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# **Metropolitan Library System**

## *Financial Statements*

June 30, 2011

(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  
Oklahoma City, Oklahoma

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 year ended June 30, 2011, which collectively comprise the Library's financial statements as listed in the table of contents. These financial statements are the responsibility of Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2011, 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* and should be considered in assessing the results of our audit.

(Continued)

**INDEPENDENT AUDITORS' REPORT, CONTINUED**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-6 and the schedule of funding progress and the budgetary comparison information on pages 35 through 38 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.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
October 13, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This discussion and analysis of the financial performance of Metropolitan Library System (the "Library") provides an overall review of the Library's financial condition and results of operations for the fiscal year ended June 30, 2011. Readers should read this information in conjunction with the Library's financial statements.

### Financial Highlights

For fiscal year 2010-11, the Library's General Fund reported an ending balance of \$33,682,423, versus \$30,950,174 for fiscal year 2009-10. This equaled an increase of \$2,732,249, 8.8%, over fiscal year 2009-10. Of the 2010-11 fiscal year-end totals, \$14,219,206 was unassigned, indicating that none had been restricted, committed, or assigned to specific purposes within the fund. In fiscal year 2009-10, \$11,372,753 was unassigned. For fiscal year 2010-11, \$19,171,370 of the balance is assigned, with \$11,771,370 assigned to Library capital improvement projects and \$7,400,000 assigned to cash flow requirements. Fiscal year 2009-10 assigned totals were \$19,270,320, with \$13,330,320 assigned to Library capital improvement projects and \$5,940,000 assigned to cash flow requirements. Nonspendable totals for fiscal year 2010-11 were \$291,847 and for 2009-10 were \$307,101.

Over the years, the Library administration, with the Commission's approval, has prudently used or committed the money from the reserve fund 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 this reserve fund offers opportunities for the Library to improve and maintain its facilities.

### Overview of the Financial Statements

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), 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 an Other Governmental 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.

*Other Governmental 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. 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 and the Flex Benefit Fund. Fiduciary fund financial statements report resources that are not available 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 fund 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 budget and actual expenditures, and the schedule of funding progress.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED**

**The Library System as a Whole**

	<u>2011</u>	<u>2010</u>
<i>Statements of Net Assets</i>		
Assets:		
Current and other assets	\$ 37,287,957	35,966,459
Capital assets	<u>14,425,010</u>	<u>14,551,457</u>
Total assets	<u>51,712,967</u>	<u>50,517,916</u>
Liabilities:		
Accounts payable and accrued expenses	678,995	1,112,015
Compensated absences payable	<u>274,149</u>	<u>234,087</u>
Total liabilities	<u>953,144</u>	<u>1,346,102</u>
Net assets:		
Invested in capital assets	14,425,010	14,551,457
Restricted for specific purposes	214,506	138,366
Unrestricted net assets	<u>36,120,307</u>	<u>34,481,991</u>
Total net assets	<u>\$ 50,759,823</u>	<u>49,171,814</u>
<i>Changes in Net Assets</i>		
Beginning net assets	49,171,814	46,374,620
Revenues:		
Property taxes	28,216,587	28,545,307
State aid	354,928	318,227
Charges for services	1,779,508	1,378,434
Operating grants and contributions	323,069	298,834
Capital grants and contributions		250,000
Loss from disposals	(855,954)	(740,209)
Investment earnings	<u>494,174</u>	<u>639,165</u>
Total revenues	<u>30,312,312</u>	<u>30,689,758</u>
Expenses:		
Public library services	14,749,882	15,476,730
Administrative services	10,788,852	9,552,604
Depreciation—unallocated	<u>3,185,569</u>	<u>2,863,230</u>
Total expenses	<u>28,724,303</u>	<u>27,892,564</u>
Ending net assets	<u>\$ 50,759,823</u>	<u>49,171,814</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED**

**Financial Analysis of the Library's Funds**

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

For fiscal year 2010-11, governmental fund balances equaled the following:

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenues	\$ 31,548,787	323,069	31,871,856
Expenditures	<u>(28,816,538)</u>	<u>(246,929)</u>	<u>(29,063,467)</u>
Net increase	<u>\$ 2,732,249</u>	<u>76,140</u>	<u>2,808,389</u>

For fiscal year 2009-10, governmental fund balances equaled the following:

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenues	\$ 29,851,176	548,834	30,400,010
Expenditures	(28,897,874)	(255,002)	(29,152,876)
Transfers	<u>250,000</u>	<u>(250,000)</u>	<u>-</u>
Net increase	<u>\$ 1,203,302</u>	<u>43,832</u>	<u>1,247,134</u>

**General Fund:**

The Library is primarily funded by a 5.2 mill ad valorem (property) tax. For fiscal year 2010-11, the County's assessed property value had an increase of 2.6% versus 2.3% for fiscal year 2009-10. Actual tax collections increased 4.3% for fiscal year 2010-11 over fiscal year 2009-10, as compared to a 3.6% increase in fiscal year 2009-10 over the previous year. Interest income decreased to \$494,174 in fiscal year 2010-11 from \$639,165 in fiscal year 2009-10. The decrease was due to lower interest rates, which worked against the larger amounts invested.

Other than capital outlays, the proportionate shares of major expenditure categories were higher in 2010-11 than 2009-10, showing an overall increase of \$1,393,737. Within categories, personal services increased 8.2%, below the previous year's increase of 9.6%. Maintenance and operations expenses likewise increased insignificantly, totaling less than 1.0% change. Capital outlays decreased 19.6% because expenditures for current new construction had been already been spent in the previous year. The upcoming fiscal year, 2011-12, should see the completion of the new Northwest Library and the renovated Southern Oaks Library.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED**

**Financial Analysis of the Library's Funds, Continued**

Other Governmental Fund:

Gifts and Grants—\$323,069 of grant money was received during this year. This year's largest contributors to the Library were the Friends of the Metropolitan Library System (the "Friends"), which gave 18 grants for various Library activities with a total amount of \$166,090, and the Library Endowment Trust, which gave \$122,274, spread among 12 grants. Other major grantors include the Oklahoma Arts Council, the Kirkpatrick Family Fund, and the Choctaw Guild.

Proprietary Funds:

	<u>Insurance Fund</u>	<u>2010-2011</u>	<u>2009-2010</u>
Revenues		\$ 2,043,247	2,007,758
Expenditures		<u>(1,874,831)</u>	<u>(2,039,018)</u>
Net increase (decrease)		<u>\$ 168,416</u>	<u>(31,260)</u>

The total insurance premium contributed by both the employer and the employees to this fund was \$1,893,888 in fiscal year 2010-11 versus \$1,654,876 in fiscal year 2009-10. Claims paid for 2010-11 were \$1,874,831 and for 2009-10 were \$2,039,018.

**General Fund Budgetary Highlights**

The General Fund budget for fiscal year 2010-11 was \$57,726,198, an increase of \$5,886,006, or 11.4%, over the 2009-10 budget of \$51,840,192. The biggest contributors to the increase in the fiscal year 2010-11 budget over the previous year were carryover amounts (monies budgeted but not spent), mostly in the payroll and in the capital projects accounts. These carryovers will be needed, and will be used in following years when the Northwest Library opens and the renovated Southern Oaks reopens.

**Capital Assets and Compensated Annual Leave Payable**

The Library's investment in depreciable capital assets, net of accumulated depreciation, at June 30, 2011, was \$14,109,439, and at June 30, 2010 was \$14,235,886. Of the total depreciable capital assets at June 30, 2011, 43% consisted of furniture, equipment, vehicles, and buildings, while the remaining 57% consisted of books and materials. Those percentages were unchanged from the previous year. Nondepreciable assets at June 30, 2011 and 2010, represented land owned by the Library.

Included in current liabilities is the compensated annual leave payable. The balance at June 30, 2011, was \$274,149, as compared to the balance at June 30, 2010, which was \$234,087.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), 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 1996, state voters approved State Question 676. This state question, with certain exceptions, put a 5% limitation on the growth of real estate value each year. That has impacted the annual growth of the Library's tax revenue. In November of 2012, another state question will be voted, this time asking whether to lower the 5% limitation to 3%, which could further have a detrimental impact on the Library's funding.

In general, the Library expects a small growth in the tax revenue for the next year. The County Assessor has certified a 2.60% growth in property values for fiscal year 2011-12, as opposed to 2.36% in fiscal year 2010-11. Investment income is also expected to remain flat. Real estate prices have cooled, but new construction and population growth continue, so, while tax revenues may not rise significantly, the Library does expect continued, small growth in revenue for the foreseeable future.

For fiscal year 2011-12, the Board of Commissioners has approved a General Fund budget of \$59,253,623, versus \$57,726,198 for fiscal year 2010-11. Of the total 2011-12 budget, \$36,694,019 is for operating costs, \$3,225,963 is for capital projects, and \$19,333,641 is for reserve funds. In the 2010-11 budget, \$32,225,980 was for operating costs, \$6,328,848 was for capital projects, and \$19,171,370 was for reserve 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

## STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets:	
Cash	\$ 14,508,587
Investments	20,089,182
Ad valorem tax receivable, net of allowance for uncollectible taxes of \$199,709 as of June 30, 2011.	2,072,140
Account receivable	170,645
Accrued interest receivable	155,556
Prepaid expenses	291,847
Total current assets	<u>37,287,957</u>
Noncurrent assets:	
Nondepreciated capital assets	315,571
Depreciable capital assets, net	<u>14,109,439</u>
Total noncurrent assets	<u>14,425,010</u>
Total assets	<u>51,712,967</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and accrued expenses	678,995
Compensated absences payable	<u>274,149</u>
Total current liabilities	<u>953,144</u>
Total liabilities	<u>953,144</u>
<b>Net Assets</b>	
Invested in capital assets	14,425,010
Restricted	214,506
Unrestricted	<u>36,120,307</u>
Total net assets	<u>\$ 50,759,823</u>

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

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENT OF ACTIVITIES**

*Year Ended June 30, 2011*

	<u>REVENUES</u>				Net (Expenses)
<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenues/</u>	<u>Changes in</u>
	<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Net Assets</u>	<u>Net Assets</u>
		<u>Contributions</u>	<u>Contributions</u>		
Government activities:					
Public library services	\$ (14,749,882)	588,817	323,069	-	(13,837,996)
Administrative services	(10,788,852)	1,190,691	-	-	(9,598,161)
Depreciation—unallocated	<u>(3,185,569)</u>	-	-	-	<u>(3,185,569)</u>
	<u>\$ (28,724,303)</u>	<u>1,779,508</u>	<u>323,069</u>	<u>-</u>	<u>(26,621,726)</u>
General revenues:					
Property taxes, levied for general purposes					28,216,587
State aid					354,928
Loss from disposals					(855,954)
Investment earnings					494,174
Total general revenues					<u>28,209,735</u>
Changes in net assets					1,588,009
Net assets, beginning of year					<u>49,171,814</u>
Net assets, end of year					<u>\$ 50,759,823</u>

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

**METROPOLITAN LIBRARY SYSTEM**

**BALANCE SHEET—GOVERNMENTAL FUNDS**

*June 30, 2011*

	General Fund	Other Governmental Fund— Gifts and Grants	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 13,218,030	214,506	13,432,536
Account receivable	153,056	-	153,056
Investments	20,089,182	-	20,089,182
Ad valorem tax receivable, net of allowance	2,072,140	-	2,072,140
Accrued interest receivable	155,556	-	155,556
Prepaid expenses	291,847	-	291,847
	<u>35,979,811</u>	<u>214,506</u>	<u>36,194,317</u>
<b>Total assets</b>	<b>\$ 35,979,811</b>	<b>214,506</b>	<b>36,194,317</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 440,838	-	440,838
Accrued salaries	163,892	-	163,892
Deferred revenue	1,692,658	-	1,692,658
<b>Total liabilities</b>	<u>2,297,388</u>	<u>-</u>	<u>2,297,388</u>
<b>Fund balances:</b>			
Nonspendable	291,847	-	291,847
Restricted	-	214,506	214,506
Assigned	19,171,370	-	19,171,370
Unassigned	14,219,206	-	14,219,206
<b>Total fund balances</b>	<u>33,682,423</u>	<u>214,506</u>	<u>33,896,929</u>
<b>Total liabilities and fund balances</b>	<b>\$ 35,979,811</b>	<b>214,506</b>	<b>36,194,317</b>

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

**METROPOLITAN LIBRARY SYSTEM**

**RECONCILIATION OF THE BALANCE SHEET—GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**

*June 30, 2011*

**Reconciliation of Fund Balances to Net Assets**

Total fund balances—governmental funds	\$ 33,896,929
Amounts reported for governmental activities in the statement 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	30,483,536
Accumulated depreciation	(16,058,526)
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.	1,692,658
Internal Service Fund separately stated as proprietary fund.	1,019,375
Compensated absences in governmental activities are not financial expenditures and therefore are not reported as a liability in governmental funds.	<u>(274,149)</u>
Net assets of governmental activities	<u>\$ 50,759,823</u>

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

**METROPOLITAN LIBRARY SYSTEM**

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

*Year Ended June 30, 2011*

	General Fund	Other Governmental Fund— Gifts and Grants	Total Governmental Funds
<b>Revenues:</b>			
Property taxes	\$ 29,399,717	-	29,399,717
Collections on book fines and copy services	588,817	-	588,817
Gifts and grants	-	323,069	323,069
State revenue	354,928	-	354,928
Interest	494,174	-	494,174
Other	711,151	-	711,151
Total revenues	<u>31,548,787</u>	<u>323,069</u>	<u>31,871,856</u>
<b>Expenditures:</b>			
Personal services	18,296,677	23,927	18,320,604
Maintenance and operations:			
Contractual services	3,285,300	199,644	3,484,944
Commodities	1,168,187	7,179	1,175,366
Capital outlays	6,066,374	16,179	6,082,553
Total expenditures	<u>28,816,538</u>	<u>246,929</u>	<u>29,063,467</u>
Net changes in fund balances	2,732,249	76,140	2,808,389
Fund balances, beginning of year	<u>30,950,174</u>	<u>138,366</u>	<u>31,088,540</u>
Fund balances, end of year	<u>\$ 33,682,423</u>	<u>214,506</u>	<u>33,896,929</u>

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

# METROPOLITAN LIBRARY SYSTEM

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

*Year Ended June 30, 2011*

Net changes in fund balances—total governmental funds	\$ 2,808,389
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:	
Depreciation expense	(3,185,569)
Capital outlays	<u>3,915,076</u>
	<u>729,507</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 statement of activities.	(855,954)
Compensated absences are not considered to be expenditures in the governmental funds. They are, however, recorded as expenses in the statement of activities.	(40,062)
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 statement of activities.	(167,504)
Written-off uncollectible property taxes receivable are not considered to be expenditures in the governmental funds. They are however recorded as expenses in the statement of activities.	(1,015,626)
Due to the timing difference, insurance expense was recognized in the statement of activities in the prior year and was reduced from current year expenditures.	(39,157)
The statement of activities includes net activity of the Internal Services Fund, which is shown as a proprietary fund in the fund financial statements.	<u>168,416</u>
Changes in net assets of governmental activities	<u>\$ 1,588,009</u>

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

**METROPOLITAN LIBRARY SYSTEM**

**BALANCE SHEET—PROPRIETARY FUND**

*June 30, 2011*

	<u>Governmental Activities— Internal Service Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 1,076,051
Stop-loss reimbursement receivable	<u>17,589</u>
Total assets	<u>1,093,640</u>
<b>Liabilities</b>	
Claims payable	<u>74,265</u>
<b>Net Assets</b>	
Unrestricted	<u>\$ 1,019,375</u>

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

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
NET ASSETS—PROPRIETARY FUND**

*Year Ended June 30, 2011*

	Governmental Activities— Internal Service Fund
Operating revenues:	
Insurance premiums	\$ 1,893,888
Stop-loss reimbursement	122,540
Refunds and miscellaneous	<u>23,745</u>
Total operating revenues	<u>2,040,173</u>
Operating expenses:	
Claims	<u>1,874,831</u>
Net operating income	<u>165,342</u>
Non-operating revenues:	
Interest income	<u>3,074</u>
Changes in net assets	168,416
Net assets, beginning of year	<u>850,959</u>
Net assets, end of year	<u>\$ 1,019,375</u>

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

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENT OF CASH FLOWS—PROPRIETARY FUND**

**Increase (Decrease) in Cash and Cash Equivalents**

*Year Ended June 30, 2011*

	Governmental Activities— Internal Service Fund
<b>Cash flows from operating activities:</b>	
Cash received from other fund for services	\$ 1,954,227
Receipts from reinsurance	122,540
Payments of claims	(1,897,432)
Other receipts	23,745
Net cash provided by operating activities	<u>203,080</u>
<b>Cash flows from investing activities:</b>	
Interest on investments	<u>3,074</u>
Net cash provided by investing activities	<u>3,074</u>
<b>Net increase in cash and cash equivalents</b>	206,154
Cash and cash equivalents, beginning of year	<u>869,897</u>
Cash and cash equivalents, end of year	<u>\$ 1,076,051</u>
<b>Reconciliation of net operating income to net cash provided by operating activities:</b>	
Net operating income	\$ 165,342
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Decrease in receivables	60,339
Decrease in claims payable	<u>(22,601)</u>
Net cash provided by operating activities	<u>\$ 203,080</u>

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

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENT OF FIDUCIARY NET ASSETS—FIDUCIARY FUNDS**

*June 30, 2011*

	Pension Fund	Flex Benefit Fund	Total Fiduciary Funds
<b>Assets</b>			
Current assets:			
Cash	\$ 925,816	37,587	963,403
Receivables	224,442	-	224,442
Investments	20,657,153	-	20,657,153
Total current assets	<u>21,807,411</u>	<u>37,587</u>	<u>21,844,998</u>
<b>Liabilities</b>			
Current liabilities:			
Employee benefits payable	-	12,587	12,587
Prepayment from the Library	-	25,000	25,000
Total current liabilities	<u>-</u>	<u>37,587</u>	<u>37,587</u>
<b>Net Assets</b>			
Held in trust for pension benefits and other purposes	<u>\$ 21,807,411</u>	<u>-</u>	<u>21,807,411</u>

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

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS—FIDUCIARY FUNDS**

*Year Ended June 30, 2011*

	Pension Fund	Flex Benefit Fund	Total Fiduciary Funds
Additions:			
Contributions:			
Employer	\$ 996,982	-	996,982
Employee	127,340	488,787	616,127
Interest and dividend income	603,960	30	603,990
Net realized gain of sale of investments	708,700	-	708,700
Net unrealized gain on investments	2,676,969	-	2,676,969
Miscellaneous	4,990	-	4,990
Total additions	<u>5,118,941</u>	<u>488,817</u>	<u>5,607,758</u>
Deductions:			
Benefits paid	1,093,830	488,817	1,582,647
Trustee and management fees	167,743	-	167,743
Interest expense and foreign tax	3,115	-	3,115
Total deductions	<u>1,264,688</u>	<u>488,817</u>	<u>1,753,505</u>
Changes in net assets	3,854,253	-	3,854,253
Net assets, beginning of year	<u>17,953,158</u>	<u>-</u>	<u>17,953,158</u>
Net assets, end of year	<u>\$ 21,807,411</u>	<u>-</u>	<u>21,807,411</u>

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

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS

**June 30, 2011 and 2010**

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### (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). In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

#### 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 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, and 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; 2 ex-officio members—the Mayor of Oklahoma City and the Chairman of the Oklahoma County Commissioners, for a total of 27 voting members. The Commission also includes one nonvoting member, the Librarian, who conducts Library operations.

#### Basis of Presentation

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

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Basis of Presentation, Continued

##### *Government-Wide Financial Statements*

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

The government-wide statement of activities reports 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 statement of activities reduces 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 service 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 assets 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 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. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, are recognized when due.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(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 fund:

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.

Additionally, the Library reports the following fund types:

Other Governmental Fund:

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

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 Trust Fund and the Flex Benefit Fund are used to report resources held in trust for members and beneficiaries of the plans.

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(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.

Modified Accrual:

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

**Capital Assets**

Capital assets purchased or acquired with an original cost of \$500 or more 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	30 years
Furniture and fixtures	7 years
Computer equipment	4 years
Vehicles	5 years
Books and materials	5 years

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Compensated Absences

The Library accrues accumulated unpaid annual leave when it has been earned by the employee. Generally, annual leave must be taken during the calendar year earned. Eligible employees who end their employment with the Library are reimbursed for each day of accumulated annual leave.

#### Budgets and Budgetary Accounting

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.

Budgets generally assume the expenditure of all available resources. Therefore, when the legal budget is prepared, it is assumed these funds will not have a carryover balance to a subsequent year. Program revenue received but not spent is restricted and deferred to the subsequent fiscal year. Amounts reported as program revenue include (a) charges to customers, (b) operating grants and contributions, and (c) capital grants and contributions.

#### Cash

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

#### Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments held at June 30, 2011, with original maturities greater than 1 year are stated at fair value. All investments not required to be reported at fair value are stated at amortized cost.

#### 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 is due prior to January 1. The second half is due prior to April 1.

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Property Tax Revenues, Continued

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 Office of Oklahoma County 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, 2010, and earlier. The Library considers prior years' experience in estimating uncollectible property taxes. An allowance of \$199,709 was recorded as of June 30, 2011. 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, 2011, the Library wrote-off \$1,015,626 of property taxes receivable as an uncollectible amount which related to the property taxes receivable of 2004 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.

#### State Revenues

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

#### Interfund Transfers

During the course of normal operations, the Library has transactions between funds including expenditures and transfers of resources to provide services, purchase assets, and service debt. 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 to the General Fund. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### 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 service is not reported in the accompanying statement of revenues, expenditures, and changes in fund balances.

#### Grants

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

#### Income Taxes

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

#### Prepaid Expenses

The Library uses the consumption method to record the 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.

#### 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 amount 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

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Equity Classification

##### *Government-Wide Financial Statements*

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

- (a) Invested 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 assets 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 assets that do not meet the definition of “restricted” or “invested in capital assets.”

It is the Library’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets 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 gifts and grants as a restricted fund balance.

See Independent Auditors’ Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (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 Library's Commission is considered its 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 table shows the fund balance classifications as shown on the governmental funds balance sheet in accordance with GASB 54 as of June 30, 2011:

	General Fund	Other Governmental Fund— Gifts and Grants	Total Governmental Funds
Fund balances:			
Nonspendable:			
Prepaid expenses	\$ 291,847	-	291,847
Restricted:			
Grants or gifts received for special programs	-	214,506	214,506
Assigned:			
Cash flow	5,900,000	-	5,900,000
Northwest Library opening	1,500,000	-	1,500,000
Capital improvement:			
Belle Isle Library	950,000	-	950,000
Bethany Library	442,957	-	442,957
Capital Hill Library	930,503	-	930,503
Del City Library	688,000	-	688,000
Jones Library	438,000	-	438,000
New Edmond Library	4,000,000	-	4,000,000
Village Library	491,481	-	491,481
Warr Acres Library	426,522	-	426,522
Future capital improvements	3,403,907	-	3,403,907
Total assigned	19,171,370	-	19,171,370
Unassigned	14,219,206	-	14,219,206
Total fund balances	\$ 33,682,423	214,506	33,896,929

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, 2011, approximately \$1,453,000 of encumbrances were outstanding.

#### New Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

- (a) Financial Accounting Standards Board (FASB) Statements and Interpretations.
- (b) Accounting Principles Board Opinions.
- (c) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented.

#### Date of Management's Review of Subsequent Events

Subsequent events have been evaluated through October 13, 2011, the date which the financial statements were available to be issued.

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (2) CASH AND INVESTMENTS

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

#### Custodial Credit Risk

##### Custodial Credit Risk—Deposits:

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, 2011, the carrying amount of the Library's cash and cash equivalents was \$14,508,587, and the bank balances were \$15,528,450. The difference in balances was primarily due to outstanding checks and a large deposit in transit in 2011.

The fair value of investments pledged to secure deposits was approximately \$9,305,000 at June 30, 2011. However, there was approximately \$4,149,000 of bank balances which were uninsured and uncollateralized as of June 30, 2011.

##### 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.

For an investment, 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 or collateral securities that are in the possession of an outside party. The Library invests in U.S. government obligations and bank obligations guaranteed by the U.S. government or other governmental agency. Because of the diversity and high grade of instruments held by the Library, management believes that it is not exposed to any significant credit risk.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND INVESTMENTS, CONTINUED

Interest Rate 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.

As of June 30, 2011, the Library had the following investments and maturities:

<u>Investment Type</u>	Moody's Credit <u>Rating</u>	<u>Fair Value</u>	<u>Investment Maturities</u> (In Years)		<u>%</u>
			<u>Less than 1</u>	<u>1-5</u>	
Federal Home Loan Bank Federal National Mortgage Association	Aaa	\$ 7,075,397	-	7,075,397	35%
Federal Home Loan Mortgage Corporation	Aaa	10,997,033	-	10,997,033	55%
	Aaa	<u>2,016,752</u>	<u>-</u>	<u>2,016,752</u>	<u>10%</u>
		<u>\$20,089,182</u>	<u>-</u>	<u>20,089,182</u>	<u>100%</u>

Pension Fund Policy

The cash and investments of the Pension Plan are invested in various mutual funds with the Bank of Oklahoma and may be used only for the payment of benefits to the members of the Pension Plan (see also Note 6). The composition of the pension trust fund at fair value as of June 30, 2011, is shown in the following table.

	<u>Fair Value</u>	<u>Exposure as a Percentage of Total Investments</u>
Pension fund:		
Corporate common stocks	\$ 10,720,002	50%
Pooled equity funds	3,031,894	14%
Fixed income funds	6,905,257	32%
Cash and equivalents	<u>925,816</u>	<u>4%</u>
	<u>\$ 21,582,969</u>	<u>100%</u>

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (2) CASH AND INVESTMENTS, CONTINUED

#### Pension Fund Policy, Continued

The Metropolitan Library System Pension Plan and Trust ("Pension Trust") provides for investment managers who have full discretion of assets allocated to them subject to the overall investment guidelines set out in the policy. Manager performance is reviewed by a consultant, who provides reports to the Commission. Any changes in the investment management firm must be reported as they occur. Overall investment guidelines provide for diversification and allow investment in domestic and international common stocks, fixed-income securities, cash equivalents, index funds, collective trust funds, and mutual funds. The Pension Plan 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, 2011, the pension trust fund held \$21,807,411 in cash, investments, and receivables. This amount was held by the investment counterparty, in the name of the Pension Trust.

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

### (3) COLLECTIONS

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

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment of the Library at June 30 were as follows:

	<u>Balance at</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2011</u>
Capital assets not being depreciated:				
Land	\$ 315,571	-	-	315,571
Capital assets being depreciated:				
Library books	16,512,566	3,403,699	(2,603,412)	17,312,853
Furniture and fixtures	3,949,261	87,749	(31,110)	4,005,900
Computer equipment	2,093,866	312,860	(44,405)	2,362,321
Vehicles	420,774	110,768	-	531,542
Buildings and improvements	5,955,349	-	-	5,955,349
Total capital assets being depreciated	<u>28,931,816</u>	<u>3,915,076</u>	<u>(2,678,927)</u>	<u>30,167,965</u>
Less accumulated depreciation:				
Library books	10,137,609	2,218,542	(1,755,981)	10,600,170
Furniture and fixtures	2,738,802	341,332	(25,668)	3,054,466
Computer equipment	912,275	348,789	(41,324)	1,219,740
Vehicles	264,787	52,582	-	317,369
Buildings and improvements	642,457	224,324	-	866,781
Total accumulated depreciation	<u>14,695,930</u>	<u>3,185,569</u>	<u>(1,822,973)</u>	<u>16,058,526</u>
Total capital assets being depreciated, net	<u>14,235,886</u>	<u>729,507</u>	<u>(855,954)</u>	<u>14,109,439</u>
Capital assets, net	<u>\$ 14,551,457</u>	<u>729,507</u>	<u>(855,954)</u>	<u>14,425,010</u>

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(5) COMPENSATED ABSENCES**

Compensated absences are liquidated through the General Fund.

	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts Due Within 1 Year
Compensated absences	\$ 234,087	870,465	(830,403)	274,149	274,149

**(6) RETIREMENT PLANS**

**Defined Benefit Plan**

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

*Funding Policy:* Participating employees contribute 4% of their compensation to the Plan. The Library contributes any additional amount necessary to fund normal cost and to amortize unfunded past service costs over a period of 30 years. The contribution for 2011 was \$996,982 which equaled the annual pension cost for the year. The required contribution for 2012 is \$1,114,433.

*Net Pension Obligation (Benefit) and Annual Pension Cost:* The required contribution was determined as part of the July 1, 2010, actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The actuarial assumptions included:

- (a) 7% investment rate of return,
- (b) Projected salary increases of 5%,
- (c) Post-retirement increases of 7%, and
- (d) Mortality UP 84.

See Independent Auditors’ Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) RETIREMENT PLANS, CONTINUED

Defined Benefit Plan, Continued

The annual net pension benefit for fiscal year 2011 was as follows:

Net pension benefit, beginning of year	\$ (2,147,834)
Earnings from investments	608,950
Unrealized appreciation	2,676,969
Realized gain	708,700
Contribution	1,124,322
Distributions	(1,093,830)
Fees and commissions	(170,858)
Change in valuation	<u>(6,568,088)</u>
Net pension benefit, end of year	\$ <u>(4,861,669)</u>
Present value of future benefits	\$ 16,945,742
Valuation of assets	<u>(21,807,411)</u>
Net pension benefit	\$ <u>(4,861,669)</u>

During 2011, the Plan realized a net gain of \$708,700 from the sale of investments. The calculation of realized losses is independent of the calculation of the net increase in fair value of investment. Realized gains and losses on investments that have been held in more than 1 fiscal year and sold in the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year. The unrealized gain, as noted above, was \$2,676,969 for 2011.

Three-year trend information is as follows:

3-Year Trend Information					
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Valuation of Assets	Present Value of Future Benefits	Net Pension Benefit
July 1, 2009	\$ 1,012,622	100.0%	15,658,937	14,881,312	777,625
July 1, 2010	996,982	100.0%	17,969,796	15,821,962	2,147,834
July 1, 2011	1,114,433	100.0%	21,807,411	16,945,742	4,861,669

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) RETIREMENT PLANS, CONTINUED

Defined Benefit Plan, Continued

The funded status of the Plan as of July 1, 2011, the most recent actuarial valuation date, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2011	\$ 21,089,287	26,611,547	5,522,260	79%	4,010,347	138 %

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

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

Effective August 29, 2005, a defined contribution plan was established. All new employees are enrolled in the defined contribution plan.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (6) RETIREMENT PLANS, CONTINUED

#### Defined Contribution Plan

Effective August 29, 2005, the Metropolitan Library System Defined Contribution Plan (the "Plan") was established. The Plan is intended to be a governmental plan as defined in Internal Revenue Code Section 414(d), and 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 Plan, the employer's contribution shall be discretionary, to be determined by the employer, and is available to all participants. During 2011, 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 Plan's trustee in the investment of their individual account balances. Normal retirement age is the later of a participant's 65<sup>th</sup> birthday or the 5<sup>th</sup> anniversary of the first day of the plan year in which participation in the Plan commenced. For the year ended June 30, 2011, the Library's contribution to the Plan was \$697,240.

#### Deferred Compensation Plan

The Library offers its employees a deferred compensation plan (the "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 Plan is available to all Library employees. Employees may direct the investment of their contributions in available investment options offered by the Plan. All interest, dividends, and investment fees are allocated to employees' accounts. For the year ended June 30, 2011, employee contributions to the Plan totaled \$211,944.

### (7) SELF-INSURANCE RISK OF LOSS

The Library operates a self-insurance plan to fund its employee health benefits. The Library purchased insurance policies to limit its maximum possible benefit cost on both an employee and an aggregate basis. The Library has a contract with a third-party administrator to operate the self-insurance plan. The Library has limited its risk of loss by purchasing insurance to pay an individual's claim in excess of \$60,000 per year.

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.

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(7) SELF-INSURANCE RISK OF LOSS, CONTINUED

Changes in the claims liability amounts for the year ended June 30, 2011, were:

Balance, beginning of year	\$	96,866
Current year claims		1,936,360
Claim payments		<u>(1,958,961)</u>
Balance, end of year	\$	<u>74,265</u>

(8) RISK MANAGEMENT

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

(9) COMMITMENTS AND CONTINGENCIES

Operating Leases

On an ongoing basis, the Library leases one of its branch library buildings from an area city within Oklahoma County. The lease generally provides for renewals by the Library until the facility is no longer being used as part of the Library system or until the withdrawal of the use of the property by the city.

The Library also leases a temporary facility to house one of its branch libraries, the Southern Oaks Library, while its permanent building undergoes expansion and renovation. That lease is for 1 year, with a 6-month extension available. An escrow deposit of \$263,654 is required to be held as security for the rent payment and the performance of the Library. The Library moved into the temporary facility in May 2011.

Total lease expense for the year ended June 30, 2011, was \$49,552.

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**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(10) SUBSEQUENT EVENTS**

**Market Conditions**

Subsequent to June 30, 2011, the United States financial market has had considerable downward fluctuation. The long-term ratings of U.S. government and federal agencies were lowered from AAA to AA+ by Standards & Poor's rating agency. As the investments of the Plan are at market value, these values have varied considerably and may continue to vary.

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**SCHEDULE OF FUNDING PROGRESS (UNAUDITED)**

*June 30, 2011*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2009	\$ 18,713,195	23,875,878	5,162,683	78%	3,880,805	133 %
July 1, 2010	20,026,476	25,103,798	5,077,322	80%	3,882,530	131 %
July 1, 2011	21,089,287	26,611,547	5,522,260	79%	4,010,347	138 %

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

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

*Year Ended June 30, 2011*

	Budgeted Amounts— <u>Original</u>	Budgeted Amounts— <u>Final</u>	Actual Amounts— <u>GAAP Basis</u>	GAAP to Budgetary Basis <u>Adjustments</u>	Actual Amounts— Budgetary Basis	Variance with Final Budget— Positive (Negative)
Budgetary fund balance, beginning of year	\$ 30,341,756	30,341,756	30,950,174	438,738 <sup>(3)</sup>	30,511,436	169,680
Resources (inflows):						
Property taxes	26,570,638	26,570,638	29,399,717	127,039	29,272,678	2,702,040
State revenue	286,404	286,404	354,928	-	354,928	68,524
Interest	-	-	494,175	(127,165)	621,340	621,340
Other	-	-	1,299,967	741,871	558,096	558,096
Transfers from other funds	527,400	527,400	-	(647,400)	647,400	120,000
Amount available for appropriation	<u>57,726,198</u>	<u>57,726,198</u>	<u>62,498,961</u>	<u>533,083 <sup>(1)</sup></u>	<u>61,965,878</u>	<u>4,239,680</u>
Charges to appropriations (outflows):						
Personal services	19,918,456	19,918,456	18,296,677	(508,520)	18,805,197	(1,113,259)
Maintenance and operations:						
Contractual services	4,546,645	4,546,645	3,285,300	(418,497)	3,703,797	(842,848)
Commodities	1,391,430	1,391,430	1,168,187	(8,513)	1,176,700	(214,730)
Capital outlays—operations	25,540,819	25,540,819	6,066,374	(988,289)	7,054,663	(18,486,156)
Other capital projects	6,328,848	6,328,848	-	-	-	(6,328,848)
Total charges to appropriations	<u>57,726,198</u>	<u>57,726,198</u>	<u>28,816,538</u>	<u>(1,923,819) <sup>(2)</sup></u>	<u>30,740,357</u>	<u>(26,985,841)</u>
Budgetary fund balance, end of year	\$ -	-	<u>33,682,423</u>	<u>2,456,902</u>	<u>31,225,521</u>	<u>31,225,521</u>

(Continued)

See Independent Auditors' Report.

METROPOLITAN LIBRARY SYSTEM

BUDGETARY COMPARISON SCHEDULE—GENERAL FUND (UNAUDITED),  
CONTINUED

*Year Ended June 30, 2011*

Budget-to-actual reconciliation:

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. \$ 94,345 <sup>(1)</sup>

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 1,923,819 <sup>(2)</sup>

The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Library's budget. This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above. 438,738 <sup>(3)</sup>

Total budget-to-actual reconciliation \$ 2,456,902

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).

**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  
Oklahoma City, Oklahoma

We have audited 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, 2011, which collectively comprise the Library's basic financial statements and have issued our report thereon dated October 13, 2011. Our report includes an explanatory paragraph disclaiming an opinion on management's discussion and analysis and other required supplementary information. We conducted our audit 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

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 Library's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(Continued)

**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**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library's financial statements are free of 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*.

This report is intended solely for the information and use of the Commissioners, management, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
October 13, 2011