assets	<u>47,793,407</u>	<u>47,969,959</u>
Deferred outflows of resources:		
Deferred amounts related to the pension plan	<u>2,406,454</u>	<u>211,122</u>
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable and accrued expenses	1,128,458	888,527
Compensated absences payable	324,039	265,744
Total current liabilities	<u>1,452,497</u>	<u>1,154,271</u>
Noncurrent liabilities:		
Net pension liability	<u>3,472,023</u>	<u>1,055,536</u>
Total liabilities	<u>4,924,520</u>	<u>2,209,807</u>
Deferred inflows of resources:		
Deferred amounts related to the pension plan	<u>1,772,054</u>	<u>2,288,510</u>
Net Position		
Net investment in capital assets	15,278,942	15,694,872
Restricted	85,873	85,732
Unrestricted	<u>28,138,472</u>	<u>27,902,160</u>
Total net position	<u>\$ 43,503,287</u>	<u>43,682,764</u>

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

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2015

		Revenues			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	Net (Expenses) Revenues/ Changes in <u>Net Assets</u>
Government activities:					
Public library services	\$ (18,677,104)	745,528	364,209	-	(17,567,367)
Administrative services	(11,586,727)	774,793	-	-	(10,811,934)
Depreciation—unallocated	(4,971,859)	-	-	-	(4,971,859)
	<u>\$ (35,235,690)</u>	<u>1,520,321</u>	<u>364,209</u>	<u>-</u>	<u>(33,351,160)</u>
General revenues:					
Property taxes, levied for general purposes					32,537,954
State aid					281,497
Loss from disposals					(34,768)
Investment earnings					387,000
Total general revenues					<u>33,171,683</u>
Changes in net position					(179,477)
Net position, beginning of year, restated					<u>43,682,764</u>
Net position, end of year					<u>\$ 43,503,287</u>

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

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2014

	<u>Expenses</u>	<u>Charges for</u>	<u>Revenues</u>		<u>Net (Expenses)</u>
	<u>(Restated)</u>	<u>Services</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenues/</u>
			<u>and</u>	<u>Grants</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>and</u>	<u>Net Assets</u>
				<u>Contributions</u>	<u>(Restated)</u>
Government activities:					
Public library services	\$ (18,891,847)	766,405	290,176	-	(17,835,266)
Administrative services	(11,081,148)	1,230,117	-	-	(9,851,031)
Depreciation—unallocated	(3,847,499)	-	-	-	(3,847,499)
	<u>\$ (33,820,494)</u>	<u>1,996,522</u>	<u>290,176</u>	<u>-</u>	<u>(31,533,796)</u>
General revenues:					
Property taxes, levied for general purposes					31,357,148
State aid					289,550
Loss from disposals					(1,186,985)
Investment earnings					442,437
Total general revenues					<u>30,902,150</u>
Changes in net position, as restated					(631,646)
Net position, beginning of year, as restated					<u>44,314,410</u>
Net position, end of year, as restated					<u>\$ 43,682,764</u>

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

METROPOLITAN LIBRARY SYSTEM

BALANCE SHEETS—GOVERNMENTAL FUNDS

June 30, 2015

	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 8,097,662	85,873	8,183,535
Investments	20,421,981	-	20,421,981
Ad valorem taxes receivable, net of allowance	1,191,171	-	1,191,171
Accrued interest receivable	33,303	-	33,303
Prepaid expenses	94,594	-	94,594
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 29,838,711</u>	<u>85,873</u>	<u>29,924,584</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 378,620	-	378,620
Accrued salaries	446,123	-	446,123
Total liabilities	<u>824,743</u>	<u>-</u>	<u>824,743</u>
Deferred inflows of resources:			
Accrued property taxes not available for spending	493,553	-	493,553
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and deferred inflows of resources	<u>1,318,296</u>	<u>-</u>	<u>1,318,296</u>
Fund balances:			
Nonspendable	94,594	-	94,594
Restricted	-	85,873	85,873
Assigned	13,865,015	-	13,865,015
Unassigned	14,560,806	-	14,560,806
Total fund balances	<u>28,520,415</u>	<u>85,873</u>	<u>28,606,288</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 29,838,711</u>	<u>85,873</u>	<u>29,924,584</u>

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

METROPOLITAN LIBRARY SYSTEM

BALANCE SHEETS—GOVERNMENTAL FUNDS, CONTINUED

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

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

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
Reconciliation of Fund Balances to Net Position		
Total fund balances—governmental funds	\$ 28,606,288	28,788,679
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	15,278,942	15,694,872
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.	493,553	553,992
Net position of Internal Service Fund separately reported as proprietary fund.	2,286,166	2,043,889
Compensated absences in governmental activities are not financial expenditures and therefore are not reported as a liability in governmental funds.	(324,039)	(265,744)
Deferred outflows related to the pension plan are not financial resources and therefore are not reported in the funds.	2,406,454	211,122
Deferred inflows related to the pension plan are not due and payable in the current period and therefore are not reported in the funds.	(1,772,054)	(2,288,510)
Net pension liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,472,023)</u>	<u>(1,055,536)</u>
Net position of governmental activities, restated	<u>\$ 43,503,287</u>	<u>43,682,764</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, 2015

	General <u>Fund</u>	Gifts and <u>Grants Fund</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 32,598,393	-	32,598,393
Collections on book fines and copy services	745,528	-	745,528
Gifts and grants	-	364,209	364,209
State revenue	281,497	-	281,497
Investment income	387,000	-	387,000
Other	198,941	-	198,941
Total revenues	<u>34,211,359</u>	<u>364,209</u>	<u>34,575,568</u>
Expenditures:			
Personal services	22,634,023	-	22,634,023
Maintenance and operations:			
Contractual services	4,175,014	331,913	4,506,927
Commodities	1,144,894	-	1,144,894
Capital outlays	6,439,960	32,155	6,472,115
Total expenditures	<u>34,393,891</u>	<u>364,068</u>	<u>34,757,959</u>
Net changes in fund balances	(182,532)	141	(182,391)
Fund balances, beginning of year	<u>28,702,947</u>	<u>85,732</u>	<u>28,788,679</u>
Fund balances, end of year	<u>\$ 28,520,415</u>	<u>85,873</u>	<u>28,606,288</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, 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	-	290,176	290,176
State revenue	289,550	-	289,550
Investment income	442,437	-	442,437
Other	527,810	-	527,810
Total revenues	<u>33,380,487</u>	<u>290,176</u>	<u>33,670,663</u>
Expenditures:			
Personal services	22,641,562	41,880	22,683,442
Maintenance and operations:			
Contractual services	3,887,165	219,594	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>34,915,509</u>	<u>282,662</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

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

<i>Years Ended June 30,</i>	<i>2015</i>	<i>2014</i> <i>(Restated)</i>
Net changes in fund balances—total governmental funds	\$ (182,391)	(1,527,508)
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	(4,971,859)	(3,847,499)
Capital additions	<u>4,590,697</u>	<u>4,661,396</u>
	<u>(381,162)</u>	<u>813,897</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.	(34,768)	(1,186,985)
Compensated absences are not considered to be expenditures in the governmental funds. They are, however, recorded as expenses in the statements of activities.	(58,295)	2,818
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.	(166,844)	(142,128)
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.	106,405	144,990
The statements of activities include net activity of the Internal Service Fund, which is shown as a proprietary fund in the fund financial statements.	242,277	354,807
In the statements of activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.	<u>295,301</u>	<u>908,463</u>
Changes in net position of governmental activities	<u>\$ (179,477)</u>	<u>(631,646)</u>

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

METROPOLITAN LIBRARY SYSTEM

BALANCE SHEETS—PROPRIETARY FUND

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
	<u>Governmental Activities— Internal Service Fund</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,494,492	2,141,679
Stop-loss reimbursement receivable	95,389	40,512
Total assets	<u>2,589,881</u>	<u>2,182,191</u>
Liabilities		
Claims payable	<u>303,715</u>	<u>138,302</u>
Net Position		
Unrestricted	<u>\$ 2,286,166</u>	<u>2,043,889</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>2015</i>	<i>2014</i>
	Governmental Activities— Internal Service Fund	
Operating revenues:		
Insurance premiums	\$ 2,570,328	2,543,200
Refunds and miscellaneous	54,575	28,100
Total operating revenues	<u>2,624,903</u>	<u>2,571,300</u>
Operating expenses:		
Claims	<u>2,383,193</u>	<u>2,217,467</u>
Net operating income	<u>241,710</u>	<u>353,833</u>
Non-operating revenues:		
Interest income	<u>567</u>	<u>974</u>
Changes in net position	242,277	354,807
Net position, beginning of year	<u>2,043,889</u>	<u>1,689,082</u>
Net position, end of year	<u>\$ 2,286,166</u>	<u>2,043,889</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>2015</i>	<i>2014</i>
	Governmental Activities— Internal Service Fund	
Cash flows from operating activities:		
Cash received from other fund for services	\$ 2,570,328	2,543,200
Receipts from reinsurance	394,511	150,953
Payments of claims	(2,667,168)	(2,352,720)
Other receipts	54,575	28,100
Net cash provided by operating activities	352,246	369,533
Cash flows from investing activities:		
Interest on investments	567	974
Net cash provided by investing activities	567	974
Net increase in cash and cash equivalents	352,813	370,507
Cash and cash equivalents, beginning of year	2,141,679	1,771,172
Cash and cash equivalents, end of year	\$ 2,494,492	2,141,679
Reconciliation of net operating income to net cash provided by operating activities:		
Net operating income	\$ 241,710	353,833
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Increase in receivables	(54,877)	(4,940)
Increase in claims payable	165,413	20,640
Net cash provided by operating activities	\$ 352,246	369,533

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

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION—FIDUCIARY FUNDS

June 30, 2015

	Pension <u>Fund</u>	Flex Benefit <u>Fund</u>	Defined Contribution <u>Fund</u>	Total Fiduciary <u>Funds</u>
Assets				
Cash	\$ 797,263	35,116	-	832,379
Receivables (unsettled trades and accrued income)	30,536	-	-	30,536
Investments:				
Corporate bonds	788,094	-	-	788,094
Common stock	7,865,736	-	-	7,865,736
Mutual funds	16,972,187	-	13,836,286	30,808,473
Guaranteed interest account	-	-	1,953,083	1,953,083
Total investments	<u>25,626,017</u>	<u>-</u>	<u>15,789,369</u>	<u>41,415,386</u>
Total assets	<u>26,453,816</u>	<u>35,116</u>	<u>15,789,369</u>	<u>42,278,301</u>
Liabilities				
Employee benefits payable	-	10,116	-	10,116
Prepayment from the Library	-	25,000	-	25,000
Total liabilities	<u>-</u>	<u>35,116</u>	<u>-</u>	<u>35,116</u>
Net Position				
Net position restricted for pensions and insurance	<u>\$ 26,453,816</u>	<u>-</u>	<u>15,789,369</u>	<u>42,243,185</u>

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

METROPOLITAN LIBRARY SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION—FIDUCIARY FUNDS, CONTINUED

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 CHANGES IN FIDUCIARY NET POSITION—FIDUCIARY FUNDS

Year Ended June 30, 2015

	Pension <u>Fund</u>	Flex Benefit <u>Fund</u>	Defined Contribution <u>Fund</u>	Total Fiduciary <u>Funds</u>
Additions				
Contributions:				
Employer	\$ 812,823	-	989,375	1,802,198
Employee	77,896	594,365	562,095	1,234,356
Total contributions	<u>890,719</u>	<u>594,365</u>	<u>1,551,470</u>	<u>3,036,554</u>
Investment income:				
Interest	51,940	-	54,588	106,528
Dividends	518,583	-	-	518,583
Net (decrease) increase in fair value of investments	<u>(530,686)</u>	<u>-</u>	<u>506,151</u>	<u>(24,535)</u>
Total investment income	<u>39,837</u>	<u>-</u>	<u>560,739</u>	<u>600,576</u>
Direct investment expenses	<u>(159,049)</u>	<u>-</u>	<u>(21,502)</u>	<u>(180,551)</u>
Net investment (loss) income	<u>(119,212)</u>	<u>-</u>	<u>539,237</u>	<u>420,025</u>
Total additions	<u>771,507</u>	<u>594,365</u>	<u>2,090,707</u>	<u>3,456,579</u>
Deductions				
Benefits paid	1,636,804	589,936	1,050,421	3,277,161
Administrative expense	57,880	4,429	760	63,069
Total deductions	<u>1,694,684</u>	<u>594,365</u>	<u>1,051,181</u>	<u>3,340,230</u>
Net (decrease) increase in net position	(923,177)	-	1,039,526	116,349
Net position restricted for pensions and insurance, beginning of year	<u>27,376,993</u>	<u>-</u>	<u>14,749,843</u>	<u>42,126,836</u>
Net position restricted for pensions and insurance, end of year	<u>\$ 26,453,816</u>	<u>-</u>	<u>15,789,369</u>	<u>42,243,185</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, 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	<u>3,254,299</u>	<u>-</u>	<u>2,054,832</u>	<u>5,309,131</u>
Total investment income	<u>3,832,292</u>	<u>-</u>	<u>2,109,202</u>	<u>5,941,494</u>
Direct investment expenses	<u>(131,737)</u>	<u>-</u>	<u>(33,214)</u>	<u>(164,951)</u>
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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(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 the 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 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.

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

During the year ended June 30, 2015, the Library changed depreciation methodologies for books and materials. Prior to 2015, all books were depreciated on the straight-line basis over an estimated useful life of 5 years beginning at the time the books were purchased and placed in service. For the year ended June 30, 2015, the cumulative capital outlay for books and materials purchased throughout the year is capitalized at year-end and depreciated over a straight-line useful life of 5 years with a half-year convention used in the first and last years. The change in methodology does not have a significant effect on the Library's net position for the current or future years due to the current and previous depreciation methods utilizing a 5-year estimated useful life.

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 unpaid annual leave.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 and Cash Equivalents

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 and cash equivalents.

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, 2015 and 2014, 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 for the years ended June 30 were as follows:

	<u>2015</u>	<u>2014</u>
Interest income	\$ 171,399	189,445
Fair market value adjustments	<u>215,601</u>	<u>252,992</u>
Investment earnings	<u>\$ 387,000</u>	<u>442,437</u>

Advertising Costs

All costs associated with advertising are expensed as incurred.

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, 2014 and 2013, and earlier. The Library considers prior years' experience in estimating uncollectible property taxes. The balance in the allowance account was \$33,207 and \$48,590 as of June 30, 2015 and 2014, 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, 2015 and 2014, the Library wrote-off \$73,198 and \$96,400, 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>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 48,590	61,436
Provision added to allowance during the year	-	-
Charge-offs	(73,198)	(96,400)
Recoveries	<u>57,815</u>	<u>83,554</u>
Balance, end of year	<u>\$ 33,207</u>	<u>48,590</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred Inflows and Outflows of Resources

Fund Financial Statements

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.

Government-Wide Financial Statements

Deferred inflows and outflows of resources represent amounts associated with pension differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, and changes in assumptions. Note 7 details the components of these items.

State Revenues

The Library receives revenue from the State of Oklahoma (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.

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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.

Pensions

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

Defined Contribution Plan—The Library also has a defined contribution plan. The defined contribution is discussed in Notes 3 and 7.

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.

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.”

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.

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

- (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.

- (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.

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

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:

	2015		
	General Fund	Gifts and Grants Fund	Total Governmental Funds
Fund balances:			
Nonspendable:			
Prepaid expenses	\$ 94,594	-	94,594
Restricted:			
Grants or gifts received for special programs	-	85,873	85,873
Assigned:			
Cash flow	6,800,000	-	6,800,000
Reserve for extra payday	240,000	-	240,000
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	3,386,779	-	3,386,779
Village Library	491,481	-	491,481
Warr Acres Library	426,522	-	426,522
Total assigned	13,865,015	-	13,865,015
Unassigned	14,560,806	-	14,560,806
Total fund balances	\$ 28,520,415	85,873	28,606,288

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

	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

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, 2015 and 2014, approximately \$1,523,000 and \$1,671,000, respectively, of encumbrances were outstanding.

Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting for pensions 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. The Library adopted this statement effective July 1, 2014, and the prior period financial statements were restated as discussed in Note 2.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69). GASB 69 establishes accounting and financial reporting standards related to governmental combinations and disposals of government operations. Generally, governmental combinations include mergers, acquisitions, and transfers of operations. This statement improves financial reporting by providing guidance for business combinations in the governmental environment. The Library adopted this statement July 1, 2014. Presently, the Library has no items to be reported, and the adoption had no significant impact on the financial statements of the Library.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). GASB 71 amends GASB 68 by amending the transition provisions of GASB 68. At transition to GASB 68, employers that could not practically determine all of the deferred inflows and outflows related to pensions were provided guidance that no deferred inflows or outflows should be reported. GASB 71 amends this guidance to provide that a government recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date. GASB 71 will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68. The Library adopted this statement on July 1, 2014, and the prior period financial statements were restated as discussed in Note 2.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. GASB 72 is effective for financial statements for periods beginning after June 15, 2015. The Library will adopt GASB 72 effective July 1, 2015, for the June 30, 2016, reporting year. GASB 72 will require additional and/or revised disclosures in the financial statements.

Date of Management’s Review of Subsequent Events

Management has evaluated subsequent events through October 20, 2015, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

(2) RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The 2014 financial statements have been restated for implementation of GASB 68 and GASB 71. The effects of the changes on the financial statements were as follows:

	<u>Deferred Outflows Related to the Pension</u>	<u>Net Pension Liability</u>	<u>Deferred Inflows Related to the Pension</u>	<u>Unrestricted Net Position</u>	<u>Total Expenses</u>	<u>Changes in Net Position</u>	<u>Net Position Beginning of Year</u>
As previously reported	\$ -	-	-	31,035,084	34,728,957	(1,540,109)	48,355,797
Effects of changes	<u>211,112</u>	<u>1,055,536</u>	<u>2,288,510</u>	<u>(3,132,924)</u>	<u>(908,463)</u>	<u>908,463</u>	<u>(4,041,387)</u>
As restated	<u>\$ 211,112</u>	<u>1,055,536</u>	<u>2,288,510</u>	<u>27,902,160</u>	<u>33,820,494</u>	<u>(631,646)</u>	<u>44,314,410</u>

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH, CASH EQUIVALENTS, 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, 2015 and 2014, the carrying amounts of the Library's cash and cash equivalents were \$10,678,027 and \$15,217,879, respectively, and the bank balances were \$11,079,839 and \$15,587,149, respectively. The difference in balances was primarily due to outstanding checks.

The fair value of investments pledged to secure deposits was approximately \$15,454,974 and \$23,615,000 at June 30, 2015 and 2014, respectively. The deposits were fully insured as of June 30, 2015 and 2014.

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

(3) 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>2015</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>	<u>%</u>
Federal Home Loan Bank Federal National Mortgage Association	Aaa	\$ 8,452,812	500,812	7,952,000	-	41%
Federal Home Loan Mortgage Corporation	Aaa	3,975,562	-	3,975,562	-	20%
	Aaa	<u>7,993,607</u>	<u>3,002,355</u>	<u>4,991,252</u>	<u>-</u>	<u>39%</u>
		<u>\$ 20,421,981</u>	<u>3,503,167</u>	<u>16,918,814</u>	<u>-</u>	<u>100%</u>
<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>2014</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>	<u>%</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>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) 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 Fund (see Note 7). The composition of the Pension Fund at fair value as of June 30 is shown in the following table:

	2015		2014	
	<u>Fair Value</u>	<u>Exposure as a Percentage of Total Investment</u>	<u>Fair Value</u>	<u>Exposure as a Percentage of Total Investment</u>
Cash	\$ 797,263	3%	\$ 1,566,962	5%
Fixed income:				
Corporate bonds	788,094	3%	1,199,386	4%
Bond funds (pooled fixed income)	<u>9,287,144</u>	35%	<u>8,103,944</u>	30%
	<u>10,075,238</u>		<u>9,303,330</u>	
Equities:				
Common stock	7,865,736	29%	12,405,869	45%
Equity funds	<u>7,685,043</u>	29%	<u>4,050,118</u>	15%
	<u>15,550,779</u>		<u>16,455,987</u>	
Receivables:				
Unsettled trades and accrued income	<u>30,536</u>	<u>1%</u>	<u>50,714</u>	<u>1%</u>
	<u>\$ 26,453,816</u>	<u>100%</u>	<u>\$ 27,376,993</u>	<u>100%</u>

Investment Allocation Policy—On March 28, 1983, the Commission appointed a Board of Administrators for the Pension Fund—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 Fund 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

(3) CASH AND INVESTMENTS, CONTINUED

Pension Fund, Continued

Investment Allocation Policy, 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 securities	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, 2015 and 2014, the Pension Fund held \$26,453,816 and \$27,376,993, respectively, in cash, investments, and receivables. This amount was held by the investment counterparty, in the name of the Pension Fund.

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

During the years ended June 30, 2015 and 2014, the Pension Board made no significant investment policy changes.

Method Used to Value Investments—The Pension Fund’s 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

(3) CASH AND INVESTMENTS, CONTINUED

Pension Fund, Continued

Rate of Return—For the years ended June 30, 2015 and 2014, the annual money-weighted rate of return on the Pension Fund’s investments, net of the Pension Fund’s investment expense, was (0.65)% and 15.27%, 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 in 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:

		2015		
<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	Vanguard Short-Term Bond Index	126,185	\$ 1,327,373	1,326,202
Bond fixed income fund	Templeton Global Bond ADV	119,569	1,500,675	1,459,932
Bond fixed income fund	Metropolitan West Total Return Bond Fund	334,863	3,653,105	3,619,867
Common stock	Vanguard Value ETF Fund	47,945	4,054,915	3,996,695
Equity fund	Vanguard 500 Index Fund Admiral Class	20,997	4,078,998	3,997,079
		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	247,764	\$ 2,710,184	2,717,974

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND INVESTMENTS, CONTINUED

Pension Fund, Continued

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, 2015 or 2014. As such, no Pension Fund investments were subject to foreign currency risk.

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>2015</u>		<u>2014</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	\$ 65,000	8%	67,729	6%
A	418,930	53%	816,239	68%
A-	<u>304,164</u>	<u>39%</u>	<u>315,418</u>	<u>26%</u>
	<u>\$ 788,094</u>	<u>100%</u>	<u>\$ 1,199,386</u>	<u>100%</u>

At June 30, 2015 and 2014, the Pension Fund held \$9,287,144 and \$8,103,944, 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

(3) 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>	2015			
	<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	\$ 369,164	418,930	-	788,094

<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

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 7).

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>2015</u>	<u>2014</u>
Guaranteed interest account	\$ 1,953,083	1,684,595
Mutual funds	13,836,286	13,065,248
	<u>\$ 15,789,369</u>	<u>14,749,843</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) 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:

<u>Classification of Investment</u> <u>2015</u>	<u>Name of Investment</u>	<u>Fair Value</u>
Mutual fund	Select Growth Opportunities	\$ 789,825
Mutual fund	Destination Retirement 2020	1,003,910
Mutual fund	Destination Retirement 2030	1,285,063
Mutual fund	Destination Retirement 2040	795,087
Mutual fund	American Century Equity Growth Fund	1,988,217
Guaranteed interest account	Guaranteed interest account	1,953,083

<u>Classification of Investment</u> <u>2014</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

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) COLLECTIONS

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

(5) CAPITAL ASSETS

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

	<u>Balance at</u> <u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 315,571	-	-	315,571
Capital assets being depreciated:				
Library books	18,803,948	3,713,039	(2,416,970)	20,100,017
Furniture and fixtures	4,812,758	230,925	(468,531)	4,575,152
Computer equipment	3,525,368	646,733	(129,688)	4,042,413
Vehicles	501,272	-	-	501,272
Buildings and improvements	5,955,349	-	-	5,955,349
Total capital assets being depreciated	<u>33,598,695</u>	<u>4,590,697</u>	<u>(3,015,189)</u>	<u>35,174,203</u>
Less accumulated depreciation:				
Library books	10,818,226	3,799,067	(2,416,970)	12,200,323
Furniture and fixtures	3,503,479	295,086	(442,764)	3,355,801
Computer equipment	2,023,754	597,198	(120,687)	2,500,265
Vehicles	334,118	56,055	-	390,173
Buildings and improvements	1,539,817	224,453	-	1,764,270
Total accumulated depreciation	<u>18,219,394</u>	<u>4,971,859</u>	<u>(2,980,421)</u>	<u>20,210,832</u>
Total capital assets being depreciated, net	<u>15,379,301</u>	<u>(381,162)</u>	<u>(34,768)</u>	<u>14,963,371</u>
Capital assets, net	<u>\$ 15,694,872</u>	<u>(381,162)</u>	<u>(34,768)</u>	<u>15,278,942</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CAPITAL ASSETS, CONTINUED

	<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	1,315,429	224,388	-	1,539,817
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

(6) 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.

	Balance at <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2015</u>	Amounts Due Within <u>1 Year</u>
Compensated absences	\$ 265,744	989,339	(931,044)	324,039	324,039

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

(7) RETIREMENT PLANS

Defined Benefit Pension Plan

General Information about the Defined Benefit Pension Plan

Plan Description: 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>2015</u>	<u>2014</u>
Retirees, disabled participants, and beneficiaries currently receiving benefits	90	89
Terminated vested participants	11	11
Active participants	45	50
	<u>146</u>	<u>150</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) RETIREMENT PLANS, CONTINUED

Defined Benefit Pension Plan, Continued

General Information about the Defined Benefit Pension 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.

Contributions: 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 2015 and 2014 were \$812,823 and \$1,130,104, respectively, which equaled the annual pension cost, as currently defined, for the years then ended. The actuarial required contribution for 2016 is \$761,765.

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

(7) RETIREMENT PLANS, CONTINUED

Defined Benefit Pension Plan, Continued

Net Pension Liability

The Library's net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

The components of the net pension liability of the participating employer at June 30 were as follows:

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 29,925,839	28,432,529
Plan fiduciary net position	<u>26,453,816</u>	<u>27,376,993</u>
Library's net pension liability	<u>\$ 3,472,023</u>	<u>1,055,536</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>88.40%</u>	<u>96.29%</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) RETIREMENT PLANS, CONTINUED

Defined Benefit Pension Plan, Continued

Net Pension Liability, Continued

Actuarial Assumptions—The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

	<u>2015</u>	<u>2014</u>
Inflation:	None	None
Salary increases:	5%	5%
Investment rate of return:	7%, net of pension plan investment expense	7%, net of pension plan investment

Mortality rates were based on the RP-2015 and RP-2000 Health Annuitant Mortality Table for males and females for July 1, 2015 and 2014, respectively. Prior to the July 1, 2015 and 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 \$125,003 and \$246,053 for the years ended June 30, 2015 and 2014, respectively.

The actuarial assumptions used in the July 1, 2015 and 2014, valuations 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 the Plan’s investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of the Plan’s 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 Plan’s target asset allocation as of June 30, 2015, (see discussion of the 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	4.61%
Domestic equity	8.23%
International equity	8.81%
Cash equivalents	2.00%

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) RETIREMENT PLANS, CONTINUED

Defined Benefit Pension Plan, Continued

Net Pension Liability, 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 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 the Plan’s investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<u>2015</u>			
Balance at June 30, 2014	\$ 28,432,529	27,376,993	1,055,536
Changes for the year:			
Service cost	440,000	-	440,000
Interest	1,963,789	-	1,963,789
Differences between expected and actual experience	601,322	-	601,322
Contribution—employer	-	812,823	(812,823)
Contribution—employee	-	77,896	(77,896)
Net investment income	-	(119,212)	119,212
Benefit payments, including refunds of employee contributions	(1,636,804)	(1,636,804)	-
Administrative expense	-	(57,880)	57,880
Other changes	125,003	-	125,003
Net changes	<u>1,493,310</u>	<u>(923,177)</u>	<u>2,416,487</u>
Balance at June 30, 2015	<u>\$ 29,925,839</u>	<u>26,453,816</u>	<u>3,472,023</u>

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) RETIREMENT PLANS, CONTINUED

Defined Benefit Pension Plan, Continued

Changes in the Net Pension Liability, Continued

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<u>2014</u>			
Balance at June 30, 2013	\$ 27,879,489	23,838,102	4,041,387
Changes for the year:			
Service cost	459,906	-	459,906
Interest	1,937,455	-	1,937,455
Differences between expected and actual experience	(767,420)	-	(767,420)
Contribution—employer	-	1,130,104	(1,130,104)
Contribution—employee	-	98,634	(98,634)
Net investment income	-	3,700,555	(3,700,555)
Benefit payments, including refunds of employee contributions	(1,322,954)	(1,322,954)	-
Administrative expense	-	(67,448)	67,448
Other changes	246,053	-	246,053
Net changes	<u>553,040</u>	<u>3,538,891</u>	<u>(2,985,851)</u>
Balance at June 30, 2014	<u>\$ 28,432,529</u>	<u>27,376,993</u>	<u>1,055,536</u>

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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability June 30, 2015	\$ <u>6,336,294</u>	<u>3,472,023</u>	<u>964,801</u>
Net pension liability (asset), June 30, 2014	\$ <u>3,853,776</u>	<u>1,055,536</u>	<u>(1,388,638)</u>

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) RETIREMENT PLANS, CONTINUED

Defined Benefit Pension Plan, Continued

Changes in the Net Pension Liability, Continued

The Plan's Fiduciary Net Position—Detailed information about the Plan's fiduciary net position is available in Note 3.

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

For the years ended June 30, 2015 and 2014, the Library recognized pension expense of \$517,522 and \$221,641, respectively. The Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30:

	2015	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 516,850	549,526
Changes of assumptions	283,634	-
Net difference between projected and actual earnings on pension plan investments	1,605,970	1,222,528
	\$ 2,406,454	1,772,054
	2014	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	658,473
Changes of assumptions	211,122	-
Net difference between projected and actual earnings on pension plan investments	-	1,630,037
	\$ 211,122	2,288,510

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) RETIREMENT PLANS, CONTINUED

Defined Benefit Pension Plan, Continued

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30, 2015:	
2016	\$ 22,000
2017	22,000
2018	21,999
2019	429,507
2020	28,016
Thereafter	110,878

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 2015 and 2014, 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, 2015 and 2014, the Library's contribution to the Contribution Plan was \$989,375 and \$908,420, respectively.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) 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, 2015 and 2014, employee contributions to the Deferred Compensation Plan totaled \$139,511 and \$145,683, respectively.

(8) 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, 2015, the Library has limited its risk of loss by purchasing insurance to pay an individual's claim in excess of \$85,000 per year, as compared to \$80,000 for the year ended June 30, 2014.

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>2015</u>	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 138,302	117,662	102,877
Current year claims	2,548,606	2,238,107	2,178,075
Claim payments	<u>(2,383,193)</u>	<u>(2,217,467)</u>	<u>(2,163,290)</u>
Balance, end of year	<u>\$ 303,715</u>	<u>138,302</u>	<u>117,662</u>

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) 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.

(10) 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 the 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. The City of Oklahoma City reimburses the Library for this expense, and the reimbursement is included in other income. 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, 2015 and 2014, the Library made no such contribution.

Total lease and equipment rental expense for the years ended June 30, 2015 and 2014, was \$92,010 and \$90,300, 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, 2015

	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	\$ 9,715,729	9,715,729	13,772,549	1,519,140	12,253,409	2,537,680
Capital reserve	14,930,398	14,930,398	14,930,398	-	14,930,398	-
	<u>24,646,127</u>	<u>24,646,127</u>	<u>28,702,947</u>	<u>1,519,140</u>	<u>27,183,807</u>	<u>2,537,680</u>
Resources (inflows):						
Property taxes	29,513,267	29,513,267	32,598,393	(936,009)	33,534,402	4,021,135
Collections on book fines and copy services	495,000	495,000	745,528	1	745,527	250,527
State revenue	260,595	260,595	281,497	-	281,497	20,902
Investment earnings	-	-	387,000	169,909	217,091	217,091
Other	-	-	198,941	(461,470)	660,411	660,411
Total resources (inflows)	<u>30,268,862</u>	<u>30,268,862</u>	<u>34,211,359</u>	<u>(1,227,569)</u> ⁽¹⁾	<u>35,438,928</u>	<u>5,170,066</u>
Charges to appropriations (outflows):						
Personal services	24,587,601	24,587,601	22,634,023	60,664	22,573,359	2,014,242
Maintenance and operations:						
Contractual services	5,177,405	5,177,405	4,175,014	(112,141)	4,287,155	890,250
Commodities	1,418,145	1,418,145	1,144,894	(8,445)	1,153,339	264,806
Capital outlays—operations	9,866,823	9,866,823	6,439,960	(204,728)	6,644,688	3,222,135
Total charges to appropriations (outflows)	<u>41,049,974</u>	<u>41,049,974</u>	<u>34,393,891</u>	<u>(264,650)</u> ⁽²⁾	<u>34,658,541</u>	<u>6,391,433</u>
Net changes in budgetary fund balance	(10,781,112)	(10,781,112)	(182,532)	(962,919)	780,387	11,561,499
Budgetary fund balance, end of year:						
Carryover funds	-	-	14,655,400	556,221	14,099,179	14,099,179
Capital reserve	13,865,015	13,865,015	13,865,015	-	13,865,015	-
	<u>\$ 13,865,015</u>	<u>13,865,015</u>	<u>28,520,415</u>	<u>556,221</u>	<u>27,964,194</u>	<u>14,099,179</u>

See Independent Auditors' Report.

See accompanying notes to Required Supplemental Information.

BUDGETARY COMPARISON SCHEDULE—GENERAL FUND (UNAUDITED), CONTINUED

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	14,109,019	1,107,255	13,001,764	99,346
Capital reserve	<u>16,128,950</u>	<u>16,128,950</u>	<u>16,128,950</u>	<u>-</u>	<u>16,128,950</u>	<u>-</u>
	<u>29,031,368</u>	<u>29,031,368</u>	<u>30,237,969</u>	<u>1,107,255</u>	<u>29,130,714</u>	<u>99,346</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 earnings	-	-	442,437	243,292	199,145	199,145
Other	<u>-</u>	<u>-</u>	<u>527,810</u>	<u>(348,859)</u>	<u>876,669</u>	<u>876,669</u>
Total resources (inflows)	<u>29,145,514</u>	<u>29,145,514</u>	<u>33,380,487</u>	<u>(127,817)</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	3,887,165	(139,874)	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	<u>12,720,381</u>	<u>12,720,381</u>	<u>7,126,425</u>	<u>(432,522)</u>	<u>7,558,947</u>	<u>5,161,434</u>
Total charges to appropriations (outflows)	<u>43,246,484</u>	<u>43,246,484</u>	<u>34,915,509</u>	<u>(539,702)</u> ⁽²⁾	<u>35,455,211</u>	<u>7,791,273</u>
Net changes 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	-	-	13,772,549	1,519,140	12,253,409	12,253,409
Capital reserve	<u>14,930,398</u>	<u>14,930,398</u>	<u>14,930,398</u>	<u>-</u>	<u>14,930,398</u>	<u>-</u>
	<u>\$ 14,930,398</u>	<u>14,930,398</u>	<u>28,702,947</u>	<u>1,519,140</u>	<u>27,183,807</u>	<u>12,253,409</u>

See Independent Auditors' Report.

See accompanying notes to Required Supplemental Information.

METROPOLITAN LIBRARY SYSTEM

BUDGETARY COMPARISON SCHEDULE—GENERAL FUND (UNAUDITED),
CONTINUED

<i>Years Ended June 30,</i>	<i>2015</i>	<i>2014</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.	\$ (1,227,570)	(127,818)
(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>264,651</u>	<u>539,703</u>
Total budget-to-actual reconciliation	<u>\$ (962,919)</u>	<u>411,885</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
STATEMENTS NO. 67 AND 68**

METROPOLITAN LIBRARY SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY—
DEFINED BENEFIT PENSION PLAN

Last 3 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total pension liability			
Service cost	\$ 440,000	459,906	523,417
Interest	1,963,789	1,937,455	1,871,153
Differences between expected and actual experience	601,322	(767,420)	(121,662)
Changes in assumptions	125,003	246,053	-
Benefit payments, including refunds of member contributions	<u>(1,636,804)</u>	<u>(1,322,954)</u>	<u>(1,201,505)</u>
Net change in total pension liability	1,493,310	553,040	1,071,403
Total pension liability—beginning	<u>28,432,529</u>	<u>27,879,489</u>	<u>26,808,086</u>
Total pension liability—ending ^(a)	<u>\$ 29,925,839</u>	<u>28,432,529</u>	<u>27,879,489</u>
Plan fiduciary net position			
Contributions—Library	\$ 812,823	1,130,104	1,074,744
Contributions—employees	77,896	98,634	108,805
Net investment (loss) income	(119,212)	3,700,555	2,456,234
Benefit payments, including refunds of member contributions	<u>(1,694,684)</u>	<u>(1,390,402)</u>	<u>(1,267,896)</u>
Net change in plan fiduciary net position	(923,177)	3,538,891	2,371,887
Plan fiduciary net position—beginning	<u>27,376,993</u>	<u>23,838,102</u>	<u>21,466,215</u>
Plan fiduciary net position—ending ^(b)	<u>\$ 26,453,816</u>	<u>27,376,993</u>	<u>23,838,102</u>
Plan's net pension liability (a - b)	<u>\$ 3,472,023</u>	<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****Last 3 Fiscal Years**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total pension liability	\$ 29,925,839	28,432,529	27,879,489
Plan fiduciary net position	<u>26,453,816</u>	<u>27,376,993</u>	<u>23,838,102</u>
Plan's net pension liability	<u>\$ 3,472,023</u>	<u>1,055,536</u>	<u>4,041,387</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>88.40%</u>	<u>96.29%</u>	<u>85.50%</u>
Covered-employee payroll	<u>\$ 1,968,884</u>	<u>2,196,275</u>	<u>2,607,287</u>
Plan's net pension liability as a percentage of covered-employee payroll	<u>176.34%</u>	<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

Last 5 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ <u>812,823</u>	<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>812,823</u>	<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>	<u>-</u>
Covered-employee payroll	\$ <u>1,968,884</u>	<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>41.28%</u>	<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

Last 3 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	(0.65)%	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, 2015

DEFINED BENEFIT PENSION PLAN (SCHEDULES II THROUGH V)

The information presented in Schedule II through Schedule V 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, 2015, valuation follows:

Actuarial cost method:	Aggregate cost method
Amortization method:	None
Asset valuation method:	5-year smoothed 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, 2015, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 20, 2015. Our report includes an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statements No. 68 and 71 by the Library, requiring the restatement of the 2014 financial statements. In addition, our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

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. 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 20, 2015