

**BRANCH DISTRICT LIBRARY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2012**

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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, and each major fund and the aggregate remaining information of the Branch District Library as of and for the year ended December 31, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### **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**

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Branch District Library as of December 31, 2012 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.

**Other Matters**

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Branch District Library's financial statements as a whole. The introductory section and other supplemental information are presented for purposes of additional analysis and are not 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. The introductory and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Taylor, Plant & Watkins, P.C.*  
**TAYLOR, PLANT & WATKINS, P.C.**  
**COLDWATER, MICHIGAN**  
**FEBRUARY 12, 2013**

**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, 2012. 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:

	<b>Governmental Funds</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>	\$ 1,011,892	\$ 1,093,822
<b>Liabilities</b>	37,426	46,214
<b>Fund Balance</b>		
Nonspendable	-	5,250
Restricted	192,119	177,166
Committed	243,370	265,424
Assigned	96,378	86,660
Unassigned	442,599	513,108
Total fund balance	\$ 974,466	\$ 1,047,608

**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:

	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current and other assets	\$ 1,011,892	\$ 1,093,822
Capital assets	362,616	222,725
Total assets	1,374,508	1,316,547
<b>Liabilities</b>		
Current liabilities and other liabilities	37,426	46,214
Long-term	149,400	54,600
Total liabilities	186,826	100,814
<b>Fund Equity</b>		
Investment in capital assets - net of related debt	282,616	222,725
Restricted for:		
Prepays	-	5,250
Special revenue trust fund	150,360	128,931
Capital projects fund	142,995	171,525
Permanent trust fund	142,134	142,134
Unrestricted	469,577	545,168
Total net position	<u>\$ 1,187,682</u>	<u>\$ 1,215,733</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:

	<b>Governmental Funds</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Taxes	\$ 769,937	\$ 785,026
State aid	21,006	22,585
Charges for services	27,732	20,299
Penal fines	181,917	228,361
Interest earned	5,507	6,657
Donations	26,416	25,586
Reimbursements	19,983	33,388
Other revenue	17,028	16,389
Total revenue	1,069,526	1,138,291
<b>Expenditures</b>		
Cultural	1,025,613	1,124,542
Capital outlay	197,890	127,689
Total expenditures	1,223,503	1,252,231
Excess (deficiency) of revenues over expenditures	(153,977)	(113,940)
<b>Other Sources</b>		
Sale of fixed assets	835	-
Debt proceeds	80,000	-
Total other sources	80,835	-
Change in fund equity	\$ (73,142)	\$ (113,940)

## 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:

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 27,732	\$ 20,299
Operating/grants and contributions	46,399	58,974
General revenues:		
Property taxes	769,937	785,026
State aid not restricted for specific purposes	21,006	22,585
Penal fines not restricted for specific purposes	181,917	228,361
Interest and investment earnings	5,507	6,657
Other	17,863	16,389
Total revenues	1,070,361	1,138,291
<b>Expenditures</b>		
Cultural	1,098,412	1,170,230
<b>Increase (Decrease) in Net Position</b>	<u>\$ (28,051)</u>	<u>\$ (31,939)</u>

- The Library's net position decreased by \$28,051 this year, compared to a decrease of \$31,939 in the prior year, under full accrual accounting. Under the modified accrual basis fund equity decreased \$73,142 compared to a decrease of \$113,940 in the prior year.
- The Library's primary source of revenue is property taxes, which represented 72% percent of total revenue. Penal fines in 2012 accounted for 17% of revenue, lower than prior year. The slight decrease in state aid from the State of Michigan resulted in \$1,579 decrease over prior year.
- Personnel cost continues to be the Library's most significant expense, representing 65% percent of total governmental fund expenses.
- A depreciation expense of \$75,227 represents approximately 6.9% percent of the Library's total governmental expenses.

## **BRANCH DISTRICT LIBRARY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

#### **Library Budgetary Highlights for 2012:**

- Property tax revenue for 2012 was based on 0.605 mill, decreased by the Headlee Amendment from the originally voted 0.7 mill. Tax revenues received were down from 2011 due to a slight decrease in the taxable value of property. Penal fine revenue was budgeted conservatively, and revenues still came in below budget predictions.
- The Library took out an \$80,000 loan to cover some of the HVAC project expenses. This loan must be paid back in quarterly installments over the next two years.
- The absence of permanent director for part of 2012, and the hiring of a new director at a lower salary have impacted salary expenditures.

#### **Next Year's Funding (2013)**

- Property values have increased slightly, raising our property tax revenues based on the 0.605 millage rate. With loss of personal property tax we will see further losses in revenue over the next several years. We are optimistic that penal fine revenue has bottomed out and will remain at current levels for the time being.
- Spending on salaries is decreased drastically compared to last year due to the cutting of staff in both kid's place and circulation/reference in addition to closing the library six additional hours per week.
- We are optimistic that our new heating and cooling system will further reduce our spending on utilities.
- Materials budgets were lowered significantly for 2013 due to the continued decrease in penal fine revenue as were hours of operation. Staffing levels were decreased dramatically in all public service areas, decreasing circulation and kid's place staff by 50%. The adult services supervision position continues to be unfilled.
- The Library is paying back the \$80,000 loan for the HVAC project quarterly.

**BRANCH DISTRICT LIBRARY**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2012**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash	\$ 203,664
Investments	599,767
Due from other governmental units	16,342
Restricted assets:	
Cash	101,985
Investments	90,134
Capital assets less accumulated depreciation of \$167,501	<u>362,616</u>
 Total assets	 1,374,508
<b>LIABILITIES</b>	
Accounts payable	8,956
Accrued expenses	28,470
Long term liabilities	
Note payable, due within one year	39,836
Note payable, due in more than one year	40,164
Compensated absences	<u>69,400</u>
 Total liabilities	 186,826
<b>NET POSITION</b>	
Investment in capital assets - net of related debt	282,616
Restricted for:	
Special revenue trust fund	150,360
Capital projects fund	142,995
Permanent trust fund	142,134
Unrestricted	<u>469,577</u>
 Total net position	 <u><u>\$ 1,187,682</u></u>

**BRANCH DISTRICT LIBRARY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Functions/Programs</b>	<b>Program Revenues</b>			<b>Governmental Activities</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating / Grants and Contributions</b>	<b>Net (Expense) Revenue and Changes in Net Assets</b>
Cultural	\$ 1,098,412	\$ 27,732	\$ 46,399	\$ (1,024,281)
General revenues:				
				769,937
				21,006
				181,917
				5,507
				17,863
				996,230
				<b>Change in Net Assets</b> (28,051)
				<b>Net Position - Beginning</b> 1,215,733
				<b>Net Position - Ending</b> \$ 1,187,682

**BRANCH DISTRICT LIBRARY**

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

**DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Special Revenue Trust Fund</b>
<b>ASSETS</b>		
Cash	\$ 60,873	\$ 100,375
Investments	499,188	-
Due from County	14,745	-
Due from City of Coldwater	1,597	-
Restricted assets:		
Cash	-	49,985
Investments	-	-
Total assets	<u>\$ 576,403</u>	<u>\$ 150,360</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 8,956	\$ -
Accrued expenses	28,470	-
Total liabilities	37,426	-
<b>FUND BALANCE</b>		
Nonspendable	-	-
Restricted	-	49,985
Committed	-	100,375
Assigned	96,378	-
Unassigned	442,599	-
Total fund balance	<u>538,977</u>	<u>150,360</u>
Total liabilities and fund balance	<u>\$ 576,403</u>	<u>\$ 150,360</u>

See Notes to Financial Statements

<b>Capital Projects Fund</b>	<b>Permanent Trust Fund</b>	<b>Total Governmental Funds</b>
\$ 42,416	\$ -	\$ 203,664
100,579	-	599,767
-	-	14,745
-	-	1,597
-	52,000	101,985
-	90,134	90,134
<u>\$ 142,995</u>	<u>\$ 142,134</u>	<u>\$ 1,011,892</u>
\$ -	\$ -	\$ 8,956
-	-	28,470
-	-	37,426
-	-	-
-	142,134	192,119
142,995	-	243,370
-	-	96,378
-	-	442,599
<u>142,995</u>	<u>142,134</u>	<u>974,466</u>
<u>\$ 142,995</u>	<u>\$ 142,134</u>	<u>\$ 1,011,892</u>

**BRANCH DISTRICT LIBRARY**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO NET POSITION**  
**DECEMBER 31, 2012**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 974,466</b>
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	530,117
Accumulated depreciation	<u>(167,501)</u>
Total capital assets not reported in the funds	362,616
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Note payable	(80,000)
Compensated absences	<u>(69,400)</u>
Total long-term liabilities not reported in funds	<u>(149,400)</u>
<b>Total Net Position - Governmental Activities</b>	<b><u><u>\$ 1,187,682</u></u></b>

**BRANCH DISTRICT LIBRARY**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>General Fund</b>	<b>Special Revenue Trust Fund</b>
<b>REVENUES</b>		
Taxes	\$ 661,252	\$ -
State aid	21,006	-
Charges for services	27,732	-
Penal fines	181,917	-
Interest earned	2,899	2,084
Donations	-	26,416
Reimbursements	19,983	-
Other revenue	17,028	-
	931,817	28,500
<b>EXPENDITURES</b>		
Cultural	1,018,542	7,071
Capital outlay	-	-
	1,018,542	7,071
Excess (deficiency) of revenues over expenditures	(86,725)	21,429
<b>OTHER SOURCES (USES)</b>		
Sale of fixed assets	-	-
Debt proceeds	-	-
Transfers from (to) other funds	25,934	-
	25,934	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(60,791)	21,429
<b>FUND BALANCE - BEGINNING</b>	599,768	128,931
<b>FUND BALANCE - ENDING</b>	\$ 538,977	\$ 150,360

See Notes to Financial Statements

<b>Capital Projects Fund</b>	<b>Permanent Trust Fund</b>	<b>Total Governmental Funds</b>
\$ 108,685	\$ -	\$ 769,937
-	-	21,006
-	-	27,732
-	-	181,917
524	-	5,507
-	-	26,416
-	-	19,983
-	-	17,028
109,209	-	1,069,526
-	-	1,025,613
197,890	-	197,890
197,890	-	1,223,503
(88,681)	-	(153,977)
835	-	835
80,000	-	80,000
(25,934)	-	-
54,901	-	80,835
(33,780)	-	(73,142)
176,775	142,134	1,047,608
\$ 142,995	\$ 142,134	\$ 974,466

**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, 2012**

<b>Net change in Fund Balance - Total Governmental Funds</b>	<b>\$ (73,142)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(75,227)
Capital outlay	<u>215,118</u>
Total	139,891
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):	
Debt proceeds	(80,000)
Increases in compensated absences are reported as expenditures when financial resources are used in governmental funds	<u>(14,800)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ (28,051)</u></u></b>

**BRANCH DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**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.

The statement of activities demonstrates the degree of which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

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, 2012**

#### **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, 2012**

**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 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, 2012

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

##### **ASSETS, LIABILITIES AND NET POSITION - Continued:**

**Compensated Absences** - As of December 31, 2012, the Library was liable for compensated absences of unused vacation and sick pay for approximately \$69,400. 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.

**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. The Library assigned \$96,378 for fund balancing purposes to balance a deficit budget related to next year.

## **BRANCH DISTRICT LIBRARY**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2012**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **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.

##### **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.

## **BRANCH DISTRICT LIBRARY**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2012**

#### **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 .15% and .75%.

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.

**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.

## **BRANCH DISTRICT LIBRARY**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2012**

#### **NOTE B - DEPOSITS AND INVESTMENTS - Continued**

**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, 2012, \$64,157 of the Library’s bank balance of \$1,007,826 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, 2012, the Library has amounts due from the County of Branch in the amount of \$14,745 for penal fines.

**BRANCH DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE D – CAPITAL ASSETS**

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

**GOVERNMENTAL ACTIVITIES**

<b>GROUP:</b>	<b>Balance January 1, 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance December 31, 2012</b>
Books	\$ 236,792	\$ 76,844	\$ -	\$ 313,636
Machinery and equipment	78,207	138,274	-	216,481
Subtotal	314,999	215,118	-	530,117
<b>ACCUMULATED DEPRECIATION:</b>				
Books	71,570	55,042	-	126,612
Machinery and equipment	20,704	20,185	-	40,889
Total accumulated depreciation	92,274	75,227	-	167,501
Net capital assets	<u>\$ 222,725</u>	<u>\$ 139,891</u>	<u>\$ -</u>	<u>\$ 362,616</u>

Depreciation expense was charged to cultural activities of the Library in the amount of \$75,227.

**NOTE E – TRANSFERS FROM (TO) OTHER FUNDS**

The transfers from (to) other funds, for the year ended December 31, 2012, for the Library are as follows:

**GENERAL FUND**

Transfer from Capital Projects Fund \$ 25,934

**CAPITAL PROJECTS FUND**

Transfer to General Fund \$ (25,934)

Transfers are used to fund branch location projects and expenditures in the General Fund.

**BRANCH DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE F – LONG-TERM DEBT**

	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2012</u>
Governmental Activities:				
Notes payable	\$ -	\$ 80,000	\$ -	\$ 80,000
Compensated Absences	54,600	14,800	-	69,400
Total governmental activities	<u>\$ 54,600</u>	<u>\$ 94,800</u>	<u>\$ -</u>	<u>\$ 149,400</u>

The following is a summary of the long-term obligations for the Library:

**GOVERNMENTAL ACTIVITIES**

Note payable to bank, interest rate .89% quarterly payments of \$10,102, due November 2014	<u>\$ 80,000</u>
---	------------------

The annual requirements to service all debt outstanding as of December 31, 2012, including interest payments of \$795 for the debt service requirements are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 39,836	\$ 571	\$ 40,407
2014	40,164	224	40,388
Total	<u>\$ 80,000</u>	<u>\$ 795</u>	<u>\$ 80,795</u>

Interest expense for the year ended December 31, 2012 was \$110 for Government-type Activities.

**BRANCH DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**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	835
R. Fisher Memorial	27,441
G. Barnett Memorial	4,373
Bronson operations	17,336

Total Special Revenue Trust Fund restricted fund balance 49,985

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 142,134

Total restricted fund balance \$ 192,119

**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 2012 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.

## **BRANCH DISTRICT LIBRARY**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2012**

#### **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. The plan calls for contributions on the Director's behalf and contains no requirements for matching contributions from the participant. The Library contribution for the year ended December 31, 2012 amounted to \$2,500 and is recorded in the General Fund.

#### **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, 2012**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
<b>REVENUES</b>			
Taxes	\$ 651,895	\$ 651,895	\$ 661,252
State aid	20,920	20,920	21,006
Charges for services	20,000	20,000	27,732
Penal fines	229,501	229,501	181,917
Interest earned	6,000	6,000	2,899
Reimbursements	35,392	35,392	19,983
Other revenue	14,000	14,000	17,028
	<hr/>	<hr/>	<hr/>
Total revenues	977,708	977,708	931,817
<b>EXPENDITURES</b>			
Cultural	1,090,302	1,090,302	1,018,542
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	(112,594)	(112,594)	(86,725)
<b>OTHER SOURCES</b>			
Transfer from other funds	25,934	25,934	25,934
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues and other sources over expenditures	(86,660)	(86,660)	(60,791)
<b>FUND BALANCE - BEGINNING</b>	<hr/>	<hr/>	<hr/>
	616,660	616,660	599,768
<b>FUND BALANCE - ENDING</b>	<hr/>	<hr/>	<hr/>
	\$ 530,000	\$ 530,000	\$ 538,977
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**BRANCH DISTRICT LIBRARY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SPECIAL REVENUE TRUST FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
<b>REVENUES</b>			
Interest earned	\$ 1,898	\$ 1,898	\$ 2,084
Donations	18,072	18,072	26,416
Total revenues	19,970	19,970	28,500
<b>EXPENDITURES</b>			
Cultural	6,185	6,185	7,071
Excess of revenues over expenditures	13,785	13,785	21,429
<b>FUND BALANCE - BEGINNING</b>	128,931	128,931	128,931
<b>FUND BALANCE - ENDING</b>	<u>\$ 142,716</u>	<u>\$ 142,716</u>	<u>\$ 150,360</u>

**BRANCH DISTRICT LIBRARY**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**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	\$ 6,185	\$ 7,071

**BRANCH DISTRICT LIBRARY**  
**OTHER SUPPLEMENTAL INFORMATION**  
**GENERAL FUND**  
**STATEMENT OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>CULTURAL</b>	<b>Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
Salaries	\$ 648,379	\$ 601,845	\$ (46,534)
Payroll taxes	51,870	46,271	(5,599)
Workers' compensation	2,500	2,153	(347)
Longevity	3,550	4,125	575
Deferred compensation	6,500	2,500	(4,000)
Board per diem	-	25	25
Hospitalization	61,000	58,623	(2,377)
Employee relations	-	246	246
Contracted services	10,500	10,660	160
Training	1,500	1,037	(463)
Telephone	7,000	6,424	(576)
Utilities	40,000	36,108	(3,892)
Insurance	13,000	11,421	(1,579)
Maintenance	50,400	42,255	(8,145)
Equipment maintenance	8,000	10,501	2,501
Network maintenance	10,000	6,480	(3,520)
Operating supplies	10,000	8,342	(1,658)
Office supplies	10,700	19,659	8,959
Postage	4,500	3,433	(1,067)
Books	83,253	76,844	(6,409)
Periodicals	5,200	5,553	353
Audio/visual	14,000	13,021	(979)
Membership and dues	2,500	1,600	(900)
Transportation	8,000	8,141	141
Community promotions	5,550	5,842	292
Printing and publishing	1,000	430	(570)
Professional services	31,400	29,366	(2,034)
Correction of prior years' taxes	-	5,637	5,637
<b>Total Cultural expenditures</b>	<b>\$ 1,090,302</b>	<b>\$ 1,018,542</b>	<b>\$ (71,760)</b>



February 12, 2013

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, 2012. 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 \$69,400.

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 February 12, 2013.

### **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, 2012, 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.