

Tulsa City-County Library

Financial Statements
and
Independent Auditor's Report

June 30, 2015 and 2014

Contents

| | PAGE |
|---|---------|
| Independent Auditor's Report..... | 1 - 2 |
| Management's Discussion and Analysis..... | 3 - 8 |
| Financial Statements | |
| Tulsa City-County Library (Primary Government) | |
| Statements of Net Position | 9 |
| Statements of Activities | 10 |
| Balance Sheets – Governmental Funds | 11 |
| Reconciliation of the Balance Sheets of Governmental Funds to the Statements of Net Position | 12 |
| Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds..... | 13 |
| Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statements of Activities | 14 |
| Notes to Financial Statements..... | 15 - 27 |
| Tulsa Library Trust (Discreetly Presented Component Unit) | |
| Statements of Financial Position | 28 |
| Statements of Activities | 29 |
| Statements of Cash Flows | 30 - 31 |
| Notes to Financial Statements..... | 32 - 42 |
| Required Supplemental Information | |
| Schedule of Proportionate Share of the Net Pension Liability – last 10 fiscal years | 43 |
| Schedule of Contributions – last 10 fiscal years | 44 |
| Other Supplemental Information | |
| Supplemental Schedule of Capital Assets by Location (Cash Basis)..... | 45 - 46 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>..... | |
| | 47 - 48 |



Independent Auditor's Report

To the Commission of the
Tulsa City-County Library

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Tulsa City-County Library (the "Library"), as of and for the years ended June 30, 2015 and 2014, the discretely presented component unit (presented on pages 28 to 42) as of June 30, 2015 and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit (presented on pages 28 to 42) were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Library as of June 30, 2015 and 2014, and the discretely presented component unit as of June 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the years and year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 3 to 8 and the Schedules of Proportionate Share of the Net Pension Liability – last 10 fiscal years and of Contributions – last 10 fiscal years on pages 43 to 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Library's basic financial statements. The supplemental schedule of capital assets by location (cash basis) on pages 45 and 46 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2016 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.

Tulsa, Oklahoma
July 13, 2016

Stanfield & O'Sell P.C.

Management's Discussion and Analysis

Management's Discussion and Analysis

The Tulsa City-County Library's (the "Library's") management provides this Management's Discussion and Analysis (MD&A) as a tool for readers of the Library's Basic Financial Statements for the fiscal years ended June 30, 2015 and 2014. Readers of the Library's financial statements are encouraged to use this information in conjunction with the Library's Basic Financial Statements, which begin on page 9.

During fiscal 2004, the Library implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government.

Financial Highlights

Financial highlights for the Library as of and for the years ended June 30, 2015, 2014 and 2013 include the following:

- The Library's assets exceeded its liabilities (net position) at June 30, 2015, 2014 and 2013, by approximately \$59.0, \$68.8 and \$67.8 million, respectively.
- The Library's net assets increased approximately \$9.2, \$1.0 and \$0.7 million during the years ended June 30, 2015, 2014 and 2013, respectively.
- Revenues from ad valorem taxes were \$27.6 million for June 30, 2015, \$26.8 million for June 30, 2014 and were \$26.5 million for 2013.
- Total expenses were approximately \$25.9, \$28.3 and \$27.5 million for the years ended June 30, 2015, 2014 and 2013, respectively.
- Fiscal 2015, 2014 and 2013 capital outlay expenditures were approximately \$2.7, \$6.0 and \$3.2 million, respectively.

Overview of the Basic Financial Statements

This discussion and analysis serves as an introduction to the Library's Basic Financial Statements. The Library's Basic Financial Statements are comprised of government-wide financial statements, fund financial statements and notes to the Basic Financial Statements. The government-wide financial statements are comprised of the Statements of Net Position and the Statements of Activities (on pages 9 and 10, respectively), which provide information about the activities of the Library as a whole and present a long-term view of the Library's finances. These financial statements provide a broad overview of the Library's operations in a manner similar to private-sector business. Fund financial statements beginning on page 11 demonstrate how the Library's operations were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide statements by providing information about the Library's individual funds.

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about a governmental agency is, “Is the organization as a whole better off or worse off as a result of the year’s activities?” The Statements of Net Position and the Statements of Activities report information that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Library’s net assets and changes in them. You can think of the net assets – the difference between assets and liabilities – as one way to measure the Library’s financial health, or financial position. Over time, increases or decreases in net assets are one indicator of whether the financial position is improving or deteriorating.

In the Statements of Net Position and the Statements of Activities for the Library, all activities are reported as governmental activities as the Library has no business-type activities.

Reporting the Library’s Most Significant Funds

The fund financial statements begin on page 11 and provide detailed information about the Library’s governmental funds.

General Fund – The General Fund is referred to by the Library as the Levy Fund, and accounts for transactions related to the receipt of appropriations of ad valorem taxes, most governmental grant and reimbursement programs, gifts and miscellaneous receipts, which are used for the general operations of the Library. The fund also accounts for collections of copy service fees, book fines, proceeds from the sale of surplus property, and other miscellaneous items. Such funds are primarily expended for the purchase, replacement or repair of books or other property, except motor vehicles, and do not require appropriation.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements. The Notes to the Basic Financial Statements begin on page 15.

Other Supplementary Information

The Basic Financial Statements are followed by a section of supplemental information. This section includes a Supplemental Schedule of Capital Assets by Location (Cash Basis). The supplemental schedule is presented for purposes of additional analysis and is not a required part of the Basic Financial Statements.

The Library as a Whole

Net Position

The table below summarizes the Library's Statements of Net Position as of June 30:

| | 2015 | 2014 | 2013 |
|---|--------------|--------------|---------------|
| Current assets | \$24,117,665 | \$26,548,390 | \$ 29,183,598 |
| Capital assets | 53,990,307 | 45,238,134 | 41,601,522 |
| Deferred outflows | 1,867,822 | - | - |
| Total assets and deferred outflows | 79,975,794 | 71,786,524 | 70,785,120 |
| Total liabilities (including long-term capital leases of \$0, \$4,678 and \$19,759, respectively) | (13,969,087) | (3,019,094) | (2,987,088) |
| Deferred inflows | (7,020,056) | - | - |
| Total liabilities and deferred inflows | (20,989,143) | (3,019,094) | (2,987,088) |
| Net assets | | | |
| Investment in capital assets, net of related debt | 53,990,307 | 45,233,456 | 41,581,763 |
| Unrestricted | 4,996,344 | 23,533,974 | 26,216,269 |
| | \$58,986,651 | \$68,767,430 | \$ 67,798,032 |

Changes in Net Position

The table below summarizes the Library's Statements of Activities for the fiscal years:

| Revenues | 2015 | 2014 | 2013 |
|--|--------------------|-------------------|-------------------|
| Program Revenues: | | | |
| Library services and fees | \$ 915,795 | \$ 1,770,911 | \$ 997,407 |
| Governmental and other grants | 101,572 | 93,340 | 99,781 |
| Gifts and contributions: | | | |
| Trust | 463,888 | 358,277 | 267,418 |
| Other | 280 | 5,325 | 2,277 |
| General Revenues: | | | |
| Ad valorem taxes | 27,630,938 | 26,783,465 | 26,464,108 |
| Interest income | 39,755 | 40,186 | 57,058 |
| City of Tulsa - Improve Our Tulsa bond proceeds | 5,000,000 | - | - |
| State aid | 231,955 | 239,547 | 239,523 |
| Total revenues | 34,384,183 | 29,291,051 | 28,127,572 |
| Expenses | | | |
| Library services: | | | |
| Personnel services | 15,148,842 | 16,583,100 | 17,206,245 |
| Books and other library materials and equipment | 1,159,287 | 1,261,882 | 1,085,178 |
| Maintenance and operations | 5,005,200 | 5,301,921 | 4,362,911 |
| Depreciation | 4,508,626 | 4,815,023 | 4,693,163 |
| Loss on sale of fixed assets | - | 201,285 | - |
| Disbursements to Tulsa County for use in revaluation program | 116,381 | 121,125 | 119,176 |
| Capital outlay | 10,266 | 36,550 | - |
| Other | 61 | 767 | 2,012 |
| Total expense | 25,948,663 | 28,321,653 | 27,468,685 |
| Transfers | | | |
| Transfers in | 8,303,461 | - | - |
| Transfers out | (7,500,000) | - | - |
| Total transfers | 803,461 | - | - |
| Change in net assets | <u>\$9,238,981</u> | <u>\$ 969,398</u> | <u>\$ 658,887</u> |

Analysis of Overall Financial Position and Results of Operations

The Library's Funds

The Library's total fund balance decreased by approximately \$1.8 million during fiscal 2015 to approximately \$22.5 million at June 30, 2015, from approximately \$24.3 million at June 30, 2014. The Library's total fund balance increased by approximately \$2.9 million during fiscal 2014 to approximately \$24.3 million at June 30, 2014, from approximately \$27.2 million at June 30, 2013. The \$12.3 million in assigned funds is reserved for the Central Library renovations, minor branch renovations and a small IT reserve. The unassigned fund balance as of June 30, 2015, has been internally designated for encumbrances (approximately \$893,000) and for other capital needs. Total fund revenues for fiscal 2015 were approximately \$34.4 million, which included ad valorem tax revenues of approximately \$27.6 million.

Capital Asset and Debt Administration

Assets

At June 30, 2015, 2014 and 2013, the Library had approximately \$54.0, \$45.2 and \$41.6 million, respectively, invested in capital assets. Capital assets, net of accumulated depreciation, increased by \$8.8, \$3.6 and \$0.7 million during the fiscal years ended 2015, 2014 and 2013, respectively.

Debt

At June 30, 2015, the Library had no outstanding debts related to capital leases. In 2014 and 2013, the Library had approximately \$5,000 and \$20,000 respectively, outstanding on capital leases for copy machines. There was also approximately \$12.6 million outstanding for the net pension obligation liability at June 30, 2015.

Implementation of GASB 39

During the fiscal year ended June 30, 2004, the Library implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it required reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of the Library. Organizations that are legally separate tax-exempt entities and that meet all the following criteria should be discretely presented as component units. These criteria are:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The Tulsa Library Trust (the Trust) was established to benefit the Library, and meeting the criteria above, is considered a component unit of the Library. Management and the Commission of the Library cannot control the Board of the Trust and, therefore, presenting the assets, liabilities and operations of the Trust alongside the financial data of the Library could and would be misleading to the users of the financial statements. Therefore, management has elected to present the Trust's financial statements as a stand-alone entity directly behind the statements of the Library.

Implementation of GASB 68

During the fiscal year ended June 30, 2015, the Library implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement improves accounting and financial reporting by state and local governments for pensions, as well as improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The statement was effective for fiscal years beginning after June 15, 2014. This GASB Statement requires the Library to calculate its total pension liability using three essential steps: (1) projecting future benefit payments for current and former employees and their beneficiaries; (2) discounting those payments to their present value; and (3) allocating the present value over past, present, and future periods of employee service.

The effect on the 2015 net pension was a decrease of \$19,019,760 to beginning net position. See Note P – Retirement Plan and Pension for further information regarding the implementation of GASB Statement 68.

Central Library Renovation

Starting in the spring of 2013, the Library is embarking on a full renovation of the existing downtown Central Library building. The current Library was opened in 1965 and the majority of the mechanical, electrical and plumbing systems are original to the building. While the systems are in good repair, it has been determined that it is necessary to upgrade the equipment to comply with current building standards. Along with the systems upgrade, the entire building will be updated to function as a 21st Century library. The entire project is estimated to cost \$47.8 million and will be completed in the fall of 2016.

Contacting the Library's Financial Management

The Library's Basic Financial Statements are designed to provide our citizens, taxpayers, and customers with a general overview of the Library's finances, and to show accountability for the money it receives. If you have questions about the Library's financial statements or need additional financial information, contact the Business Office, 400 Civic Center, Tulsa, OK 74103 or call (918) 549-7373.

Chief Financial Officer

Tulsa City-County Library

Statements of Net Position

June 30,

| | | Governmental Activities | |
|---|---------------|-------------------------|------|
| | | 2015 | 2014 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 22,490,514 | \$ 25,019,765 | |
| Ad Valorem taxes receivable | 1,439,022 | 1,343,011 | |
| Receivable - Tulsa Library Trust | 166,252 | 104,197 | |
| Miscellaneous receivables | 21,877 | 81,417 | |
| Total current assets | 24,117,665 | 26,548,390 | |
| Capital assets | | | |
| Land | 8,343,786 | 8,343,786 | |
| Construction in progress | 14,129,538 | 4,402,859 | |
| Capital assets, net | 31,516,983 | 32,491,489 | |
| Total capital assets | 53,990,307 | 45,238,134 | |
| Total assets | 78,107,972 | 71,786,524 | |
| Deferred Outflow of Resources | | | |
| Pension related resources | 1,867,822 | - | |
| Total assets and deferred outflow of resources | \$ 79,975,794 | \$ 71,786,524 | |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | \$ 465,845 | \$ 1,110,230 | |
| Salaries and benefits payable | 941,114 | 1,000,018 | |
| Payable - Tulsa Library Trust | - | 252 | |
| Capital lease obligations payable within one year | - | 4,678 | |
| Total current liabilities | 1,406,959 | 2,115,178 | |
| NPO liability | - | 903,916 | |
| Net pension liability | 12,562,128 | - | |
| Total liabilities | 13,969,087 | 3,019,094 | |
| Deferred Inflows of Resources | | | |
| Pension related resources | 7,020,056 | - | |
| Net Position | | | |
| Invested in capital assets, net of related debt | 53,990,307 | 45,233,456 | |
| Unrestricted | 4,996,344 | 23,533,974 | |
| Total net position | 58,986,651 | 68,767,430 | |
| Total liabilities, deferred inflows of resources and net position | \$ 79,975,794 | \$ 71,786,524 | |

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

Tulsa City-County Library

Statements of Activities

Years Ended June 30,

| | Governmental Activities | |
|--|-------------------------|---------------|
| | 2015 | 2014 |
| Expenses | | |
| Library services: | | |
| Personnel services | \$ 15,148,842 | \$ 16,583,100 |
| Books and other library materials and equipment | 1,159,287 | 1,261,882 |
| Maintenance and operations | 5,005,200 | 5,301,921 |
| Depreciation | 4,508,626 | 4,815,023 |
| Loss on sale of fixed assets | - | 201,285 |
| Disbursement to Tulsa County for use in County Assessor revaluation program | 116,381 | 121,125 |
| Capital outlay | 10,266 | 36,550 |
| Other | 61 | 767 |
| Total program expenses | 25,948,663 | 28,321,653 |
| Program revenues | | |
| Library services and fees | 915,795 | 1,770,911 |
| Government and other grants | 101,572 | 93,340 |
| Specific operating/capital contributions: | | |
| Tulsa Library Trust | 463,888 | 358,277 |
| Other | 280 | 5,325 |
| Total program revenues | 1,481,535 | 2,227,853 |
| Net program expense | 24,467,128 | 26,093,800 |
| General revenues | | |
| Ad valorem taxes | 27,630,938 | 26,783,465 |
| Interest income | 39,755 | 40,186 |
| City of Tulsa - Improve Our Tulsa bond proceeds | 5,000,000 | - |
| State aid | 231,955 | 239,547 |
| Total general revenues | 32,902,648 | 27,063,198 |
| Transfers | | |
| Transfer out - to Tulsa Library Trust | (7,500,000) | - |
| Transfer in - capital expenditures for benefit of Tulsa City-County Library as completed by Tulsa Library Trust | 8,303,461 | - |
| Net transfers | 803,461 | - |
| Increase in net position | 9,238,981 | 969,398 |
| Net position, beginning of year, as restated (note P) | 49,747,670 | 67,798,032 |
| Net position, end of year | \$ 58,986,651 | \$ 68,767,430 |

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

Tulsa City-County Library

Balance Sheets - Governmental Funds

June 30,

| | General Fund | |
|---|----------------------|----------------------|
| | 2015 | 2014 |
| Assets | | |
| Cash and cash equivalents | \$ 22,490,514 | \$ 25,019,765 |
| Receivables, primarily ad valorem taxes | 1,439,022 | 1,343,011 |
| Receivable - Tulsa Library Trust | 166,252 | 104,197 |
| Miscellaneous receivable | 21,877 | 81,417 |
| Total assets | <u>\$ 24,117,665</u> | <u>\$ 26,548,390</u> |
| Liabilities and Fund Balances | | |
| Liabilities | | |
| Accounts payable | \$ 465,845 | \$ 1,110,230 |
| Payable - Tulsa Library Trust | - | 252 |
| Salaries and benefits payable | 52,713 | 47,256 |
| Deferred ad valorem tax revenue | 1,103,165 | 1,096,104 |
| Total liabilities | <u>1,621,723</u> | <u>2,253,842</u> |
| Fund balances | | |
| Assigned | 12,284,432 | 9,210,400 |
| Unassigned | 10,211,510 | 15,084,148 |
| Total fund balances | <u>22,495,942</u> | <u>24,294,548</u> |
| Total liabilities and fund balances | <u>\$ 24,117,665</u> | <u>\$ 26,548,390</u> |

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

Reconciliation of the Balance Sheets of Governmental Funds to the Statements of Net Position

June 30,

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Fund balances - total governmental funds | \$ 22,495,942 | \$ 24,294,548 |
| Amounts reported for governmental activities in the statements of net position are different because: | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements. | 53,990,307 | 45,238,134 |
| Ad valorem tax receivables are reported in the fund financial statements under the modified - accrual approach whereas ad valorem receivables are reported under the full accrual approach in the statement of net assets. This is the net amount by which ad valorem receivables under the full accrual approach exceed ad valorem revenues under the modified-accrual approach. This excess is reported as deferred revenue in the fund financial statements. | 1,103,165 | 1,096,104 |
| Long-term assets are reported in the statements of net position but are not reported as assets in the fund financial statements, which have been prepared under the modified-accrual basis of accounting. The detail of the individual long-term assets is as follows: | | |
| Deferred outflows of resources | 1,867,822 | - |
| Long-term liabilities are reported in the statements of net position but are not reported as liabilities in the fund financial statements, which have been prepared under the modified-accrual basis of accounting. The detail of the individual long-term liabilities is as follows: | | |
| Compensated absences | (888,401) | (952,762) |
| Capital lease obligations | - | (4,678) |
| Net pension obligations | - | (903,916) |
| Net pension liability | (12,562,128) | - |
| Deferred inflows of resources | (7,020,056) | - |
| Net position of governmental activities | <u>\$ 58,986,651</u> | <u>\$ 68,767,430</u> |

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

Tulsa City-County Library

**Statements of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds**

Years Ended June 30,

| | General Fund | |
|---|----------------------|----------------------|
| | 2015 | 2014 |
| Revenues | | |
| Ad Valorem taxes | \$ 27,623,877 | \$ 26,830,500 |
| Interest income | 39,755 | 40,186 |
| Gifts and contributions: | | |
| Tulsa Library Trust | 463,888 | 358,277 |
| Other | 280 | 5,327 |
| Library services and fees | 915,795 | 1,254,577 |
| Government and other grants | 101,572 | 93,340 |
| City of Tulsa - Improve Our Tulsa bond proceeds | 5,000,000 | - |
| State aid | 231,955 | 239,547 |
| | | |
| Total revenues | 34,377,122 | 28,821,754 |
| | | |
| Expenditures | | |
| Library services: | | |
| Personnel services | 17,422,518 | 16,849,901 |
| Books and other library materials and equipment | 3,426,232 | 3,386,320 |
| Maintenance and operations | 5,009,940 | 5,317,772 |
| Disbursement to Tulsa County for use in County Assessor reevaluation program | 116,381 | 121,125 |
| Capital outlay | 2,700,657 | 6,048,697 |
| | | |
| Total expenditures | 28,675,728 | 31,723,815 |
| | | |
| Transfers | | |
| Transfer out - to Tulsa Library Trust | (7,500,000) | - |
| | | |
| Net change in fund balances | (1,798,606) | (2,902,061) |
| | | |
| Fund balances - beginning of year | 24,294,548 | 27,196,609 |
| | | |
| Fund balances - end of year | <u>\$ 22,495,942</u> | <u>\$ 24,294,548</u> |

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

**Reconciliation of the Statements of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statements of Activities**

Years Ended June 30,

| | 2015 | 2014 |
|--|---------------------|-------------------|
| Net change in fund balances - total governmental funds | \$ (1,798,606) | \$ (2,902,061) |
| Amounts reported for governmental activities in the statements of activities are different because: | | |
| Governmental funds report capital outlays as expenditures; however, in the statements of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period. | 8,752,173 | 3,636,612 |
| Ad valorem tax revenue is reported in the combined fund financial statements under the modified - accrual approach whereas ad valorem revenue is reported under the full accrual approach in the statements of activities. This is the net amount by which ad valorem revenues under the full - accrual approach exceed ad valorem revenues under the modified - accrual method. | 7,061 | (47,035) |
| Pension obligations per GASB 68 implementation are reported in the full - accrual approach in the statements of activities as a restatement of beginning net position. See note P for the restatement and explanation of the pension disclosure per GASB 68. | 1,305,398 | - |
| Governmental funds report expenditures under the modified - accrual approach whereas expenditures are reported under the full - accrual approach in the statements of activities. The detail of the changes in these different approaches is as follows: | | |
| Compensated absences | 64,361 | 66,726 |
| Capital lease obligations | 4,678 | 15,081 |
| Deferred inflows of resources | 903,916 | 200,075 |
| Change in net position of governmental activities | <u>\$ 9,238,981</u> | <u>\$ 969,398</u> |

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

Notes to Financial Statements

June 30, 2015 and 2014

Note A – Summary of Significant Accounting Policies

Reporting Entity – The Tulsa City-County Library (TCCL or the Library) was established in 1961 by Tulsa County (the County) and the City of Tulsa (the City) in accordance with the City-County Library Act of the Oklahoma statutes. Under this statute, the Library is to foster and promote the establishment, maintenance and operation of a library system in order to give all of the citizens of the counties affected equal access to comprehensive library collections. The Library is governed by a Commission consisting of eleven members: six appointed by the Mayor of the City, subject to the governing Board approval, and three shall be appointed by the Board of County Commissioners. The Mayor of the City and the Chairman of the Board of County Commissioners shall be ex-officio members of the Commission and shall be entitled to vote on all matters.

Basis of Accounting – The basic financial statements of the Tulsa City-County Library have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reclassifications – Certain fiscal 2014 amounts have been reclassified to conform with the fiscal 2015 financial statement presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent Events – The Library has evaluated subsequent events through July 13, 2016, the date which the financial statements were available to be issued.

Note B – Basis of Presentation

Government-Wide Financial Statements – The government-wide financial statements provide operational accountability information for the Library as an economic unit. The government-wide financial statements report information about the Library’s ability to maintain service levels and continue to meet its obligations as they come due. The statements include all activities of the Library, and include the statements of net position and the statements of activities as required by GASB.

Fund Financial Statements – The accounts of the Library are organized on the basis of funds, each of which are considered to be an independent fiscal and accounting entity. The operations of each fund are accounted for within separate sets of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues, expenditures and transfers. Financial activities of the Library are recorded in the fund as described below.

Governmental Funds – Governmental funds finance all functions of the Library, accounting for the acquisition, use and balances of the Library’s expendable financial resources and the related liabilities.

Notes to Financial Statements

June 30, 2015 and 2014

Note B – Basis of Presentation - Continued

General Fund – The General Fund, referred to by the Library as the Levy Fund, accounts for transactions related to the receipt of appropriations of ad valorem taxes, most governmental grant and reimbursement programs, gifts and miscellaneous receipts, which are used for the general operations of the Library. As such, this fund will always be reported as a major fund. The fund also accounts for collections of copy service fees, book fines, proceeds from the sale of surplus personal property and other miscellaneous items. Such amounts are primarily expended for the purchase, replacement or repair of books or other personal property, except motor vehicles, and do not require appropriation.

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds. A reconciliation is presented to explain the differences in fund balances of the governmental fund financial statements and the net position of the governmental activities in the government-wide financial statements.

During the fiscal year ended June 30, 2004, the Library implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it required reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of the Library. Organizations that are legally separate, tax-exempt entities and that meet all the following criteria should be discretely presented as component units. These criteria are:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The Tulsa Library Trust (the Trust) was established to benefit the Library and, meeting the criteria above, is considered a component unit of the Library. The assets of the Trust are held in endowment funds. These funds are required to be retained in perpetuity in accordance with the donor's intent. The income from these investments may be expended for the benefit of the Library. The determination of amounts to be expended and the timing of those expenditures are solely that of the Board of the Trust. Management and the Commission of the Library cannot control the Board of the Trust and, therefore, presenting the assets, liabilities and operations of the Trust alongside the financial data of the Library could and would be misleading to the users of the financial statements. In order to comply with the requirements of Statement No. 39, management has elected to present the financial information of its discretely presented component unit in their entirety on pages 28 to 42. Management believes this presentation discloses the resources being held for the benefit of the Library and clearly shows the net position of the Trust is not under the control of the Commission.

Notes to Financial Statements

June 30, 2015 and 2014

Note C – Measurement Focus/Basis of Accounting/Accounting Policies

Measurement Focus/Revenue Recognition – The measurement focus determines the accounting and financial reporting treatment applied to a fund. The governmental activities within the government-wide statement of net position and statement of activities are presented using the economic resources measurement focus. The economic resources measurement focus meets the accounting objectives of determining net income, financial position, and cash flows. Government funds use the current financial resources measurement focus. This measurement focus is based upon the receipt and disbursement of current available financial resources rather than when earned or incurred.

Basis of Accounting – The accrual basis of accounting is used throughout the government-wide financial statements; conversely, the fund financial statements for the governmental funds have been prepared in accordance with the modified accrual basis of accounting, whereby revenues are recognized when considered both measurable and available to finance expenditures of the current period.

Accounting Policies – The Library’s significant accounting policies related to the following basic financial statement categories are summarized below.

Cash and Cash Equivalents – The Library considers all highly liquid investments in debt securities with initial maturities of three months or less to be cash equivalents.

Ad Valorem Taxes – Property taxes are collected and remitted to the County. These taxes are levied annually on November 1 and are due one-half by December 31 and one-half by March 31.

In the governmental fund financial statements, property taxes receivable are recorded in the Levy Fund. At fiscal year-end, the receivables represent delinquent and escrowed paid-under-protest taxes. If paid-under-protest and delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the County regardless of when cash is received. Over time, substantially all property taxes are collected.

Capital Assets/Depreciation – The Library’s accounting policies regarding capital assets such as land, buildings, furniture, equipment and books are that these assets, with an initial cost of \$1,000 or more, are capitalized and depreciated over their estimated useful lives. Library materials (subscriptions) are generally expensed when purchased. The Library has chosen the straight-line depreciation method for its capital assets based on the estimated useful lives of the capital assets as follows:

| <u>Class of Asset</u> | <u>Estimated Useful Life</u> |
|-----------------------------------|------------------------------|
| Buildings and improvement | 30 years |
| Furniture, fixtures and equipment | 3 - 20 years |
| Books | 5 years |

Capital assets do not include assets held for public exhibition, education and research.

Notes to Financial Statements

June 30, 2015 and 2014

Note C – Measurement Focus/Basis of Accounting/Accounting Policies - Continued

Compensated Absences – It is the Library’s policy to permit employees to accumulate earned but unused annual vacation leave benefits. Employees earn annual leave based on years of service. Unused annual leave may be carried forward each year up to a maximum level of twenty working days. Unused annual leave must normally be taken within the next year after it is earned. Upon termination, an employee will be paid for any vacation leave earned but not used if they have been employed at least one year. Each full-time employee also earns sick leave at a rate of 8 hours per calendar month; part-time employees earn sick leave at a reduced rate. Sick leave may accumulate up to 120 working days and may be exchanged for additional vacation days at a ratio of 2 sick days to 1 vacation day. Upon termination, an employee will not be paid for any sick leave accrued but not used, and, therefore, no accrual has been recorded. The governmental fund financial statements record expenditures when employees are paid for annual leave. The government-wide financial statements present the cost of accumulated vacation leaves as a liability classified as salaries and benefits payable.

Deferred Ad Valorem Taxes – The governmental fund financial statements record Ad Valorem taxes earned but not received within 60 days of year-end as deferred revenue at June 30, 2015 and 2014.

Net Position – The government-wide financial statements utilize a net position presentation that are categorized as investment in fixed assets (net of related debt), restricted and unrestricted. Investment in capital assets (net of related debt) is intended to reflect the portion of net position which is associated with non-liquid capital assets less outstanding capital assets related debt. Unrestricted net position represents unrestricted liquid assets. The governmental fund financial statements classify equity as an unreserved fund balance.

Use of Estimates – The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Retirement Plan and Pensions – The information presented in Note P regarding the Library’s participation in the Municipal Employees’ Retirement Plan is presented in accordance with Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of Government Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. For 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 Municipal Employees’ Retirement Plan (MERP) and additions to/deductions from MERP’s fiduciary net position have been determined on the same basis as they are reported by MERP. 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.

Notes to Financial Statements

June 30, 2015 and 2014

Note D – Fund Equity

Beginning with fiscal year 2011, the Library implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact (such as inventory).

Restricted – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed – Amounts constrained to specific purposes by the Library itself, using its highest level of decision-making authority (i.e., Board of Commission). To be reported as committed, amounts cannot be used for any other purpose unless the Library takes the same highest level action to remove or change the constraint.

Assigned – Amounts that are designated by the Library for a specific purpose but are not spendable until a budget ordinance is passed by the Board of Commission.

Unassigned – All amounts not included in other spendable classifications. Positive amounts are reported only in the general fund.

The General Fund has assigned funds of \$5,094,131 for the Central Library renovations and \$1,224,808 for IT replacements. The Unassigned Fund Balance of \$10,211,510 includes approximately \$164,800 designated for encumbrances and \$1,100,000 designated for buildings and technology.

Note E – Stewardship, Compliance and Accountability

Under Oklahoma law, the Library may not obligate funds for periods extending beyond the current fiscal year, except for the issuance of general obligation bonds. All lease and lease-purchase agreements, whether or not they are capitalized, must be re-approved at the beginning of each fiscal year. State grant revenues and expenditures are accounted for in accordance with applicable contract provisions.

Budgetary Comparison Information – The Library is not legally required to adopt an annual budget; therefore, presenting budget to actual comparisons is not considered necessary.

Note F – Cash and Cash Equivalents

The County Treasurer's office holds all cash and cash equivalents for the Library and, as agent for the Library, ensures that such deposits are properly insured or collateralized. Balances held by the County on behalf of the Library at June 30, 2015 and 2014 were included in a commingled pool of County funds with a portion of the funds held in a checking account, which is swept daily into a government money market mutual fund. The balance of the pool is invested directly in the same mutual fund. The cash is subject to the depository collateral risk of all the pooled funds of the County. Under this concept, all cash is pooled together for investment purposes and interest income is credited to the appropriate funds.

Notes to Financial StatementsJune 30, 2015 and 2014

Note F – Cash and Cash Equivalents - Continued

Deposits are held by Oklahoma banking institutions and are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition to bank-owned securities, letters-of-credit are also used to cover deposits exceeding FDIC insurance amounts. Under state law, the institutions must protect excess county funds by pledging collateral (bank assets) to cover such funds.

Note G – Ad Valorem Taxes

The Library's share of the County's Ad Valorem taxes due but not collected by the County as of June 30, 2015 and 2014 is \$1,439,022 and \$1,343,011, respectively. Amounts are considered fully collectible.

Note H – Capital Assets

The Library's capital assets activity for fiscal 2015 and 2014 is as follows:

| | Balance July 1, 2014 | Additions | Deductions | Balance June 30, 2015 |
|--|----------------------------|--------------|-------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land and improvements | \$ 8,343,786 | \$ - | \$ - | \$ 8,343,786 |
| Construction in progress | 4,402,859 | 9,726,679 | - | 14,129,538 |
| | 12,746,645 | 9,726,679 | - | 22,473,324 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 44,053,774 | 401,445 | - | 44,455,219 |
| Furniture, fixtures and equipment | 14,441,820 | 909,447 | (80,254) | 15,271,013 |
| Books | 24,422,029 | 2,223,229 | (2,069,772) | 24,575,486 |
| | 82,917,623 | 3,534,121 | (2,150,026) | 84,301,718 |
| Accumulated depreciation for: | | | | |
| Buildings and improvements | (26,135,687) | (1,437,669) | - | (27,573,356) |
| Furniture, fixtures and equipment | (11,570,878) | (730,954) | 80,742 | (12,221,090) |
| Books | (12,719,569) | (2,340,492) | 2,069,772 | (12,990,289) |
| | (50,426,134) | (4,509,115) | 2,150,514 | (52,784,735) |
| Total capital assets being depreciated, net | 32,491,489 | (974,994) | 488 | 31,516,983 |
| Capital assets, net | \$ 45,238,134 | \$ 8,751,685 | \$ 488 | \$ 53,990,307 |

Notes to Financial Statements

June 30, 2015 and 2014

Note H – Capital Assets - Continued

The Library's capital assets activity for fiscal 2014 and 2013 is as follows:

| | Balance July 1, 2013 | Additions | Deductions | Balance June 30, 2014 |
|--|----------------------------|--------------|--------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land and improvements | \$ 6,467,989 | \$ 2,343,134 | \$ (467,337) | \$ 8,343,786 |
| Construction in progress | 2,651,432 | 1,751,427 | - | 4,402,859 |
| | 9,119,421 | 4,094,561 | (467,337) | 12,746,645 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 43,034,181 | 1,073,129 | (53,536) | 44,053,774 |
| Furniture, fixtures and equipment | 13,448,444 | 1,159,507 | (166,131) | 14,441,820 |
| Books | 24,486,070 | 2,124,438 | (2,188,479) | 24,422,029 |
| | 80,968,695 | 4,357,074 | (2,408,146) | 82,917,623 |
| Accumulated depreciation for: | | | | |
| Buildings and improvements | (24,889,685) | (1,261,420) | 15,418 | (26,135,687) |
| Furniture, fixtures and equipment | (11,083,366) | (686,460) | 198,948 | (11,570,878) |
| Books | (12,513,543) | (2,394,505) | 2,188,479 | (12,719,569) |
| | (48,486,594) | (4,342,385) | 2,402,845 | (50,426,134) |
| Total capital assets being depreciated, net | 32,482,101 | 14,689 | (5,301) | 32,491,489 |
| Capital assets, net | \$ 41,601,522 | \$ 4,109,250 | \$ (472,638) | \$ 45,238,134 |

Note I – Capital Leases

The Library leases copy machines under capital leases ranging from three to five years. Changes in the capital leases are as follows:

| | Balance at 7/1/2014 | Additions | Deletions | Balance at 6/30/2015 | Due Within One Year |
|----------------|------------------------|-----------|-----------|-------------------------|------------------------|
| Capital leases | \$ 4,678 | \$ - | \$ 4,678 | \$ - | \$ - |
| | | | | | |
| | Balance at 7/1/2013 | Additions | Deletions | Balance at 6/30/2014 | Due Within One Year |
| Capital leases | \$ 19,759 | \$ - | \$ 15,081 | \$ 4,678 | \$ 4,678 |

Notes to Financial Statements

June 30, 2015 and 2014

Note J – Commitments

The Library leases some of its branch library buildings as well as the administration facility until the completion of the remodel of the Central Library Building. The lease terms for the branch libraries are generally for one or two-year periods that expire in April and June. The lease agreements usually provide one-year renewal options for up to ten years. Total rent-related disbursements under these leases for 2015 were \$654,184.

In addition, the Library has a license agreement with a computer software vendor that is renewable annually. The maintenance fee for 2015 and 2014 was \$179,034 and \$161,249.

In 2011, the Commission approved a plan to remodel the Central Library Building, with an estimated cost of \$47.8 million. The project began in the spring of 2013 and is expected to be completed by the spring of 2016. The project is being funded through a combination of funds. \$15 million was set aside from the Library fund balance, a fund which the Library had set up a number of years ago to save for capital needs. The Tulsa Library Trust (TLT), a discretely presented component unit, conducted a capital campaign to secure funding for an additional portion of the project. That project has raised \$28.5 million. Tulsa voters passed the “Improve My Tulsa” initiative and the Library will receive \$10 million from the City of Tulsa. The first \$5 million was received in FY 2014-15 and the remaining \$5 million is expected in FY 2015-16. In connection with the project, in July 2014, the Library entered into a lease purchase agreement and ground lease agreement with the TLT for the Central Library Building. The agreements terminate at the conclusion of the remodeling of the building. The remaining minimum construction commitment is approximately \$38.4 million, which will be incurred over the remaining term of the agreements.

Note K – Intergovernmental Operating Lease

TCCL has operating leases with various local governments (i.e. Skiatook and Tulsa County) consisting of county owned building space leased to TCCL. The Skiatook lease was for five years beginning December 1, 2005 to September 30, 2010 at a rate of \$10 per year. The Skiatook lease automatically renewed September 30, 2010 for an additional five years. The Tulsa County lease (i.e. Kaiser Operating Agreement) is for 99 years starting June 1, 2006 through May 31, 2105 at a rate of \$1 per year.

Note L –Deferred Compensation Plan

Employees of the Library may also participate in a deferred compensation plan adopted by the Library under provisions of the Internal Revenue Code (“IRC”) Section 457 Deferred Compensation Plans with Respect to Service for State and Local Governments. The deferred compensation plan is available to all employees of the Library. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date.

The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. The deferred compensation plan is administered by an unrelated third party. Assets and income within the plan are held in trust for the exclusive benefit of plan participants and their beneficiaries through a custodial account agreement with a national financial institution for the exclusive benefit of the plan’s participants and are not reflected in the accompanying financial statements.

Notes to Financial Statements

June 30, 2015 and 2014

Note M – Transactions with the Discretely Presented Component Unit

The Tulsa Library Trust (the “Trust”) was established in 1972 by the Friends of the Tulsa Public Library, Inc., and the Tulsa City-County Library Commission. The Trust’s mission is to increase endowment and donor funding to improve and enhance the Library’s programs, collections, services, and librarian training and to administer Trust expenditures and investments. The Library is the primary beneficiary of the Trust. During the years ended June 30, 2015 and 2014, the Trust contributed \$463,888 and \$358,277, respectively, to the Library to be used for book and equipment purchases. In addition, the Trust directly sponsors various other activities such as the Distinguished Author Series and summer programs for children.

Note N – Related Party Transactions

The Library exchanges various services, such as cash management and payroll processing, with the City and County. No value is assigned in the financial statements to the services received from, or rendered for, as the value of these services is not readily determinable.

Note O – Recent Accounting Pronouncements

In June, 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which improves accounting and financial reporting of public employee pensions by state and local governments. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

Note P – Retirement Plan and Pension

In June 2012, The Governmental Accounting Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement was effective for fiscal years beginning after June 15, 2014. The adoption of the standard, as amended, added deferred outflows and inflows related to delayed recognition changes to the net pension liability and the recognition of the Authority’s share of net pension liabilities. The net effect of these changes on beginning net position was a reduction of \$19,019,760. This change is comprised of the net pension liability of \$11,132,854 plus deferred inflows of \$8,371,056 less previously recognized net pension obligation of \$484,150.

1. *Plan Description*

Employees of the Library are provided with pensions through the Municipal Employee Retirement Plan (MERP)—a cost-sharing multiple-employer defined benefit pension plan administered by the City of Tulsa (City). MERP provides retirement, disability and death benefits which are established by City ordinance to plan members and beneficiaries. MERP’s financial statements and required supplementary information are included in the City of Tulsa’s Comprehensive Annual Financial Report (CAFR). The report may be obtained by writing to the City of Tulsa Controller, 175 E. 2nd Street, Tulsa, Oklahoma 74103.

Notes to Financial Statements

June 30, 2015 and 2014

Note P – Retirement Plan and Pension - Continued

2. *Benefits Provided*

MERP provides retirement, disability, and death benefits. Retirement benefits are determined based on the employee's highest 30 months of pensionable wages during the last five-years of service and a multiplier based on the years of service. Employees are eligible for full retirement at age 65 and at least 5 years of service or when the years of service plus the employee's age equals or exceeds 80. Reduced benefits are available after age 55 and 5 years of service (Early retirement). Benefits for Early retirement are reduced 2.5% per year prior to age 65. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as normal retirement with additional service credited during the period of disability. Death benefits for vested participants are, at the spouse's election, a refund of contribution plus interest or a life annuity of 50% of the member's accrued benefit determined based on final average earnings and service as of the date of death.

3. *Contributions*

Contributions are set per City of Tulsa ordinance. Employees are required to contribute 6.5 percent of their pensionable wages for the year ended June 30, 2015. The Library is required to contribute 11.5 percent of pensionable wages for the year ended June 30, 2015. Contributions to the pension plan from the Library were \$1,707,789 for the year ended June 30, 2015.

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

At June 30, 2015, the Library reported a liability of \$12,562,128 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. Standard update procedures were used to roll forward the total pension liability to June 30, 2015. The Library's proportion of the net pension liability was based on the Library's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2015, the Library's proportion was 10.0293 percent, which was an increase of 0.0644 from its proportion measured as of June 30, 2014.

Notes to Financial Statements

June 30, 2015 and 2014

Note P – Retirement Plan and Pension - Continued*4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued*

For the year ended June 30, 2015, the Library recognized pension gain of \$497,221. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual plan experience | \$ - | \$ 775,505 |
| Changes of assumptions | - | 4,309,755 |
| Net difference between projected and actual earnings on pension plan investments | 1,768,480 | 1,934,795 |
| Changes in proportion and differences between Library's contributions and proportionate share of contributions | 99,342 | - |
| Total | <u>\$ 1,867,822</u> | <u>\$ 7,020,055</u> |

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

Year ended June 30:

| | |
|------|-----------------------|
| 2016 | \$ (1,798,553) |
| 2017 | (1,798,553) |
| 2018 | (1,798,552) |
| 2019 | 243,425 |
| | <u>\$ (5,152,233)</u> |

5. Actuarial Assumptions

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

| | |
|---------------------------|---|
| Inflation | 3.25 percent |
| Salary increases | 4.25 to 13.70 percent, including inflation |
| Investment rate of return | 7.75 percent compounded annually, net of investment expense and including inflation |

Mortality rates were based on the 1994 Group Annuity Mortality Tables, set forward 2 years for males and one year for females.

Notes to Financial StatementsJune 30, 2015 and 2014

Note P – Retirement Plan and Pension - Continued*5. Actuarial Assumptions - Continued*

The actuarial assumptions used in the January 1, 2015 valuation were based on the results of an actuarial experience study for the four-year period ending December 31, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|------------------------------|---|
| Fixed income | 34% | 1.75% |
| Domestic equity | 31% | 7.04% |
| International equity | 21% | 7.10% |
| Real estate | 7% | 5.15% |
| Commodities | 3% | 0.50% |
| Timber | 4% | 4.65% |
| Total | <u>100%</u> | |

6. Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Library will be made as specified in the MERP funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to Financial StatementsJune 30, 2015 and 2014

Note P – Retirement Plan and Pension - Continued*7. Sensitivity of the Library's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Library's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Library's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|--------------------------------|--|--------------------------------|
| Library's proportionate share of the net pension liability | \$ 18,451,928 | \$ 12,562,128 | \$ 7,540,863 |

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the City of Tulsa's Comprehensive Annual Financial Report, which can be located at www.cityoftulsa.org.

**Discretely Presented
Component Unit**

Tulsa Library Trust (Discretely Presented Component Unit of Tulsa City-County Library)

Statements of Financial Position

June 30,

| | 2015 | 2014 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 189,878 | \$ 651,126 |
| Restricted cash | 1,544,530 | - |
| Accrued interest receivable | 20,589 | 15,959 |
| Pledges receivable | 2,739,251 | 8,855,910 |
| Total current assets | 4,494,248 | 9,522,995 |
| Non-current assets | | |
| Investments | 39,120,255 | 27,392,172 |
| Pledges receivable, less current portion | 4,210,215 | 7,477,535 |
| Total non-current assets | 43,330,470 | 34,869,707 |
| Total assets | \$ 47,824,718 | \$ 44,392,702 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 2,388,113 | \$ 29,065 |
| Due to Tulsa City-County Library | 166,252 | 103,945 |
| Total current liabilities | 2,554,365 | 133,010 |
| Net Assets | | |
| Unrestricted | 3,462,776 | 3,677,356 |
| Temporarily restricted | 34,454,573 | 33,337,818 |
| Permanently restricted | 7,353,004 | 7,244,518 |
| Total net assets | 45,270,353 | 44,259,692 |
| Total liabilities and net assets | \$ 47,824,718 | \$ 44,392,702 |

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

Tulsa Library Trust (Discretely Presented Component Unit of Tulsa City-County Library)

Statements of Activities

Years Ended June 30,

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Change in unrestricted net assets | | |
| Revenues: | | |
| Contributions | \$ 70,809 | \$ 58,854 |
| Special activities and other | 72,053 | 44,164 |
| Investment income | 196,889 | 1,142,504 |
| Net assets released from restriction | 9,333,282 | 1,017,917 |
| Total operating revenues and support | <u>9,673,033</u> | <u>2,263,439</u> |
| Expenses: | | |
| Program | 1,375,599 | 1,107,341 |
| Capital expenditures for benefit of Tulsa City-County Library | 8,303,461 | - |
| Management and general | 67,920 | 82,640 |
| Fundraising | 140,633 | 227,830 |
| Total operating expenses | <u>9,887,613</u> | <u>1,417,811</u> |
| Increase (decrease) in unrestricted net assets | <u>(214,580)</u> | <u>845,628</u> |
| Change in temporarily restricted net assets | | |
| Capital campaign contributions | 1,590,640 | 24,649,891 |
| Transfer from TCCL for renovation of central library. | 7,500,000 | - |
| Contributions | 834,664 | 168,466 |
| Special activities and other | 22,038 | 23,802 |
| Grants | 267,014 | 218,946 |
| Investment income | 235,681 | 1,266,496 |
| Net assets released from restriction | <u>(9,333,282)</u> | <u>(1,017,917)</u> |
| Increase in temporarily restricted net assets | <u>1,116,755</u> | <u>25,309,684</u> |
| Change in permanently restricted net assets | | |
| Contributions | 108,486 | 6,208 |
| Investment income | - | 111,648 |
| Increase in permanently restricted net assets | <u>108,486</u> | <u>117,856</u> |
| Increase in net assets | <u>1,010,661</u> | <u>26,273,168</u> |
| Net assets, beginning of year | <u>44,259,692</u> | <u>17,986,524</u> |
| Net assets, end of year | <u>\$ 45,270,353</u> | <u>\$ 44,259,692</u> |

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

Tulsa Library Trust (Discretely Presented Component Unit of Tulsa City-County Library)

Statements of Cash Flows

Years Ended June 30,

| | 2015 | 2014 |
|--|--------------|--------------|
| Cash flows from operating activities | | |
| Cash received from: | | |
| Contributions and special activities | \$ 776,578 | \$ 480,067 |
| Investment income | 278,663 | 338,446 |
| Total receipts | 1,055,241 | 818,513 |
| Cash paid for: | | |
| Library books and records | 274,548 | 140,731 |
| Library personnel | 482,697 | 404,560 |
| Special programs/summer reading program | 366,994 | 329,327 |
| Distinguished author series | 52,500 | 94,553 |
| Capital contributions | - | 12,947 |
| Children's and literacy book distributions | 98,809 | 69,563 |
| Other | 235,450 | 274,214 |
| Total disbursements | 1,510,998 | 1,325,895 |
| Net cash provided by (used in) operating activities | (455,757) | (507,382) |
| Cash flows from investing activities | | |
| Proceeds from the sale of marketable investments | 16,391,873 | 9,574,861 |
| Purchases of marketable investments | (27,970,679) | (19,293,465) |
| Net cash used in investing activities | (11,578,806) | (9,718,604) |
| Cash flows from financing activities | | |
| Contributions to endowment | 108,486 | 6,208 |
| Capital campaign contributions | 11,464,619 | 10,785,641 |
| Transfers from TCCL for renovation of central library | 7,500,000 | - |
| Capital expenditures for renovation of central library | (5,955,260) | - |
| Net cash provided by financing activities | 13,117,845 | 10,791,849 |
| Net increase in cash | 1,083,282 | 565,863 |
| Cash at beginning of year | 651,126 | 85,263 |
| Cash at end of year | \$ 1,734,408 | \$ 651,126 |

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

Tulsa Library Trust (Discretely Presented Component Unit of Tulsa City-County Library)

Statements of Cash Flows - Continued

Years Ended June 30,

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Reconciliation of increase in net assets to cash used in operating activities: | | |
| Increase in net assets | \$ 1,010,661 | \$ 26,273,168 |
| Adjustments to reconcile to increase in net assets to cash provided by (used in) operating activities: | | |
| Net realized and unrealized gain on marketable investments | (149,277) | (2,234,204) |
| Capital campaign contributions | (1,590,640) | (24,649,891) |
| Transfer from TCCL for renovation of central library. | (7,500,000) | - |
| Endowment contributions | (108,486) | (6,208) |
| Capital expenditures for renovation of central library | 8,303,461 | - |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable | (4,630) | 7,837 |
| Pledges receivable | (490,000) | 10,000 |
| Accounts payable | 10,847 | 2,214 |
| Amounts due to Tulsa City-County Library | 62,307 | 89,702 |
| Net cash provided by (used in) operating activities | <u>\$ (455,757)</u> | <u>\$ (507,382)</u> |

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

Notes to Financial Statements

June 30, 2015 and 2014

Note A – Entity, Mission and Summary of Significant Accounting Policies

The Friends of the Tulsa City-County Library, Inc. created the Library Trust (the “Trust”) on July 20, 1972 to receive and administer endowments to and for the benefit of the Tulsa City-County Library System (the “System”). The purpose of the Trust is to increase endowments and donor funding to improve and enhance the System’s programs, collections, services and librarian training and advance literature and library science. The Library is the primary beneficiary of the income of the Trust. The Trust is governed by a board of eleven trustees (the “Trustees”).

The accompanying financial statements of the Trust are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) as prescribed by the FASB *Accounting Standards Codification* (see Note I). Resources and net assets are classified in the financial statements based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Trust and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Trust.

Within the Trust’s restricted net asset amounts, the following donor-related funds are maintained:

- Special Programming and Grant Fund – This fund consists of various special funds and grants donated for special programming or projects that generally last less than one year in length.
- National Endowment for the Humanities Challenge Grant Fund – The grant allows the Library to pursue its commitment to fulfill, and excel in, its role as the community’s center for the exploration of the humanities, using earnings from the grant and matching contributions. The grant of \$250,000 was matched by non-federal contributions on a three-to-one basis, for total matching contributions of \$750,000.
- Ruth G. Hardman Literacy Fund – This fund is designated to enhance the Library’s literacy services and resources.
- Zarrow Award for Young Readers’ Literature Fund – This fund is designed to provide a cash award to the recipient of the annual Anne V. Zarrow Award for Young Readers’ Literature, presented each year by the Trust and its beneficiaries.

Notes to Financial Statements

June 30, 2015 and 2014

Note A – Entity, Mission and Summary of Significant Accounting Policies - Continued

- Ethel F. Crate Fund – This fund is designed to purchase classical music, art and literature for the Library.
- Aaronson Lecture Series Fund – This fund was established in 1998 by a transfer of funds from the Arts and Humanities Council. This fund is designed to support a lecture program for the City of Tulsa, which is now part of the Oklahoma Conference for Community Justice's Annual Trialogue Series.
- Peggy V. Helmerich Special Library Project Fund – This fund is designed to provide for special projects decided upon each year by the Library director and Peggy V. Helmerich or her heirs, using income from the contribution. The contribution to establish the fund has been designated by the donor to function as an endowment.
- Peggy V. Helmerich Distinguished Author Award Fund – This fund is designed to provide a cash award to the recipient of the annual Peggy V. Helmerich Distinguished Author Award presented each year by the Trust and its beneficiaries, using income from the contribution. The contribution to establish the fund has been designated by the donor to function as an endowment.
- Peggy V. Helmerich Library Landscape Fund – This fund is designed to provide maintenance of the landscaping and beautification of the grounds and properties of the Peggy V. Helmerich Library and other libraries, using income from the contribution. The contribution to establish the fund has been designated by the donor to function as an endowment.
- Peggy V. Helmerich Fund – This fund is designed to purchase family-related and religiously oriented material for the Library's collections, using earnings from the contribution. The contribution to establish the fund has been designated by the donor to function as an endowment.
- Warren M. Stroud Fund – This fund is designed to purchase books in the fields of the arts and music.
- Lillian Norberg Endowment Fund – This endowment began with a \$5,000 contribution from the Friends of the Tulsa City-County Library in honor of Lillian Norberg. Each year, the Friends will submit project suggestions regarding the use of the expendable earnings.
- Allie Beth Martin Scholarship Fund – This fund is designed to provide financial grant assistance to residents of Oklahoma who wish to take graduate level courses leading to a Masters Degree in Library Science.
- American Indian Festival of Words – This fund is designed to provide an annual award, which honors the finest in American Indian writing or a circle of honor recognition to an American Indian role model. Annual programming is included.
- Marcus R. Tower Service Award Fund – This fund is designed to provide for the annual Marcus R. Tower Service Award to a community volunteer working on behalf of libraries and literacy.

Notes to Financial Statements

June 30, 2015 and 2014

Note A – Entity, Mission and Summary of Significant Accounting Policies - Continued

- American Society for Non-Destructive Testing Fund (“ASNT”) – This fund is designed to purchase materials, which are decided annually by the ASNT Advisory Committee and TCCL staff. The contribution to establish the fund has been designated by the donor to function as an endowment.
- Capital Campaign – This fund is designed to provide funds to aid in the renovation of the Central Library.

Other significant policies include:

1. *Cash and Cash Equivalents* – Cash and cash equivalents include cash on deposit in demand and interest bearing accounts with an initial maturity of three months or less. Excess deposits are swept into a money market mutual fund that is not insured by the Federal Deposit Insurance Corporation (FDIC).
2. *Contributions* – Contributions, including unconditional promises to give, are recognized as revenues in the period received or promised. Contributions are recorded at the fair value at the time the promise is made. Conditional promises to give are not recorded until conditions are substantially met.
3. *Pledges Receivable* – In 2013, the Trust implemented a capital campaign to raise funds to renovate the Central Library. Pledges are recorded at their fair value at the time the promise is made.

The pledges are expected to be collected over a five-year period from the date the pledge was received. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

The Trust evaluated its outstanding pledges at June 30, 2015 and determined an allowance for uncollectible pledges was not considered necessary.

4. *Contributions to Endowment Funds* – The Trust received contributions of approximately \$108,000 to be restricted to the endowment for the year ended June 30, 2015.
5. *Investments* – Investments in marketable securities with readily determinable fair values and all investments in debt and equity securities are reported at their fair values in the statement of financial position. The Trust reports all investments for which a quoted market price is available at fair value based upon information obtained from published sources. Investments include a managed cash fund of a bank’s trust department.

Notes to Financial Statements

June 30, 2015 and 2014

Note A – Entity, Mission and Summary of Significant Accounting Policies - Continued

6. *Income Taxes* – The Trust is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, consequently, no provision for income taxes has been included in the accompanying basic financial statements.
7. *Use of Estimates* – The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
8. Investment income consists of interest, dividend and realized and unrealized gains.
9. *Subsequent Events* – The Trust has evaluated subsequent events through May 9, 2016, the date which the financial statements were available to be issued.
10. *Reclassification* – Certain prior year amounts have been reclassified to conform to the current year's presentation. The reclassifications had no effect on the previously reported increase in net assets.

Note B – Investments

Investments consist of the following at June 30, 2015 and 2014:

| | 2015 | | 2014 | |
|---|----------------------|----------------------|----------------------|----------------------|
| | Fair Value | Cost | Fair Value | Cost |
| Equity securities | \$ 11,240,788 | \$ 7,721,611 | \$ 11,553,420 | \$ 7,465,576 |
| Managed cash fund | 23,286,894 | 23,286,894 | 11,396,354 | 11,396,354 |
| Governmental agency, corporate obligations and fixed income funds | 4,592,573 | 4,613,626 | 4,442,398 | 4,390,856 |
| | <u>\$ 39,120,255</u> | <u>\$ 35,622,131</u> | <u>\$ 27,392,172</u> | <u>\$ 23,252,786</u> |

The Trust has retained several outside investment management firms to provide for investment of the monies of the Trust except for a small amount of cash. Bank of Oklahoma is the custodian of all cash and investments.

The general investment policy shall be to diversify investments among both equity and fixed income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. Funds received from the capital campaign are maintained in a managed cash fund which seeks current income with liquidity and stability of principal.

Tulsa Library Trust (Discretely Presented Component Unit of Tulsa City-County Library)

Notes to Financial Statements

June 30, 2015 and 2014

Note B – Investments - Continued

The composition of the Trust's investments is as follows:

| | Fair Value | Cost |
|-------------------------------|----------------------|----------------------|
| Cavanall Hill Cash Management | \$ 23,286,894 | \$ 23,286,894 |
| U.S. Treasuries | 924,260 | 898,339 |
| U.S. Agencies | 186,230 | 179,740 |
| Corporate Bonds | 405,924 | 386,046 |
| Mutual Fund - Fixed | 3,076,158 | 3,149,498 |
| Domestic Stocks - Mutual Fund | | |
| Large Cap | 4,169,334 | 3,005,639 |
| Mid-Cap | 2,266,780 | 839,255 |
| Small Cap | 2,356,941 | 1,480,118 |
| International | 2,447,734 | 2,396,599 |
| Total Investments | <u>\$ 39,120,255</u> | <u>\$ 35,622,128</u> |

Investments listed above with specific maturities are as follows:

| | Investment Maturities (in Years) | | | | |
|-----------------|----------------------------------|-------------|-------|-------|--------------|
| | Fair Value | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. Treasuries | \$ 924,260 | 0.0% | 34.0% | 44.0% | 21.0% |
| U.S. Agencies | 186,230 | 0.0% | 0.0% | 1.0% | 99.0% |
| Corporate Bonds | <u>405,924</u> | 0.0% | 0.0% | 0.0% | 100.0% |
| Total | <u>\$ 1,516,414</u> | 0.0% | 21.0% | 27.0% | 52.0% |

The Trust believes that the asset allocation decision significantly affects the long-term rate of return and volatility of the fund. The asset allocation of the investment funds should reflect a proper balance of the Trust objectives regarding return, risk, spending policy and liquidity. The target asset mix that will be consistent with the achievement of these long-term objectives will be a balanced investment approach.

Notes to Financial Statements

June 30, 2015 and 2014

Note B – Investments - Continued

Based on the Trust assessment of their objectives, the investment funds shall have an overall target asset allocation of 70 percent in equities and 30 percent fixed income, and be invested in the major asset classes as follows:

| | Minimum | Target | Maximum | Representative Index |
|------------------------|---------|--------|---------|------------------------------|
| U.S. Equities | 52% | 55% | 58% | Russell 3000 |
| International Equities | 12% | 15% | 18% | MSCI EAFE |
| Fixed Income* | 27% | 30% | 33% | Lehman Aggregate Bond |
| Cash | 0% | 0% | 5% | Salomon 91-day Treasury Bill |

*This target asset allocation may include both U.S. and international fixed income. During the process of Investment Manager selection, the specific investment guidelines and performance objectives, including target asset mix between U.S. and international fixed income, will be established.

It is the Trust's policy to rebalance to its target asset allocation on a uniform basis so as not to cause undue expense to be allocated to the portfolio. It is the Trust's policy to review rebalancing the portfolio at least annually or sooner if desired by the person(s) charged with the oversight of the portfolio's investments. The method of rebalancing will be based on the "tolerance" rebalancing formula, which generally states that the portfolio will be rebalanced if the target asset allocation goes beyond the stated tolerance for any particular asset class.

As an example, if the target allocation for U.S. Equities is 55 percent with a 3 percent tolerance, then no rebalancing would be required under this investment policy if the range for equity investments remained within a 52 percent to 58 percent range; otherwise, management is required to direct the investment manager(s) to rebalance the portfolio to within target limits. Further, at least annually (usually corresponding to the year-end report to the Trust), the Trust will review these rebalancing ranges to assure that they remain reasonable and workable within the context of the goals of the endowment.

Investment Risk Disclosures

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Trust's investing activities are approved by the Board of Trustees and managed under the custody of the Bank of Oklahoma. Investing is performed in accordance with investment policies adopted by the Board of Trustees and complies with the Investment Policies adopted.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Trusts' investment in a single issuer. Excluding mutual funds, the Trust's corporate bonds were less than 5 percent of the total portfolio.

Notes to Financial Statements

June 30, 2015 and 2014

Note B – Investments - Continued

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 rate changes. The Trust's investment policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board of Trustees has stated in the Policy the guidelines for the international equity portfolio manager. The constraints on the international equity portfolio manager are to diversify internationally across the global equity markets. The manager is required to invest in a prudent manner and to operate under the restrictions indicated in their prospectus. These include: regional constraints, diversification requirements and the type of securities held.

The Trust's international equity portfolio comprises approximately 9 percent of the total portfolio investments at fair value as of June 30, 2015. The manager of this pooled portfolio does not hedge the foreign currency risk and the Policy does not require it.

Change in Valuation of the Trust's Investments

During the year ended June 30, 2015, the Trust's investments increased (including investments bought, sold and held during the year) in value and included realized gains of \$356,409 and unrealized gain of \$(288,990).

The calculation of realized gains and losses is independent of the calculation of the changes in the fair value of investments. Realized gains for 2015 include unrealized amounts from the prior periods.

Accounting Standards Codification Topic 820, *Fair Value Measurement and Disclosures* (ASC 820) defines fair value and establishes a consistent framework for measuring fair value. These inputs are summarized in the three broad levels listed below:

- Level 1 - Quoted prices in active markets for identical securities
- Level 2 - Other significant observable inputs (including quoted prices for similar securities)
- Level 3 - Significant unobservable inputs (including the Trust's own assumptions in determining the value of investments)

Notes to Financial Statements

June 30, 2015 and 2014

Note B – Investments - Continued

The following represents the fair value measurements of assets recognized in the accompanying balance sheets at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2015:

| | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|----------------------------------|--|--|-------------------------------------|
| Common stocks | \$ 706,213 | \$ - | \$ - |
| Miscellaneous equities | 10,534,576 | - | - |
| Treasury bonds | 924,260 | - | - |
| Collateralized mortgage agencies | 39,100 | 99,990 | - |
| Mortgage backed agencies | 47,140 | - | - |
| Corporate bonds | - | 405,924 | - |
| Miscellaneous fixed | 3,076,158 | - | - |
| Managed cash fund | 23,286,894 | - | - |
| | <u>\$ 38,614,341</u> | <u>\$ 505,914</u> | <u>\$ -</u> |

Note C – Pledges Receivable

In 2013, the Trust implemented a capital campaign to raise funds to renovate the Central Library. The pledges are expected to be collected over a five-year period from the date the pledge was received. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Pledges receivable at June 30, 2015 are as follows:

| | |
|---------------------------------|---------------------|
| | 2015 |
| Capital Campaign pledges | \$ 7,298,786 |
| Other pledges | 10,000 |
| | <u>7,308,786</u> |
| Less: discount to present value | <u>(359,320)</u> |
| Net pledges receivable | <u>\$ 6,949,466</u> |

Pledges receivables are due as follows: \$2,739,251 in 2016, \$1,975,069 in 2017, \$1,824,266 in 2018, \$770,100 in 2019, and \$100 in 2020.

Notes to Financial Statements

June 30, 2015 and 2014

Note D – Funds Held by Tulsa Community Foundation

In February 2000, the Trust contracted with the Tulsa Community Foundation (the “Foundation”) to create the Library Books for Children Fund as an agency fund of the Foundation. In June 2002, the Trust contracted with the Foundation to create the Betty Kaiser Library Literacy Fund as another fund of the Foundation. Under the agency fund agreements, a significant portion of donor’s contributions to the funds are intended to remain in the Funds as permanent endowments, with periodic distributions to be made from the Library Books for Children Fund to the Library and from the Betty Kaiser Library Literacy Fund to the Trust in accordance with the Foundation’s spending policy. At June 30, 2015, the fair value of the Library Books for Children Fund and the Betty Kaiser Library Literacy Fund was approximately \$497,000 and \$249,000, respectively. At June 30, 2014, the fair value of the Library Books for Children Fund and the Betty Kaiser Library Literacy Fund was approximately \$497,000 and \$255,000, respectively.

The Foundation holds unilateral power to direct the use of the assets in the funds; therefore, the assets of the funds are not reflected in the accompanying basic financial statements of the Trust. Distributions from the Library Books for Children Fund of \$10,000 and \$10,000 were received by the Library during the fiscal years ended June 30, 2015 and 2014, respectively. There was \$11,552 and \$10,884 in distributions made to the Trust by the Betty Kaiser Library Literacy Fund during the fiscal years ended June 30, 2015 and 2014, respectively.

Note E – Due to Tulsa City-County Library

The Trust reimburses the Tulsa City-County Library (TCCL) for various items that the Library may pay on behalf of the Trust. Amounts outstanding and owed to TCCL for the fiscal year ended June 30, 2015 and 2014 was \$166,252 and \$103,945, respectively. The outstanding balance primarily pertains to books and other materials acquired by TCCL on behalf of the Trust.

Note F – Endowment

The Trust classifies as permanently restricted net assets (a) the original value of gifts donated and (b) the original value of subsequent gifts. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. Appropriations for expenditure from the Endowment are governed in accordance with the Trust’s spending policy.

The Trust’s spending policy is designed to release substantial current income for operating purposes in a stable stream while protecting the value of its invested assets against inflation. The Trust plans to distribute annually 5.5 percent of a trailing three-year (twelve quarter) average of the investment’s total market value, with the understanding that this spending rate, plus the rate of inflation, will not normally exceed the long-term total return earned on such investments. This total return basis for calculating spending is sanctioned by the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), under which guidelines the Trust is permitted to spend an amount in excess of current yield (interest and dividends earned), including realized or unrealized appreciation. The spending policy is applied to endowment contributions consistent with donor stipulations. Periodically the Trust reviews its spending policy to ensure consistency with the overall long-term objectives of the Trust.

Notes to Financial Statements

June 30, 2015 and 2014

Note F – Endowment - Continued

In 2006, percentage caps were put in place to further protect these invested assets. A 6.5 percent floor was established to curb spending in the event that a large drop in the market occurred. A 10 percent ceiling of spending was set as an upward cap to prevent against over-expenditure in years of positive market growth. Both percentages are to be based on the current year market value of the Trust.

Note G – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2015:

| | |
|--|-----------------------------|
| National Endowment for the Humanities Challenge Grant Fund | \$ 2,361,593 |
| Ethel F. Crate Fund | 235,758 |
| Peggy V. Helmerich Fund | 112,858 |
| Allie Beth Martin Scholarship Fund | 68,622 |
| Marcus R. Tower Service Award Fund | 39,176 |
| Warren M. Stroud Fund | 42,695 |
| Peggy V. Helmerich Distinguished Author Award | 425,858 |
| Peggy V. Helmerich Library Landscape Fund | 402,171 |
| Peggy V. Helmerich Special Library Project Fund | 20,235 |
| Ruth G. Hardman Literacy Fund | 686,967 |
| Zarrow Award for Young Readers' Literature Fund | 299,417 |
| American Society for Non-Destructive Testing Fund | 7,015 |
| Aaron Lecture Series Fund | 24,650 |
| Lillian Norberg Endowment Fund | 37,769 |
| Rosetta Mulmed Fund | 15,443 |
| American Indian Festival of Words | 5,170 |
| Special Programming and Grant Fund | 1,121,280 |
| Capital Campaign | 28,547,896 |
| Total temporarily restricted net assets | <u><u>\$ 34,454,573</u></u> |

Temporarily restricted net assets were released from restriction through expenditures for the purposes for which received.

The funds raised in the capital campaign are for a specific portion of the remodeling of the Library's Central Library Building. In connection with that project, in July 2014, the Library entered into a lease purchase agreement and ground lease agreement with the TLT for the Central Library Building. The agreements terminate at the conclusion of the Trusts portion of the remodeling of the building.

Tulsa Library Trust (Discretely Presented Component Unit of Tulsa City-County Library)

Notes to Financial Statements

June 30, 2015 and 2014

Note H – Permanently Restricted Net Assets

Permanently restricted net assets consist of the following at June 30, 2015:

| | |
|--|----------------------------|
| Library Support Fund | \$ 3,546,735 |
| National Endowment for the Humanities Challenge Grant Fund | 1,068,838 |
| Ethel F. Crate Fund | 135,030 |
| Peggy V. Helmerich Fund | 50,938 |
| Allie Beth Martin Scholarship Fund | 11,620 |
| Marcus R. Tower Service Award Fund | 51,225 |
| Warren M. Stroud Fund | 47,872 |
| Peggy V. Helmerich Distinguished Author Award | 350,000 |
| Peggy V. Helmerich Library Landscape Fund | 210,000 |
| Peggy V. Helmerich Special Library Project Fund | 763,760 |
| Ruth G. Hardman Literacy Fund | 805,488 |
| Zarrow Award for Young Readers' Literature Fund | 235,390 |
| American Society for Non-Destructive Testing Fund | 8,000 |
| Aaron Lecture Series Fund | 6,600 |
| Lillian Norberg Endowment Fund | 40,650 |
| Rosetta Mulmed Fund | 20,858 |
| Total permanently restricted net assets | <u><u>\$ 7,353,004</u></u> |

Note I – Change in Accounting Framework

Effective July 1, 2013, the Trust adopted generally accepted accounting principles for not-for-profit organizations as prescribed by the *FASB Accounting Standards Codification (ASC)*, as its accounting framework. Previously, the Trust reported under Governmental Accounting Standards Board (GASB) pronouncements. The Trust elected to make the change as similar organizations report under the FASB accounting framework and as such, the users of its financial statements are more familiar with this framework.

Under ASC 958-205, *Financial Statements of Not-For-Profit Organizations*, the Trust's resources and net assets are classified in the financial statements based on the existence or absence of donor-imposed restrictions according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of July 1, 2013, the Trust restated net assets of \$17,986,524 into the unrestricted, temporarily restricted, and permanently restricted categories totaling \$7,126,662, \$8,028,134 and \$2,831,728, respectively.

**Required
Supplemental Information**

Tulsa City-County Library

Required Supplemental Information

Schedule of Proportionate Share of the Net Pension Liability - last 10 fiscal years*

As of Plan Year-end of June 30,

| | 2015 | 2014 |
|--|---------------|---------------|
| Library's proportion of the net pension liability | 10.03% | 9.96% |
| Library's proportionate share of the net pension liability | \$ 12,562,128 | \$ 11,132,855 |
| Library's covered-employee payroll | \$ 10,920,208 | \$ 10,751,465 |
| Library's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 115.0% | 103.5% |
| Plan fiduciary net position as a percentage of the total pension liability | 77.10% | 79.30% |

* Note - Only the current and prior fiscal years are presented because 10-year data is not available.

Tulsa City-County Library

Required Supplemental Information

Schedule of Contributions - last 10 fiscal years*

June 30,

| | 2015 | 2014 |
|---|---------------|---------------|
| Contractually required contribution | \$ 1,255,824 | \$ 1,236,418 |
| Contribution in relation to contractually required contribution | \$ 1,707,789 | \$ 1,443,144 |
| Contribution deficiency (excess) | \$ (451,965) | \$ (206,726) |
| Library's covered-employee payroll | \$ 10,920,208 | \$ 10,751,465 |
| Contributions as a percentage of covered-employee payroll | 15.6% | 13.4% |

* Note - Only the current and prior fiscal years are presented because 10-year data is not available.

Other Supplemental Information

Tulsa City-County Library

Supplemental Schedule of Capital Assets by Location (Cash Basis)

As of June 30, 2015

| | Land | Construction in Process | Buildings and Improvements | Furniture Fixtures and Equipment | Total Property, Plant and Equipment | Number of Books and Certain Other Library Materials |
|-----------------------------------|--------------|----------------------------|----------------------------------|---|--|---|
| Bixby | \$ 33,751 | \$ - | \$ 308,558 | \$ 131,283 | \$ 473,592 | \$ 26,873 |
| COLS & OS/Bookmobile | - | - | - | 264,639 | 264,639 | - |
| Broken Arrow | 1,341,925 | - | 1,880,153 | 433,488 | 3,655,566 | 60,558 |
| Brookside | 120,678 | - | 691,098 | 202,783 | 1,014,559 | 52,286 |
| Central | 386,873 | 5,602,324 | 7,064,939 | 7,106,686 | 20,160,822 | 639,145 |
| Librarium | - | - | 993,853 | 247,395 | 1,241,248 | 22,217 |
| Charles Page | - | - | 1,104,610 | 154,026 | 1,258,636 | 31,597 |
| Collinsville | 84,990 | - | 1,041,360 | 155,154 | 1,281,504 | 25,694 |
| Kendall-Whittier | 100,000 | - | 678,536 | 147,576 | 926,112 | 32,792 |
| Glenpool | 97,157 | - | 567,929 | 113,565 | 778,651 | 28,885 |
| New HK Kaiser (HKK) | - | - | 7,673,937 | 345,862 | 8,019,799 | 51,924 |
| Hardesty South Regional/Genealogy | 2,225,230 | - | 621,921 | 1,101,218 | 3,948,369 | 125,528 |
| Jenks | 2,407,483 | - | 2,310,720 | 171,897 | 4,890,100 | 35,220 |
| Judy A. Kishner Library (KI) | 105,258 | - | 3,069,989 | 155,661 | 3,330,908 | 18,471 |
| Martin East Regional | 52,680 | - | 496,522 | 701,913 | 1,251,115 | 101,507 |
| Maxwell | - | - | 679,728 | 162,187 | 841,915 | 31,028 |
| Nathan Hale | 50,291 | - | 1,083,522 | 147,796 | 1,281,609 | 30,197 |
| Owasso | 524,197 | - | 1,926,192 | 205,253 | 2,655,642 | 59,305 |
| Peggy Helmerich | 196,044 | - | 581,292 | 274,521 | 1,051,857 | 65,267 |
| Pratt | - | - | 2,396,393 | 149,712 | 2,546,105 | 35,082 |
| Rudisill North Regional | - | - | 1,283,954 | 449,965 | 1,733,919 | 52,230 |
| Schusterman-Benson | 279,445 | - | 493,183 | 225,515 | 998,143 | 50,471 |
| Skiatook | 63,876 | - | 623,132 | 128,417 | 815,425 | 24,294 |
| South Broken Arrow | 74,209 | - | 1,162,492 | 118,387 | 1,355,088 | 44,584 |
| Suburban Acres | - | - | 559,207 | 134,966 | 694,173 | 21,185 |
| Support Service Center | 126,000 | - | 3,084,519 | 1,535,521 | 4,746,040 | - |
| Zarrow Regional Library | 73,699 | - | 2,077,478 | 290,347 | 2,441,524 | 55,328 |
| Totals | \$ 8,343,786 | \$ 5,602,324 | \$ 44,455,217 | \$ 15,255,733 | \$ 73,657,060 | \$ 1,721,668 |

NOTE: The capital assets above are recorded at cost of fair value at date of donation, with the exception of books and certain other library related materials, which are presented as number of units. The schedule is prepared on a cash basis, so it may differ from amounts presented in the accompanying accrual basis government-wide financial statements.

Tulsa City-County Library

Supplemental Schedule of Capital Assets by Location (Cash Basis)

As of June 30, 2014

| | Land | Construction in Process | Buildings and Improvements | Furniture Fixtures and Equipment | Total Property, Plant and Equipment | Number of Books and Certain Other Library Materials |
|------------------------------|--------------|----------------------------|----------------------------------|---|--|---|
| Bixby | \$ 33,751 | \$ - | \$ 287,766 | \$ 116,014 | \$ 437,531 | \$ 28,099 |
| Bookmobile | - | - | - | 271,988 | 271,988 | 35,624 |
| Broken Arrow | 1,341,925 | - | 1,774,218 | 327,685 | 3,443,828 | 64,250 |
| Brookside | 120,678 | - | 687,442 | 202,000 | 1,010,120 | 50,409 |
| Central | 386,873 | 4,465,632 | 7,064,939 | 7,869,691 | 19,787,135 | 636,765 |
| Librarium | - | - | 1,144,052 | 234,051 | 1,378,103 | 21,739 |
| Charles Page | - | - | 1,092,358 | 133,987 | 1,226,345 | 31,645 |
| Collinsville | 84,990 | - | 1,034,717 | 141,915 | 1,261,622 | 26,101 |
| Kendall-Whittier | 100,000 | - | 673,632 | 131,195 | 904,827 | 31,315 |
| Genealogy | - | - | 17,710 | 115,496 | 133,206 | 12,950 |
| Glenpool | 97,157 | - | 561,846 | 98,645 | 757,648 | 28,421 |
| New HK Kaiser (HKK) | - | - | 2,307,063 | 315,641 | 2,622,704 | 50,515 |
| Hardesty South Regional | 2,225,230 | - | 7,607,727 | 865,747 | 10,698,704 | 118,889 |
| Jenks | 2,407,483 | - | 600,554 | 123,721 | 3,131,758 | 36,348 |
| Judy A. Kishner Library (KI) | 105,258 | - | 1,153,894 | 127,993 | 1,387,145 | 20,636 |
| Martin East Regional | 52,680 | - | 3,067,831 | 613,957 | 3,734,468 | 103,974 |
| Maxwell | - | - | 492,865 | 140,970 | 633,835 | 31,143 |
| Nathan Hale | 50,291 | - | 645,527 | 106,293 | 802,111 | 32,654 |
| Owasso | 524,197 | - | 1,077,966 | 189,452 | 1,791,615 | 63,328 |
| Peggy Helmerich | 196,044 | - | 1,902,882 | 262,613 | 2,361,539 | 65,500 |
| Pratt | - | - | 577,590 | 136,144 | 713,734 | 34,370 |
| Rudisill North Regional | - | - | 2,363,327 | 401,816 | 2,765,143 | 52,612 |
| Schusterman-Benson | 279,445 | - | 1,279,050 | 200,094 | 1,758,589 | 52,679 |
| Skiatook | 63,876 | - | 463,265 | 122,985 | 650,126 | 23,930 |
| South Broken Arrow | 74,209 | - | 616,192 | 177,781 | 868,182 | 43,170 |
| Suburban Acres | - | - | 552,099 | 105,603 | 657,702 | 20,066 |
| Support Service Center | 126,000 | - | 3,073,427 | 567,249 | 3,766,676 | - |
| Zarrow Regional Library | 73,699 | - | 2,075,320 | 263,202 | 2,412,221 | 56,443 |
| Totals | \$ 8,343,786 | \$ 4,465,632 | \$ 44,195,259 | \$ 14,363,928 | \$ 71,368,605 | \$ 1,773,575 |

NOTE: The capital assets above are recorded at cost of fair value at date of donation, with the exception of books and certain other library related materials, which are presented as number of units. The schedule is prepared on a cash basis, so it may differ from amounts presented in the accompanying accrual basis government-wide financial statements.



**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 Commission of the
Tulsa City-County Library

We have audited the financial statements of the governmental activities, the discretely presented component unit, and the major fund of Tulsa City-County Library (the Library), as of and for the year ended June 30, 2015, which collectively comprise the Library's basic financial statements and have issued our report thereon dated July 13, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 opinion 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 entity'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.

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 management and the Commission of the Tulsa City-County Library, and is not intended to be and should not be used by anyone other than these specified parties.

Tulsa, Oklahoma
July 13, 2016

Stanfield & O'Sell P.C.