

**Pontiac Public Library
Pontiac, Michigan**

FINANCIAL STATEMENTS

June 30, 2012

Pontiac Public Library

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pontiac Public Library
Pontiac, Michigan

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, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pontiac Public Library's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Pontiac Public Library as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 25, 2013

Pontiac Public Library

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2012

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, 2012. 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 financial highlights for the year ended June 30, 2012:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$1,766,288 (net assets) at the government-wide level.
- The Library's total net assets decreased \$185,967 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's governmental fund reported a fund balance of \$1,653,745.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets 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 long-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year.

The fund financial statements present a shorter-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 operations of the Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Pontiac Public Library

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2012

The Library as a Whole

The following table shows, in condensed format, the net assets at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets		
Current and other assets	\$ 1,788,385	\$ 1,884,108
Capital assets, net	<u>158,194</u>	<u>197,702</u>
Total assets	1,946,579	5,525,986
Liabilities		
Current liabilities	180,291	200,393
Net Assets		
Invested in capital assets	158,194	197,702
Unrestricted	<u>1,608,094</u>	<u>1,754,553</u>
Total net assets	<u>\$ 1,766,288</u>	<u>\$ 1,952,255</u>

The Library's total net assets were \$1,766,288 at June 30, 2012, a decrease of \$185,967 over the total net assets at the end of the previous fiscal year. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$1,608,094 at the end of the fiscal year, a decrease of \$146,459 over the previous year end. The invested in capital assets were \$158,194, a decrease of \$39,508 over the previous fiscal year.

The following table shows the changes in the net assets during the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Revenues		
Program revenue:		
Grants	\$ 4,073	\$ -
Charges for services	21,111	43,726
General revenue:		
Property taxes	584,916	908,293
Intergovernmental	122,620	123,631
Other	<u>13,445</u>	<u>1,964</u>
Total revenues	746,165	1,077,614
Program Expenses		
Library services/recreation and culture	<u>932,132</u>	<u>1,032,546</u>
Change in Net Assets	<u>\$ (185,967)</u>	<u>\$ 45,068</u>

Governmental Activities

The Library's governmental revenues totaled \$746,165 and decreased \$331,449 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.

Pontiac Public Library

MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2012

The Library's Fund

The analysis of the Library's major fund begins on page 1, 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 to 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 changes in fund balances for the Library's major fund. The General Fund is the sole major fund for the fiscal year ended June 30, 2012, for financial reporting purposes as defined by GASB Statement No. 34.

The Library incurred \$892,624 in expenditures for fiscal year 2012 to operate the library. Revenue totaled \$802,320. The net loss for the library for fiscal year 2012 was \$90,304 (expenditures over revenues) creating a fund balance of \$1,653,745.

Budgetary Highlights

The Library Board of Trustees amended the budget throughout the year. Actual expenditures were \$47,763 more than the final budgeted amount and actual revenues were \$62,647 less than the final budget.

Capital Assets

At the end of the fiscal year, the Library had \$158,194 invested in building improvements, equipment, furniture, and collections (net of accumulated depreciation). \$1,000,000 of fund balance has been assigned for future building needs. \$11,784 in library books and materials were added to capital assets and \$302 in books and materials was disposed of.

Economic Factors

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 2013. State aid and penal fines are anticipated to continue to decrease as reflected in our 2012/2013 budget.

Contacting the Library's Management

This annual financial report is intended to provide citizens, taxpayers, and those who utilize the Library's services an overview of the Library's finances and demonstrate 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 at 60 E. Pike Street, Pontiac, MI 48342.

BASIC FINANCIAL STATEMENTS

Pontiac Public Library

GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS

June 30, 2012

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash	\$ 1,678,424	\$ -	\$ 1,678,424
Accounts receivable	-	10,362	10,362
Due from other governmental units	99,599	-	99,599
Capital assets, net of accumulated depreciation	-	158,194	158,194
TOTAL ASSETS	<u>\$ 1,778,023</u>	168,556	1,946,579
LIABILITIES			
Accounts payable	\$ 32,734	-	32,734
Accrued wages	5,592	-	5,592
Due to other governmental units	85,952	56,013	141,965
TOTAL LIABILITIES	124,278	56,013	180,291
FUND BALANCE			
Assigned for future building needs	1,000,000	(1,000,000)	-0-
Unassigned	653,745	(653,745)	-0-
TOTAL FUND BALANCE	<u>1,653,745</u>	(1,653,745)	-0-
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,778,023</u>	<u>-0-</u>	<u>-0-</u>
NET ASSETS			
Invested in capital assets		158,194	158,194
Unrestricted		1,608,094	1,608,094
TOTAL NET ASSETS		<u>\$ 1,766,288</u>	<u>\$ 1,766,288</u>

See accompanying notes to financial statements.

Pontiac Public Library

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES			
Current			
Recreation and culture			
Salaries and wages	\$ 320,690	\$ -	\$ 320,690
Fringe benefits	93,154	-	93,154
Utilities	49,398	-	49,398
Supplies	14,717	-	14,717
Postage and printing	19,605	-	19,605
Insurance	17,549	-	17,549
Contracted services	225,951	-	225,951
Memberships and dues	59,963	-	59,963
Administrative fees	14,091	-	14,091
Repair and maintenance	60,541	-	60,541
Advertising and promotion	3,163	-	3,163
Miscellaneous	924	-	924
Capital outlay			
Books and other materials	12,478	(11,784)	694
Building, furniture, and equipment	400	-	400
Depreciation	-	51,292	51,292
	<u>892,624</u>	<u>39,508</u>	<u>932,132</u>
TOTAL EXPENDITURES/EXPENSES			
PROGRAM REVENUES			
Operating grants and contributions	4,073	-	4,073
Fines and forfeitures	21,111	-	21,111
	<u>25,184</u>	<u>-0-</u>	<u>25,184</u>
TOTAL PROGRAM REVENUES			
NET PROGRAM EXPENDITURES/EXPENSES			
	(867,440)	(39,508)	(906,948)
GENERAL REVENUES			
Property taxes	640,929	(56,013)	584,916
Intergovernmental	122,620	-	122,620
Other	13,587	(142)	13,445
	<u>777,136</u>	<u>(56,155)</u>	<u>720,981</u>
TOTAL GENERAL REVENUES			
NET CHANGE IN FUND BALANCE			
	(90,304)	90,304	-0-
CHANGE IN NET ASSETS			
	-	(185,967)	(185,967)
Restated fund balance/net assets, beginning of year	<u>1,744,049</u>	<u>208,206</u>	<u>1,952,255</u>
Fund balance/net assets, end of year	<u>\$ 1,653,745</u>	<u>\$ 112,543</u>	<u>\$ 1,766,288</u>

See accompanying notes to financial statements.

Pontiac Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pontiac Public Library (the Library) is governed by the Pontiac Public Library Board of Trustees, whose members are elected by the residents of the City of Pontiac through a general election. The Pontiac Public Library Board of Trustees has six (6) elected members that each serves a four (4) year term.

The financial statements of the Library have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Library's more significant accounting policies are described below.

1. Reporting Entity

In April 2012, the Library separated from the City of Pontiac and became its own legal entity. As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*, these financial statements are exclusive presentations of the financial condition and results of operations of the Pontiac Public Library.

2. Basis of Presentation and Measurement Focus

Combined financial statements are provided for the Governmental Fund Balance Sheet and the Statement of Net Assets, and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities. Descriptions of both presentations included in the basic financial statements are as follows:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Library as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, adjustments are reflected on the face of the financial statements. Those adjustments are explained in detail in Note F.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for services and grants and contributions that are restricted to meeting operational requirements. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and intergovernmental appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Library's individual major fund, the General Fund. The General Fund is used to account for all financial transactions not accounted for in another fund including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state distributions, and grants.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

FUND FINANCIAL STATEMENTS - CONTINUED

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned (deferred) revenue is recorded when resources are received by the Library before it has legal claim to them, such as when program fees are received but not yet earned.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

4. Budgets and Budgetary Accounting

Budgets were prepared on a basis consistent with the basis used to reflect actual results. The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end. The Library followed these procedures in establishing the budgetary data reflected in the financial statements prior to their separation from the City of Pontiac:

- a. The Library's administration prepares budgetary estimates for consideration by the Pontiac Public Library Board of Trustees.
- b. In May of the preceding fiscal year, the Pontiac Public Library Board of Trustees begins to develop a budget which will pass by resolution prior to the start of the new fiscal year.
- c. The budget is then provided to the City of Pontiac and approved by the City Council.
- d. The Library Board of Trustees adopts the budget at the activity level. The Pontiac City Council reviews and approves the Library's budgets at the functional level and encompasses the budget within the City's budget.
- e. Prior to incurring significant expenditures, the budget is legally enacted through action by the Pontiac Public Library Board of Trustees.

Pontiac Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Cash

Cash consists of the Library's checking accounts as well as the funds held at the City of Pontiac on the Library's behalf. The Pontiac Public Library participated in the City of Pontiac's pooled cash accounts until its separation from the City in April 2012. At June 30, 2012, there was still approximately \$418,748 that was held by the City of Pontiac on the Library's behalf.

6. Accounts Receivable and Due from Other Governmental Units

Accounts receivable consists of property taxes and other miscellaneous refunds earned but not yet received. Due from other governmental units consists of penal fines due from Oakland County and state aid revenue due from the State of Michigan.

7. Property Taxes

The City of Pontiac levies and collects property taxes on behalf of the Library. The Library's property tax is levied each December 1 of the fiscal year. 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. Delinquent personal property taxes are retained by the City Treasurer for subsequent collection. The Library is permitted to levy up to \$1.00 per \$1,000 of taxable value for operations. For the year ended June 30, 2012, the Library levied 1.0000 mills. The total taxable value for the December 2011 levy for property within the City was \$907,440,740.

8. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$2,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. Purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Building improvements	7 - 31.5 years
Furniture and fixtures	5 - 15 years
Equipment	5 - 15 years
Library books and materials	5 years

9. Due to Other Governmental Units

Due to other governmental units consists of amounts owed to Oakland County for actual and estimated property tax chargebacks. Chargebacks result when the County is unable to collect real property taxes on parcels previously settled with other local units of government.

10. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

Pontiac Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE B: CASH

In accordance with Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), the Library is authorized to make deposits and invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Deposits

The Library's deposits at June 30, 2012, were comprised of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 1,259,676	\$ 1,276,519
Funds held by the City of Pontiac	<u>418,748</u>	<u>418,748</u>
	<u>\$ 1,678,424</u>	<u>\$ 1,695,267</u>

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of bank failure, the Library's deposits may not be returned to it. Deposits of the Library are at one federally insured bank located in the State of Michigan with all accounts maintained in the name of the Library. As of June 30, 2012, all of the Library's accounts were FDIC-insured. It is unknown what portion of the funds held by the City of Pontiac at June 30, 2012, was FDIC-insured.

Due to significantly higher cash flows at certain periods during the year, the amount the Library held as cash increased significantly. As a result, the amount of the uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pontiac Public Library does not have a policy for custodial credit risk as the Library participated in the City's cash pool. As a result the Library has followed the City's policy yet has not adopted a policy of its own.

Pontiac Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE B: CASH - CONTINUED

Interest Rate Risk

The Library has not adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time if/when the Library has investments that are subject to this type of risk. Prior to the separation from the City of Pontiac, the Library followed the City's policy but has not adopted a separate interest rate risk policy addressing how the Library will handle risks as it relates to interest rates.

Concentration of Credit Risk

The Library has not adopted a policy that indicates how it will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized if/when the Library has investments that are subject to this type of risk.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets being depreciated				
Building improvements	\$ 2,500	\$ -	\$ -	\$ 2,500
Furniture and fixtures	15,440	-	-	15,440
Equipment	15,713	-	-	15,713
Library books and materials	<u>235,600</u>	<u>11,784</u>	<u>(302)</u>	<u>247,082</u>
Total capital assets being depreciated	269,253	11,784	(302)	280,735
Less accumulated depreciation for:				
Building improvements	(83)	(167)	-	(250)
Furniture and fixtures	(1,715)	(1,645)	-	(3,360)
Equipment	(3,158)	(2,360)	-	(5,518)
Library books and materials	<u>(66,595)</u>	<u>(47,120)</u>	<u>302</u>	<u>(113,413)</u>
Total accumulated depreciation	<u>(71,551)</u>	<u>(51,292)</u>	<u>302</u>	<u>(122,541)</u>
Net capital assets being depreciated	<u>\$ 197,702</u>	<u>\$ (39,508)</u>	<u>\$ -0-</u>	<u>\$ 158,194</u>

NOTE D: RISK MANAGEMENT

During the year ended June 30, 2012, the Library was covered through the City of Pontiac's worker's compensation and commercial insurance policies. The Library reimbursed the City of Pontiac for all costs incurred related to workers' compensation.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE D: RISK MANAGEMENT - CONTINUED

As of September 1, 2011, the Library began participating in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required.

As of September 1, 2011, the Library also began participating in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for property, liability, auto and casualty losses. The pool is organized under Public Act 168 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required.

NOTE E: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the Library's highest level of decision-making authority is the Board of Trustees. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a full vote and approval by the Board of Trustees.

For assigned fund balance, the Board of Trustees is authorized to assign amounts to a specific purpose through a full vote and approval.

For the classification of fund balance amounts, the Library spends restricted amounts first, then unrestricted amounts when both restricted and unrestricted amounts are available. Similarly, the Library spends committed amounts first, then assigned amounts, and finally unassigned amounts when any of those unrestricted fund balance classifications could be used.

Pontiac Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE F: RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities, respectively. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total fund balance - governmental fund \$ 1,653,745

Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 280,735
Accumulated depreciation is	<u>(122,541)</u>

Capital assets, net	158,194
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Certain receivables are not owed and receivable in the current period, and therefore are not recorded in the funds.	10,362
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Certain liabilities are not due and payable in the current period, and therefore are not recorded in the funds.

Tax settlement agreements	<u>(56,013)</u>
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Net assets of governmental activities	<u><u>\$ 1,766,288</u></u>
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Pontiac Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE F: RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

Net change in fund balance - governmental fund \$ (90,304)

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 11,784	
Depreciation expense	<u>(51,292)</u>	
Excess of depreciation expense over capital outlay		(39,508)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund.

Change in deferred revenue		(142)
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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 fund.

	<u>(56,013)</u>
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Change in net assets of governmental activities \$ (185,967)

NOTE G: TAX TRIBUNAL SETTLEMENT

The City of Pontiac had originally entered into an agreement with General Motors and Motors Liquidation Company in fiscal year 2011 to settle a property tax appeal for a total amount due of \$4,000,000 to be paid in annual installments of \$1,000,000 over a four year period beginning September 30, 2011. According to the agreement the City was responsible for paying a total of \$1,904,580 and the Tax Increment Finance Authority was responsible for paying a total of \$2,095,420. Due to the financial conditions, the City and Tax Increment Finance Authority did not make the first annual payment due September 30, 2011, of \$476,145 and \$523,855, respectively. During fiscal year 2012, General Motors and the City restructured the agreement, which allowed the City to make a one-time payment of \$2,000,000 to be paid on or before September 28, 2012. The portion of this settlement related to the Pontiac Public Library totaled \$56,013. The remaining liability of \$2,000,000, including 50% of the Library's original liability of \$112,027, was forgiven by GM.

NOTE H: RESTATEMENT OF FUND BALANCE

Beginning fund balance has been restated due to State Aid revenues that were recorded in fiscal year 2012 that related to fiscal year 2011 along with property tax chargebacks that were recorded in fiscal year 2011 but not reflected in the audited financial statements for fiscal year 2011. The revenues had been understated in fiscal year 2011 by \$12,762 offset by the property tax chargebacks of \$43,925, resulting in a restated fund balance of \$1,744,049.

Pontiac Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE I: CONTINGENCY

The Library engaged a consultant during 2009 to conduct an inspection of their current building to determine if there were environmental issues. The consultant found that there is asbestos in the current building. The asbestos would have to be removed if the building were to be sold or demolished; therefore, an environmental remediation liability for the Library exists at June 30, 2012. The cost to remediate the environmental issues has not yet been determined.

NOTE: J: SUBSEQUENT EVENT

During February 2013, the Library initiated a capital campaign to raise funds to move the Library to a new location within the City of Pontiac and for any improvements to the new building where the Library will reside.

NOTE K: UPCOMING PRONOUNCEMENTS

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Library's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

REQUIRED SUPPLEMENTARY INFORMATION

Pontiac Public Library

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
REVENUES				
Taxes	\$ 702,157	\$ 702,157	\$ 640,929	\$ (61,228)
Intergovernmental				
State aid	22,497	22,497	42,505	20,008
Penal fines	79,750	79,750	80,115	365
Fines and forfeitures	20,547	20,547	21,111	564
Grants	-	-	4,073	4,073
Other	-	-	13,587	13,587
TOTAL REVENUES	824,951	824,951	802,320	(22,631)
EXPENDITURES				
Current				
Recreation and culture				
Salaries and wages	313,000	313,000	320,690	(7,690)
Fringe benefits	77,748	77,748	93,154	(15,406)
Utilities	53,834	53,834	49,398	4,436
Supplies	29,000	29,000	14,717	14,283
Postage and printing	38,000	38,000	19,605	18,395
Insurance	16,000	16,000	17,549	(1,549)
Contracted services	141,200	141,200	225,951	(84,751)
Memberships and dues	70,000	70,000	59,963	10,037
Administrative fees	-	-	14,091	(14,091)
Repair and maintenance	54,079	54,079	60,541	(6,462)
Advertising and promotion	1,000	1,000	3,163	(2,163)
Miscellaneous	1,000	1,000	924	76
Capital outlay				
Books and other materials	50,000	50,000	12,478	37,522
Building, furniture, and equipment	-	-	400	(400)
TOTAL EXPENDITURES	844,861	844,861	892,624	(47,763)
NET CHANGE IN FUND BALANCE	(19,910)	(19,910)	(90,304)	(70,394)
Restated fund balance, beginning of year	1,744,049	1,744,049	1,744,049	-0-
Fund balance, end of year	<u>\$ 1,724,139</u>	<u>\$ 1,724,139</u>	<u>\$ 1,653,745</u>	<u>\$ (70,394)</u>

Pontiac Public Library

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2012

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2012, the Library incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
EXPENDITURES			
Recreation and culture			
Current			
Salaries and wages	\$ 313,000	\$ 320,690	\$ 7,690
Fringe benefits	77,748	93,154	15,406
Insurance	16,000	17,549	1,549
Contracted services	141,200	225,951	84,751
Administrative fees	-	14,091	14,091
Repair and maintenance	54,079	60,541	6,462
Advertising and promotion	1,000	3,163	2,163
Building, furniture, and equipment	-	400	400

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

To the Board of Trustees
and Management of Pontiac Public Library
Pontiac, Michigan

In planning and performing our audit of the financial statements of the government activities and the major fund of the Pontiac Public Library (the Library) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing 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 the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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:

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by the auditors for the adjustment of beginning fund balance, cash, accounts receivable, due from other governmental units, accounts payable, and accrued liabilities. These misstatements were not detected by the Library's internal control over financial reporting. Auditing standards emphasize that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position and results of operations, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls. This is a repeat comment from the prior year.

We recommend that the Library take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

CASH RECEIPTING PROCEDURES

During our review of internal controls over the cash receipting process, we noted several areas that could be strengthened. Specifically we noted that the Library currently lacks a sound system to reconcile the cash drawer at the end of the day. Current procedures consist of the cash drawer being counted then compared to the amount printed on the register tape. No reconciliation occurs between what has been receipted per the cash drawer to what has been recorded in the circulation system. This is a repeat comment from the prior year.

We also noted that currently there are no specific reports generated to ensure that all transactions have been received into the cash drawer. In addition, any checks that are received through the mail are opened by the Administrative Assistant and the checks are given to the Interim Library Director to record in the general ledger. The person who is recording transactions in the general ledger should not be handling checks as it increases the risk of fraud.

We recommend the Library determine adequate reports that can be generated through the circulation system to compare payments per that system to the cash receipted in the drawer. We also recommend some sort of duplicate cash receipt be given for every transaction that can be reconciled to the cash drawer. Finally, we recommend that a procedure be implemented for the Administrative Assistant to copy the checks received, provide the check copies to the Interim Library Director, and then take the checks to the bank for deposit. This will improve the segregation of duties over the cash receipts process.

BANK RECONCILIATION PREPARATION AND REVIEW

During our audit of cash we noted that the monthly bank reconciliations for the year ended June 30, 2012, were not prepared timely. The bank reconciliations were being prepared when we were conducting audit fieldwork in October 2012. Bank reconciliations should be completed monthly and on a timely basis to ensure that transactions are recorded in the proper period and that all transactions have been accounted for properly. These reconciliations should also be reviewed by someone other than the preparer. The lack of preparation and review of bank reconciliations creates an opportunity for fraud or errors to occur and to remain undetected.

It is our understanding that the Interim Library Director is now preparing the bank reconciliations on a timelier basis, however, the Library will need to appoint another appropriate person to review the bank reconciliations. The preparation and review should be documented by initialing and dating the monthly bank reconciliations.

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. We consider the deficiencies described below to be significant deficiencies:

PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Library rests with the Library's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the Pontiac Public Library. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally. This is a repeat comment from the prior year.

PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

Auditing standards require us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. We recommend the Library consider the costs and benefits related to obtaining training related to the preparation of GAAP financial statements.

FRAUD RISK MANAGEMENT PROGRAM

During discussions with management, we noted that the Pontiac Public Library has not developed or implemented a fraud risk management program. This issue was noted and reported in our prior audit comments. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Library not developing a fraud risk assessment and monitoring program, it 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 that the Library's management develop and the Pontiac Public Library Board of Trustees formally implement a fraud risk management program that is appropriate for the size and complexity of the entity. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the entity, and instructions for reporting fraud within the chain of command.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are described below.

UNFAVORABLE BUDGET VARIANCES

As noted in the required supplementary information to the financial statements for the year ended June 30, 2012, various activities of the General Fund of the Library exceeded the amounts appropriated. This is a repeat comment from the prior year.

Michigan Public Act 621 of 1978, as amended, provides that the Library shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Budgets were not amended when it was apparent that expenditures were going to exceed appropriations. The Library has not maintained adequate control over budgetary compliance in accordance with State law in the certain areas where the overages occurred.

We recommend the Library monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

POLICIES AND PROCEDURES

Based on our discussions with management we noted that the Library has not formally adopted its own written procedures and policies, separate from the City of Pontiac, for several areas of operation. This issue was noted and reported in our prior audit comments.

POLICIES AND PROCEDURES - CONTINUED

Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations and allows the Library to determine their own policies especially since the Library is now separate from the City of Pontiac. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Library formally adopt and implement written procedures and policies in the following areas:

- a. Investment policy - During the course of our audit it was noted that the Library does not have an investment policy, separate from the City of Pontiac, that addresses the various types of investment risk as described in reporting requirements of GASB Statement No. 40. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Library's ability to provide services and meet its obligations as they become due. We recommend the Library develop and formally adopt an investment policy that is in compliance with GASB Statement No. 40. This is a repeat comment from the prior year.
- b. Capitalization policy - We recommend the Library develop and adopt a policy that defines when an item should be included as a capital asset, method of depreciation, estimated useful lives, etc. This will assist the Library in determining their capital asset listing in preparation for issuing government-wide financial statements. This is a repeat comment from the prior year.
- c. Business continuity plan - A business continuity plan would clarify the Library's position if an interruption of critical business processes were to occur. We recommend the Library develop and implement a policy addressing business continuity and include it in the policy manual. This is a repeat comment from the prior year.
- d. Electronic transaction resolution - During our analysis of internal controls, it was noted that the Board of Trustees has not implemented a written electronic transaction resolution as required by Michigan Compiled Law. Public Act 738 of 2002 requires that local units of government that utilize electronic transactions adopt a written Electronic Transaction Resolution. We recommend the Library prepare a formal electronic transaction resolution that complies with the compiled law and adopt it through Board action. This is a repeat comment from the prior year.
- e. Conflict of interest policy - During our audit we noted there was not a conflict of interest policy in place whereby the members of the Board of Trustees would disclose any conflicts of interest on an annual basis. We recommend the Library develop and implement a policy addressing an annual conflict of interest disclosure by the Board of Trustees.
- f. New hire procedures - During our review of the controls surrounding payroll processing, we identified an opportunity for improvement for the documentation of the policies surrounding the new hire process. Since there is now a payroll service provider and a Human Resources consulting firm that are handling different responsibilities for the Library, there should be written procedures documenting each party's responsibilities.

OFFSITE STORAGE

During our review of the controls surrounding the information technology, we noted that although a backup is being performed of QuickBooks on a regular basis, the backup is being kept in the Library. If a disaster were to occur at the Library such as a fire where the computer copy and backup copy of the records were destroyed, the records would have to be recreated.

We recommend that the Library implement a procedure where on a weekly or bi-weekly basis, a backup of the QuickBooks file is generated and stored offsite. This would provide a more current starting point for the recreation of the records if there were to happen to be a natural disaster.

This communication is intended solely for the information and use of management, the Board of Trustees of the Pontiac Public Library, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 25, 2013