

INKSTER PUBLIC LIBRARY

**FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2013

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Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Inkster Public Library
Inkster, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Independent Auditor's Report
(Continued)

Auditor's Responsibility (Continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Library as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Alan C. Young & Assoc.

Detroit, Michigan
May 14, 2014

Inkster Public Library

Management's Discussion and Analysis

Inkster Public Library (the "Library") management offers this narrative overview and analysis of the Library's financial activities and statements for the fiscal year ended June 30, 2013. This narrative is an overview of the financial health of the Library based on the information in the statements. This discussion is intended to be an objective, straightforward and understandable introduction to the Library's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities of the Library as a whole present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting to demonstrate the cost of providing services during the current year and the degree to which the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view and demonstrate how the taxpayers' resources were spent during the year, as well as how much is available for future spending, on a modified accrual basis. The fund financial statements report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Statement of Net Position/Statement of Activities

The following tables show, in a condensed format, the Library's net position and changes in net position as of and for the year ended June 30, 2013. Since this is the first year the Library has been audited as a separate entity, comparative information has not been included, but will be included in subsequent years.

	<u>June 30, 2013</u>
Assets	
Current Assets	\$ 1,140,181
Capital Assets	56,611
Total Assets	<u>1,196,792</u>
 Liabilities	
Current Liabilities	71,335
Total Liabilities	<u>71,335</u>
 Net Assets	
Invested in Capital Assets	56,611
Unrestricted	1,068,846
Total Net Assets	<u>\$ 1,125,457</u>

Inkster Public Library

Management's Discussion and Analysis (Continued)

Statement of Net Position/Statement of Activities (Continued)

	<u>June 30, 2013</u>
REVENUE	
Property Taxes	\$ 489,873
Penal Fines - State	15,211
Library Fines and Fees	9,931
Other	27,537
Total Revenue	<u>542,552</u>
EXPENSES	
Salaries and Benefits	127,557
Depreciation	8,188
Other	78,361
Total Expenditures	<u>214,106</u>
Change in Net Position	<u>\$ 328,446</u>

On November 2, 2010, the Library became a City Library organized under Section 10a of Michigan PA 164 of 1877. Under this statute, the Library is governed by an independent, elected Board, having "exclusive control of the expenditure of all moneys collected to the credit of the library fund, and of the construction of any library building, and of the supervision, care and custody of the grounds, rooms, or buildings constructed, leased, or set apart for that purpose." The City of Inkster managed the Library Fund through the end of the fiscal year ending June 30, 2012. In 2011 and 2012, the Library was included in the City's audit, and effective July 1, 2012, the City of Inkster no longer tracks the Library's finances. This is the first audit of the Library as a separate entity.

The successful passage of the property tax levy resulted in 2.0 mills, levied each December 1, is levied on taxable values included in the City of Inkster, and expires after 10 years.

The Library's single General Fund accounts for all programming, materials, maintenance, capital investments, and administrative functions are of the Library. The budget is monitored closely and amended when necessary. For the year ended June 30, 2013, the General Fund activities were financed primarily by property tax revenue, along with penal fines and other sources.

Inkster Public Library

Management's Discussion and Analysis (Continued)

Statement of Net Position/Statement of Activities (Continued)

For the fiscal year ended June 30, 2013, revenue was in excess of expenditures, resulting in an \$300,135 increase to fund balance under the modified accrual method of accounting.

For the year ended June 30, 2013, the Library's total revenues were \$85,293 less than the revenues per the amended budget. Expenditures were \$93,570 under the total per the amended budget.

Capital Assets

During the year ended June 30, 2013, the Library made building improvements, in addition to books and periodicals, which were added to its existing collection. They will be depreciated over varying useful lives.

Long-term Liabilities

As of June 30, 2013, the Library does not have any long-term liabilities.

Economic Factors and Next Year's Budget

With the approval of the 2.0 millage rate, taxable values in the City of Inkster has become an important variable in the Library's largest revenue source. Total property tax levies are expected to decrease slightly in 2014.

The Library board is currently monitoring and will evaluate and respond as necessary to various upcoming state legislations, in particular to the consideration of replacing the personal property tax with an alternate source of funding.

Contacting the Library's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Inkster Public Library at 2005 Inkster Rd., Inkster, MI 48141.

Inkster Public Library

Governmental Fund Balance Sheet/Statement of Net Position June 30, 2013

	<u>General Fund</u>	<u>Adjustments (Note 7)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash & Cash Equivalents	\$ 1,118,712	\$ -	\$ 1,118,712
Due From Other Governmental Units	16,475	-	16,475
Prepaid Assets	4,994	-	4,994
Capital Assets - Net (Note 5)	-	56,611	56,611
Total Assets	<u>\$ 1,140,181</u>	<u>56,611</u>	<u>1,196,792</u>
LIABILITIES AND FUND BALANCE/NET ASSETS			
LIABILITIES			
Accounts Payable	\$ 1,777	\$ -	\$ 1,777
Accrued Liabilities	1,334	-	1,334
Accounts Payable To Other Governments	68,224	-	68,224
Total Liabilities	<u>71,335</u>	<u>-</u>	<u>71,335</u>
FUND BALANCE			
Nonspendable	4,994		
Unassigned	1,063,852		
Total Fund Balance	<u>1,068,846</u>		
Total Liabilities and Fund Balance	<u>\$ 1,140,181</u>		
NET POSITION			
Invested in Capital Assets			56,611
Unrestricted			1,068,846
Total Net Position			<u>\$ 1,125,457</u>

The accompanying notes are an integral part of the financial statements.

Inkster Public Library

Statement of Governmental Fund Balance Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2013

	<u>General Fund</u>	<u>Adjustments (Note 7)</u>	<u>Statement of Activities</u>
REVENUE			
Property Taxes	\$ 489,873	\$ -	\$ 489,873
Penal Fines - State	15,211	-	15,211
Federal e-Rate	9,456	-	9,456
State Aid	17,684	-	17,684
Local Library Fines and Fees	9,931	-	9,931
Interest Income	208	-	208
Grants	189	-	189
	<hr/>	<hr/>	<hr/>
Total Revenue	542,552	-	542,552
EXPENDITURES			
Salaries	107,902	-	107,902
Benefits and FICA	19,655	-	19,655
The Library Network	40,944	-	40,944
Books	24,479	(22,523)	1,956
Supplies	3,254	-	3,254
Professional Fees	5,485	-	5,485
Library Programs	3,068	-	3,068
Memberships	606	-	606
Insurance	1,067	-	1,067
Utilities	1,942	-	1,942
Building Maintenance	15,311	-	15,311
Printing, Advertising & Postage	4,437	-	4,437
Depreciation	-	8,188	8,188
Education/Training	231	-	231
Travel	60	-	60
Capital Outlay	13,976	(13,976)	-
	<hr/>	<hr/>	<hr/>
Total Expenditures	242,417	(28,311)	214,106
Excess of Revenue Over Expenditures/ Change in Net Position	300,135	28,311	328,446
Fund Balance/Net Position - June 30, 2012	<hr/> 768,711	<hr/> 28,300	<hr/> 797,011
Fund Balance/Net Position - June 30, 2013	<hr/> <u>\$ 1,068,846</u>	<hr/> <u>\$ 56,611</u>	<hr/> <u>\$ 1,125,457</u>

The accompanying notes are an integral part of the financial statements.

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Effective November 2, 2010, the Inkster Public Library (the "Library") became a City Library organized under Section 10A of Michigan Public Act 164 of 1877.

Reporting Entity

The Library is governed by an elected six-member board. The accompanying 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. The Library's only fund, the General Fund, accounts for all financial resources of the Library. There are no component units required to be included in the library's financial report.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The following is a summary of the significant accounting policies:

The government-wide full accrual financial statements (the statement of net position and the statement of activities) are recorded 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Statement of net position includes and recognizes all long-term assets and receivables as well as long term debt and obligations. The library's net position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position. The statement of activities includes depreciation on long term assets and eliminates capital outlay expense.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes susceptible to accrual that is, when it becomes both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Library's policy is to first apply restricted resources.

When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Library's policy to spend funds in this order: committed, assigned, and unassigned.

Property Tax Revenue - Property taxes are levied on each December 1 on the taxable valuation of property included in the Library's district, as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2012 tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended June 30, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2012 taxable valuation of the City of Inkster totaled approximately \$314,500,000. A portion of that taxable value is abated and captured by various tax increment financing districts. Taxes levied consisted of 2.0 mills and resulted in a gross Library levy of approximately \$595,000. Property tax revenue for 2013 was reduced by approximately \$104,000 due to chargebacks applied to delinquent taxes in the Wayne County June 2013 settlement.

As of June 30, 2013, the Library has a balance due to the City of \$68,224 for overpayment of prior year property taxes. The overpayments were a result of delinquent chargebacks not being allocated to the Library.

Cash Equivalents - The Library considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Fixed Assets - The building the Library currently occupies is owned by the City of Inkster. Capital assets owned by the Library, including subsequent building improvements funded by the Library, are reported in the statement of net position. Capital assets are defined by the Library as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. However, books and periodicals are identified by management at acquisition regardless of dollar amount and capitalized accordingly. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Books and Periodicals	5 to 15 years
Leasehold Improvements	15 years
Computers	5 years
Furniture and Fixtures	15 years

Fund Equity – GASB No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions* establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – non-spendable, restricted, committed, assigned, and unassigned.

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

- **Non-spendable** - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted** - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed** - Amounts that have been formally set aside by the Library's board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Library's board.
- **Assigned** - Intent to spend resources on specific purposes expressed by the Library's board.
- **Unassigned** – Amounts that do not fall into any other category above.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2013, expenditures exceeded appropriations in the following line items:

	<u>Amount by Which Expenditures Exceed Appropriations</u>
Library Programs	\$ 68

3) DEPOSITS AND INVESTMENTS

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

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

The Library's cash is subject to custodial credit risk of bank deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$874,165 of deposits that were uninsured and uncollateralized. The Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not restrict investment maturities. The Library does not have investments with interest rate risk.

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library's investment policy does not further limit its investment choices. The Library held no such investments at June 30, 2013.

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. The Library held no such investments at June 30, 2013.

4) RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to full time employees. The Library has purchased commercial insurance for property loss, torts, errors and omissions, workers' compensation, and medical benefits for full time employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past year.

5) CAPITAL ASSETS

Capital asset activity of the Inkster Public Library's governmental activities is as follows:

	<u>Balance</u> <u>6/30/2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/2013</u>
Capital Assets being Depreciated:				
Books and Periodicals	\$ 15,468	\$ 22,523	\$ -	\$ 37,991
Building Improvements	-	13,976	-	13,976
Furniture and Fixtures	8,352	-	-	8,352
Computers	4,480	-	-	4,480
Subtotal	28,300	36,499	-	64,799
Accumulated Depreciation:				
Books and Periodicals	-	6,175	-	6,175
Leasehold Improvements	-	560	-	560
Furniture and Fixtures	-	557	-	557
Computers	-	896	-	896
Subtotal	-	8,188	-	8,188
Net Capital Assets	\$ 28,300	\$ 28,311	\$ -	\$ 56,611

6) DEFINED CONTRIBUTION PENSION PLAN

The Library matches the amount contributed to a defined contribution retirement plan which the full time employee (the Director) contributes, up to a board approved maximum amount of \$3,500. However, in the current year, a one-time catch up amount of \$4,040 was approved. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Full time employees are eligible to participate from the date of employment. Amounts to be contributed by the Library are established by board approval, and employee contributions for each employee plus interest allocated to the employee's account are fully vested immediately. The Library's total payroll for the current period was \$107,902. The current period contribution was \$14,504, resulting in employer and employee contributions of \$7,252 each.

7) RECONCILIATION OF GOVERNMENTAL FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's general fund differ from the net position and change in the net position of the governmental activities reported in the statement of net position and statement of activities. This difference results primarily from the long-term economic focus of the statement of net position and statement of activities versus the current financial resources focus of the fund balance sheet and statement of revenue, expenditures, and changes in fund balance.

The following is a reconciliation of fund balance to net position and the net change in fund balance to the net change in net position:

Total Fund Balance - Modified Accrual Basis	\$ 1,068,846
Amounts Reported in the Statement of Net Position are different because:	
Capital Assets are not Financial Resources and are not Included in the Funds	<u>56,611</u>
Net Assets - Full Accrual Method	<u>\$ 1,125,457</u>
 Total Net Change in Fund Balance - Modified Accrual Basis	 \$ 300,135
Amounts Reported in the Statement of Activities are different because:	
Capital Outlays are reported as Expenditures in the Statement of Revenue, Expenditures, and Changes in Fund balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital Outlay	13,976
Capitalized Books and Periodicals	22,523
Depreciation Expense	<u>(8,188)</u>
 Change in Fund Balance - Full Accrual Method	 <u>\$ 328,446</u>

8) UPCOMING ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. This standard will be implemented in the City's 2014 fiscal year.

REQUIRED SUPPLEMENTAL INFORMATION

Inkster Public Library

Required Supplemental Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUE				
Real Property Taxes	\$ 564,345	\$ 594,345	\$ 489,873	\$ (104,472)
Personal Property Taxes	30,000	-	-	-
Penal Fines	15,000	15,000	15,211	211
Federal e Rate	10,000	10,000	9,456	(544)
TLN State Aid	5,000	-	-	-
State Aid	5,000	5,000	17,684	12,684
Fines & Fees	3,000	3,000	9,931	6,931
Miscellaneous	500	500	397	(103)
Total Revenue	632,845	627,845	542,552	(85,293)
EXPENDITURES - CURRENT				
Salaries	125,200	125,200	107,902	17,298
Employee Benefits	28,067	32,107	19,655	12,452
The Library Network	56,000	56,000	40,944	15,056
Books & Periodicals	26,000	26,000	24,479	1,521
Operating Supplies	3,000	3,500	3,254	246
Professional & Consultant	15,480	15,480	5,485	9,995
Education/Training	2,000	2,000	231	1,769
Insurance	5,000	5,000	1,067	3,933
Utilities	16,100	15,600	1,942	13,658
Repairs and Maintenance	23,000	23,000	15,311	7,689
Capital Outlay	23,000	23,000	13,976	9,024
Printing, Advertising and Postage	5,000	5,000	4,437	563
Library Programs	3,000	3,000	3,068	(68)
Memberships	900	900	606	294
Travel Expenses	200	200	60	140
Total Expenditures	331,947	335,987	242,417	93,570
Excess of Revenue (Under) Over Expenditure	300,898	291,858	300,135	8,277
Fund Balance - June 30, 2012	768,711	768,711	768,711	-
Fund Balance - June 30, 2013	\$ 1,069,609	\$ 1,060,569	\$ 1,068,846	\$ 8,277

1) BUDGETARY INFORMATION

The annual budget is prepared by the Library's director and submitted to the Library's board for their approval; subsequent amendments are also submitted to the Library's board for approval. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2013 has not been determined. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the library's board and the Inkster Public Library is included in the required supplemental information.

**INKSTER PUBLIC LIBRARY
INKSTER, MICHIGAN**

Audit Communication Letter

YEAR ENDED JUNE 30, 2013



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

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(313) 873-7502 (Fax)
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May 14, 2014

Board of Trustees
Inkster Public Library
Inkster, Michigan

We have recently completed our audit of the financial statements of the Inkster Public Library (the Library), for the year ended June 30, 2013. In addition to our audit report, we are providing the following required communication and recommendations which impact the Library.

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We are grateful for the opportunity to serve the Library. Should you have any questions regarding the comments in this report, please do not hesitate to contact us.

Very truly yours,

Alan C. Young and Associates, P.C.



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RESULTS OF AUDIT

Board of Trustees
Inkster Public Library
Inkster, Michigan

We have audited the financial statements of the Inkster Public Library (the Library) for the year ended June 30, 2013, and have issued our report thereon dated May 14, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards. As well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 2, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 2, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Our audit included obtaining an understanding of the Library and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the Library.

Results of Audit (Continued)

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Library are described in Note 1 to the financial statements. During the year, the Library implemented the provisions of GASB 63. GASB 63 provides a new statement of net position format for reporting of the full-accrual, government-wide financial statements. The application of existing policies was not changed during the year ended June 30, 2013. 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. There were no particularly significant estimates made by the Library.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing 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. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 May 14, 2014.

Results of Audit (Continued)

Significant Audit Findings (Continued)

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 Library's 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 or 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 Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

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 U.S. generally accepted accounting principles, 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.

This information is intended solely for the use of the Board of Trustees of the Library and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young & Assoc.

Detroit, Michigan
May 14, 2014



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

Board of Trustees
Inkster Public Library
Inkster, Michigan

In planning and performing our audit of the financial statements of the governmental activities and major fund of the Inkster Public Library (the Library) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing 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 Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified as #1 - #8 in Exhibit A to be material weaknesses, and we consider the deficiency identified as #9 to be a significant deficiency.

This communication is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young & Assoc.

Detroit, Michigan
May 14, 2014

1) CASH BASIS OF ACCOUNTING

During our procedures, we noted there were no recorded balances for the Library's accounts receivable and accounts payable. These accounts are required if an organization is using the accrual basis of accounting. The Library has been using the cash basis of accounting. The process of converting from the cash basis to the accrual basis involves analyzing each transaction before and after year end to determine which year the transaction relates to.

We recommend the Library implement the accrual basis of accounting into their accounting system. This will enable management to get a better picture of what the Library is owed, and what the Library owes at any point of time.

2) CAPITALIZATION POLICY

During our audit procedures, we noted that the Library did not maintain a fixed asset ledger, showing beginning balances, additions, disposals, and ending balances of each asset, along with annual depreciation and accumulated depreciation balances.

We recommend that the Library maintain a fixed asset ledger detailing each capital asset to ensure all applicable expenditures are capitalized in the financial statements. This will help ensure the completeness and accuracy of the full accrual statements.

3) CONTRACTED ACCOUNTING FUNCTIONS

The Library, made the decision to use an outside firm to handle all accounting functions. This process resulted in weaknesses with internal controls over invoices that were processed for payment.

During the year we noted numerous instances where invoices were faxed to the outside firm with no indication that they had been approved. The outside firm would pay the invoice based on what was faxed over to them. Checks were issued and "signed" by use of signature stamps held by the outside firm. The outside firm, as a result, had responsibility for custodianship and recordkeeping, and given the lack of documentation often noted for approval of invoices, the firm also had indirect responsibility for authorization.

We recommend that the Library become more active in the cash disbursement process. It is acceptable and even appropriate to use an outside firm for certain accounting functions, but the output, such as bank reconciliations; general ledger; check registers, etc., should be reviewed by a Library representative independent of the process. Additionally, the Library should strive to segregate duties relating to custodianship, authorization and recordkeeping.

4) BANK DEPOSITS

During our procedures, we noted instances where deposits were not made on a timely basis. Deposits were often made only once in a two week period. Additionally, we often noted small differences between the cash receipt records and the deposit slips.

We recommend the Library deposit all cash receipts on a timely basis. Leaving cash undeposited weakens the internal control structure and increases the risk of theft or misuse of funds. Also, the Library needs to ensure that the amounts included in the cash receipt records agree to the amount per the bank deposit and the amount posted to the general ledger.

5) UNEMPLOYMENT EXPENSE

During our testing of payroll, we noted transactions debiting unemployment expense for each employee each payroll period, with a corresponding credit to payroll liabilities. However, further analysis showed that there was no payment to anyone for this unemployment expense. This analysis revealed that the Library is a reimbursement employer, meaning that the Library would reimburse the State of Michigan the amount paid to a laid off employee.

We recommend the Library have a designated individual review, approver and sign all payroll related transactions for each pay period to help ensure the accuracy of financial data.

6) MISSING ACCOUNTS IN THE CHART OF ACCOUNTS

The Chart of Accounts used by the Library was missing numerous accounts and did not conform to the State's required uniform chart of accounts. These accounts should have a numerical designation along with a brief description of the nature of the account.

We recommend that the Library properly follow the State's required uniform chart of accounts.

7) BUILDING LEASE

During our audit, we noted a lack of clarity regarding responsibility for certain expenses between the Library and the City, particularly prior to the commencement of the written lease agreement in December 2013. One example is the water bills. These were paid by the Library prior to the lease agreement, but it is not entirely clear if this was the Library's responsibility, or if it should have been paid by the City.

We recommend the Library thoroughly review the lease agreement with the City and ensure that all pertinent responsibilities, financial and otherwise, are covered under the agreement. This will help ensure a smoother lessor/lessee relationship, and will also help the governing board better monitor and budget operations.

8) FINANCIAL STATEMENT PREPARATION

Under U.S. generally accepted auditing standards we are required to communicate when any client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

We recommend that the Library examine the cost vs. benefit of preparing their financial statements and footnotes.

9) CASH RECEIPTS

During our procedures, we noted that receipts are typically not given when the Library collects cash. Although the dollar amounts are small, and most customers don't ask for a receipt, the issuance of receipts is an important internal control as it will create a trail for all cash payments.

We recommend the Library issue receipts anytime cash is received. This will help reduce the risk of unrecorded cash, or misuse of funds.

OTHER COMMENTS AND RECOMMENDATIONS

1) RELATIONSHIP WITH THE CITY OF INKSTER

The City of Inkster is currently operating under a consent agreement and the Library is using the City owned building that it currently occupies. As a result, there are various unknowns. There has been a recent leasing contract created between the City of Inkster and the Library, however the City has discussed potentially selling the property that houses the Library along with the vacated City Municipal building. If this sale were to happen, the Library would need to find suitable facilities.

We recommend that the Library perform an analysis of either building a new building, or looking into available facilities that might be available for rent or purchase. This will help ensure the ongoing existence of the Library serving the needs of the community.

2) JOURNAL ENTRIES

During our procedures, we noted that supporting documents are not kept with the corresponding journal entry worksheet. Although all documentation was ultimately available and provided to support the journal entries, it would be more efficient to attach the support to the journal entry worksheet.

We recommend that supporting documentation be attached to all journal entries. This will help improve the efficiency of the process and make the documentation more readily available for audit or internal purposes.

3) AUDIT DOCUMENTATION

During our audit, we noted significant difficulty in obtaining basic information needed for the audit. This included audit schedules, payroll records; invoices; check registers and certain bank statements. This greatly impacted the efficiency of the audit and also reduces the ability of management and the Board to monitor ongoing activities.

We understand this was the first year the Library operated fully independently of the City. However, it is imperative that the Library develop appropriate filing and retainage policies. The Library needs to be able to readily locate any and all invoices and should also be able to readily review/prepare/request basic documents as and when needed.