

PONTIAC PUBLIC LIBRARY
PONTIAC, MICHIGAN

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

JUNE 30, 2018

PONTIAC PUBLIC LIBRARY
FINANCIAL STATEMENTS
JUNE 30, 2018

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**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, 2018, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Library as of June 30, 2018, 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.

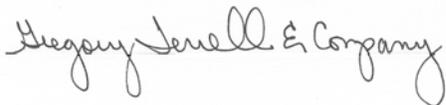
Other Matters

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 23-25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2019 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.



GREGORY TERRELL & COMPANY
Certified Public Accountants

February 5, 2019

PONTIAC PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2018

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, 2018. 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, 2018:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$1,474,309 (net position) at the governmental-wide level.
- The Library's total net position decreased \$61,746 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 \$1,004,818.

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 year, and whether the taxpayers have funded the full cost of providing government services.

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, 2018
(Continued)

The Library as a Whole

The following table shows, in a condensed format, the net position as of June 30, 2018, and 2017:

	Governmental Activities	
	2018	2017
Assets		
Current and other Assets	\$ 1,027,510	\$ 1,156,987
Capital Assets	615,805	455,357
Total Assets	1,643,315	1,612,344
Liabilities		
Current Liabilities	75,849	43,573
Long-term Liabilities	93,157	32,716
Total Liabilities	169,006	76,289
Net Position		
Invested in Capital Assets -		
Net of Related Debt	469,491	395,843
Unrestricted	1,004,818	1,140,212
Total Net Position	\$ 1,474,309	\$ 1,536,055

The Library's total net position was \$1,474,309 and \$1,536,055 for the years ended June 30, 2018 and 2017, a decrease of \$61,746. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) was \$1,004,818 and \$1,140,212 for the years ended June 30, 2018 and 2017, a decrease of \$135,394. The net position invested in capital assets were \$469,491 and \$395,843 for years ended June 30, 2018 and 2017, an increase of \$73,648.

PONTIAC PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2018
(Continued)

The following table shows the change in the net position during the years ended June 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
Revenue		
Program Revenue:		
Charges for Services	\$ 26,841	\$ 25,869
General Revenue:		
Property Taxes	709,167	564,238
Intergovernmental	160,115	258,025
Investment Income	-	15,796
Other	50,248	57,748
Total Revenue	946,371	921,676
Program Expenses		
Library Services/ Recreation and Culture	1,008,117	976,576
Total Program Expenses	1,008,117	976,576
Change in Net Position	\$ (61,746)	\$ (54,900)

Governmental Activities

The Library's governmental revenues totaled \$946,371 and \$921,676 for years ended June 30, 2018 and 2017, an increase of \$24,695. The Library's expenses totaled \$1,008,117 and \$976,576 for the years ended June 30, 2018 and 2017, an increase of \$31,541.

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 \$700,000 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, 2018, for financial reporting purposes as defined by GASB Statement No. 34.

The Library incurred \$1,219,765 in expenditures for fiscal year 2018 to operate the Library. Revenues totaled \$946,371 and Other Financing Sources from debt proceeds were \$138,000. The net change in fund balances for the Library for June 30, 2018 was a decrease of \$135,394 (expenditures over revenues and other financing sources) creating a fund balance of \$1,004,818 at June 30, 2018.

PONTIAC PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2018
(Continued)

Budgetary Highlights

The Library Board of Trustees did not amend the budget throughout the year. Actual expenditures were \$115,517 over the final budget (before consideration of other financing sources of \$138,000 used to finance the purchase of certain capital improvements) and actual revenues were \$65,876 more than the final budget. See budgetary comparison schedule on page 23.

Capital Assets

The Library's investment in capital assets continued with the making of purchases only when necessary. During the year ended June 30, 2018, the Library purchased an air conditioning unit and made other building improvements in the amount of \$209,193, library books of \$55,447 and equipment of \$25,594. See Note 3 in the accompanying notes to the financial statements for further details.

Debt

The Library issued debt of \$124,250 during the year ended June 30, 2015 for the purchase of capital assets. During the year ended June 30, 2018, the Library issued debt of \$138,000 to finance the purchase of certain building improvements. See note 5 in the accompanying notes to the financial statements for further details.

Economic Factors and Next Year's Budgets and Rates

There will be no significant increase in tax revenues. The current tax rate of 1.0000 mills will remain the same for fiscal year 2019. State aid and penal fines are anticipated to remain the same as reflected in our 2018-2019 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, 2018

	<u>Primary Government</u>
Assets	
Cash	\$ 373,168
Investment (Note 2)	507,642
Accounts Receivable	265
Due from Other Governmental Units	146,435
Capital Assets (Note 3):	
Assets Subject to Depreciation	615,805
Total Assets	\$ 1,643,315
Liabilities	
Accounts Payable	\$ 7,529
Accrued Liabilities	15,163
Portion of Non current Liabilities Due within One Year - (Note 5)	53,157
Non current Liabilities - Due in more than One Year - (Note 5)	93,157
Total Liabilities	\$ 169,006
Net Position	
Invested in Capital Assets - Net of Related Debt	\$ 469,491
Unrestricted	1,004,818
Total Net Position	\$ 1,474,309

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

PONTIAC PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Primary Government Net (Expenses) Revenues and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
Governmental Activities				
Recreation and Culture	\$ 1,008,117	\$ 26,841	\$ -	\$ (981,276)
Total Governmental Activities	<u>\$ 1,008,117</u>	<u>\$ 26,841</u>	<u>\$ -</u>	<u>\$ (981,276)</u>
General Revenues:				
Property Taxes				\$ 709,167
State Aid				35,547
Penal Fines				124,568
Other Miscellaneous Income				50,248
Total General Revenues				<u>\$ 919,530</u>
Change In Net Position				\$ (61,746)
Net Position - Beginning of Year				<u>1,536,055</u>
Net Position - End of Year				<u>\$ 1,474,309</u>

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

PONTIAC PUBLIC LIBRARY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2018

ASSETS

	<u>General Fund</u>
Assets	
Cash	373,168
Investment (Note 2)	507,642
Accounts Receivable	265
Due from Other Governmental Units	146,435
	<hr/>
Total Assets	\$ 1,027,510

LIABILITIES, AND FUND BALANCE

Liabilities	
Accounts Payable	\$ 7,529
Accrued Liabilities	15,163
	<hr/>
Total Liabilities	\$ 22,692
	<hr/>
Fund Balance	
Assigned	\$ 700,000
Unassigned	304,818
	<hr/>
Total Fund Balance	\$ 1,004,818
	<hr/>
Total Liabilities and Fund Balance	\$ 1,027,510

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, 2018

Fund Balance reported in Governmental Fund \$ 1,004,818

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 1,142,140

Accumulated Depreciation (526,335)

Notes Payable are not due and payable in the current period and are not reported in the Fund financial statements (146,314)

Net Position of Governmental Activities \$ 1,474,309

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, 2018

	<u>General Fund</u>
REVENUES:	
Property Taxes	\$ 709,167
Intergovernmental	160,115
Fines and Forfeitures	26,841
Other Revenue	50,248
Total Revenues	\$ 946,371
EXPENDITURES:	
General Government	
Salaries and Wages	\$ 404,268
Fringe Benefits	120,744
Utilities	45,875
Supplies	25,048
Postage and Printing	22,735
Insurance	13,894
Contracted Services	116,540
Membership and Dues	79,860
Administrative Fees	8,929
Repairs and Maintenance	24,184
Advertising and Promotion	1,735
Miscellaneous	6,717
Total General Government	\$ 870,529
Capital Outlay	
Books and Other Materials	\$ 55,447
Building, Furniture and Equipment	234,965
Total Capital Outlay	\$ 290,412
Debt Service	\$ 58,824
Total Expenditures	\$ 1,219,765
OTHER FINANCING SOURCES	
Proceeds from Debt	\$ 138,000
Excess (Deficiency) of Revenues over Expenditures	\$ (135,394)
Fund Balance - Beginning of year	1,140,212
Fund Balance - End of year	\$ 1,004,818

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, 2018

Net change in Fund Balance - Total Governmental Fund	\$ (135,394)
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p> <p>Governmental Fund reports Capital Outlays as Expenditures; however, in the Statement of Activities, these costs are capitalized and allocated over their estimated useful lives as depreciation:</p>	
Capital Outlay	290,240
Depreciation Expense	(129,790)
Proceeds from debt shown as liability, in the Government-wide financial statements	(138,000)
Repayment of debt principal is an expenditure in the Fund financial statements, but not in the Government-wide financial statements	51,198
Change in Net Position of Governmental Activities	\$ (61,746)

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

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(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, 2018
(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, 2018, the Library levied 1.0000 mill. The 2017 taxable valuation of the Library totaled \$675,578,260

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.

Fair Value Measurements – The Library uses fair value measurements in the preparation of its financial statements, which utilize various inputs, including those that can be readily observable, corroborated, or are generally unobservable. The Library utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Library applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(Continued)

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

Fair Value Measurements (Cont'd) – The measurement of fair value includes a hierarchy based on the quality of inputs used to measure fair value. Financial assets and liabilities are categorized into this three-level fair value hierarchy based on the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The various levels of the fair value hierarchy are described as follows:

- Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Library has the ability to access
- Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability
- Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement

The use of observable market data, when available, is required in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

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, 2018
(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, 2018
(Continued)

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

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Deferred Outflow and Inflow of Resources – Deferred Outflow of Resources is defined as the consumption or usage of net position 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 position 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.

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.

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(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.

Cash

Custodial Credit Risk. 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 \$397,332 of bank deposits in a checking account, of which \$147,332 was uninsured or uncollateralized.

Investments

Interest Rate Risk. The Library does not have an investment policy for interest rate risk. At year end, the average maturities of investments are as follows:

Investments	Fair Value	Weighted Average Maturity
Cash Equivalents	\$ 24,486	N/A
Mutual Funds - Bond	111,912	Not Available
Mutual Funds - Equity	224,041	N/A
Exchange Traded Funds	147,203	N/A
	\$ 507,642	

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(Continued)

(2) **DEPOSIT AND INVESTMENTS** (Cont'd)

Investments (Cont'd)

Investments	Fair Value	Rating
Cash Equivalents	\$ 24,486	N/A
Mutual Funds - Bond	111,912	Not Rated
Mutual Funds - Equity	224,041	N/A
Exchange Traded Funds	147,203	N/A
	<u>\$ 507,642</u>	

Concentration of Credit Risk. The Library places no limit on the amount the Library may invest in any one issuer. The Library has more than 5 percent of its investments in the following individual investments:

Investments	Symbol	Percentage
JPMorgan Core Bond Fund 3720	WOBDX	13%
Europacific Growth FD CL F-2	AEPFX	8%
Harbor Capital Appreciation Fund	HACAX	13%
Ishares Core S&P 500 ETF	IVV	9%
MFS Value Fund Class I	MEIIX	13%
Oppenheimer Developing Markets	ODVIX	8%

The Library's Fair Value hierarchy for these assets measured at fair value on a recurring basis as of June 30, 2018 is summarized as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at Fair Value:				
Cash Equivalents	\$ 24,486	\$ -	\$ -	\$ 24,486
Mutual Funds - Bond	111,912	-	-	111,912
Mutual Funds - Equity	224,041	-	-	224,041
Exchange Traded Funds	147,203	-	-	147,203
	<u>\$ 507,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 507,642</u>

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(Continued)

(3) **CAPITAL ASSETS**

Capital asset activity of the Library is as follows for year ended June 30, 2018:

	<u>Balance 7/1/2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/2018</u>
Governmental Activities				
Capital Assets being depreciated:				
Buildings & Improvements	\$ 262,617	\$ 209,193	\$ -	\$ 471,810
Equipment	32,387	25,595	-	57,982
Furniture and Fixtures	57,077	-	-	57,077
Library Books	499,819	55,452	-	555,271
Subtotal	851,900	290,240	-	1,142,140
Accumulated Depreciation:				
Buildings & Improvements	51,390	31,736	-	83,126
Equipment	15,091	12,150	-	27,241
Furniture and Fixtures	24,858	6,751	-	31,609
Library Books	305,206	79,153	-	384,359
Subtotal	396,545	129,790	-	526,335
Net Capital Assets	<u>\$ 455,355</u>	<u>\$ 160,450</u>	<u>\$ -</u>	<u>\$ 615,805</u>

(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, 2018.

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, 2018
(Continued)

(5) **LONG TERM DEBT**

The Library entered into capital lease agreements on September 2014 and July 2017 with Leasource Financial Services in the amounts of \$124,250 and \$138,000, respectively. Both leases are payable over 60 monthly payments. Future minimum payments toward the capital leases are as follows:

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 53,157	\$ 5,667	\$ 58,824
2020	34,386	3,421	37,807
2021	28,717	2,085	30,802
2022	30,054	748	30,802
Total	<u>\$ 146,314</u>	<u>\$ 11,921</u>	<u>\$ 158,235</u>

(6) **TAX ABATEMENTS**

The City of Pontiac's tax abatement programs that have reduced the property taxes that would have been received by the Library are as follows:

- **Brownfield** - A Brownfield is the redevelopment of contaminated, blighted, or functionally obsolete properties using the tax increment financing to fund eligible cleanup and redevelopment activities.
- **Tax Increment Financing Authority** - Tax increment financing (TIF) provides a means for an eligible district, area, or property to capture increases in property tax revenue from other taxing authorities to help fund certain eligible activities. This is accomplished by freezing the district's property values at a baseline value at the time the TIF capture is approved. Any increase in property taxes that results from activities such as new construction, property improvements, or a property's increased market valuation remain with the TIF authority to fund eligible costs.

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated</u>
Brownfield	\$ 15,476
Tax Increment Financing Authority	53,260
Total	<u>\$ 68,736</u>

PONTIAC PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(Continued)

(7) **SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 5, 2019 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

PONTIAC PUBLIC LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance Positive/ (Negative) Final Budget</u>
REVENUES:				
Property Taxes	\$ 675,578	\$ 675,578	\$ 709,167	\$ 33,589
Penal Fines	116,000	116,000	124,568	8,568
Other Revenue	88,917	88,917	112,636	23,719
Total Revenues	<u>\$ 880,495</u>	<u>\$ 880,495</u>	<u>\$ 946,371</u>	<u>\$ 65,876</u>
EXPENDITURES:				
General Government:				
Professional Services	\$ 141,075	\$ 141,075	\$ 116,540	\$ 24,535
Operations	755,232	755,232	740,430	14,802
Other Operations	5,000	5,000	13,559	(8,559)
Total General Government	<u>\$ 901,307</u>	<u>\$ 901,307</u>	<u>\$ 870,529</u>	<u>\$ 30,778</u>
Capital Outlay				
Collection	\$ 68,000	\$ 68,000	\$ 55,447	\$ 12,553
Capital Improvements	376,000	376,000	234,965	141,035
Total Capital Outlay	<u>\$ 444,000</u>	<u>\$ 444,000</u>	<u>\$ 290,412</u>	<u>\$ 153,588</u>
Debt Service	<u>\$ 58,941</u>	<u>\$ 58,941</u>	<u>\$ 58,824</u>	<u>\$ 117</u>
Total Expenditures	<u>\$ 1,404,248</u>	<u>\$ 1,404,248</u>	<u>\$ 1,219,765</u>	<u>\$ 184,483</u>
OTHER FINANCING SOURCES				
Proceeds from Debt	<u>\$ -</u>	<u>\$ -</u>	<u>138,000</u>	<u>\$ 138,000</u>
Excess (Deficiency) of Revenues over Expenditures	\$ (523,753)	\$ (523,753)	\$ (135,394)	\$ 388,359
Fund Balance - Beginning of year	<u>1,140,212</u>	<u>1,140,212</u>	<u>1,140,212</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 616,459</u>	<u>\$ 616,459</u>	<u>\$ 1,004,818</u>	<u>\$ 388,359</u>

PONTIAC PUBLIC LIBRARY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2018

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.

PONTIAC PUBLIC LIBRARY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2018
(Continued)

NOTE – BUDGETARY INFORMATION (Cont'd)

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Other Operations	\$ 5,000	\$ 13,559	\$ (8,559)



**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, 2018 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 February 5, 2019.

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.

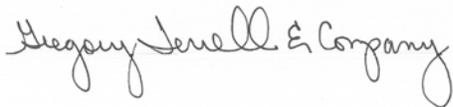
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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 did not note any deficiencies in Pontiac Public Library's internal control to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in cursive script that reads "Gregory Terrell & Company".

GREGORY TERRELL & COMPANY
Certified Public Accountants

February 5, 2019