

**PUBLIC LIBRARY OF CHARLOTTE AND
MECKLENBURG COUNTY
(A Component Unit of Mecklenburg
County, North Carolina)**

**BASIC FINANCIAL STATEMENTS AND
ACCOMPANYING INFORMATION**

Year Ended June 30, 2014

And Report of Independent Auditor

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
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Report of Independent Auditor

The Board of Trustees
Public Library of Charlotte and Mecklenburg County
Charlotte, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Public Library of Charlotte and Mecklenburg County (the "Library"), a component unit of Mecklenburg County, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements 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.

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 Library's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Library as of June 30, 2014 and the respective changes in financial position and the respective budgetary comparison for the General Fund and Special Revenue Fund for the 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 management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information, as listed in the table of contents and the Schedule of Expenditures of Federal and State awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act, are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 September 26, 2014, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Bekant LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
September 26, 2014

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
MANAGEMENT’S DISCUSSION AND ANALYSIS

Introduction

As management of the Public Library of Charlotte and Mecklenburg County (the “Library”), we offer readers of the Library financial statements this narrative overview and analysis of the financial activities of Library for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information furnished in the Library’s financial statements, which follow this narrative.

Financial Highlights

- Library assets exceeded liabilities at the close of the fiscal year by \$72 million (net position).
- The Library Foundation raised \$1.2 million dollars in support of Library operations.
- The Library Foundation had a fund balance of \$5.2 million as of June 30, 2014.
- At the close of the fiscal year, the Library’s portion of fund balance not designated for future use was \$3.2 million.
- The operating budget from the Library’s largest revenue source (Mecklenburg County) increased by 5% for fiscal year ended June 30, 2014.
- Actual operating revenues from Mecklenburg County increased by 11% for fiscal year ended June 30, 2014. This included \$2.8 million that Mecklenburg County paid directly on behalf of the Library for maintenance, security services, technology, and equipment.

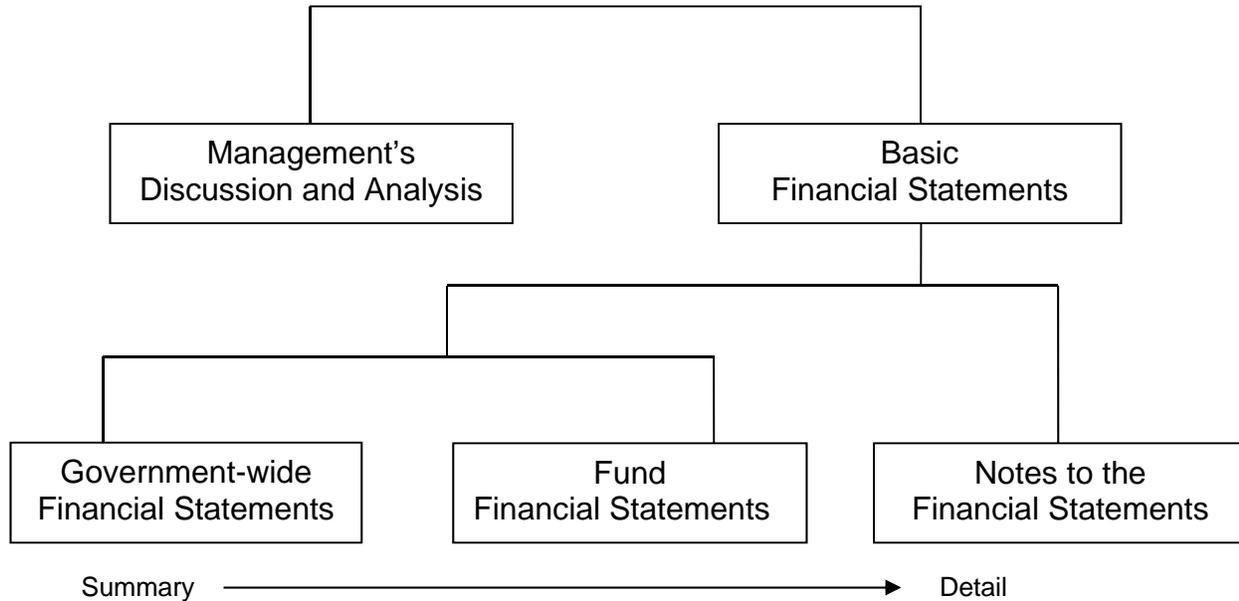
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library’s basic financial statements. The Library’s basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see figure 1). The basic financial statements present two different views of the Library through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader’s understanding of the financial condition of the Library.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
MANAGEMENT’S DISCUSSION AND ANALYSIS

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements** (pages 11 and 12). They provide both short and long-term information about the Library’s financial status.

The next statements are **Fund Financial Statements** (pages 13 – 18). These statements focus on the activities of the individual parts of the Library’s activities. Budgetary information required by the General Statutes also can be found in this part of the statements. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements.

Following the notes is the required supplementary information. This section contains funding information about the Library’s other post-employment benefit plan. Also **accompanying information** is provided to show details about the Library’s governmental funds.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
MANAGEMENT’S DISCUSSION AND ANALYSIS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Library’s finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Library’s financial status as a whole.

The two government-wide statements report the Library’s net position and how it has changed. Net position is the difference between the Library’s total assets plus deferred outflows and total liabilities plus deferred inflows. While total net position would normally reflect the financial position of a government entity, the Library does not include debt associated with the acquisition of land and buildings as, in accordance with North Carolina statutes, Mecklenburg County issues debt for the Library’s capital purposes. The Library does not record the long term liability for debt issued by the County as it is not the obligor on the debt. The Library relies on Mecklenburg County to handle the debt associated with the acquisition and/or construction of capital facilities.

The government-wide statements consist only of governmental activities as the Library does not have any business type activities or discretely presented component units. The governmental activities include most of the Library’s basic services such as general public service and programming. Mecklenburg County’s annual appropriation finances most of these activities.

The government-wide financial statements are on pages 11 and 12 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Library’s most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Library’s budget ordinance. The Library has only one fund type, the governmental fund.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year end that will be available for spending next year. Governmental funds are reported using an accounting method called modified accrual accounting. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Library’s programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
MANAGEMENT’S DISCUSSION AND ANALYSIS

The Library adopts an annual budget for its General Fund and Special Revenue Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County through the County’s budget process, the management of the Library, and the decisions of the Library Board of Trustees about which services to provide and how to pay for them. It also authorizes the Library to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund and Special Revenue Fund demonstrates how well the Library complied with the budget ordinance. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board of Trustees; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund and Special Revenue Fund; and 4) the difference or variance between the final budget and the actual resources and charges. The Foundation is governed by the Financial Accounting Standards Board and is not required by law to adopt a budget.

Notes to Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 19 of this report.

Government-Wide Financial Analysis

As noted earlier, the Library does not issue debt for land or construction of capital facilities. The Library’s net position decreased by \$4.5 million for the fiscal year ended June 30, 2014. The largest portion, \$80.8 million (112%) is the Library’s investment in capital assets (books, land, equipment, and buildings); less any amounts remaining on the leases signed to acquire those items. The Library uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Library’s investment in its capital assets is reported net of the outstanding related debt, much of the debt is handled by Mecklenburg County. An additional portion of the Library’s net position of \$9.5 million (13%) represents resources that are subject to restrictions on how they may be used. The remaining balance of (\$18.3) million is unrestricted.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Public Library of Charlotte and Mecklenburg County's Net Position

Condensed and Rounded to the nearest thousand (000)

Figure 2

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<u>Assets</u>		
Current assets	\$ 9,273	\$ 11,548
Non-current assets	5,197	2,998
Capital assets, net of depreciation	<u>81,394</u>	<u>82,609</u>
Total assets	<u>95,864</u>	<u>97,155</u>
<u>Liabilities</u>		
Current liabilities	2,209	1,913
Long-term liabilities	<u>21,615</u>	<u>18,728</u>
Total liabilities	<u>23,824</u>	<u>20,641</u>
Deferred inflows of resources	<u>-</u>	<u>11</u>
<u>Net Assets</u>		
Net investment in capital assets	80,814	81,861
Restricted	9,518	7,303
Unrestricted	<u>(18,292)</u>	<u>(12,661)</u>
Total net position	<u>\$ 72,040</u>	<u>\$ 76,503</u>

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Public Library of Charlotte and Mecklenburg County's Changes in Net Position

Condensed and Rounded to the nearest thousand (000)

Figure 3

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 1,894	\$ 2,054
Operating grants and contributions	2,014	4,965
General Revenues:		
Mecklenburg County appropriation	29,838	26,873
City of Charlotte	3	3
Contributions to Foundation	758	-
Investment earnings	502	520
ABC Board	369	321
Total revenues	<u>35,378</u>	<u>34,736</u>
<u>Program expenses</u>		
General public services	38,954	36,663
Program/outreach services	524	300
Printing and copying services	326	135
Interest on long-term debt	37	50
Total expenses	<u>39,841</u>	<u>37,148</u>
Change in net position	(4,463)	(2,412)
Net position-beginning of year	<u>76,503</u>	<u>78,915</u>
Net position-end of year	<u>\$ 72,040</u>	<u>\$ 76,503</u>

Net position decreased by \$4.5 million. This is primarily due to a decrease in operating grants that were inflated in fiscal year ended 2013 by a one-time contribution of \$2.9 million from the Foundation for the Carolinas and increased expenses of \$2.7 million associated with increased services. This decrease was partially offset by an increase in funding from Mecklenburg County of \$3 million.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Library's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library's governmental fund types are comprised of the general fund and special revenue funds.

Revenues from intergovernmental sources comprise 91% of total revenues received during the Library's fiscal year ending June 30, 2014 as compared to 83% for fiscal year ending June 30, 2013. Mecklenburg County, the City of Charlotte and the ABC Board comprise 89% of total revenues as of June 30, 2014 as compared to 81% for the fiscal year ending June 30, 2013. The State of North Carolina Revenue Sources total 2%. Revenues generated through fines, fees, charges for services and grants used to cover services account for 7% of total revenue, down from 13% from the prior year. This decrease is driven by the one-time donation of \$2.9 million from the Foundation for the Carolinas given in fiscal year 2013.

Governmental funds expenditures were comprised of the following: Personnel, 67%, Library Collections (books, videos, software for public use, etc.) 10%, General Operations, 19%, and Capital Projects 4%. These percentages are similar to the prior year.

General Fund Budgetary Highlights

The Library's annual balanced budget is prepared on the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of North Carolina General Statutes. The general fund is the most significant fund budgeted.

During the fiscal year, the Library's intention is to amend the general fund budget to reflect current circumstances. The Library Director is authorized to transfer budget amounts up to \$25 thousand without formal approval from the Library's Board of Trustees; and budget transfers over \$25 thousand require Board approval. The general fund, as the primary fund supporting the majority of activities of the Library is monitored by the Finance Director for any shortfalls of revenue or overspending of the budget. Purchase orders are pre-audited to ensure availability of funds for payment when goods or services are delivered.

Adjustments to increase original budget for 2014 totaled \$1.8 million. Adjustments to increase original budgeted revenue for 2013 totaled \$3.3 million. \$1.5 million was transferred to the Foundation in 2014 and \$5.5 million was transferred in 2013.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
MANAGEMENT’S DISCUSSION AND ANALYSIS

Capital Assets and Long-Term Debt Activity

The Library’s investment in capital assets net of accumulated depreciation for governmental activities as of June 30, 2014 and 2013 is \$81.4 million and \$82.6 million respectively. Capital assets include land, buildings and buildings improvements, books furniture and fixtures and construction in progress.

Capital Assets, Net of Depreciation

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Land	\$ 13,523	\$ 13,523
Buildings	59,522	61,345
Books	4,977	4,429
Furniture and fixtures	971	1,198
Intangible assets	233	-
Capital lease	1,978	2,070
Construction in progress	<u>190</u>	<u>44</u>
Total	<u>\$ 81,394</u>	<u>\$ 82,609</u>

In relation to the fixed assets, the Library had total debt outstanding of \$579 thousand. The debt is secured by the related assets of the Library which includes capital lease obligations that decreased by \$169 thousand during the past fiscal year.

Fiscal Year 2014 Highlights

Fiscal year 2014 was a dynamic year for the Library. Highlights include:

- Circulation and Digital Circulation are up 5% and 46% respectively over the prior year.
- The Library received accolades for its Strategic Plan, including a National Association of County’s Achievement Award.
- The Charlotte Mecklenburg Library Foundation (the “Foundation”) formally launched in the fall of 2013.
- The Foundation secured a number of grants in fiscal year 2014, including a 2-year financial literacy grant from PNC Bank.
- Foundation investments increased by \$2.1 million during fiscal year 2014.
- The Library will expand hours in September 2014 to better serve our patrons.

Fiscal year 2015 will be a year of growth in access, innovation, and sustainability for the Library. Library hours are expanding, additional investments are being made in the Library collections, and the implementation of the Library’s digital strategy will begin. The Library will also continue its focus on being an integral part of the literacy development and educational success for the residents of Mecklenburg County through new partnerships with Charlotte Mecklenburg Schools.

Request for Information

This report is designed to provide an overview of the Library’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should contact the Director of Finance, Public Library of Charlotte & Mecklenburg County, 310 N. Tryon St, Charlotte, NC 28202.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 8,201,601
Refundable sales tax	262,863
Other receivables	69,069
Due from other governmental agencies	366,508
Prepays	373,403
Total current assets	<u>9,273,444</u>
Non-current assets	
Restricted long-term investments	5,197,070
Total non-current assets	<u>5,197,070</u>
Capital assets	
Land and other non-depreciable assets	13,713,913
Depreciable capital assets, net of depreciation	67,680,109
Net capital assets	<u>81,394,022</u>
Total Assets	<u>95,864,536</u>
LIABILITIES	
Current liabilities	
Accounts payable-trade	\$ 361,359
Other payables	475,942
Current portion of compensated absences	1,200,000
Current portion of capital lease obligation	171,858
Total current liabilities	<u>2,209,159</u>
Long-term liabilities	
Unearned revenue	928,906
Compensated absences	673,372
OPEB liability	19,605,499
Capital lease obligation	407,430
Total Liabilities	<u>23,824,366</u>
NET POSITION	
Net investment in capital assets	80,814,733
Restricted for:	
Grants	139,099
Stabilization by state statute	1,739,348
Facility enhancements	2,441,778
Endowment funds held by the Foundation	5,197,070
Unrestricted (deficit)	(18,291,858)
Total Net Position	<u>\$ 72,040,170</u>

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/ Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Primary government:				
Governmental activities:				
General public services	\$ 38,953,206	\$ 1,705,014	\$ 2,014,011	\$ (35,234,181)
Program/outreach services	523,821	-	-	(523,821)
Printing and copying services	326,256	189,067	-	(137,189)
Interest on long-term debt	37,216	-	-	(37,216)
Total governmental activities	<u>\$ 39,840,499</u>	<u>\$ 1,894,081</u>	<u>\$ 2,014,011</u>	<u>(35,932,407)</u>
General revenues:				
Mecklenburg County appropriation				29,838,427
City of Charlotte appropriation				2,500
Contributions to Foundation				758,063
Investment earnings				502,242
ABC Board				368,761
Total general revenues				<u>31,469,993</u>
Change in net position				(4,462,414)
Net position-beginning				<u>76,502,584</u>
Net position-ending				<u>\$ 72,040,170</u>

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2014

	(Major) General Fund	(Major) Special Revenue Fund	(Major) Library Foundation Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 5,982,650	\$ 2,218,951	\$ -	\$ 8,201,601
Refundable sales tax	223,641	39,222	-	262,863
Other receivables	49,072	19,997	-	69,069
Due from other governmental agencies	191,604	174,904	-	366,508
Prepays	366,051	7,352	-	373,403
Long-term investments	-	-	5,197,070	5,197,070
Total Assets	\$ 6,813,018	\$ 2,460,426	\$ 5,197,070	\$ 14,470,514
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable-trade	\$ 334,710	\$ 26,649	\$ -	\$ 361,359
Other payables	475,942	-	-	475,942
	<u>810,652</u>	<u>26,649</u>	<u>-</u>	<u>837,301</u>
Fund balances:				
Nonspendable fund balance				
Prepaid expenses	366,051	7,352	-	373,403
Endowments held by the Foundation	-	-	3,196,950	3,196,950
Restricted fund balance				
Grants	129,192	9,907	-	139,099
Contributions held by the Foundation	-	-	2,000,120	2,000,120
Stabilization by state statute	1,495,208	244,140	-	1,739,348
Facility enhancements	66,112	2,375,666	-	2,441,778
Assigned fund balance				
Subsequent year's expenditures	305,679	934	-	306,613
Site improvements	37,311	-	-	37,311
Unassigned fund balance	3,602,813	(204,222)	-	3,398,591
Total Fund Balances	6,002,366	2,433,777	5,197,070	13,633,213
Total Liabilities and Fund Balances	\$ 6,813,018	\$ 2,460,426	\$ 5,197,070	\$ 14,470,514

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
RECONCILIATION OF THE FUND BALANCE OF GOVERNMENTAL
FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

Ending fund balance - governmental funds	\$ 13,633,213
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets	129,759,851
Accumulated depreciation	(48,320,006)
Accumulated amortization	(45,823)
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds	
Compensated absences	(1,873,372)
Capital lease obligations	(579,288)
OPEB obligation	(19,605,499)
Unearned revenue	<u>(928,906)</u>
Net position of governmental activities	<u><u>\$ 72,040,170</u></u>

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2014

	(Major) General Fund	(Major) Special Revenue Fund	(Major) Library Foundation Fund	Total Governmental Funds
Revenues				
Intergovernmental:				
Mecklenburg County Operations	\$ 27,084,630	\$ -	\$ -	\$ 27,084,630
Amounts paid on behalf by				
Mecklenburg County	2,753,797	-	-	2,753,797
ABC Board	368,761	-	-	368,761
City of Charlotte	2,500	-	-	2,500
North Carolina	-	551,724	-	551,724
Federal	-	130,645	-	130,645
Total intergovernmental revenues	<u>30,209,688</u>	<u>682,369</u>	<u>-</u>	<u>30,892,057</u>
Fines, fees and collections	897,086	-	-	897,086
Collections for photocopies	189,067	-	-	189,067
Interest/investment income	32,656	-	469,586	502,242
Contributions	19,362	37,280	758,063	814,705
Book rentals	45,205	-	-	45,205
Book sales	129,528	-	-	129,528
Special events	247,170	-	-	247,170
Miscellaneous	354,267	-	-	354,267
Total revenues	<u>32,124,029</u>	<u>719,649</u>	<u>1,227,649</u>	<u>34,071,327</u>
Expenditures				
Current:				
Personnel	22,903,086	113,985	-	23,017,071
Library materials	2,894,051	563,297	-	3,457,348
Facility maintenance	2,924,745	698	-	2,925,443
Fixed charges	711,132	-	-	711,132
Other	2,666,457	112,128	51,762	2,830,347
Capital outlay:				
Other	1,226,333	54,403	-	1,280,736
Debt service:				
Principal	168,741	-	-	168,741
Interest	37,216	-	-	37,216
Total expenditures	<u>33,531,761</u>	<u>844,511</u>	<u>51,762</u>	<u>34,428,034</u>
Other financing sources (uses)				
Interfund transfer in	219,834	257,059	1,500,000	1,976,893
Interfund transfer out	<u>(1,500,000)</u>	<u>-</u>	<u>(476,893)</u>	<u>(1,976,893)</u>
Excess (deficiency) of revenues over (under) expenditures	(2,687,898)	132,197	2,198,994	(356,707)
Fund balance-beginning	<u>8,690,264</u>	<u>2,301,580</u>	<u>2,998,076</u>	<u>13,989,920</u>
Fund balance-ending	<u>\$ 6,002,366</u>	<u>\$ 2,433,777</u>	<u>\$ 5,197,070</u>	<u>\$ 13,633,213</u>

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
RECONCILIATION OF THE NET CHANGE IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

YEAR ENDED JUNE 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (356,707)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful life.</p>	
Expenditures for capital assets	3,433,236
Less current year depreciation	(4,602,587)
Less current year amortization	(45,823)
<p>The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of the principal of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
Principal payments on capital lease obligations	168,741
OPEB Payments	652,032
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
Compensated absences in excess of benefits used over current provision	(92,748)
OPEB Liability	(3,650,316)
Contributed lease expense	(1,275,000)
<p>Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.</p>	
Deferred revenue amortized	31,758
Contributed lease revenue	1,275,000
	<hr/>
Change in net position of governmental activities	<u><u>\$ (4,462,414)</u></u>

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

(A Component Unit of Mecklenburg County, North Carolina)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental:				
Mecklenburg County				
Operations	\$ 26,495,331	\$ 27,145,205	\$ 27,084,630	\$ (60,575)
Amounts paid on behalf by				
Mecklenburg County	-	23,000	2,753,797	2,730,797
ABC Board	360,000	368,761	368,761	-
City of Charlotte	2,500	2,500	2,500	-
Total intergovernmental revenues	<u>26,857,831</u>	<u>27,539,466</u>	<u>30,209,688</u>	<u>2,670,222</u>
Fines, fees and collections	870,000	870,000	897,086	27,086
Collections for photocopies	162,000	162,000	189,067	27,067
Interest	-	-	32,656	32,656
Contributions	210,000	210,000	19,362	(190,638)
Book rentals	40,000	40,000	45,205	5,205
Book sales	140,000	140,000	129,528	(10,472)
Special events	300,000	300,000	247,170	(52,830)
Miscellaneous	262,000	262,000	354,267	92,267
Total revenues	<u>28,841,831</u>	<u>29,523,466</u>	<u>32,124,029</u>	<u>2,600,563</u>
Expenditures				
Current:				
Personnel	22,112,569	22,729,247	22,903,086	(173,839)
Library materials	3,331,129	3,981,377	2,894,051	1,087,326
Facility maintenance	1,698,819	1,714,276	2,924,745	(1,210,469)
Fixed charges	715,600	712,918	711,132	1,786
Other	2,497,144	2,745,513	2,666,457	79,056
Capital outlay:				
Other	424,970	461,007	1,226,333	(765,326)
Debt service:				
Principal	-	169,000	168,741	259
Interest	-	37,500	37,216	284
Total expenditures	<u>30,780,231</u>	<u>32,550,838</u>	<u>33,531,761</u>	<u>(980,923)</u>
Excess (deficiency) of revenues over (under) expenditures	(1,938,400)	(3,027,372)	(1,407,732)	1,619,640
Other financing sources (uses)				
Interfund transfer in	-	-	219,834	219,834
Interfund transfer out	-	(1,500,000)	(1,500,000)	-
Fund balance appropriated	1,938,400	4,527,372	-	(4,527,372)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(2,687,898)</u>	<u>\$ (2,687,898)</u>
Fund balance-beginning			8,690,264	
Fund balance-ending			<u>\$ 6,002,366</u>	

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental:				
North Carolina	\$ 540,000	\$ 551,721	\$ 551,724	\$ 3
Federal	126,228	223,712	130,645	(93,067)
Total intergovernmental revenues	<u>666,228</u>	<u>775,433</u>	<u>682,369</u>	<u>(93,064)</u>
Contributions	-	27,500	37,280	9,780
Miscellaneous	-	105,350	-	(105,350)
Total revenues	<u>666,228</u>	<u>908,283</u>	<u>719,649</u>	<u>(188,634)</u>
Expenditures				
Current:				
Personnel	96,628	177,009	113,985	63,024
Library materials	564,000	711,819	563,297	148,522
Facility maintenance	-	27,000	698	26,302
Other	5,600	264,672	112,128	152,544
Capital outlay:				
Other	-	54,403	54,403	-
Total expenditures	<u>666,228</u>	<u>1,234,903</u>	<u>844,511</u>	<u>390,392</u>
Excess (deficiency) of revenues over (under) expenditures	-	(326,620)	(124,862)	201,758
Other financing sources (uses)				
Interfund transfer in	-	20,000	257,059	\$ 237,059
Fund balance appropriated	-	(306,620)	-	(306,620)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	132,197	<u>\$ 132,197</u>
Fund balance-beginning			<u>2,301,580</u>	
Fund balance-ending			<u>\$ 2,433,777</u>	

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 1—Summary of significant accounting policies

Reporting Entity – The Public Library of Charlotte and Mecklenburg County (the “Library”) is a public library formed in 1902 by charter granted by the State of North Carolina. The Library is a component unit of Mecklenburg County and is included in Mecklenburg County’s basic financial statements. Mecklenburg County provides approximately 90 percent of the Library’s general funding and appoints a majority of the Library’s 11 Board of Trustees members. As required under generally accepted accounting principles, these financial statements present the Library and its component units, legally separate entities for which the Library is financially accountable. The Charlotte Mecklenburg Library Foundation exists solely to provide financial resources to the Library. The Foundation meets the criteria for being a blended component unit based on the following criteria under Governmental Accounting Standards Board (“GASB”) Statement No. 61 that it has a financial benefit or burden to the Library and Library personnel below the level of elected official have operational responsibility for its operations.

Government-Wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Library. For the most part, the effect of interfund activity has been removed from these statements. The Library does not have any *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The Library has three funds, its general fund and two major special revenue funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – In accordance with North Carolina General Statutes, all funds of the Library are maintained during the year using the *modified accrual basis of accounting*. The government-wide financial statements are reported using the *economic resources measurement focus and accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Library gives (or receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental appropriations, grants and donations. Revenues from intergovernmental appropriations, grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources as are Inter-fund Transfers.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 1—Summary of significant accounting policies (continued)

The Library reports the following major governmental funds:

The *general fund* is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The primary revenue sources are appropriations from Mecklenburg County. The primary expenditures are for personnel, library materials and capital outlay.

The *special revenue funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Generally, proceeds from federal and State grants as well as interfund transfers from the Foundation are accounted for in the Library's Special Revenue Funds.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Budgetary Data – The Library's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and one Major Special Revenue Fund. The Foundation is a non-profit as defined under Internal Revenue Service code 501(c)3. It operates under FASB statements and interpretations and is not required to adopt a budget. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$25,000. The governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Cash and Cash Equivalents – The Library considers all highly liquid investments, including all certificates of deposit, to be cash equivalents.

Restricted Long Term Investments – The restricted long-term investments of \$5,197,070 as of June 30, 2014, are those of the Foundation, a blended component unit of the Library. All of those investments are held by a third-party community foundation. Of those investments \$3,196,950 as of June 30, 2014 are donor-restricted endowments and the Library has been designated as the beneficiary of the income of those endowments. Under the terms of those endowment agreements, the assets are held by a third-party and the annual investment income is distributable to the Library. For the year ended June 30, 2014 the net appreciation on investments of donor-restricted endowments was \$106,098. In some instances, the Library may elect to have the income transferred to the principal of the endowment. These endowments are presented in the Library's Nonspendable Fund Balance.

Non-Current Assets – The Foundation has certain investments that are being held to generate future income, therefore they cannot be converted within a 12-month period.

Other Receivables – Other receivables consist of miscellaneous amounts due from third parties that are all considered collectible within the subsequent year.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 1—Summary of significant accounting policies (continued)

Capital Assets – Capital assets, include land, buildings and improvements, furniture and equipment and intangible assets, and are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at their estimated fair value at the date of donation. The Library capitalizes all library books with a useful life greater than one year. The Library records the purchase of the digital rights to certain author's books that the rights purchased exist in perpetuity as intangible assets. The Library has certain books that are considered historical treasures which are not capitalized and are recorded as expenditures in the year of acquisition. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and building improvements	40 years
Furniture and equipment	5 – 10 years
Books	3 years
Intangible Assets	5 years

Compensated Absences – Vacation and sick time is earned by employees each pay period based on the number of years of their service. Upon termination of an employee, all accrued vacation time and eight hours of every thirty-two hours of accrued sick time is distributed to the employee, calculated on a first-in first-out basis. An expense and a liability for the accumulation of unused vacation and sick leave time is recorded in the government-wide statements. The current portion of this obligation is estimated based upon historical trends. A liability for this amount is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Unearned Revenues – Unearned revenues consist of prepaid lease income (see Note 7).

Net Position and Fund Balance – For the government-wide statements, equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net assets that do not meet the definition of “restricted” or “Net investment in capital assets”.

For the governmental fund financial statements, equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 1—Summary of significant accounting policies (continued)

Net Position and Fund Balance (Continued) –

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

Fund balances are classified as follows:

Non-spendable fund balance – portion of fund balance that cannot be spent because of their form or must be maintained intact.

Prepaid expenses – Portion of Fund Balance that is not an available resource because it represents expenditures for future periods and is not a spendable resource.

Endowments held by the Foundation – This represents the principal portion of gifts that can't be spent because they must be maintained intact.

Restricted fund balance – portion of fund balance that is subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments. It also includes limitations imposed by law through constitutional provisions or enabling legislation.

Stabilization by State Statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Grants – portion of fund balance that is restricted by revenue source for performing programs.

Facility enhancements – portion of fund balance that is restricted by revenue source for the purpose of maintaining and enhancing existing facilities.

Contributions held by the Foundation – This represents the restricted gifts that must be spent for their intended purpose per donor intent.

Assigned fund balance – portion of fund balance whose intended use is established by the official designated by the governing body to encumber funds.

Subsequent year's expenditures – portion of fund balance that is not already in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the Chief Executive Officer to modify the appropriations by function up to \$25,000

Site Improvements – Portion of fund balance that has been assigned for facility improvement and repair.

Unassigned fund balance– portion of total fund balance available for appropriation which is uncommitted at year-end in excess of *nonspendable, restricted, committed, and assigned*.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 1—Summary of significant accounting policies (continued)

Net Position and Fund Balance (Continued) –

The following Schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total Fund Balance-General Fund	\$ 6,002,366
Less:	
Prepaid Expenses	366,051
Stabilization by State Statute	1,495,208
Grants	129,192
Facility Enhancements	66,112
Appropriated Fund Balance in 2015 budget	305,679
Site Improvements	<u>37,311</u>
Remaining Fund Balance	<u>\$ 3,602,813</u>

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year end.

Encumbrances	
<u>General Fund</u>	<u>Special Revenue Fund</u>
\$ 1,030,891	\$ 10,450

Fund Balance Policy - Any amount of funds in the Unassigned Fund Balance in excess of the Established Computation can be used by the Library as approved by the Library’s Board, without limitation, to augment the new fiscal year budget; be transferred to the Charlotte Mecklenburg Library Foundation for investment, with any investment income to be used on behalf of the Library; or be left in the Unassigned Fund Balance.

Risk Management – The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library acquires its risk management services through the City of Charlotte’s Risk Management Division. The Library has commercial general liability insurance of \$1 million per occurrence, worker’s compensation employers’ liability coverage of \$500,000 and public officers’ coverage of \$1 million per loss. There have been no significant reductions in insurance coverage from coverage levels in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years. As of year-end the Library does not hold any flood insurance.

In accordance with G.S. 159-29, the Director of Finance is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

Payments on Behalf – The Library has various construction commitments with respect to branch facilities. Under the terms of its agreement with the County, the County directly pays for the construction expenditures. In accordance with the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Non Exchange Transactions*, the Library reflects those payments made on its behalf as revenue when made and increases the cost of its capital assets by a corresponding amount. The Library has entered into an inter-local agreement with Mecklenburg County that is classified as a *voluntary non-exchange transaction*. Mecklenburg County pays directly for the Library’s security services and maintenance services. The Library recognizes the payments made on our behalf as a revenue and expenditure when made.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 1—Summary of significant accounting policies (continued)

Estimates – The preparation of 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 any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventory – In accordance with the FASB Accounting Standards Codification (“ASC”), the Library uses the purchases method to account for inventory and postage versus the consumption method.

Transfers – Transfers are used to move revenues from the general fund, which are approved by the board, to the unrestricted endowment in the foundation, \$1,500,000 for the year ended June 30, 2014. Transfers are also used to move expenditures from the foundation to either the general fund or special revenue fund, which were incurred related to grants projects, \$219,834 and \$257,059, respectively, a total of \$476,893 for the year ended June 30, 2014.

Stewardship, Compliance and Accountability - For the fiscal year ended June 30, 2014, the expenditures made in the general fund personnel, facility maintenance, and capital outlay classifications exceeded budgeted expenditures by \$173,839, \$1,210,469, and \$765,326, respectively.

Note 2—Deposits and investments

All deposits of the Library are made in board-designated official depositories and are secured as required by State law G.S. 159-31. The Library may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Library may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

All deposits of the Library are insured or collateralized by using the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer’s agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Library, these deposits are considered to be held by the agent in the entity’s name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Library. Under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Library has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Library complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 2—Deposits and investments (continued)

At June 30, 2014, the Library's deposits had a carrying amount of \$8,201,601 and a bank balance of \$9,086,574. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts and for certain qualifying and participating non-interest bearing transaction accounts. Of the bank balance at each bank, \$500,000 was covered by federal depository insurance and \$8,586,574 was covered by collateral held under the pooling method. At June 30, 2014, the Library's petty cash fund totaled \$6,985. Included in the amounts above are money market accounts totaling \$395,565. The Library has no policy for managing interest rate risk or credit risk.

Note 3 – Investments

At June 30, 2014, the Library's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 6 Months</u>	<u>6-12 Months</u>	<u>1-5 Years</u>
Agency funds at Foundation for the Carolinas	<u>\$ 5,197,070</u>	<u>\$ 2,000,120</u>	<u>\$ -</u>	<u>\$ 3,196,950</u>
Total	<u>\$ 5,197,070</u>	<u>\$ 2,000,120</u>	<u>\$ -</u>	<u>\$ 3,196,950</u>

Interest Rate Risk - This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk - This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Foundation does not have custodial credit risk policies for investments.

Credit Risk - Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. The Foundation does not have a policy on credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of a loss attributed to the magnitude of an entity's investment in a single issuer. The Foundation does not have a policy on concentration of credit risk.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 4—Capital assets

Capital Assets Activity for the year ended June 30, 2014 was as follows:

	Beginning Balance June 30, 2013	Additions	Disposals Retirement and Reclassifications	Ending Balance June 30, 2014
Governmental activities:				
Non-depreciable assets				
Land	\$ 13,523,473	\$ -	\$ -	\$ 13,523,473
Construction in progress	44,047	180,535	(34,142)	190,440
	<u>13,567,520</u>	<u>180,535</u>	<u>(34,142)</u>	<u>13,713,913</u>
Depreciable assets				
Buildings and building improvements	90,762,658	366,555	-	91,129,213
Books	18,807,058	2,498,058	(3,074,871)	18,230,245
Furniture and equipment	6,293,228	142,961	(28,977)	6,407,212
	<u>129,430,464</u>	<u>3,188,109</u>	<u>(3,137,990)</u>	<u>129,480,583</u>
Totals at historical cost				
Intangible Assets				
Digital Books	-	279,268	-	279,268
Less accumulated amortization				
Digital Books	-	(45,823)	-	(45,823)
Less accumulated depreciation				
Buildings	(27,348,369)	(2,266,930)	-	(29,615,299)
Books	(14,377,974)	(1,950,015)	3,074,872	(13,253,117)
Furniture and equipment	(5,094,925)	(385,642)	28,977	(5,451,590)
	<u>(46,821,268)</u>	<u>(4,648,410)</u>	<u>3,103,849</u>	<u>(48,365,829)</u>
Total accumulated amortization and depreciation				
Capital assets, net	<u>\$ 82,609,196</u>	<u>\$ (1,181,033)</u>	<u>\$ (34,141)</u>	<u>\$ 81,394,022</u>

Included in buildings are assets under capital lease that had a cost basis and accumulated depreciation of \$3,147,095 and \$1,169,036, respectively, at June 30, 2014. All depreciation expense was charged to general public service on the Statement of Activities. Additions to capital assets include approximately \$484,313 of buildings and equipment transferred to the Library from Mecklenburg County through capital reserve funding. Mecklenburg County obtained the funds to purchase these assets through the issuance of general obligation bonds and certificates of participation, which are an obligation of Mecklenburg County and not the Library.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 5—Long-term obligations

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance June 30, 2013	Additions	Retirements	Ending Balance June 30, 2014	Due Within One Year
Compensated absences	\$ 1,780,624	\$ 1,418,842	\$ 1,326,094	\$ 1,873,372	\$ 1,200,000
Capital lease obligation	748,029	-	168,741	579,288	171,858
OPEB Liability	16,607,215	3,650,316	652,032	19,605,499	-
	<u>\$ 19,135,868</u>	<u>\$ 5,069,158</u>	<u>\$ 2,146,867</u>	<u>\$ 22,058,159</u>	<u>\$ 1,371,858</u>

Note 6—Leases

The Library leases certain facilities under lease agreements having initial terms of three to fifty years. The Library lease agreements include scheduled rent increases which management believes are intended to cover economic factors related to the underlying property, such as property value appreciation and inflation.

Two of the branch facility leases have been classified as capital leases. Monthly lease payments of \$1,500 are required on the first capital lease until September 2045. The second capital lease requires monthly payments, which are changed annually (ranging from \$17,051 to \$6,560), through June 2018. Beginning July 2018 through July 2051 the annual lease payment is \$1.

Total rent expenses for all leases amounted to approximately \$674,417 during the 2014 fiscal year. The following is a summary of the future minimum lease payments under the capital leases together with the present value of net minimum lease payments and approximate future minimum rental commitments under noncancelable operating leases with initial or remaining terms of one year or more as of June 30, 2014:

<u>Year ending June 30:</u>	<u>Capital</u>	<u>Operating</u>
2015	\$ 196,210	\$ 347,232
2016	172,696	347,340
2017	80,223	314,308
2018	206,109	254,739
2019	1,501	193,372
2020-2024	7,505	225,608
2025-2029	7,505	5
2030-2034	7,505	5
2035-2039	7,505	5
2040-2044	7,505	5
2045-2049	1,881	2
2050-2051	2	-
Total minimum payments	<u>696,147</u>	<u>\$ 1,682,621</u>
Less amounts representing interest	<u>(116,859)</u>	
Present value of net minimum capital lease payments	<u>\$ 579,288</u>	

Total interest costs for the year ended June 30, 2014, were \$37,216, relating to the capital lease obligations.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 7—Lease revenue

The Library has an informal leasing arrangement with the City of Charlotte (the “City”) that relates to a joint venture project. The joint venture project was the construction of a building that incorporates a police station with a library branch. The Library and City agreed to share the cost of the construction, with the Library’s portion being funded by Mecklenburg County. The City has paid the Library approximately \$1.30 million related to the arrangement. The payments from the City were recorded by the Library as unearned revenue. The Library is amortizing the prepayment on a straight line basis over the life of the building, which is estimated at 40 years. Rental income recognized in 2014 was \$31,758. Rental income is to be recognized as follows:

<u>Year ending June 30:</u>	
2015	\$ 31,758
2016	31,758
2017	31,758
2018	31,758
2019	31,758
2020-2024	158,790
2025-2029	158,790
2030-2034	158,790
2035-2039	158,790
2040-2044	134,956
	<u>\$ 928,906</u>

Note 8—Retirement plan

Plan Description – The Library contributes to the Statewide Local Governmental Employees’ Retirement System (the “LGERS”), a cost-sharing, multiple employer, defined benefit pension plan administered by the State of North Carolina covering substantially all of the Library’s permanent employees. LGERS provides retirement and disability benefits to plan members and beneficiaries. The benefits are based on minimum age and service requirements. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (“CAFR”) for the State of North Carolina. The State’s CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, NC 27699-1410, or by calling (919) 981-5454.

Funding Policy – The Library’s total payroll for the year ended June 30, 2014, was \$16,313,044 of which \$15,182,660 was covered under this plan. Plan members (covered employees) are required to contribute six percent of their annual covered salary. Plan members’ contributions to LGERS for the year ended June 30, 2014, totaled \$910,960, which equaled the Plan members’ required contributions for the year. The Library is required to contribute an actuarially determined rate. For the Library, the current rate is 7.07 percent of annual covered payroll. The Library’s contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$1,074,938, \$894,583, and \$879,948, respectively, which equaled the Library’s required contributions in each year.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 9—Employee benefit plan

Through the State of North Carolina the Library provides a supplemental income plan to substantially all employees. This plan is a 401(k) savings plan under the Internal Revenue Code (the “IRC”) code. Eligible participants may contribute up to the maximum allowable under law as a percent of base salary. For the year ended June 30, 2014, the Library matched 100 percent of employee contributions up to five percent of compensation. Total expense relating to this plan was \$386,217 for the year ended June 30, 2014.

Note 10—Deferred compensation plan

The Library offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all permanent employees who contribute to the plan, permits employees to defer a portion of their salary until future years. The compensation so deferred is not available to employees until termination, retirement, death, unforeseen emergency or until the employee attains age 55. The compensation deferred by employees for the year ended June 30, 2014, was \$260.

Note 11—Other post-employment benefits (“OPEB”)

Healthcare Benefits

Plan Description – The amount of postretirement health care benefits paid by the Library is dependent upon the length of service rendered by the employee if their date of hire was prior to July 1, 2010. If a retiree worked less than ten years, no amount is paid. If a retiree worked ten to nineteen years, 50 percent of insurance costs are paid. For twenty years or more of service, 100 percent of insurance costs are paid.

Funding Policy – The Library pays the full cost of coverage for the benefits paid to qualified retirees under the plan. The Library has chosen to fund the healthcare benefits on a pay as you go basis. Funding for these costs is included in budgeted appropriations in the annual budget. The cost of these benefits recognized as an expenditure for fiscal year ended June 30, 2013, was approximately \$769,809 for the one hundred and two retirees covered. The current ARC rate is 30% of annual covered payroll. For the current year, the Library contributed \$652,032 or 5% of covered payroll.

Summary of Significant Accounting Policies – Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administrative costs. These expenditures are paid as they come due.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 11—Other post-employment benefits (“OPEB”) (continued)

Annual OPEB Cost and Net OPEB Obligation – The Library’s annual OPEB cost is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Library’s OPEB cost for the year, the amount actually contributed to the plan, and changes in the Library’s net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 4,009,659
Interest on net OPEB obligation	582,198
Adjustment to annual required contribution	<u>(941,541)</u>
Annual OPEB cost	3,650,316
Contributions made	<u>(652,032)</u>
Increase (decrease) in net OPEB obligation	2,998,284
Net OPEB obligation, beginning of year	<u>16,607,215</u>
Net OPEB obligation, end of year	<u><u>\$ 19,605,499</u></u>

The Library’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2013, and 2014 were as follows:

<u>For Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 3,023,920	19.53%	\$ 12,756,139
2013	4,647,885	17.14%	16,607,215
2014	3,650,316	17.87%	19,605,499

Funded Status and Funding Process – As of January 1, 2013, the most recent actuarial valuation date the plan was not funded. The actuarial accrued liability for benefits and thus, the unfunded actuarial accrued liability (“UAAL”) was \$40,681,887. The covered payroll (annual payroll of active employees by the plan) was \$13,262,181 and the ratio of the UAAL to the covered payroll was 307%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employees, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as the actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Note 12—Other post-employment benefits (death benefit plan)

The Library has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System ("Death Benefit Plan"), a multiple employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Library has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Library considers these contributions to be immaterial.

Note 13—Major supplier

For the year ended June 30, 2014, approximately 38 percent of all books and related items were purchased from one supplier.

Note 14—Contributed rent revenue

The Library has entered into an agreement with the Children's Theatre of Charlotte, Inc. ("CTC") regarding the occupancy of ImaginOn: The Joe & Joan Martin Center ("ImaginOn"). This agreement provides lease terms and an operating agreement beginning May 2005, with an initial lease term of 20 years with 6 successive options to renew and extend the agreement for a period of 5 years each. Under this agreement, CTC has access to the theatres, classrooms and office space for \$1, upon execution of the agreement, and agree to share in 50% of the operating costs of the facility.

Estimating the fair value of the lease at \$25 per square foot, based on a furnished and equipped special purpose facility, and using a 5% discount rate, a net present value was calculated in the amount of \$19,087,608 at the inception of the agreement. Based on this calculation, the total annual value of the lease agreement is estimated at \$1,275,000. The estimated lease value for the year ending June 30, 2014, is \$1,275,000.

The Library recorded contributed rent revenue and corresponding contributed rent expense in the amount of \$1,275,000 for the year ending June 30, 2014.

Note 15—Subsequent events

The Library has evaluated subsequent events through September 26, 2014, the date the financial statements were available to be issued. No subsequent events were noted that required disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

**OTHER POST-EMPLOYMENT BENEFITS - REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

JUNE 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded ALL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1/1/2011	\$ -	\$ 32,204,930	\$ 32,204,930	0.0%	\$ 13,119,012	245.48%
1/1/2012	-	49,666,396	49,666,396	0.0%	12,642,935	392.84%
1/1/2013	-	40,681,887	40,681,887	0.0%	13,262,181	306.76%

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

**OTHER POST-EMPLOYMENT BENEFITS - REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYER CONTRIBUTIONS AND NOTES TO THE REQUIRED SCHEDULES**

JUNE 30, 2014

<u>Year Ending June 30,</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 3,223,886	\$ 590,565	18.32%
2013	4,908,690	796,809	16.23%
2014	4,009,659	652,032	16.26%

Notes to the Required Schedules

The information in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date:	January 1, 2013
Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar amount
Amortization period:	30 years, closed January 1, 2011; 28 years remaining
Asset Valuation Method:	Not Applicable
Actuarial assumptions:	
Investment rate of return*	3.5% annual return net of investment related expenses
Projected Salary Increases*	0.00%
Health Cost Trend Assumption:*	Getzen Trend Model: 7.90% graded to 4.70% over 70 years

* includes an inflation assumption of 0%

ACCOMPANYING INFORMATION

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
SCHEDULE OF EXPENDITURES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2014

	(Major) General Fund	(Major) Special Revenue Fund	(Major) Library Foundation Fund	Total Governmental Funds
Personnel				
Salaries, full-time employees	\$ 15,304,467	\$ 85,163	\$ -	\$ 15,389,630
Salaries, other	923,414	-	-	923,414
Retirement, social security and other employee benefits (includes workers' compensation)	6,662,893	28,822	-	6,691,715
Recruitment & Continuing Education	12,312	-	-	12,311
Total personnel	<u>22,903,086</u>	<u>113,985</u>	<u>-</u>	<u>23,017,071</u>
Library materials				
Books and related items	2,876,089	563,297	-	3,439,386
Dues and subscriptions	17,962	-	-	17,961
Total library materials	<u>2,894,051</u>	<u>563,297</u>	<u>-</u>	<u>3,457,348</u>
Facility maintenance				
Utilities	1,129,480	-	-	1,129,480
Telephone	134,719	-	-	134,719
Building and grounds, maintenance and repairs	1,375,001	435	-	1,375,436
Equipment maintenance and repairs	249,400	263	-	249,663
Vehicle maintenance	36,145	-	-	36,145
Total facility maintenance	<u>2,924,745</u>	<u>698</u>	<u>-</u>	<u>2,925,443</u>
Fixed charges				
Building rent	492,917	-	-	492,917
Parking Facility	40,375	-	-	40,375
Insurance property and liability	177,840	-	-	177,840
Total fixed charges	<u>711,132</u>	<u>-</u>	<u>-</u>	<u>711,132</u>
Capital outlay				
Buildings, equipment and furnishings	808,532	44,403	-	852,935
Equipment rental	417,801	10,000	-	427,802
Total capital outlay	<u>1,226,333</u>	<u>54,403</u>	<u>-</u>	<u>1,280,736</u>
Debt service				
Principal payments on capital leases	168,741	-	-	168,741
Interest payments on capital leases	37,216	-	-	37,216
Total debt service	<u>205,957</u>	<u>-</u>	<u>-</u>	<u>205,957</u>
Other				
Supplies	139,690	21,884	-	161,574
Communications	312,721	-	-	312,721
Advertising	70,773	-	-	70,773
Photocopying expense	326,256	1,904	-	328,160
Publications	174,177	-	-	174,177
Grants & Agency Distribution	233,711	-	4,000	237,711
Postage	33,195	-	-	33,195
Auto mileage and allowance	24,559	-	-	24,559
Public relations	2,111	33,591	-	35,702
Professional fees	904,206	5,000	-	909,206
Travel	127,758	-	-	127,758
Special events	240,362	49,749	-	290,111
Miscellaneous	76,940	-	47,762	124,702
Total other	<u>2,666,457</u>	<u>112,128</u>	<u>51,762</u>	<u>2,830,347</u>
Total expenditures	<u>\$ 33,531,761</u>	<u>\$ 844,511</u>	<u>\$ 51,762</u>	<u>\$ 34,428,034</u>

COMPLIANCE SECTION

**Report of Independent Auditor 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***

The Board of Trustees
Public Library of Charlotte and Mecklenburg County
Charlotte, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the of the Public Library of Charlotte and Mecklenburg County (the "Library") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the Library's basic financial statements, and have issued our report thereon dated September 26, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as 2014-01.

Response to Finding

The Library's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive style with a large initial 'C' and 'B'.

Charlotte, North Carolina
September 26, 2014

Report of Independent Auditor on Compliance Applicable to Each Major State Program and on Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act

The Board of Trustees
Public Library of Charlotte and Mecklenburg County
Charlotte, North Carolina

Report on Compliance for Each Major State Program

We have audited the Public Library of Charlotte and Mecklenburg County's (the "Library") compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the Library's major State programs for the year ended June 30, 2014. The Library's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Library's major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Library's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination of the Library's compliance.

Opinion on Each Major Program

In our opinion, the Library complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Library is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Library's internal control over compliance with the types of requirements that could have a direct and material effect on each major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Bekant LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
September 26, 2014

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

State Awards

Internal control over State major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with State Single Audit Implementation Act yes no

Identification of major State programs:

Program Name

North Carolina Department of Cultural Resources,
Division of State Library: Aid to Public Libraries
(State Aid) Program

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

Section II. Financial Statement Findings

Finding: 2014-01

Nonmaterial Noncompliance

Criteria: Therefore, notwithstanding any other provision of law, no local government or public authority may expend any moneys, regardless of their source (including moneys derived from bond proceeds, federal state, or private grants or loans, special assessments), except in accordance with a budget ordinance or project ordinance adopted (NC General Statute 159-8).

Condition: Three expense categories had actual expenditures that exceeded the approved budgeted expenditure amounts.

Context: The expenditures made in the general fund personnel, facility maintenance, and capital outlay classifications exceeded budgeted expenditures by \$173,839, \$1,210,469, and \$765,326, respectively.

Effect: Budgeted expenditure amounts for these three classifications violated NC General Statute 159-8.

Cause: Budget amendments were not proposed and approved by the board appropriately to cover all expenditures throughout the fiscal year.

Recommendation: Budget amendments should be proposed and adopted throughout the year to account for significant changes in planned expenditures.

Management Response: Management agrees with this finding. In FY2014, in-kind contributions from Mecklenburg County for Maintenance and Capital Outlay were not budgeted. In FY2015, the Library worked with Mecklenburg County to obtain an estimate on these amounts during the first quarter of FY2015. These will be taken to the Library Board of Trustees during the second quarter of FY2015 and, if approved, the budget will be appropriately adjusted for in-kind contributions going forward. Personnel overages were driven primarily by known budget issues in employee insurance, temporary labor, and employer 401k contributions during FY2014. These have been properly accounted for during the FY2015 budget process and unbudgeted personnel overages are not expected in FY2015.

Section III. State Award Findings and Questioned Costs

None reported for the year ended June 30, 2014.

Section IV. Prior-Year Findings

There were no prior-year findings reported.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>Federal grants distributed directly to the Public Library of Charlotte and Mecklenburg County</u>		
Institute of Museum and Library Services: National Leadership Grant	45.312	\$ 129,225
<u>State grants distributed directly to the Public Library of Charlotte and Mecklenburg County:</u>		
North Carolina Department of Cultural Resources, Division of State Library: Aid to Public Libraries (State Aid) Program		<u>551,724</u>
Total federal and State awards expended		<u>\$ 680,949</u>

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State government activity of the Library and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *Audit Manual for Governmental Auditors in North Carolina*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.