

PONTIAC PUBLIC LIBRARY
PONTIAC, MICHIGAN

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

JUNE 30, 2013

PONTIAC PUBLIC LIBRARY
FINANCIAL STATEMENTS
JUNE 30, 2013

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Reconciliation of the Balance Sheet to the Statement of Net Position	10
Statement of Revenues, Expenditures, and Change in Fund Balance	11
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance of Governmental Funds to the Statement of Activities	12
Notes to Financial Statements	13-20
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	21
Notes to Required Supplemental Information	22-23
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	24-26



**GREGORY
TERRELL
& COMPANY**

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Pontiac Public Library

We have audited the accompanying financial statements of the governmental activities and major fund, of the Pontiac Public Library (the "Library"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

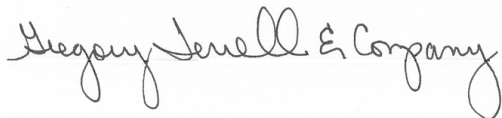
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Library as of June 30, 2013, and the respective changes in financial position 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 and budgetary comparison information on pages 3–6 and 21–23 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.

A handwritten signature in cursive script that reads "Gregory Terrell & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

GREGORY TERRELL & COMPANY
Certified Public Accountants

August 15 2014

PONTIAC PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2013

Financial Reporting

The Pontiac Public Library (the "Library") has continued to revise and improve its financial report document as a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets are managed.

The standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library by introducing accounting rules and systems that are common in the private sector. This report represents a broad picture of the Library's financial status. Through the comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The Library management's discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the Library's financial statements which immediately follow this section.

Financial Highlights

As discussed in further detail in this section, the following represents the most significant highlights for the year ended June 30, 2013:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$1,773,441 (net position) at the governmental-wide level.
- The Library's total net assets increased \$71,461 (after giving effect to the restatement of the beginning net position of \$64,308) as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's general fund reported a fund balance of \$1,565,802.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's general fund.

PONTIAC PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2013

The Library as a Whole

The following table shows, in a condensed format, the net position as of June 30, 2013, and 2012:

	<u>Governmental Activities</u>	
	2013	2012
Assets		
Current and other Assets	\$ 1,635,224	\$ 1,788,385
Capital Assets	197,538	158,194
Total Assets	1,832,762	1,946,579
Liabilities		
Current Liabilities	59,321	180,291
Total Liabilities	59,321	180,291
Net Position		
Invested in Capital Assets -		
Net of Related Debt	197,538	158,194
Unrestricted	1,575,903	1,608,094
Total Net Position	<u>\$ 1,773,441</u>	<u>\$ 1,766,288</u>

The Library's total net position was \$1,773,441 and \$1,776,288 for the year ended June 30, 2013 and 2012, an increase of \$7,153 (increase in net position of \$71,461 for the year ended June 30, 2013 less \$64,308 restatement of beginning of the year net position). Unrestricted net position (the part of net position that can be used to finance day-to-day operations) were \$1,575,903 and \$1,608,094 for the year ended June 30, 2013 and 2012, a decrease of \$32,191. The invested in capital assets were \$197,538 and \$158,194 for year end June 30, 2013 and 2012, an increase of \$39,344.

PONTIAC PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2013

The following table shows the change in the net position during the years ended June 30, 2013 and 2012:

	Governmental Activities	
	2013	2012
Revenue		
Program Revenue:		
Charges for Services	\$ 19,557	\$ 21,111
Operating Grants and Contributions	2,000	4,073
General Revenue:		
Property Taxes	562,827	584,916
Intergovernmental	111,345	122,620
Other	13,470	13,445
Total Revenue	<u>709,199</u>	<u>746,165</u>
Program Expenses		
Library Services/ Recreation and Culture	637,738	932,132
Total Program Expenses	<u>637,738</u>	<u>932,132</u>
Change in Net Position	<u>\$ 71,461</u>	<u>\$ (185,967)</u>

Governmental Activities

The Library's governmental revenues totaled \$709,199 and \$746,165 for years end June 30, 2013 and 2012, a decrease of \$36,966 primarily due to a decrease in tax revenues during the fiscal year. This decrease in tax revenues was caused by a decrease in taxable values and the fact that General Motors appealed their taxable value.

The Library's Fund

The analysis of the Library's major fund begins on page 9, as part of the basic financial statements. The Trustees of the Pontiac Public Library may create funds to help manage money for specific purposes as well as show accountability for certain activities.

The Library maintains one governmental fund, out of which \$1,000,000 of fund balance is assigned for future building and capital improvement needs. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and change in fund balance for the Library's major fund. The General Fund is the sole major fund for the fiscal year ended June 30, 2013, for financial reporting purposes as defined by GASB Statement No. 34.

The Library incurred \$733,096 in expenditures for fiscal year 2013 to operate the Library. Revenue totaled \$709,461. The net change in fund balance for the Library for June 30, 2013 was a decrease of \$23,635 (expenditures over revenues) creating a fund balance of \$1,565,802.

PONTIAC PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2013

Budgetary Highlights

The Library Board of Trustees amended the budget throughout the year. Actual expenditures were \$45,250 more than the final budgeted amount and actual revenues were \$52,143 more than the final budget.

Capital Assets

The Library's investment in capital assets continued with the making of purchases only when necessary. The Library purchased new books of \$44,727 and building improvements of \$49,868.

Economic Factors and Next Year's Budgets and Rates

Tax revenues are estimated to continue to decline as the property values continue to decrease. The current tax rate of 1.0000 mills will remain the same for fiscal year 2014. State aid and penal fines are anticipated to continue to decrease as reflected in our 2013-2014 budget.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library's management office at (248)758-3942 or at 60 E. Pike, Pontiac, MI 48342.

PONTIAC PUBLIC LIBRARY
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government
Assets	
Cash and Cash Equivalents	\$ 1,531,201
Due from other Governmental Units	104,023
Capital Assets (Note 3):	
Assets Subject to Depreciation	197,538
Total Assets	\$ 1,832,762
Liabilities	
Accounts Payable	\$ 41,700
Accrued Liabilities	17,621
Total Liabilities	\$ 59,321
Net Position	
Invested in Capital Assets -	
Net of Related Debt	\$ 197,538
Unrestricted	1,575,903
Total Net Position	\$ 1,773,441

The accompanying notes are an integral part of this financial statement.

PONTIAC PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenue		Primary Government
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities				
Recreation and Culture	\$ 637,738	\$ 19,557	\$ 2,000	\$ (616,181)
Total Governmental Activities	\$ 637,738	\$ 19,557	\$ 2,000	\$ (616,181)
General Revenues:				
Property Taxes				\$ 562,827
Intergovernmental				2,853
State Aid				29,439
Penal Fines				79,053
Other Miscellaneous Income				13,470
Total General Revenues				\$ 687,642
Change In Net Position				\$ 71,461
Net Position, as restated - Beginning of Year (Note 5)				1,701,980
Net Position, End of Year				\$ 1,773,441

The accompanying notes are an integral part of this financial statement.

PONTIAC PUBLIC LIBRARY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2013

ASSETS	<u>General Fund</u>
Assets	
Cash and Cash Equivalents	\$ 1,531,201
Due from other Governmental Units	93,922
	\$ 1,625,123
Total Assets	\$ 1,625,123
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts Payable	\$ 41,700
Accrued Liabilities	17,621
	\$ 59,321
Fund Balance	
Assigned	\$ 1,000,000
Unassigned	565,802
	\$ 1,565,802
Total Fund Balance	\$ 1,565,802
Total Liabilities and Fund Balance	\$ 1,625,123

The accompanying notes are an integral part of this financial statement.

PONTIAC PUBLIC LIBRARY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET
POSITION GOVERNMENTAL FUND
JUNE 30, 2013

Fund Balance reported in Governmental Fund \$ 1,565,802

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital Assets used in Governmental Activities are not Financial Resources and are not reported in the funds

The cost of capital assets	375,632
Accumulated depreciation	(178,094)

Certain receivables are not owed and receivable in the current period, and therefore are not recorded in the funds. 10,101

Net Position of Governmental Activities \$ 1,773,441

The accompanying notes are an integral part of this financial statement.

PONTIAC PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN
FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>
REVENUES:	
Property Taxes	\$ 562,827
Intergovernmental	123,969
Fines and Forfeitures	19,557
Other Revenue	3,108
Total Revenues	<u>\$ 709,461</u>
EXPENDITURES:	
Current:	
Salaries and Wages	\$ 233,875
Fringe Benefits	56,017
Utilities	55,711
Supplies	11,661
Postage and Printing	19,329
Insurance	11,852
Contracted Services	135,645
Membership and Dues	58,602
Administrative Fees	-
Repairs and Maintenance	51,773
Advertising and Promotion	599
Miscellaneous	1,130
Total General Government	<u>\$ 636,194</u>
Capital Outlay	
Books and Other Materials	\$ 44,727
Building, Furniture and Equipment	52,175
Total Capital Outlay	<u>\$ 96,902</u>
Total Expenditures	<u>\$ 733,096</u>
Deficiency of Revenues over Expenditures	<u>\$ (23,635)</u>
NET CHANGE IN FUND BALANCE	\$ (23,635)
Fund Balance - as Restated - Beginning of Year (Note 5)	<u>1,589,437</u>
Fund Balance - End of Year	<u>\$ 1,565,802</u>

The accompanying notes are an integral part of this financial statement.

PONTIAC PUBLIC LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Net change in Fund Balance - Total Governmental Fund \$ (23,635)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental Fund report Capital Outlays as Expenditures; however, in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation:

Capital Outlay	94,595
Depreciation Expense	(55,250)

Tax settlement payment requiring the use of current financial resources	56,013
---	--------

Revenue is recorded in the Statement of Activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(262)
---	-------

Change in Net Position of Governmental Activities \$ 71,461

The accompanying notes are an integral part of this financial statement.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) **NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

The Pontiac Public Library (the "Library") is located in the City of Pontiac, Michigan. The Library is funded primarily through a tax levy, fines, and fees. Revenue is used to operate and staff the Library.

The accounting policies of the Library conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

Reporting Entity

The Library is governed by a six-member elected board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on these criteria, there are no component units of the Library that are to be included in the reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. The Library has only one fund, the General Fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The General Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Property taxes, state penal fines, and state aid meet the availability criteria.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

(1) **NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy to spend funds in this order: committed, assigned, and unassigned.

Property Tax Revenue

The City of Pontiac levies and collects property taxes on behalf of the Library. The Library follows the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Fines, contributions, and certain miscellaneous revenue are recorded when received.
- The Library's property tax is levied each December 1 of the fiscal year to be used to finance the following year's operations. At March 1 each year, the City settles their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the Library.
- For the year ended June 30, 2013, the Library levied 1.0000 mill. The 2012 taxable valuation of the Library totaled \$783,233,190.

Assets, Liabilities, and Net Position

Bank Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices.

Compensated Absences (Vacation and Sick Leave) – It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

(1) **NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Building Improvements	15 years
Equipment	5 to 7 years
Furniture and Fixtures	7 to 15 years
Library Books	5 years

Fund Equity - In the fund financial statements, governmental funds report the following components of fund balance:

Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

Committed: Amounts that have been formally set-aside by the Board of Trustees for use for specific purposes. Commitments are made and can be rescinded only via resolution of the governing body.

Assigned: Intent to spend resources on specific purposes expressed by the governing body or individual who is authorized by resolution and approved by the governing body to make assignments.

Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

(1) **NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Use of 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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Budget Information – The annual budget is prepared by the Library director during April for the next fiscal year. The budget is presented to the Library board in June for adoption. Subsequent amendments are approved by the Library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted for the Library's activity in total; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget is included in the required supplemental information section.

Deferred Outflow and Inflow of Resources – Deferred Outflow of Resources is defined as the consumption or usage of net assets applicable to a future reporting period. These types of resources are similar to assets and have a positive effect on the Statement of Net Position. Deferred Inflow of Resources is defined as the acquisition of net assets applicable to a future reporting period. These types of resources are similar to liabilities and have a negative effect on the Statement of Net Position.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

(2) **DEPOSIT AND INVESTMENTS**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes Library's to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreement; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated one bank for the deposit of its funds. The Library's deposits are in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it.

The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$1,531,201 of bank deposits (certifications of deposit, checking, and savings accounts), of which \$1,304,088 was uninsured or uncollateralized.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

(3) **CAPITAL ASSETS**

Capital asset activity of the Library is as follows for year ended June 30, 2013:

	Balance 7/1/2012	Additions	Disposals	Balance 6/30/2013
Governmental Activities				
Capital Assets being depreciated:				
Buildings & Improvements	\$ 2,500	\$ 49,868	\$ -	\$ 52,368
Equipment	15,713	-	-	15,713
Furniture and Fixtures	15,440	-	-	15,440
Library Books	247,384	44,727	-	292,111
Subtotal	281,037	94,595	-	375,632
Accumulated Depreciation:				
Buildings & Improvements	250	1,829	-	2,079
Equipment	5,518	2,360	-	7,878
Furniture and Fixtures	3,361	1,645	-	5,006
Library Books	113,715	49,416	-	163,131
Subtotal	122,844	55,250	-	178,094
Net Capital Assets being depreciated:	158,193	39,345	-	197,538
Net Capital Assets	\$ 158,193	\$ 39,345	\$ -	\$ 197,538

(4) **RISK MANAGEMENT**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The Library participates in the Michigan Municipal League risk pool for employee injuries (workers' compensation) and is partially uninsured for medical benefit claims. There were no claims during the year ended June 30, 2013.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

(5) **RESTATEMENT**

As a result of the City of Pontiac's transfer of the Library, a net difference of \$64,308 was incorrectly reported in the previous year. For the June 30, 2012 financial statements, beginning fund balance and net position have been restated as follows:

	Governmental Activities	Fund Balance
Fund balance/Net position as originally stated - July 1, 2012	\$ 1,766,288	\$ 1,653,745
Prior period adjustment	(64,308)	(64,308)
Fund balance/Net position as restated - July 1, 2012	\$ 1,701,980	\$ 1,589,437

(6) **UPCOMING ACCOUNTING PRONOUNCEMENTS**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement will be effective for the Library's 2014 fiscal year. The statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement will reclassify certain items currently being reported as assets and liabilities as deferred outflow of resources and deferred inflow of resources. Once implemented, this statement will recognize certain items currently being reported as assets and liabilities as outflow of resources and inflow of resources.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012*. The statement will be effective for the Library's 2014 fiscal year. The statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement will reclassify certain items currently being reported as assets and liabilities as deferred outflow of resources and deferred inflow of resources. Once implemented, this statement will recognize certain items currently being reported as assets and liabilities as outflow of resources and inflow of resources.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

(6) **UPCOMING ACCOUNTING PRONOUNCEMENTS** (Cont'd)

In June 2012, the GASB issued two new pension standards, GASB Statement No. 67, Financial Reporting for Pension Plans, and No. 68, Accounting and Financial Reporting for Pensions. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to its employees must now, under these new standards, recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI.) Statement No. 67 is required to be adopted for the year ending June 30, 2014 and Statement No. 68 one year later.

(7) **SUBSEQUENT EVENTS**

Subsequent events have been evaluated through August 15, 2014, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTAL INFORMATION

PONTIAC PUBLIC LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance Under/(Over) Final Budget</u>
REVENUES:				
Property taxes	\$ 547,318	\$ 547,318	\$ 562,827	\$ 15,509
Intergovernmental	82,000	82,000.00	123,969	41,969
Fines and forfeitures	-	-	19,557	19,557
Other revenue	28,000	28,000	3,108	(24,892)
Total revenues	<u>\$ 657,318</u>	<u>\$ 657,318</u>	<u>\$ 709,461</u>	<u>\$ 52,143</u>
EXPENDITURES:				
Current:				
General Government:				
Salaries and Wages	\$ 250,000	\$ 250,000	\$ 233,875	\$ 16,125
Fringe Benefits	50,894	50,894	56,017	(5,123)
Utilities	63,600	63,600	55,711	7,889
Supplies	74,647	74,647	11,661	62,986
Postage and Printing	20,500	20,500	19,329	1,171
Insurance	11,000	11,000	11,852	(852)
Contracted Services	118,991	118,991	135,645	(16,654)
Membership and Dues	70,884	70,884	58,602	12,282
Administrative Fees	12,110	12,110	-	12,110
Repairs and Maintenance	52,170	52,170	51,773	397
Advertising and Promotion	3,400	3,400	599	2,801
Miscellaneous	150	150	1,130	(980)
Total General Government	<u>\$ 728,346</u>	<u>\$ 728,346</u>	<u>\$ 636,194</u>	<u>\$ 92,152</u>
Capital Outlay				
Books and Other Materials	\$ 50,000	\$ 50,000	\$ 44,727	\$ 5,273
Building, Furniture and Equipment	-	-	52,175	(52,175)
Total Capital Outlay	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 96,902</u>	<u>\$ (46,902)</u>
Total Expenditures	<u>\$ 778,346</u>	<u>\$ 778,346</u>	<u>\$ 733,096</u>	<u>\$ 45,250</u>
Deficiency of Revenues over Expenditures	<u>\$ (121,028)</u>	<u>\$ (121,028)</u>	<u>\$ (23,635)</u>	<u>\$ 97,393</u>
NET CHANGE IN FUND BALANCE	<u>\$ (121,028)</u>	<u>\$ (121,028)</u>	<u>\$ (23,635)</u>	<u>\$ 97,393</u>
Beginning of year	<u>1,653,745</u>	<u>1,653,745</u>	<u>1,589,437</u>	<u>(64,308)</u>
End of year	<u><u>\$ 1,532,717</u></u>	<u><u>\$ 1,532,717</u></u>	<u><u>\$ 1,565,802</u></u>	<u><u>\$ 33,085</u></u>

PONTIAC PUBLIC LIBRARY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2013

NOTE – BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds except that operating transfers out have been included in the “expenditure” category instead of “other financing uses” and reimbursements have been included in the “revenue” category, rather than as a reduction to expenditures. All annual appropriations lapse at the fiscal year end. The annual budget is prepared by the Library’s management and adopted by the Board of Trustees; subsequent amendments are approved by the Board of Trustees.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the fund level, except for the General Fund, for which it adopts budgeted expenditures on an activity basis. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. Expenditures at this level in excess of amounts budgeted are in violation of Michigan law. The level of detail presented in the required supplemental information for the General Fund is on the budget basis. Copies of the budget for all budgeted funds are available at the management office of the Library.

The budget process is initiated in April, when the Library’s estimates the revenue and calculates salary and fringe benefit information, as well as estimates operating costs for the year and any critical needs are identified and incorporated into the new budget. The budget is submitted to the Board of Trustees in June. After a public hearing, the final budget is adopted by a resolution no later than June 30 of each year.

During the current year, the budget was not amended. Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. Encumbrances are not included as expenditures and the amount of encumbrances outstanding at June 30, 2013 has not been calculated.

PONTIAC PUBLIC LIBRARY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2013
(Continued)

NOTE – BUDGETARY INFORMATION (Cont'd)

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the Pontiac Public Library incurred general governmental expenditures within the General Fund that were in excess of the amounts budgeted, as follows:

	<u>Actual Budget</u>	<u>Actual</u>	<u>Variance</u>
Fringe benefits	\$ 50,894	\$ 56,017	\$ (5,123)
Contracted services	118,991	135,645	(16,654)
Building, furniture and equipment	-	52,175	(52,175)

The variances are related to minor unanticipated operating costs that were invoiced after the final budget arrangement.



**GREGORY
TERRELL
& COMPANY**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Board of Trustees
of Pontiac Public Library

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 Pontiac Public Library, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Pontiac Public Library's basic financial statements, and have issued our report thereon dated August 15, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. We consider the following deficiencies in the Library's internal control to be material weaknesses.

BANK RECONCILIATION PREPARATION AND REVIEW*

During the audit of cash, we noted that procedures were not in place to reconcile the Library's bank statements on a monthly basis and were prepared subsequent to year end.

We recommend the Library implement procedures that allow for monthly preparation of bank reconciliations within seven days of month end. We also recommend that the bank reconciliations are performed with documentation of a second review.

FRAUD RISK MANAGEMENT PROGRAM*

During discussions with management, we noted that the Library has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. As a result, the Library is unable to assess the Library's vulnerabilities to fraudulent activities and whether any of those exposures could result in material misstatement of the financial statements.

We recommend the Library develop and implement a fraud risk management program to enable an assessment of its vulnerabilities to fraudulent activities and evaluate the exposure of material misstatements in the financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pontiac Public 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

POLICIES AND PROCEDURES*

Based on our discussions with management, we noted that the Library has not formally adopted its own written procedures and policies. However, the Library developed written policies and procedures subsequent to year end covering credit cards, wire transfers, and purchasing. Such a manual should be expanded to include policies and procedures relative to all financial functions and processes, including, but not limited to cash receipts, cash disbursements for both payroll and vendors, personnel (hiring, payroll, and related changes) and month-end and year-end closing procedures.

We recommend the Library document specific policies and procedures to convey a clear understanding of management's expectations. We recommend that the Library formally adopt and implement the following written policies and procedures: Investment Policy, Capitalization Policy, Business Continuity Plan, Electronic Transaction Resolution, Conflict of Interest Policy, and New Hire Procedures.

OFFSITE STORAGE*

Based on our discussions with management, we noted that a backup file of QuickBooks is not maintained offsite in case of a disaster such as a fire.

We recommend the Library implement a procedure for maintaining a backup file of the QuickBooks offsite in case of disaster.

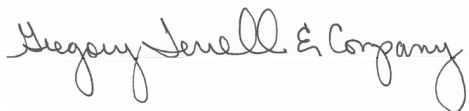
REPORTING

Under Michigan State law, the deadline for submission of the annual audited financial statements is December 31st. The audit of the Library's June 30, 2013 financial statements was not completed and the audited financial statements were not submitted by the December 31, 2013 deadline.

We recommend the Library have their books closed by August 31st of each year to ensure the audit firm has sufficient time to complete the audit in accordance with the State mandated deadline.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



GREGORY TERRELL & COMPANY
Certified Public Accountants

August 15, 2014

***Repeat Findings**