

**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, 2016

And Report of Independent Auditor

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

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITOR 1-2

MANAGEMENT’S DISCUSSION AND ANALYSIS 3-10

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Statement of Net Position.....11
Statement of Activities.....12

FUND FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds.....13
Reconciliation of the Fund Balance of Governmental Funds to Net Position
of Governmental Activities14
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds15
Reconciliation of the Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities.....16
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – General Fund.....17
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – Special Revenue Fund.....18
Notes to Financial Statements..... 19-36

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits – Required Supplementary Information –
Schedule of Funding Progress37
Other Postemployment Benefits – Required Supplementary Information –
Employer Contributions and Notes to the Required Schedules.....38
Library’s Proportionate Share of Net Pension Liability (Asset) –
Required Supplementary Information39
Library’s Contributions – Required Supplementary Information.....40

ACCOMPANYING INFORMATION

Schedule of Expenditures – Governmental Funds..... 41-42

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 43-44
Report of Independent Auditor on Compliance for Each Major State
Program and Internal Control Over Compliance in Accordance with
the Uniform Guidance and the State Single Audit Implementation Act 45-46
Schedule of Findings and Questioned Costs..... 47-48
Schedule of Expenditures of Federal and State Awards49
Note to Schedule of Expenditures of Federal and State Awards.....50

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, each major fund, and the aggregate remaining fund information 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, 2016, and the related notes to 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 *Governmental Auditing Standards*, issued by the Comptroller 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, each major fund, and the aggregate remaining fund information of the Library as of June 30, 2016 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 the Management's Discussion and Analysis ("MD&A") 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 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are 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 October 25, 2016, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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 "Cheryl Bekart LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
October 25, 2016

**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 the Library for the fiscal year ended June 30, 2016. 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

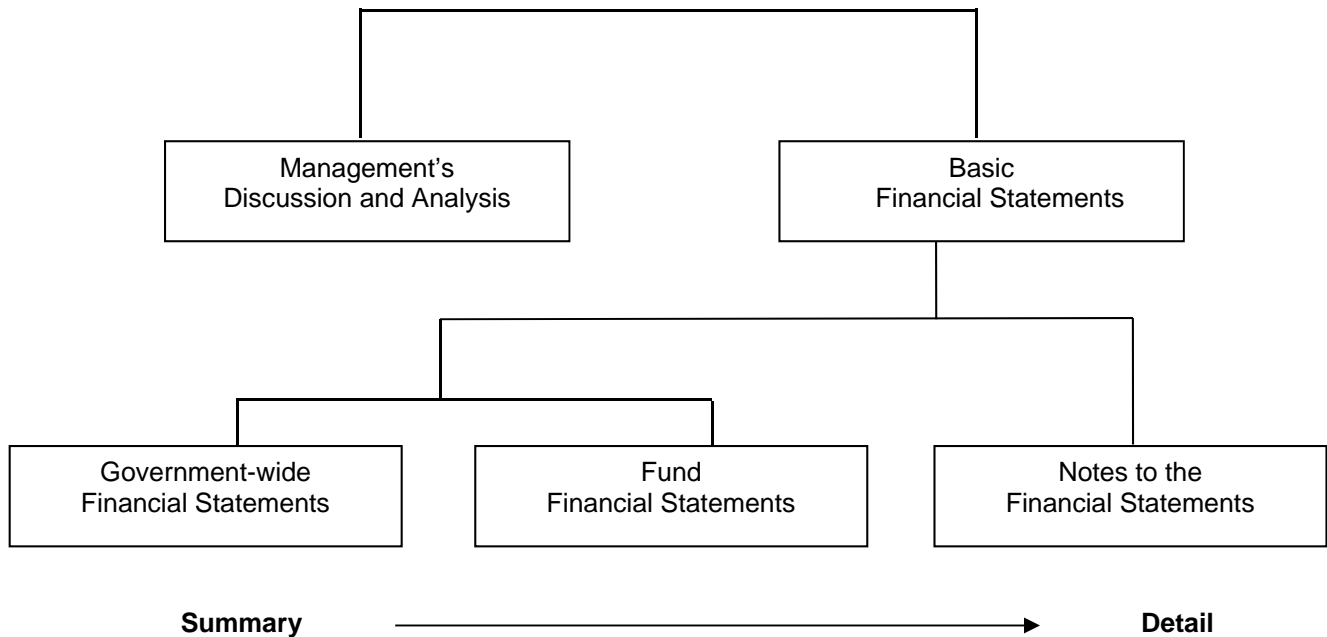
- Library assets exceeded liabilities at the close of the fiscal year by \$63.8 million (net position).
- The Library Foundation contributed \$1.1 million in gifts and grants in support of Library operations.
- At the close of the fiscal year, the Library’s portion of fund balance not designated for future use was \$3.5 million.
- The operating budget from the Library’s largest revenue source (Mecklenburg County) increased 2% from the prior year.
- Total actual revenues from Mecklenburg County increased by 3.3% for fiscal year ended June 30, 2016. This included \$5.3 million that Mecklenburg County paid directly on behalf of the Library.

Overview of the Financial Statements

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

The next statements (pages 13 – 18) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Library’s activities. 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 supplemental information. This section contains funding information about the Library’s other postemployment benefit plan and the Library’s participation in the Local Government Employees’ Retirement System. **Accompanying information** is also 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, on pages 13 through 18 of this report, 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.

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 statements provided for the General Fund and the Special Revenue Fund demonstrate how well the Library complied with the budget ordinance. The budgetary comparison statements use the budgetary basis of accounting and are 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 Library Foundation is governed by the Financial Accounting Standards Board and is not required by law to adopt a budget.

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

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 appear on pages 19-36 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 \$4.0 million for the fiscal year ended June 30, 2016. The largest portion of net position, totaling \$79.7 million 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 \$10.3 million represents resources that are subject to restrictions on how they may be used. The remaining deficit of \$(26.2) million is unrestricted. Net position also reflects the Library's proportionate share of the Local Government Employees' pension expense as required by GASB Statements 68 and 71. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Library's management.

The Public Library of Charlotte and Mecklenburg County's Net Position
Condensed and Rounded to nearest thousand (000)

Figure 2

	Government-wide June 30, 2016	Government-wide June 30, 2015
Assets		
Current assets	\$ 9,523	\$ 8,860
Noncurrent assets	5,911	7,413
Capital assets, net of accumulated depreciation	<u>79,965</u>	<u>80,530</u>
Total Assets	<u>95,399</u>	<u>96,803</u>
Deferred outflows of resources	<u>1,526</u>	<u>1,568</u>
Liabilities		
Current and other liabilities	3,067	2,085
Long-term liabilities	<u>29,439</u>	<u>24,860</u>
Total Liabilities	<u>32,506</u>	<u>26,945</u>
Deferred inflows of resources	<u>623</u>	<u>3,589</u>
Net Position		
Net investment in capital assets	79,718	80,122
Restricted	10,284	9,214
Unrestricted	<u>(26,206)</u>	<u>(21,499)</u>
Total Net Position	<u>\$ 63,796</u>	<u>\$ 67,837</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 nearest thousand (000)
Figure 3

	<u>Government-wide</u> <u>June 30, 2016</u>	<u>Government-wide</u> <u>June 30, 2015</u>
Revenues		
Program Revenues:		
Charges for services	\$ 2,697	\$ 2,472
Operating grants and contributions	1,014	1,040
General Revenues:		
Mecklenburg County	36,412	35,232
City of Charlotte appropriation	3	3
Investment earnings (loss)	(93)	193
Contributions from Foundation	1,103	1,090
ABC Board contribution	488	424
Other income	466	473
Total Revenues	<u>42,090</u>	<u>40,927</u>
Program Expenses		
General public services	45,337	42,872
Program/Outreach services	453	364
Printing and copying	330	386
Interest on long-term debt	11	4
Total Expenses	<u>46,131</u>	<u>43,626</u>
Change in net position	(4,041)	(2,699)
Net position, beginning of year	67,837	72,040
Cumulative effect of change in accounting principle	-	(1,504)
Net position, end of year	<u>\$ 63,796</u>	<u>\$ 67,837</u>

Net position decreased by \$4.0 million primarily due to an increase in depreciation, pension costs, and other postemployment benefit costs.

**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, special revenue funds, and capital project funds.

Revenues from intergovernmental sources comprise 92.3% of total revenues received during the Library's fiscal year ended June 30, 2016 as compared to 91% for fiscal year ended June 30, 2015. Mecklenburg County, the City of Charlotte, and the ABC Board comprise 90% of total revenues as of June 30, 2016 as compared to 90% for the fiscal year ended June 30, 2015. The State of North Carolina revenue sources total 1.5%. Revenues generated through fines, fees, charges for services, and grants used to cover services account for 6.9% of total revenue for both June 30, 2016 and 2015. Other income continued to comprise 1% of total revenues while investment income declined significantly from the prior year.

Governmental funds expenditures were comprised of the following: Personnel 65%; Library Collections (books, videos, software for public use, etc.) 11%; General Operations 19%; and Capital Projects 5%. These percentages are consistent with 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 course of fiscal year, the Library amended the general fund budget to reflect current circumstances. The Library Director is authorized to transfer budget amounts up to \$25,000 without formal approval from the Library's Board of Trustees; and budget transfers over \$25,000 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 budgeted revenues for 2016 totaled \$4.4 million, which includes \$1.2 million of fund balance appropriated to fund fiscal year expenditures.

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, 2016 and 2015 is \$80.0 million and \$80.5 million, respectively. Capital assets include land, buildings and building improvements, books furniture and fixtures, and construction in progress.

Capital Assets, Net of Accumulated Depreciation

	Government-wide Activities June 30, 2016	Government-wide Activities June 30, 2015
Land	\$ 13,523	\$ 13,524
Buildings and building improvements	57,126	59,301
Books	5,067	5,579
Furniture and equipment	2,246	1,425
Intangible assets	1,055	479
Construction in progress	948	222
Total Capital Assets	<u>\$ 79,965</u>	<u>\$ 80,530</u>

In relation to the fixed assets, the Library has total debt outstanding of \$246 thousand. The debt is secured by the related assets of the Library, which includes capital lease obligations that decreased by \$161 thousand during the past fiscal year.

Fiscal Year 2016 Highlights

In fiscal year 2016, the Library continued progress toward achieving the outcomes in the 2014-2017 Strategic Plan, benefiting the Charlotte-Mecklenburg community in the following ways:

- Increased community engagement and awareness
- Increased usage and impact
- Expanded digital options for customers

Other highlights of the fiscal year include:

- The Library completed its extensive, one-year Blueprint planning process, and presented the recommendations to the Library Board. The plan, which envisions the Library of 2025 and strategies to get there, will be rolled out in the next fiscal year.
- The Library Foundation raised \$1.5 million in gifts, grants, and endowment earnings.
- The Library implemented ONE Access™, an initiative with Charlotte-Mecklenburg Schools that gave all 150,000+ students in pre-K through 12th grade equal access to Library resources.

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

In fiscal year 2017, the Library will continue to focus on activities and initiatives that align with the Strategic Plan and benefit the community. These include collaborations with Charlotte-Mecklenburg Schools, progress on the Library's Digital Branch, support of the Foundation's Donor Acquisition Campaign, and the Main Library reinvention project and partnership with the Sixth and Tryon Development Committee.

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 and Mecklenburg County, 310 N. Tryon Street, Charlotte, North Carolina 28202.

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

JUNE 30, 2016

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 8,575,019
Refundable sales tax	260,889
Other receivables	59,121
Due from other governmental agencies	376,309
Prepays	251,840
Total Current Assets	<u>9,523,178</u>
Noncurrent Assets:	
Restricted long-term investments	<u>5,911,484</u>
Capital Assets:	
Land and other non-depreciable assets	14,471,437
Depreciable capital assets, net of depreciation	65,493,051
Capital Assets, net	<u>79,964,488</u>
Total Assets	<u>95,399,150</u>
Deferred Outflows of Resources:	
Contributions to pension plan in current fiscal year	1,177,606
Pension-related deferrals	348,014
Total Deferred Outflows of Resources	<u>1,525,620</u>
LIABILITIES	
Current Liabilities:	
Accounts payable - trade	328,241
Other payables	866,143
Due to other governmental agencies	165,068
Current portion of compensated absences	1,631,137
Current portion of capital lease obligation	76,489
Total Current Liabilities	<u>3,067,078</u>
Long-term Liabilities:	
Unearned revenue	865,390
Compensated absences	400,985
OPEB liability	26,805,061
Capital lease obligation	169,813
Net pension liability	1,197,926
Total Liabilities	<u>32,506,253</u>
Deferred Inflows of Resources:	
Pension-related deferrals	<u>622,623</u>
NET POSITION	
Net investment in capital assets	79,718,186
Restricted for:	
Grants	406,230
Programming	668,879
Stabilization by state statute	1,637,699
Facility enhancements	1,521,958
Endowment funds held by the Foundation	6,049,457
Unrestricted (deficit)	<u>(26,206,515)</u>
Total Net Position	<u>\$ 63,795,894</u>

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

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

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
General public services	\$ 45,337,091	\$ 2,443,003	\$ 1,013,833	\$ (41,880,255)
Program/Outreach services	452,618	-	-	(452,618)
Printing and copying services	330,140	254,217	-	(75,923)
Interest on long-term debt	11,312	-	-	(11,312)
Total governmental activities	<u>\$ 46,131,161</u>	<u>\$ 2,697,220</u>	<u>\$ 1,013,833</u>	<u>(42,420,108)</u>
General Revenues:				
				36,412,677
Mecklenburg County appropriation				2,500
City of Charlotte appropriation				1,103,333
Contributions				(93,110)
Investment earnings				487,686
ABC Board				466,061
Other income				
Total general revenues				<u>38,379,147</u>
Change in net position				(4,040,961)
Net position, beginning of year				<u>67,836,855</u>
Net position, end of year				<u>\$ 63,795,894</u>

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

JUNE 30, 2016

	(Major) General Fund	(Major) Special Revenue Fund	(Major) Library Foundation Fund	Non-Major Governmental Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 6,064,071	\$ 2,372,975	\$ 137,973	\$ -	\$ 8,575,019
Refundable sales tax	214,340	46,549	-	-	260,889
Other receivables	59,121	-	-	-	59,121
Due from other governmental agencies	349,449	26,860	-	-	376,309
Prepays	251,840	-	-	-	251,840
Long-term investments	-	-	5,911,484	-	5,911,484
Total Assets	\$ 6,938,821	\$ 2,446,384	\$ 6,049,457	\$ -	\$ 15,434,662
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable - trade	\$ 325,661	\$ 2,580	\$ -	\$ -	\$ 328,241
Other payables	841,211	24,932	-	-	866,143
Due to other governmental agency	165,068	-	-	-	165,068
Total Liabilities	1,331,940	27,512	-	-	1,359,452
Fund Balances:					
Non-spendable fund balance:					
Prepaid expenses	251,840	-	-	-	251,840
Endowments held by the Foundation	-	-	3,087,643	-	3,087,643
Restricted Fund Balance:					
Grants	-	406,230	-	-	406,230
Contributions held by the Foundation	-	-	2,961,814	-	2,961,814
Stabilization by State statute	1,536,259	101,440	-	-	1,637,699
Facility enhancements	-	1,521,958	-	-	1,521,958
Programming	-	668,879	-	-	668,879
Assigned Fund Balance:					
Subsequent year's expenditures	-	11,413	-	-	11,413
Site improvements	10,593	-	-	-	10,593
Unassigned fund balance (deficit)	3,808,189	(291,048)	-	-	3,517,141
Total Fund Balances	5,606,881	2,418,872	6,049,457	-	14,075,210
Total Liabilities and Fund Balances	\$ 6,938,821	\$ 2,446,384	\$ 6,049,457	\$ -	\$ 15,434,662

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, 2016

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

Ending fund balance - governmental funds	\$ 14,075,210
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets	129,837,968
Accumulated depreciation	(49,579,301)
Accumulated amortization	(294,179)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the statement of net position.	
	1,177,606
Other pension-related deferrals in the current fiscal year are deferred outflows of resources on the statement of net position.	
	348,014
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(2,032,122)
Capital lease obligations	(246,302)
OPEB obligation	(26,805,061)
Net pension liability	(1,197,926)
Pension-related deferrals	(622,623)
Unearned revenue	(865,390)
Net position of governmental activities	<u>\$ 63,795,894</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, 2016

	(Major) General Fund	(Major) Special Revenue Fund	(Major) Library Foundation Fund	Non-Major Governmental Fund	Total Governmental Funds
Revenues					
Intergovernmental:					
Mecklenburg County Operations	\$ 31,121,905	\$ -	\$ -	\$ -	\$ 31,121,905
Amounts paid on behalf by					
Mecklenburg County	3,064,570	-	-	2,226,202	5,290,772
ABC Board	487,686	-	-	-	487,686
City of Charlotte	2,500	-	-	-	2,500
North Carolina	-	606,135	-	-	606,135
Federal	-	122,424	-	-	122,424
Total Intergovernmental Revenues	<u>34,676,661</u>	<u>728,559</u>	<u>-</u>	<u>2,226,202</u>	<u>37,631,422</u>
Fines	858,479	-	-	-	858,479
Fees	528,379	-	-	-	528,379
E-Rate reimbursement	219,987	-	-	-	219,987
Contributions	180	35,185	1,103,330	-	1,138,695
Local grants	-	65,287	-	-	65,287
Net investment income	13,361	-	(106,471)	-	(93,110)
Other income	432,612	-	-	-	432,612
Total Revenues	<u>36,729,659</u>	<u>829,031</u>	<u>996,859</u>	<u>2,226,202</u>	<u>40,781,751</u>
Expenditures					
Current:					
Salaries and benefits	25,494,868	70,108	-	-	25,564,976
Library collection	2,709,788	746,133	-	-	3,455,921
Facility related	5,004,550	6,905	-	-	5,011,455
Programming	214,657	237,961	-	-	452,618
Technology and equipment	806,763	104,865	-	438,415	1,350,043
Professional services	695,172	-	-	-	695,172
Personnel related	775,830	28,561	-	-	804,391
Miscellaneous	947,248	41,834	107,374	-	1,096,456
Capital outlay:					
Other	358,776	49,849	-	1,787,787	2,196,412
Debt services:					
Principal	156,335	-	-	-	156,335
Interest	11,312	-	-	-	11,312
Total Expenditures	<u>37,175,299</u>	<u>1,286,216</u>	<u>107,374</u>	<u>2,226,202</u>	<u>40,795,091</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(445,640)</u>	<u>(457,185)</u>	<u>889,485</u>	<u>-</u>	<u>(13,340)</u>
Other Financing Sources (Uses)					
Interfund transfer in	528,000	318,376	-	-	846,376
Interfund transfer out	(4,300)	-	(842,076)	-	(846,376)
Total Other Financing Sources(Uses)	<u>523,700</u>	<u>318,376</u>	<u>(842,076)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	78,060	(138,809)	47,409	-	(13,340)
Fund balance, beginning of year	<u>5,528,821</u>	<u>2,557,681</u>	<u>6,002,048</u>	<u>-</u>	<u>14,088,550</u>
Fund balance, end of year	<u>\$ 5,606,881</u>	<u>\$ 2,418,872</u>	<u>\$ 6,049,457</u>	<u>\$ -</u>	<u>\$ 14,075,210</u>

The accompanying notes are an integral part of these 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, 2016

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

Net change in fund balances - total governmental funds	\$ (13,340)
<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	4,882,860
Gain on disposals	1,691
Less current year depreciation	(5,281,250)
Less current year amortization	(163,554)
<p>Contributions to the pension plan in the current fiscal year are not included in the statement of activities.</p>	
	1,177,606
<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	161,120
OPEB payments	973,092
<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	(24,374)
OPEB liability	(4,858,194)
Pension expense	(789,839)
Pension-related deferrals	(138,537)
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 fund.</p>	
Deferred revenue amortized	31,758
Contributed lease revenue	1,275,000
	<u>1,275,000</u>
Change in net position of governmental activities	<u>\$ (4,040,961)</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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental:				
Mecklenburg County Operations	\$ 31,419,942	\$ 31,891,881	\$ 31,121,905	\$ (769,976)
Amounts paid on behalf by				
Mecklenburg County	-	3,125,000	3,064,570	(60,430)
ABC Board	462,000	462,000	487,686	25,686
City of Charlotte	2,500	2,500	2,500	-
Total Intergovernmental Revenues	31,884,442	35,481,381	34,676,661	(804,720)
Fines	850,000	850,000	858,479	8,479
Fees	466,500	501,500	528,379	26,879
E-Rate reimbursement	230,000	219,000	219,987	987
Other	189,000	189,000	446,153	257,153
Total Revenues	33,619,942	37,240,881	36,729,659	(511,222)
Expenditures				
Current:				
Salaries and benefits	25,581,119	26,296,412	25,494,868	801,544
Library collection	2,664,638	2,919,325	2,709,788	209,537
Facility related	2,459,480	4,979,816	5,004,550	(24,734)
Programming	225,732	225,732	214,657	11,075
Technology and equipment	1,006,470	1,181,350	806,763	374,587
Professional services	745,000	754,750	695,172	59,578
Personnel related	181,000	808,094	775,830	32,264
Miscellaneous	1,100,203	1,157,457	947,248	210,209
Capital outlay:				
Other	392,311	457,539	358,776	98,763
Debt services:				
Principal	160,000	160,000	156,335	3,665
Interest	12,000	12,000	11,312	688
Total Expenditures	34,527,953	38,952,475	37,175,299	1,777,176
Excess (deficiency) of revenues over (under) expenditures	(908,011)	(1,711,594)	(445,640)	1,265,954
Other Financing Sources (Uses)				
Interfund transfer in	475,000	528,000	528,000	-
Interfund transfer out	(4,300)	(4,300)	(4,300)	-
Fund balance appropriated	437,311	1,187,894	-	(1,187,894)
Total Other Financing Sources	908,011	1,711,594	523,700	(1,187,894)
Net change in fund balances	\$ -	\$ -	78,060	\$ 78,060
Fund balance, beginning of year			5,528,821	
Fund balance, end of year			\$ 5,606,881	

The accompanying notes are an integral part of these 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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental:				
North Carolina	\$ 500,000	\$ 606,135	\$ 606,135	\$ -
Federal	117,200	123,177	122,424	(753)
Total Intergovernmental Revenues	617,200	729,312	728,559	(753)
Local grants	-	50,250	65,287	15,037
Contributions	3,200	8,700	35,185	26,485
Total Revenues	620,400	788,262	829,031	40,769
Expenditures				
Current:				
Salaries and benefits	30,000	71,250	70,108	1,142
Library collection	690,000	796,135	746,133	50,002
Facility related	100,000	100,000	6,905	93,095
Programming	354,182	386,237	237,961	148,276
Technology and equipment	100,000	104,977	104,865	112
Personnel related	40,000	41,000	28,561	12,439
Other	50,000	52,000	41,834	10,166
Capital outlay	75,000	112,034	49,849	62,185
Total Expenditures	1,439,182	1,663,633	1,286,216	377,417
Excess (deficiency) of revenues over (under) expenditures	<u>(818,782)</u>	<u>(875,371)</u>	<u>(457,185)</u>	<u>418,186</u>
Other Financing Sources (Uses)				
Interfund transfer in	277,693	324,693	318,376	(6,317)
Fund balance appropriated	541,089	550,678	-	(550,678)
Total Other Financing Sources Uses	818,782	875,371	318,376	(556,995)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(138,809)</u>	<u>\$ (138,809)</u>
Fund balance, beginning of year			<u>2,557,681</u>	
Fund balance, end of year			<u>\$ 2,418,872</u>	

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 85% of the Library’s general funding and appoints a majority of the 11-member Library Board of Trustees. As required under generally accepted accounting principles, these financial statements present the Library and its component unit, the Charlotte Mecklenburg Library Foundation (the “Foundation”), a legally separate entity for which the Library is financially accountable. The 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., statement of net position and 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 is 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 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 reports four funds, its general fund, two major special revenue funds, and a capital projects fund.

Government-wide Financial Statements – 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 Fund Financial Statements – 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 collected 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 collectible 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 interfund transfers.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 maintenance.

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.

Additionally, the Library reports the following non-major governmental fund:

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of Library facilities.

As a general rule, the effect of interfund 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 Capital Projects Fund, a multi-year fund, is budgeted by project. For the fiscal year ending June 30, 2016, project budgets totaled \$10,459,600 and expenditures totaled \$2,226,202. The Foundation is a non-profit as defined under Internal Revenue Code 501(c)3. It operates under Financial Accounting Standards Board (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 \$5,911,484 as of June 30, 2016, 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, as of June 30, 2016, \$3,087,643 is 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, 2016, the net depreciation on investments of donor-restricted endowments was \$106,471. 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 non-spendable fund balance. The Foundation has certain investments that are being held to generate future income; therefore, they cannot be converted within a 12-month period.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1—Summary of significant accounting policies (continued)

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

Capital Assets – Capital assets, primarily land, buildings and improvements, and furniture and equipment, 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. Purchased or constructed assets are recorded at cost or estimated historical cost. 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 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
Intangible Assets	5 years
Books	3 years

Compensated Absences – Vacation leave is earned by employees each pay period based on years and months of service and is fully vested when earned. Upon termination, an employee will be paid all unused, accumulated vacation. Employees earn sick leave at a flat rate, and there is no limit on accumulation. Eight hours of every thirty-two hours of unused, accumulated sick leave, which is fully vested when earned, is paid to an employee upon termination. For retiring employees, the balance of unpaid sick leave is used in the determination of length of service for retirement purposes. An expense and a liability for the accumulation of unused vacation and sick leave 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 upon maturity, for example, as a result of employee resignations and retirements.

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for Deferred Outflows of Resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized until then. The Library has several items that meet this criterion – pension-related deferrals and contributions made to the pension plan in the current fiscal year.

In addition to liabilities, the statement of financial position also reports a separate section for Deferred Inflows of Resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized until then. The Library has one item that meets the criterion for this category – pension-related deferrals.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1—Summary of significant accounting policies (continued)

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 non-spendable, restricted, committed, assigned, and unassigned.

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 unearned 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 cannot 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.

Programming – Portion of fund balance that is restricted by the funding source for specific library programs.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1—Summary of significant accounting policies (continued)

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

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	\$ 5,606,881
Less prepaid expenses	251,840
Less Stabilization by State Statute	1,536,259
Less site improvements	<u>10,593</u>
Remaining Fund Balance	<u><u>\$ 3,808,189</u></u>

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

<u>General Fund</u>	<u>Special Revenue Fund</u>
\$ 915,119	\$28,031

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 June 30, 2016, 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.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1—Summary of significant accounting policies (continued)

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 its behalf as a revenue and expenditure when made.

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.

Transfers – Transfers are used to move money between the funds, as needed to meet operating needs. Transfers totaled \$0.8 million in fiscal year 2016.

Stewardship, Compliance and Accountability – For the fiscal year ended June 30, 2016, the expenditures made in the general fund facility related classification exceeded budgeted expenditures by \$24,734.

Defined Benefit Pension Plans – The Library participates in one cost-sharing, multiple-employer, defined benefit pension plans that is administered by the State: the Local Governmental Employees’ Retirement System (“LGERS”). For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the state-administered defined benefit pension plan, and additions to/deductions from the state-administered defined benefit pension plans’ fiduciary net positions have been determined on the same basis as they are reported by the state-administered defined benefit pension plans. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Library’s employer contributions are recognized when due and the Library has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the state-administered defined benefit pension plan. Investments are reported at fair value.

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.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 2—Deposits and investments (continued)

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 noninterest-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.

At June 30, 2016, the Library’s deposits had a carrying amount of \$8,430,039 and a bank balance of \$8,848,732. 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, \$250,000 was covered by federal depository insurance and \$8,598,732 was covered by collateral held under the pooling method. At June 30, 2016, the Library’s petty cash fund totaled \$7,007. The Library has no policy for managing interest rate risk or credit risk.

Note 3—Investments

At June 30, 2016, the Foundation’s investment balances were as follows:

Investment Type	Investment Measurement Method	Fair Value	Less than 1 Year	2 - 5 Years	3 - 7 Years	5 - 7 Years
Foundation for the Carolinas Liquid Reserve Pool	Fair Value – Level III	\$ 137,973	\$ 137,973	\$ -	\$ -	\$ -
Foundation for the Carolinas Income and Growth Pool	Fair Value – Level III	687,614	-	687,614	-	-
Foundation for the Carolinas Moderate Growth Pool	Fair Value – Level III	128,102	-	-	128,102	-
Foundation for the Carolinas Endowed Long-Term Pool	Fair Value – Level III	3,087,643	-	-	-	3,087,643
Foundation for the Carolinas Non-endowed Long-Term Growth Pool	Fair Value – Level III	2,008,125	-	-	-	2,008,125
		<u>\$ 6,049,457</u>	<u>\$ 137,973</u>	<u>\$ 687,614</u>	<u>\$ 128,102</u>	<u>\$ 5,095,768</u>

Foundation funds are invested in Foundation for the Carolina’s Pooled Investment Funds. At June 30, 2016, \$137,973 of the amount listed above is included in cash and cash equivalents. The following describes the Pooled Investment Funds listed above:

Liquid Reserve Pool that invests in the BlackRock TempFund, one of BlackRock’s Liquidity Funds. The fund seeks as high a level of current income as is consistent with liquidity and stability of principal identified above.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 3—Investments (continued)

Liquid Reserve Pool that invests in the BlackRock TempFund, one of BlackRock's Liquidity Funds. The fund seeks as high a level of current income as is consistent with liquidity and stability of principal identified above.

Income and Growth Pool is designed to yield consistent income and dividends while also achieving moderate capital appreciation. The portfolio is allocated 60% fixed income and 40% equity. The equity allocation includes domestic, international developed and emerging market large and small cap equity securities. The fixed income allocation includes short and medium term fixed income securities with an aggregate maturity of two to five years.

Moderate Growth Pool seeks long-term capital appreciation without exposure to hedge funds or private equity. Invested in broad domestic and international large and small cap stocks in developed and emerging markets. Target allocation is 25.5% global fixed income, 69.5% global equity and 5.0% real assets.

Endowed Long Term Growth Pool is a portfolio recommended by the Foundation for the Carolina's Investment Committee for endowed funds. The portfolio is allocated 14.2% global fixed income, 62.9% global equity, 8.0% real assets and 14.9% diversifying strategies.

Non-endowed Long Term Growth Pool maintains a broadly diversified allocation, offering domestic and international market exposure, investing in large cap and small cap securities in developed markets and emerging markets, with an allocation to hedge funds to improve the overall risk/return profile of the total portfolio. Target allocation is 17.2% global fixed income, 68.0% global equity, 5.0% real assets and 9.8% diversifying strategy.

The assets of each pool are owned by the Foundation for the Carolinas and not the Library Foundation. Each fund owns a pro-rata share of the total pool, and receives an allocation of the change in the value of the pool based on their pro-rata percentage each month. The pools of the investments are not readily marketable.

The Foundation selects the investment pool at the time the funds are deposited. There are no restrictions on the withdrawal of funds. The Foundations can withdraw funds at any time with no penalty.

The Foundation does not have an investment strategy other than choosing the investment pool.

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
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 4—Capital assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance June 30, 2015	Additions	Disposals Retirements and Reclassifications	Ending Balance June 30, 2016
Governmental activities:				
Non-depreciable assets				
Land	\$ 13,523,473	\$ -	\$ -	\$ 13,523,473
Construction in progress	222,004	1,208,364	(482,404)	947,964
	<u>13,745,477</u>	<u>1,208,364</u>	<u>(482,404)</u>	<u>14,471,437</u>
Depreciable assets:				
Building and building improvements	91,202,508	105,603	(78,122)	91,229,989
Books	17,304,602	2,031,181	(3,574,648)	15,761,135
Furniture and equipment	5,901,478	1,280,737	(155,913)	7,026,302
Totals at historical cost	<u>128,154,065</u>	<u>4,625,885</u>	<u>(4,291,087)</u>	<u>128,488,863</u>
Intangible assets:				
Digital books	503,756	334,254	-	838,010
Website and other projects	105,970	405,125	-	511,095
Total intangible assets	<u>609,726</u>	<u>739,379</u>	<u>-</u>	<u>1,349,105</u>
Less accumulated amortization:				
Digital books	(130,625)	(135,263)	-	(265,888)
Website and other projects	-	(28,291)	-	(28,291)
Less accumulated depreciation:				
Building and building improvements	(31,901,775)	(2,277,992)	75,313	(34,104,454)
Books	(11,725,330)	(2,543,494)	3,574,648	(10,694,176)
Furniture and equipment	<u>(4,476,530)</u>	<u>(459,764)</u>	<u>155,623</u>	<u>(4,780,671)</u>
Total accumulated amortization and depreciation	<u>(48,234,260)</u>	<u>(5,444,804)</u>	<u>3,805,584</u>	<u>(49,873,480)</u>
Capital assets, net	<u>\$ 80,529,531</u>	<u>\$ (79,540)</u>	<u>\$ (485,503)</u>	<u>\$ 79,964,488</u>

Included in buildings and furniture and equipment are assets under capital lease that had a cost basis and accumulated depreciation of \$3,068,972 and \$1,305,150, respectively, at June 30, 2016. All depreciation expense was charged to general public services on the statement of activities. Additions to capital assets include approximately \$690,168 of 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
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 5—Long-term obligations

For the year ended June 30, 2016, long-term liability activity was as follows:

	Beginning Balance		Ending Balance		Due Within
	June 30, 2015	Additions	Retirements	June 30, 2016	One Year
Compensated absences	\$ 2,007,748	\$ 1,752,682	\$ 1,728,308	\$ 2,032,122	\$ 1,631,137
Capital lease obligations	407,422	-	161,120	246,302	76,489
OPEB liability	22,919,959	4,858,194	973,092	26,805,061	-
	<u>\$ 25,335,129</u>	<u>\$ 6,610,876</u>	<u>\$ 2,862,520</u>	<u>\$ 29,083,485</u>	<u>\$ 1,707,626</u>

Note 6—Leases

The Library leases certain facilities under lease agreements having initial terms of 3 to 50 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 \$909,199 during the 2016 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 non-cancelable operating leases with initial or remaining terms of one year or more as of June 30, 2016:

Fiscal Year Ending June 30	Capital	Operating
2017	\$ 80,223	\$ 314,305
2018	206,109	254,737
2019	1,501	193,370
2020	1,501	193,370
2021	1,501	32,230
2022 - 2026	7,505	-
2027 - 2031	7,505	-
2032 - 2036	7,505	-
2037 - 2041	7,505	-
2042 - 2046	6,380	-
2047 - 2051	5	-
Total minimum payments	327,240	\$ 988,012
Less amount representing interest	(80,938)	
Present value of net minimum capital lease payments	<u>\$ 246,302</u>	

Total interest costs for the year ended June 30, 2016 were \$11,312 relating to the capital lease obligations.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 2016 was \$31,758. Rental income is to be recognized as follows:

<u>Fiscal Year Ending June 30</u>	
2017	\$ 31,758
2018	31,758
2019	31,758
2020	31,758
2021	31,758
2022 - 2026	158,790
2027 - 2031	158,790
2032 - 2036	158,790
2037 - 2041	158,790
2042 - 2044	71,440
	<u>\$ 865,390</u>

Note 8—Retirement plan

Plan Description – The County is a participating employer in the statewide LGERS, a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees’ Retirement System 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, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 8—Retirement plan (continued)

Benefits Provided – LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic postretirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions – Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Library employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Library's contractually required contribution rate for the year ended June 30, 2016 was 6.75% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Library were \$1,177,606 for the year ended June 30, 2016.

Refunds of Contributions – Library employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the Library reported a liability of \$1,197,926 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Library's proportion of the net pension asset was based on a projection of the Library's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Library's proportion was .267%, which was an increase of .017% from its proportion measured as of June 30, 2014.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 8—Retirement plan (continued)

For the year ended June 30, 2016, the Library recognized pension expense of \$789,839. At June 30, 2016, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 281,580
Net difference between projected and actual earning on pension plan investments	-	341,043
Changes in proportion and differences between Library contributions and proportionate share of contributions	348,014	-
Library contributions subsequent to measurement date	1,177,606	-
Total	<u>\$ 1,525,620</u>	<u>\$ 622,623</u>

\$1,177,606 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	
2017	\$ (248,918)
2018	(248,918)
2019	(249,530)
2020	605,295

Actuarial Assumptions – The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	4.25% to 8.55%, including inflation and productivity factor
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 8—Retirement plan (continued)

Future ad hoc cost of living adjustment amounts are not considered to be substantively automatic and are, therefore, not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. As of June 30, 2016, the target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount Rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 8—Retirement plan (continued)

Sensitivity of the Library's Proportionate Share of the Net Pension Asset to Changes in the Discount Rate – The following presents the Library's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Library's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1 percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Library's proportionate share of the net pension liability (asset)	\$ 8,353,270	\$ 1,197,926	\$ (4,830,302)

Note 9—Employee benefit plan

Through the State of North Carolina, the Library offers 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, 2016, the Library matched 100% of employee contributions up to 5% of compensation. Total expense relating to this plan was \$473,598 for the year ended June 30, 2016.

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. For the year ended June 30, 2016, the compensation deferred by employees was \$260 and the amount contributed by the Library was \$20,000.

Note 11—Other postemployment 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 10 years, no amount is paid. If a retiree worked 10 to 19 years, 50% of insurance costs are paid. For 20 years or more of service, 100% 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 current annual required contribution ("ARC") rate is 31% of annual covered payroll. For the current year, the Library contributed \$973,092 or 5.6% of covered payroll.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 11—Other postemployment benefits (OPEB) (continued)

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.

Annual OPEB Cost and Net OPEB Obligation – The Library’s annual OPEB cost is calculated based on the ARC of the employer, 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	\$ 5,412,371
Interest on net OPEB obligation	801,316
Adjustment to annual required contribution	<u>(1,355,493)</u>
Annual OPEB cost	4,858,194
Contributions made	<u>(973,092)</u>
Increase in net OPEB obligation	3,885,102
Net OPEB obligation, beginning of year	<u>22,919,959</u>
Net OPEB obligation, end of year	<u><u>\$ 26,805,061</u></u>

The Library’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2015, and 2016 were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 3,650,316	17.87%	\$ 19,605,499
2015	4,199,423	21.07%	22,919,959
2016	4,858,194	20.03%	26,805,061

Funded Status and Funding Process – As of January 1, 2015, 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 \$52,482,786. The covered payroll (annual payroll of active employees by the plan) was \$17,397,652 and the ratio of the UAAL to the covered payroll was 301.67%. 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 employee, 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.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 11—Other postemployment benefits (OPEB) (continued)

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.

The Library has elected to provide death benefits to employees through the Death Benefit Plan for members of the LGERS 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 postemployment benefit amount and the other benefit amount. The Library considers these contributions to be immaterial.

Note 12—Major supplier

For the year ended June 30, 2016, approximately 40.8% of all books and related items were purchased from one supplier.

Note 13—Endowment fund

The Library has been designated as the beneficiary of the income of several endowments. Under the terms of the agreements, the assets are held by a third-party and the annual investment income is distributable to the Library. In some instances, the Library may elect to have the income transferred to the principal of the endowment. As of June 30, 2016, the endowments, which amount to \$3,087,643, are presented in the Library's non-spendable fund balance as recorded through the Foundation.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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. For the year ended June 30, 2016, the estimated lease value 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 ended June 30, 2016.

Note 15—Related-party transaction

As of June 30, 2016, the Library owes \$265,835 to Mecklenburg County.

Note 16—Subsequent events

The Library has evaluated subsequent events through October 25, 2016 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

(A Component Unit of Mecklenburg County, North Carolina)

**OTHER POSTEMPLOYMENT BENEFITS – REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

JUNE 30, 2016

Actual Valuation Date	Actual Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a % of Covered Payroll (b-a)/(d)
1/1/2013	\$ -	\$ 40,681,887	\$ 40,681,887	0.0%	\$ 13,262,181	306.75%
1/1/2014	-	44,981,509	44,981,509	0.0%	16,294,567	276.05%
1/1/2015	-	52,482,786	52,482,796	0.0%	17,397,652	301.67%

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY

(A Component Unit of Mecklenburg County, North Carolina)

**OTHER POSTEMPLOYMENT BENEFITS – REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYER CONTRIBUTIONS AND NOTES TO THE REQUIRED SCHEDULES**

JUNE 30, 2016

<u>Year Ending June 30</u>	<u>Annual Required Contributions</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2014	\$ 4,009,659	\$ 652,032	16.26%
2015	4,648,073	884,963	19.04%
2016	5,412,371	973,092	17.98%

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	1/1/2015
Actuarial Cost Method	Projected unit credit
Amortization Method	Level dollar amount
Amortization Period	30 years, closed January 1, 2011; 26 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 Assumptions	Getzen Trend Model: Pre-65 -7.50% graded to 4.50% over 56 years; Post-65 - 9.25% graded to 4.50% over 56 years

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
LIBRARY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

Last Three Fiscal Years *
Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Library's proportion of the net pension liability (asset) (%)	0.26692%	0.24970%	0.27190%
Library's proportion of the net pension liability (asset) (\$)	\$ 1,197,926	\$ (1,472,596)	\$ 2,577,111
Library's covered-employee payroll	\$ 17,397,652	\$ 16,291,567	\$ 15,182,660
Library's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	6.89%	(9.04%)	16.97%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	95.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
LIBRARY'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

Last Three Fiscal Years
Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,177,606	\$ 1,151,433	\$ 1,074,340
Contributions in relation to the contractually required contribution	1,177,606	1,151,433	1,074,340
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Public Library's covered-employee payroll	\$ 17,397,652	\$ 16,291,567	\$ 15,182,660
Contributions as a percentage of covered-employee payroll	6.77%	7.07%	7.08%

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, 2016

	(Major) General Fund	(Major) Special Revenue Fund	(Major) Library Foundation Fund	Non-Major Governmental Fund	Total Governmental Funds
Salaries and benefits					
Salaries, full-time employees	\$ 18,012,414	\$ 31,223	\$ -	\$ -	\$ 18,043,637
Salaries, other	15,877	26,800	-	-	42,677
Retirement benefits	7,466,577	12,085	-	-	7,478,662
Total Salaries and benefits	<u>25,494,868</u>	<u>70,108</u>	<u>-</u>	<u>-</u>	<u>25,564,976</u>
Library Collection					
Books and related items	2,709,788	746,133	-	-	3,455,921
Facility Related					
Utilities	1,127,920	-	-	-	1,127,920
Telephone	150,229	-	-	-	150,229
Facility insurance	262,586	-	-	-	262,586
Building and grounds, maintenance and repairs	2,406,415	6,905	-	-	2,413,320
Real estate rental	741,553	-	-	-	741,553
Data lines	315,847	-	-	-	315,847
Total Facility Related	<u>5,004,550</u>	<u>6,905</u>	<u>-</u>	<u>-</u>	<u>5,011,455</u>
Programming					
Adult programs	50,880	163,819	-	-	214,699
Teen programs	53,062	23,915	-	-	76,977
Children programs	110,715	50,227	-	-	160,942
Total Programming	<u>214,657</u>	<u>237,961</u>	<u>-</u>	<u>-</u>	<u>452,618</u>
Technology and Equipment					
Digital strategic	25,438	100,000	-	-	125,438
Technology and software	673,762	4,865	-	438,415	1,117,042
Copier expense	107,563	-	-	-	107,563
Total Technology and Equipment	<u>806,763</u>	<u>104,865</u>	<u>-</u>	<u>438,415</u>	<u>1,350,043</u>
Professional Services					
Consulting services	637,486	-	-	-	637,486
Legal services	57,686	-	-	-	57,686
Total Professional Services	<u>695,172</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>695,172</u>
Personnel Related					
Auto allowance	30,947	-	-	-	30,947
Security	645,922	-	-	-	645,922
Training and travel	48,470	4,920	-	-	53,390
Professional development	38,823	900	-	-	39,723
Volunteers	10,845	-	-	-	10,845
Employee recognition	823	22,741	-	-	23,564
Total Personnel Related	<u>775,830</u>	<u>28,561</u>	<u>-</u>	<u>-</u>	<u>804,391</u>

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

YEAR ENDED JUNE 30, 2016

	(Major) General Fund	(Major) Special Revenue Fund	(Major) Library Foundation Fund	Non-Major Governmental Fund	Total Governmental Funds
Miscellaneous					
Postage	\$ 24,382	\$ -	\$ -	\$ -	\$ 24,382
Agency grant distributions	-	-	25,623	-	25,623
Administration fees	-	-	81,751	-	81,751
Supplies	95,352	41,834	-	-	137,186
Gas	11,016	-	-	-	11,016
Printing	407,533	-	-	-	407,533
Foundation operations	322,475	-	-	-	322,475
Strategic expenses	5,000	-	-	-	5,000
Bank fees	40,379	-	-	-	40,379
Miscellaneous	41,111	-	-	-	41,111
Total Miscellaneous	<u>947,248</u>	<u>41,834</u>	<u>107,374</u>	<u>-</u>	<u>1,096,456</u>
Capital Outlay					
Buildings, equipment, and furnishings	<u>358,776</u>	<u>49,849</u>	<u>-</u>	<u>1,787,787</u>	<u>2,196,412</u>
Debt Service					
Principal payments on capital leases	156,335	-	-	-	156,335
Interest payments on capital leases	<u>11,312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,312</u>
Total Debt Service	<u>167,647</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,647</u>
Total Expenditures	<u>\$ 37,175,299</u>	<u>\$ 1,286,216</u>	<u>\$ 107,374</u>	<u>\$ 2,226,202</u>	<u>\$ 40,795,091</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, each major fund, and the aggregate remaining fund information of the of the Public Library of Charlotte and Mecklenburg County (the "Library") as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprises the Library's basic financial statements, and have issued our report thereon dated October 25, 2016.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 2016-001.

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 "Cherry Bekant LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
October 25, 2016

**Report of Independent Auditor on Compliance for Each Major State Program and
Internal Control Over Compliance in Accordance with the
Uniform Guidance 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, 2016. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Charlotte, North Carolina
October 25, 2016

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

YEAR ENDED JUNE 30, 2016

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 X no
- Significant deficiency(ies) identified? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

State Awards

Internal control over State major programs:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified? ___ yes X 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 X 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
(A Component Unit of Mecklenburg County, North Carolina)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2016

Section II. Financial Statement Findings

Finding: 2016-001

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:** One expense category had actual expenditures that exceeded the approved budgeted expenditure amount.
- Context:** The expenditures made in the general fund facility related classification exceeded budgeted expenditures by \$24,734.
- Effect:** Budgeted expenditure amounts for this classification 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. The overage in facility related charges relates to security and maintenance charges paid for on an in-kind basis by Mecklenburg County.

Corrective Action Plan: The Library will continue work to improve projections for expenditures in this budget area to prevent this finding in the future.

Section III. State Award Findings and Questioned Costs

None reported for the year ended June 30, 2016.

Section IV. Prior-Year Findings

Finding: 2015-001

Nonmaterial Noncompliance

Management Response: The finding related to budgeted expenditure amounts that violated NC General Statute 159-8. Management agreed with this finding. A budget overage was also noted in FY2016; refer above.

**PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

YEAR ENDED JUNE 30, 2016

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>Federal grants passed through North Carolina and distributed to the Public Library of Charlotte and Mecklenburg County</u>		
North Carolina Department of Cultural Resources, Division of State Library: LSTA Access and Digitization Grant	45.310	\$ 100,000
North Carolina Department of Cultural Resources, Division of State Library: EZ Literacy and Lifelong Learning Grant	45.310	20,860
North Carolina Department of Cultural Resources, Division of State Library: Edge Technology Grant	45.310	4,865
North Carolina Humanities Council: Film Serious Grant	45.164	<u>996</u>
Total federal awards expended		<u>126,720</u>
<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>606,135</u>
Total federal and State awards expended		<u>\$ 732,855</u>

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, North Carolina)
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2016

Note 1—Basis of presentation

The information in the schedule of expenditures of federal and State awards is presented in accordance with the requirements of Title 2 US *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), 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.

The Library has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.