

**BRANCH DISTRICT LIBRARY
BRANCH COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

**To the Members of the Branch
District Library Board
Coldwater, Michigan**

January 27, 2015

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Branch District Library as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the 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. 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 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.

**To the Members of the Branch
District Library Board
Coldwater, Michigan**

January 27, 2015

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 each major fund for the Branch District Library as of December 31, 2014 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 identified in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Branch District Library's basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Taylor, Plant & Watkins, P.C.
TAYLOR, PLANT & WATKINS, P.C.
COLDWATER, MICHIGAN

BRANCH DISTRICT LIBRARY
MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Branch District Library’s financial performance provides an overview of the Branch District Library’s financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the Branch District Library’s financial statements.

The Management’s Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments issued June 1999. Information comparing the recently completed fiscal year with the previous fiscal year, is included in accordance with the requirements of GASB Statement No. 34.

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 Branch District 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 to measure the cost of providing services.

The fund financial statements present a short-term view; they tell us how the 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 most significant funds.

The Library as a Whole

The following table shows, in condensed format, the fund balance as of the current date and compared to the prior year under the modified accrual basis:

	Governmental Funds	
	2014	2013
Assets	\$ 1,225,567	\$ 1,068,254
Liabilities	40,691	32,408
Fund Balance		
Nonspendable	3,766	4,046
Restricted	216,066	209,443
Committed	291,349	256,591
Assigned	-	52,535
Unassigned	673,695	513,231
Total fund balance	\$ 1,184,876	\$ 1,035,846

BRANCH DISTRICT LIBRARY**MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

The following table shows, in condensed format, the net position as of the current date as required by GASB 34 stated under the full accrual basis compared to prior year:

	Governmental Activities	
	2014	2013
Assets		
Current and other assets	\$ 1,225,567	\$ 1,068,254
Capital assets	<u>275,260</u>	<u>326,908</u>
Total assets	1,500,827	1,395,162
Liabilities		
Current liabilities and other liabilities	40,691	72,592
Long-term	<u>71,200</u>	<u>67,500</u>
Total liabilities	111,891	140,092
Net Position		
Investment in capital assets - net of related debt	275,260	286,724
Restricted for:		
Special revenue trust fund	187,238	179,490
Capital projects fund	178,043	144,410
Permanent trust fund	142,134	142,134
Unrestricted	<u>606,261</u>	<u>502,312</u>
Total net position	<u>\$ 1,388,936</u>	<u>\$ 1,255,070</u>

BRANCH DISTRICT LIBRARY**MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

The following table shows the changes of the fund equity during the current year and as compared to the prior year, under the modified accrual basis:

	Governmental Funds	
	2014	2013
Revenues		
Taxes	\$ 785,848	\$ 769,733
State aid	27,645	23,408
Charges for services	25,747	22,496
Penal fines	289,167	193,402
Interest earned	3,510	3,958
Donations	31,399	68,450
Reimbursements	30,295	16,180
Other revenue	16,928	17,819
Total revenue	1,210,539	1,115,446
Expenditures		
Cultural	1,009,148	965,426
Capital outlay	12,233	48,856
Total expenditures	1,021,381	1,014,282
Excess (deficiency) of revenues over expenditures	189,158	101,164
Other Sources (Uses)		
Sale of fixed assets	281	622
Debt service	(40,409)	(40,406)
Total other sources (uses)	(40,128)	(39,784)
Change in fund equity	\$ 149,030	\$ 61,380

BRANCH DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The following table shows, in condensed format, the changes of net position as of the current date as required by GASB 34 stated under full accrual basis:

	Governmental Activities	
	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 25,747	\$ 22,496
Operating/grants and contributions	61,694	84,630
General revenues:		
Property taxes	785,848	769,733
State aid not restricted for specific purposes	27,645	23,408
Penal fines not restricted for specific purposes	289,167	193,402
Interest and investment earnings	3,510	3,958
Other	17,209	18,441
Total revenues	1,210,820	1,116,068
Expenditures		
Cultural	1,076,954	1,048,680
Change in Net Position	\$ 133,866	\$ 67,388

- The Library's net position increased by \$133,866 this year, compared to an increase of \$67,388 in the prior year, under full accrual accounting. Under the modified accrual basis fund equity increased \$149,030 compared to an increase of \$61,380 in the prior year.
- The Library's primary source of revenue is property taxes, which represented 65% percent of total revenue. Penal fines in 2014 accounted for 24% of revenue. The slight increase in state aid from the State of Michigan resulted in \$4,237 increase over prior year.
- Personnel cost continues to be the Library's most significant expense, representing 71% percent of total general fund expenditures.
- A depreciation expense of \$101,063 represents approximately 9.1% percent of the Library's total governmental expenses.

BRANCH DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Library Budgetary Highlights for 2014:

- Property tax revenue for 2014 was based on 0.605 mill, decreased by the Headlee Amendment from the originally voted 0.7 mill. Tax revenues received were slightly increased from 2013 due to a slight rise in the taxable value of property. Penal fine revenue was budgeted conservatively, and came in higher than budget predictions with very high revenue that dwindled significantly by the end of the year.
- The Library made its final payment on the \$80,000 loan to cover some of the HVAC project expenses.
- The voters of Branch County passed a second millage of 0.5 in August to fund the Library for eight years beginning in 2015.

Next Year's Funding (2015)

- Property values have increased slightly, raising our property tax revenues based on the 0.605 millage rate.
- The Library will receive increased millage funding due to the new 0.5 millage which will last for the next 8 years.
- The Library is expecting penal fine revenue to level out over the course of this year.
- Spending on salaries will increase significantly due to the reinstatement of lost hours and staffing during difficult budget years.
- Spending on the materials budgets have been reinstated, which will increase spending on materials significantly.

Future Outlook

- Penal fine revenue will stabilize and this, in combination with the Library's new millage revenue, shall help to ensure the Library's future for many years to come.

BRANCH DISTRICT LIBRARY
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 487,428
Investments	501,929
Due from other governmental units	16,130
Prepaid expenses	3,766
Restricted assets:	
Cash	126,180
Investments	90,134
Capital assets less accumulated depreciation of \$369,324	<u>275,260</u>
 Total assets	 1,500,827
LIABILITIES	
Accounts payable	7,417
Accrued expenses	33,274
Long term liabilities	
Compensated absences	<u>71,200</u>
 Total liabilities	 111,891
NET POSITION	
Investment in capital assets - net of related debt	275,260
Restricted for:	
Special revenue trust fund	187,238
Capital projects fund	178,043
Permanent trust fund	142,134
Unrestricted	<u>606,261</u>
 Total net position	 <u><u>\$ 1,388,936</u></u>

BRANCH DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating / Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
Cultural	\$ 1,076,954	\$ 25,747	\$ 61,694	\$ (989,513)
General revenues:				
Property taxes, levied for general purposes				785,848
State aid not restricted for specific purposes				27,645
Penal fines not restricted for specific purposes				289,167
Interest and investment earnings				3,510
Other				17,209
Total general revenues				1,123,379
Change in Net Position				133,866
Net Position - Beginning				1,255,070
Net Position - Ending				\$ 1,388,936

BRANCH DISTRICT LIBRARY
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2014

	General Fund	Special Revenue Trust Fund	Capital Projects Fund	Permanent Trust Fund	Total Governmental Funds
ASSETS					
Cash	\$ 296,215	\$ 114,377	\$ 76,836	\$ -	\$ 487,428
Investments	400,722	-	101,207	-	501,929
Due from County	16,083	-	-	-	16,083
Due from City of Coldwater	47	-	-	-	47
Prepaid expenses	3,766	-	-	-	3,766
Restricted assets:					
Cash	-	74,180	-	52,000	126,180
Investments	-	-	-	90,134	90,134
Total assets	\$ 716,833	\$ 188,557	\$ 178,043	\$ 142,134	\$ 1,225,567
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 6,098	\$ 1,071	\$ -	\$ -	\$ 7,169
Accrued expenses	33,274	-	-	-	33,274
Restricted liabilities:					
Accounts payable	-	248	-	-	248
Total liabilities	39,372	1,319	-	-	40,691
FUND BALANCE					
Nonspendable	3,766	-	-	-	3,766
Restricted	-	73,932	-	142,134	216,066
Committed	-	113,306	178,043	-	291,349
Assigned	-	-	-	-	-
Unassigned	673,695	-	-	-	673,695
Total fund balance	677,461	187,238	178,043	142,134	1,184,876
Total liabilities and fund balance	\$ 716,833	\$ 188,557	\$ 178,043	\$ 142,134	\$ 1,225,567

See Notes to Financial Statements

BRANCH DISTRICT LIBRARY
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET POSITION
DECEMBER 31, 2014

Total Fund Balance - Governmental Funds \$ 1,184,876

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

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

The cost of the capital assets	644,584
Accumulated depreciation	<u>(369,324)</u>

Total capital assets not reported in the funds	275,260
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Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Compensated absences	<u>(71,200)</u>
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Total Net Position - Governmental Activities \$ 1,388,936

BRANCH DISTRICT LIBRARY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2014

	General Fund	Special Revenue Trust Fund	Capital Projects Fund	Permanent Trust Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 675,067	\$ -	\$ 110,781	\$ -	\$ 785,848
State aid	27,645	-	-	-	27,645
Charges for services	25,747	-	-	-	25,747
Penal fines	289,167	-	-	-	289,167
Interest earned	2,028	1,079	403	-	3,510
Donations	-	31,399	-	-	31,399
Reimbursements	30,295	-	-	-	30,295
Other revenue	16,928	-	-	-	16,928
Total revenues	1,066,877	32,478	111,184	-	1,210,539
EXPENDITURES					
Cultural	984,418	24,730	-	-	1,009,148
Capital outlay	-	-	12,233	-	12,233
Total expenditures	984,418	24,730	12,233	-	1,021,381
Excess of revenues over expenditures	82,459	7,748	98,951	-	189,158
OTHER SOURCES (USES)					
Sale of fixed assets	-	-	281	-	281
Transfers from (to) other funds	25,190	-	(25,190)	-	-
Debt service	-	-	(40,409)	-	(40,409)
Total other sources (uses)	25,190	-	(65,318)	-	(40,128)
Excess of revenues and other sources over expenditures and other uses	107,649	7,748	33,633	-	149,030
FUND BALANCE - BEGINNING	569,812	179,490	144,410	142,134	1,035,846
FUND BALANCE - ENDING	\$ 677,461	\$ 187,238	\$ 178,043	\$ 142,134	\$ 1,184,876

See Notes to Financial Statements

BRANCH DISTRICT LIBRARY
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Net change in Fund Balance - Total Governmental Funds	\$ 149,030
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(101,063)
Capital outlay	<u>49,415</u>
Total	(51,648)
Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Principal payments	40,184
Increases in compensated absences are reported as expenditures when financial resources are used in governmental funds	<u>(3,700)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 133,866</u></u>

BRANCH DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Branch District Library conform to generally accepted accounting principles of the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

REPORTING ENTITY:

The Library was formed during 1991 under P.A. 24 and began operations as a separate entity on January 1, 1992. Previously, the Library was a component unit of the County of Branch. The Library operates under an appointed board of seven members and provides library services to the residents of Branch County. The 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. These criteria include oversight responsibility, scope of public service and special financing relationships.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements, the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Library's government-wide activities are considered governmental activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

Governmental-Wide Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State shared revenues.

Fund-based Statements – Governmental 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State shared revenues, intergovernmental grants, charges for services and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received.

BRANCH DISTRICT LIBRARY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION:

MAJOR GOVERNMENTAL FUNDS

General Fund is the general operating fund of the Library. It is used to account for all the Library's financial resources not required to be accounted for in another fund.

Special Revenue Trust Fund is used to account for donations received and expended for Library purposes.

Capital Projects Fund is used to account for the portion of the millage designated each year by the Board to be expended for capital outlay.

Permanent Trust Fund is used to account for the assets held by the Library in a trustee capacity for donations. The principle portion must remain intact, but the earnings may be used to achieve the objectives of the donor.

ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS AND NET POSITION:

Cash 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 cost, which approximates fair market value. Pooled investment income is generally allocated to each fund using a weighted average.

Capital Assets – Capital assets, which include equipment, furniture and fixtures, and books, are reported in the applicable governmental activities column in the government-wide financial statements. Assets are recorded at historical cost or estimated historical cost if purchased. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Library has recorded current assets deemed to have future value. The Library determined there was no future value in assets not capitalized in past years.

Equipment, furniture and fixtures, and books are depreciated using the straight-line method over the following useful lives:

Machinery and equipment	5-10 Years
Furniture and fixtures	7-10 Years
Books	3-5 Years

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS AND NET POSITION - Continued:

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Library does not have anything that qualifies for reporting in this category.

Deferred Inflows of Resources – In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Library does not have anything that qualifies for reporting in this category.

Compensated Absences - As of December 31, 2014, the Library was liable for compensated absences of unused vacation and sick pay for approximately \$71,200. Vacation and sick pay is earned, accumulated and paid on termination based upon the personnel policies governing the various employees.

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.

Fund Balance – The Library implemented GASB statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS AND NET POSITION - Continued:

Fund Balance – Continued:

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Library establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Library's Board through adoption or amendment of the budget as intended for specific purpose.

BASIS OF BUDGETING:

The Library adopted their annual budgets based on the modified accrual method of accounting. Expenditures were estimated by line item basis, but approved on a functional basis. The Library included an estimated beginning fund balance within the approved budgets. The budgets can only be amended by the Board. Such amendments are reflected in the official minutes of the Board, and are not made after year end as dictated by law. No revisions to the budgets were made during the year.

In the other supplemental information, the Library has provided line item detail for the General Fund for informational purposes only.

ENCUMBRANCE ACCOUNTING:

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end may be reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

USE OF ESTIMATES:

The Library uses estimates and assumptions in the preparation of the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenditures.

SUBSEQUENT EVENTS:

The Library evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through the auditors' opinion date.

NOTE B - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Library has designated financial institutions for the deposit of Library funds and has authorized the investment in certificates of deposit. The accounts maintained are checking, savings and certificates of deposit and are in accordance with statutory authority. The interest rates of the checking and savings accounts are at variable daily rates. The certificates of deposit are currently earning interest rates of .10% to .50%.

Investments consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost which approximates market value.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE B - DEPOSITS AND INVESTMENTS - Continued

Interest rate risk – In accordance with its investment policy, 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 the market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Library's cash requirements.

Credit risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The Library does not allow direct investment in commercial paper or corporate bonds.

Concentration of credit risk – The Library 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.

Custodial credit risk for deposits – In the case of deposits, this is the risk that in the event of a financial institution failure, the Library's deposits may not be recovered. As of December 31, 2014, \$261,917 of the Library's bank balance of \$1,209,235 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk for investments – For an investment, this 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 Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Library will do business.

Foreign currency risk – The Library is not authorized to invest in investments which have this type of risk.

NOTE C – DUE FROM COUNTY

As of December 31, 2014, the Library has amounts due from the County of Branch in the amount of \$16,130 for penal fines.

BRANCH DISTRICT LIBRARY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE D – CAPITAL ASSETS

Capital asset activity of the Branch District Library’s governmental activities was as follows:

GOVERNMENTAL ACTIVITIES

	Balance January 1, 2014	Additions	Disposals	Balance December 31, 2014
GROUP:				
Books	\$ 357,803	\$ 47,215	\$ -	\$ 405,018
Machinery and equipment	237,366	2,200	-	239,566
Subtotal	595,169	49,415	-	644,584
ACCUMULATED DEPRECIATION:				
Books	193,758	68,215	-	261,973
Machinery and equipment	74,503	32,848	-	107,351
Total accumulated depreciation	268,261	101,063	-	369,324
Net capital assets	<u>\$ 326,908</u>	<u>\$ (51,648)</u>	<u>\$ -</u>	<u>\$ 275,260</u>

Depreciation expense was charged to cultural activities of the Library in the amount of \$101,063.

NOTE E – TRANSFERS FROM (TO) OTHER FUNDS

The transfers from (to) other funds, for the year ended December 31, 2014, for the Library are as follows:

<u>GENERAL FUND</u>	
Transfer from Capital Projects Fund	<u>\$ 25,190</u>
<u>CAPITAL PROJECTS FUND</u>	
Transfer to General Fund Fund	<u>\$ (25,190)</u>

Transfers are used to fund branch location projects and expenditures.

BRANCH DISTRICT LIBRARY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE F – LONG-TERM DEBT

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2014</u>
Governmental Activities:				
Notes payable	\$ 40,184	\$ -	\$ 40,184	\$ -
Compensated Absences	67,500	3,700	-	71,200
Total governmental activities	<u>\$ 107,684</u>	<u>\$ 3,700</u>	<u>\$ 40,184</u>	<u>\$ 71,200</u>

Interest expense for the year ended December 31, 2014 was \$225 for Government-type Activities.

NOTE G – RESTRICTED FUND BALANCE

The detail of the restricted fund balances presented in Governmental Funds are as follows:

Restricted:

Special Revenue Trust Fund:

E. Dallen Memorial	846
R. Fisher Memorial	28,221
G. Barnett Memorial	1,174
Bronson operations	14,833
J. Morton Memorial	28,858
Total Special Revenue Trust Fund restricted fund balance	<u>73,932</u>

Permanent Trust Fund:

M. Semmelroth Memorial	\$ 50,000
E. Dallen Memorial	2,000
G. Barnett Memorial	90,134
Total Permanent Trust Fund restricted fund balance	<u>142,134</u>
Total restricted fund balance	<u>\$ 216,066</u>

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE H – TAXES

The Library's property taxes are levied each December 1. Taxes are collected by the local governmental units within Branch County and are remitted to County of Branch, which in turn remits them to the Library.

The 2014 tax rate was .605 of a mill.

Personal property taxes are accounted for as revenue as received, therefore, no provision for uncollectible personal property taxes has been made in these financial statements.

NOTE I – LEASE AGREEMENT

The library leases its facilities from the City of Coldwater. The initial term of the lease is for twenty-five years, with rent in the amount of \$1 per year.

NOTE J – DEFERRED COMPENSATION PLANS

The Library offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all Library employees, permits them to defer a portion of their salary until future years. The deferred compensation is generally not available to the employees until termination, retirement, death or unforeseeable emergency.

The Library funds all amounts of compensation deferred under the plan, at the direction of the covered employee, through investments approved by the plan's committee.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are, held in trust for the exclusive benefit of the participating employees and are not assessable by the Library or its creditors.

The Library has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

The Library has established Money Purchase Plan for the Library Director and Assistant Director. The plan calls for contributions on the Director's behalf and contains no requirements for matching contributions from the participants. The Library contribution for the year ended December 31, 2014 amounted to \$4,500 and is recorded in the General Fund.

BRANCH DISTRICT LIBRARY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE K – RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The Library has purchased commercial insurance for the coverage of the above discussed events.

BRANCH DISTRICT LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Taxes	\$ 664,420	\$ 664,420	\$ 675,067
State aid	25,200	25,200	27,645
Charges for services	21,000	21,000	25,747
Penal fines	161,000	161,000	289,167
Interest earned	1,200	1,200	2,028
Reimbursements	26,083	26,083	30,295
Other revenue	14,000	14,000	16,928
	<u>912,903</u>	<u>912,903</u>	<u>1,066,877</u>
EXPENDITURES			
Cultural	<u>993,128</u>	<u>993,128</u>	<u>984,418</u>
Excess (deficiency) of revenues over expenditures	(80,225)	(80,225)	82,459
OTHER SOURCES			
Transfer from other funds	<u>27,690</u>	<u>27,690</u>	<u>25,190</u>
Excess (deficiency) of revenues and other sources over expenditures	(52,535)	(52,535)	107,649
FUND BALANCE - BEGINNING	<u>494,835</u>	<u>494,835</u>	<u>569,812</u>
FUND BALANCE - ENDING	<u><u>\$ 442,300</u></u>	<u><u>\$ 442,300</u></u>	<u><u>\$ 677,461</u></u>

BRANCH DISTRICT LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION
SPECIAL REVENUE TRUST FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Interest earned	\$ 2,000	\$ 2,000	\$ 1,079
Donations	19,000	19,000	31,399
Total revenues	21,000	21,000	32,478
EXPENDITURES			
Cultural	20,600	20,600	24,730
Excess of revenues over expenditures	400	400	7,748
OTHER SOURCES (USES)			
Transfers from other funds	-	-	-
Excess of revenues and other sources over expenditures	400	400	7,748
FUND BALANCE - BEGINNING	169,000	169,000	179,490
FUND BALANCE - ENDING	<u>\$ 169,400</u>	<u>\$ 169,400</u>	<u>\$ 187,238</u>

BRANCH DISTRICT LIBRARY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A - COMPLIANCE WITH STATE REGULATIONS

A comparison of actual results to the budgeted amounts, at the level of control adopted by the Library, for the Special Revenue Trust Fund are presented as Required Supplemental Information.

During the year the Branch District Library, incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Final Budget</u>	<u>Actual</u>
Special Revenue Trust Fund		
Cultural	\$ 20,600	\$ 24,730

BRANCH DISTRICT LIBRARY
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2014

CULTURAL	Budget	Actual	Over (Under) Budget
Salaries	\$ 590,211	\$ 598,961	\$ 8,750
Payroll taxes	47,217	45,865	(1,352)
Unemployment	14,100	2,475	(11,625)
Workers' compensation	2,500	1,879	(621)
Longevity	4,300	2,350	(1,950)
Deferred compensation	4,500	4,500	-
Board per diem	900	-	(900)
Hospitalization	46,000	47,807	1,807
Employee relations	500	339	(161)
Contracted services	12,900	17,665	4,765
Training	3,000	3,168	168
Telephone	6,500	5,952	(548)
Utilities	38,000	40,249	2,249
Insurance	11,500	11,444	(56)
Maintenance	50,500	42,800	(7,700)
Equipment maintenance	9,000	5,758	(3,242)
Network maintenance	8,000	10,433	2,433
Office supplies	30,500	30,264	(236)
Postage	4,000	2,050	(1,950)
Books	42,000	47,215	5,215
Periodicals	5,200	6,681	1,481
Audio/visual	8,000	8,097	97
Membership and dues	2,000	1,994	(6)
Transportation	8,000	7,783	(217)
Community promotions	6,300	6,715	415
Printing and publishing	1,000	-	(1,000)
Professional services	33,500	29,703	(3,797)
Correction of prior years' taxes	3,000	2,271	(729)
Total Cultural expenditures	\$ 993,128	\$ 984,418	\$ (8,710)



January 27, 2015

To the Members of the
Branch District Library
Branch County, Michigan

We have audited the financial statements of the governmental activities, each major fund and aggregate remaining information of the Branch District Library as of and for the year ended December 31, 2014. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned and scope and timing of our audit. We have communicated such information. Professional standards also require that we communicate that we communicate to you the following information related to our audit.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Branch District Library are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statement was:

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$71,200.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were detected as a result of audit procedures to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, management is a financial accounting, reporting, or auditing matter whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 27, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entities financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings and Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the District Library auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In planning and performing our audit of the financial statements of the government activities, each major fund and aggregate remaining information of the Branch District Library as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Branch District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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 in Branch District Library's internal control to be material weaknesses:

1. The Organization does not have control procedures in place or a member of management with sufficient skills to prepare financial statements in accordance with U.S. generally accepted accounting principles. As is common with smaller entities the Organization relies on its independent external auditors to assist in the preparation of the financial statements. Auditors by definition cannot be considered part of the Organization's internal controls. The Organization has evaluated the cost vs. benefit of preparing the financial statements and has determined it is in the best interest of the Organization to outsource this task to its external auditors.
2. Due to the size of staff the Branch District Library lacks adequate segregation of duties. We understand due to the size of needed staff, a proper segregation of duties may be impractical and the cost vs. benefit relationship may not justify the addition of accounting staff to accomplish the desired segregation. However, we do recognize the Library has implemented various procedures, to improve internal controls.

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

Taylor, Plant & Watkins, P.C.

TAYLOR, PLANT & WATKINS, P.C.