

Redford Township District Library

**Financial Report
with Supplemental Information
March 31, 2014**

Redford Township District Library

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Independent Auditor's Report

To the Board of Trustees
Redford Township District Library

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Redford Township District Library (the "Library") as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise Redford Township District 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.

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

To the Board of Trustees
Redford Township District Library

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Redford Township District Library as of March 31, 2014 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, during the year ended March 31, 2014, the Library implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, delinquent property taxes have been reclassified to deferred inflows of resources on the Library's balance sheet. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the General Fund budgetary comparison schedule, and the pension system and OPEB system schedules of funding progress, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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.

Plante & Moran, PLLC

July 18, 2014

Redford Township District Library

Management's Discussion and Analysis

Our discussion and analysis of Redford Township District Library's (the "Library") financial performance provides an overview of the Library's financial activities for the fiscal year ended March 31, 2014. Please read it in conjunction with 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 provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Statement of Net Position/Statement of Activities

The following table shows, in a condensed format, the net position as of March 31, 2014 and 2013:

	March 31	
	2014	2013
Assets		
Current assets	\$ 3,773,760	\$ 4,521,380
Capital assets	7,534,046	7,790,689
Total assets	11,307,806	12,312,069
Liabilities		
Current liabilities	670,762	644,637
Long-term liabilities	5,603,537	5,947,043
Total liabilities	6,274,299	6,591,680
Net Position		
Net investment in capital assets	2,589,046	2,365,689
Restricted	678,002	697,367
Unrestricted	1,766,459	2,657,333
Total net position	<u>\$ 5,033,507</u>	<u>\$ 5,720,389</u>

Redford Township District Library

Management's Discussion and Analysis (Continued)

The Library's combined net position decreased 12 percent from a year ago, decreasing from approximately \$5.7 million to \$5.0 million.

The following table shows the changes in net position during the fiscal years ended March 31, 2014 and 2013:

	Year Ended March 31	
	2014	2013
Revenue		
Tax levy	\$ 1,232,922	\$ 1,307,455
Penal fines	34,659	43,893
State aid	24,135	21,659
Book fines	57,672	55,333
Investment (loss) earnings	(32,694)	40,813
Miscellaneous	85,940	71,113
Total revenue	1,402,634	1,540,266
Expenses		
Personnel	1,099,705	1,087,078
Contractual services and books	117,370	201,678
Operating costs	300,857	299,918
Debt service	88,558	231,958
Depreciation	483,026	434,479
Total expenses	2,089,516	2,255,111
Change in Net Position	\$ (686,882)	\$ (714,845)

The Library's total revenue decreased by approximately \$138,000 in the current year. Property taxes decreased by approximately \$75,000 due primarily to a decrease in property tax value in Redford Township. Conversely, investment earnings decreased by \$74,000 primarily due to a decline in interest rates from the previous year.

Overall, current year expenses decreased by approximately \$166,000, or 7.3 percent, from the prior year. The primary reason for this reduction is a result of the debt refunding, which reduced interest expense by approximately \$143,000.

Redford Township District Library

Management's Discussion and Analysis (Continued)

The Library's Funds

Our analysis of the Library's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Library as a whole. The Library board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as the property tax millage for the 2002 bond issuance. The Library's major funds for 2014 consisted of the General Fund and the Debt Service Fund.

Budgetary and Current Year Highlights

Over the course of the year, the Library amended the budget to account for a modest increase in contractual services and books and a decrease in personnel costs.

During the current year the Library held the 1st Annual Books & Bytes Benefit, which raised approximately \$15,000. Proceeds from the benefit were used to fund a laptop training lab. The lab now offers popular classes to help residents build their computer skills.

Capital Asset and Debt Administration

A major undertaking in 2014 was upgrading the parking lot light fixtures to LED to reduce future electrical expenses. During the year, the Library purchased new computer equipment and library materials (books, CDs, and audiovisual materials). The library building was constructed with the proceeds received from the issuance of \$8.5 million in 2002 Library Building and Site Bonds, which was refunded in 2012 by issuing \$5,425,000 in bonds with an interest rate range of 1.5 percent to 2.25 percent and retiring the 2002 Library Building and Site Bonds. The outstanding balance on the bonds was \$4.95 million on March 31, 2014.

Economic Factors and Next Year's Budgets and Rates

The Library continues to monitor staffing levels and library services, using survey results from the strategic planning process to ensure that it is meeting public needs. An expected decline in property taxes will cause some tightening in operating expenses next year; however, the Library has a strategic plan and long-range budget plan in place. The Library board has elected to request an additional 1.4 mills of funding for eight years on the November 4, 2014 ballot.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the library director's office.

Redford Township District Library

Statement of Net Position/Governmental Funds Balance Sheet March 31, 2014

	Individual Library Funds			GASB No. 34 Adjustments (Note 12)	Statement of Net Position - Full Accrual Basis
	General Fund	Debt Service Fund	Total Modified Accrual Basis		
Assets					
Cash and cash equivalents (Note 4)	\$ 3,014,465	\$ 625,118	\$ 3,639,583	\$ -	\$ 3,639,583
Taxes receivable	88,460	45,717	134,177	-	134,177
Due from other funds/internal balances (Note 5)	-	9,912	9,912	(9,912)	-
Capital assets (Note 6):					
Assets not subject to depreciation	-	-	-	325,000	325,000
Assets subject to depreciation	-	-	-	7,209,046	7,209,046
Total assets	\$ 3,102,925	\$ 680,747	\$ 3,783,672	\$ 7,524,134	\$ 11,307,806
Liabilities					
Accounts payable	69,547	2,744	72,291	-	72,291
Due to other funds	9,912	-	9,912	(9,912)	-
Accrued liabilities and other	43,903	-	43,903	36,649	80,552
Noncurrent liabilities (Note 7):					
Due within one year:					
Compensated absences	-	-	-	22,919	22,919
Current portion of long-term debt	-	-	-	495,000	495,000
Due in more than one year:					
Compensated absences	-	-	-	97,232	97,232
Net OPEB obligation (Note 11)	-	-	-	1,056,305	1,056,305
Long-term debt	-	-	-	4,450,000	4,450,000
Total liabilities	123,362	2,744	126,106	6,148,193	6,274,299
Deferred Inflows of Resources -					
Delinquent property taxes	86,678	45,718	132,396	(132,396)	-
Equity					
Fund balance (Note 8):					
Restricted	-	632,285	632,285	(632,285)	-
Assigned	2,790,000	-	2,790,000	(2,790,000)	-
Unassigned	102,885	-	102,885	(102,885)	-
Total fund balance	2,892,885	632,285	3,525,170	(3,525,170)	-
Total liabilities, deferred inflows, and fund balance	\$ 3,102,925	\$ 680,747	\$ 3,783,672		
Net position:					
Net investment in capital assets				2,589,046	2,589,046
Restricted - Debt service				678,002	678,002
Unrestricted				1,766,459	1,766,459
Total net position				\$ 5,033,507	\$ 5,033,507

Redford Township District Library

Statement of Activities/Individual Funds Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended March 31, 2014

	Modified Accrual Basis			GASB No. 34 Adjustments (Note 12)	Statement of Activities
	General Fund	Debt Service Fund	Total Modified Accrual Basis		
Revenues					
Tax levy	\$ 697,607	\$ 557,427	\$ 1,255,034	\$ (22,112)	\$ 1,232,922
Penal fines	34,659	-	34,659	-	34,659
State aid	24,135	-	24,135	-	24,135
Book fines/fees	57,672	-	57,672	-	57,672
Investment earnings (loss)	(32,759)	65	(32,694)	-	(32,694)
Miscellaneous	85,940	-	85,940	-	85,940
Total revenues	867,254	557,492	1,424,746	(22,112)	1,402,634
Expenditures/Expenses					
Personnel	949,397	-	949,397	150,308	1,099,705
Contractual services and books	294,442	-	294,442	(177,072)	117,370
Operating costs	300,857	-	300,857	-	300,857
Debt service	-	571,558	571,558	(483,000)	88,558
Capital outlay	49,311	-	49,311	(49,311)	-
Depreciation	-	-	-	483,026	483,026
Total expenditures/expenses	1,594,007	571,558	2,165,565	(76,049)	2,089,516
Net change in fund balances/net position	(726,753)	(14,066)	(740,819)	53,937	(686,882)
Fund balances/net position	3,619,638	646,351	4,265,989	1,454,400	5,720,389
Fund balances/net position	<u>\$ 2,892,885</u>	<u>\$ 632,285</u>	<u>\$ 3,525,170</u>	<u>\$ 1,508,337</u>	<u>\$ 5,033,507</u>

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note I - Summary of Significant Accounting Policies

Redford Township District Library (the "Library") is located in Redford Township, Michigan. The Library is funded primarily through a tax levy, fines, and fees. Revenue is used to operate and staff the Library. The following is a summary of the significant accounting policies used by Redford Township District Library:

Reporting Entity

Redford Township District Library is governed by an appointed seven-member board of trustees. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting unit. Based on these criteria, there are no component units of the Library that are to be included in the reporting entity.

Accounting and Reporting Principles

The Library follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The individual fund columns present their activities on the modified accrual basis of accounting, as discussed above, which demonstrates accountability for how the current resources have been spent. The government-wide columns are presented on the economic resources measurement focus and the full accrual basis of accounting, in order to measure the cost of providing government services, and the extent to which constituents have paid the full cost of government services.

On the full 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 revenues in the year for which they are levied.

Fund Accounting

The Library accounts for its various activities in the General Fund and Debt Service Fund, in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures for which specific revenues were used. The Library reports the following as "major" governmental funds:

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide the Library services. General Fund activities are financed by revenue from a general property tax millage, state aid, and other sources.

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

- The Debt Service Fund, which is used to account for the annual payments of principal, interest, and expenses in connection with the 2002 Building and Site Bonds that were refunded in 2012. Debt Service Fund activities are financed by revenue from a property tax millage that expires in 2021.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims and judgments are recorded only when payment is due.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the Library considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state aid, state penal fines, property taxes, and interest associated with the current fiscal period.

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Capital Assets - Capital assets, which include property, furniture and equipment, library books, and videos, are reported in the governmental activities column in the government-wide financial statements. 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, furniture and equipment, library books, and videos are depreciated using the straight-line method over the following useful lives:

Capital asset class	Lives
Buildings	50 years
Furniture and equipment	5-15 years
Library books and AV materials	2-10 years

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an “other financing source,” as well as bond premiums and discounts. The debt service fund is generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Library has one item that qualifies for reporting in this category. The deferred inflows of resources relate to delinquent property taxes. These property taxes are shown as deferred inflows of resources on both the governmental funds balance sheet as well as the statement of net position.

Net Position Flow Assumption

Sometimes the Library will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Library’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note I - Summary of Significant Accounting Policies (Continued)

Fund Balance Flow Assumption

Sometimes the Library will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Library's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Library itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Library board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Library board has by resolution authorized the library director to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes receivable are shown net of allowance for uncollectible amounts, if deemed necessary. Properties are assessed as of December 31 and become a lien on December 1 of the following year. Related property taxes are billed on July 1 and December 1 of the following year. These taxes are due on September 15 and February 14 with the final collection date of February 28 before they are added to the Wayne County tax rolls.

The Library's 2014 tax is levied and collectible on December 1, 2013 and is recognized as revenue in the year ended March 31, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2014 taxable valuation of the Library totaled approximately \$783 million, on which taxes levied consisted of 0.9233 mills for the Library's operations and 0.6875 mills for debt service, resulting in property tax revenue of approximately \$696,000 and \$557,000, respectively. These amounts are recognized in the respective General Fund and Debt Service Fund financial statements as tax revenue.

Pension and Other Postemployment Benefit Costs - The Library offers both pension and retiree healthcare benefits to retirees. The Library receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements, the Library reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Compensated absences attributable to the governmental activities will be liquidated by the General Fund. Claims and judgments liabilities, if applicable, will be liquidated through the General Fund. The net OPEB obligation has been liquidated from the funds from which individual employees' salaries are paid, which is the General Fund.

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Note 2 - Change in Accounting

During the current year, the Library adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or outflows of resources.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Property taxes billed, but which were delinquent - General Fund	\$ 86,678	Liability	Deferred inflow of resources
Property taxes billed, but which were delinquent - Debt Service Fund	45,718	Liability	Deferred inflow of resources

Note 3 - Stewardship, Compliance, and Accountability

Budget Information - The annual budget is prepared by the director and the Library board and adopted by the Library board; subsequent amendments are approved by the Library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2014 has not been calculated. During the current year, the Library's operating costs exceeded the budgeted amount by \$2,182 as a result of unanticipated expenditures.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget statement is adopted by fund and function. The budget statement (statement of revenue, expenditures, and changes in fund balance) is presented on the same basis of accounting and level of detail as the adopted budget. State law requires expenditures to stay within appropriated amounts, and the Library did not have any unfavorable expenditure budget variances.

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 4 - 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. The Library 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 four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

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. At year end, the Library had no bank deposits (checking and savings accounts) 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. Negotiable certificates of deposits and bank investment pools are not insured.

Interest Rate Risk

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, other than commercial paper which can only be purchased with a 270-day maturity.

At year end, the Library had the following investments and maturities:

Investment	Less than 1 Year	1-5 Years	More than 5 Years
Negotiable certificates of deposit	\$ 784,890	\$ 798,431	\$ 725,779

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 4 - Deposits and Investments (Continued)

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

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 551,263	AAA	S&P
Bank investment pools	625,118	AAA	Moody's
Negotiable certificates of deposit	2,309,100	Not rated	N/A
Total	<u>\$ 3,485,481</u>		

Note 5 - Interfund Receivables, Payables, and Transfers

The following are the interfund receivables at March 31, 2014:

Receivable Fund	Payable Fund	Amount
Debt Service Fund	General Fund	<u>\$ 9,912</u>

These balances result from the time lag between the recording of the transaction in the accounting system and the actual payments being made between funds.

Note 6 - Capital Assets

Capital asset activity of the Library was as follows:

Governmental Activities	Balance April 1, 2013	Additions	Disposals	Balance March 31, 2014
Capital assets not being depreciated - Land	\$ 325,000	\$ -	\$ -	\$ 325,000
Capital assets being depreciated:				
Building	7,877,026	-	-	7,877,026
Furniture and equipment	1,131,222	60,143	(23,233)	1,168,132
Library books and audiovisual materials	3,981,598	166,240	-	4,147,838
Subtotal	12,989,846	226,383	(23,233)	13,192,996
Accumulated depreciation:				
Building	1,416,787	157,541	-	1,574,328
Furniture and equipment	661,263	102,368	(23,233)	740,398
Library books and audiovisual materials	3,446,107	223,117	-	3,669,224
Subtotal	5,524,157	483,026	(23,233)	5,983,950
Net capital assets being depreciated	7,465,689	(256,643)	-	7,209,046
Net capital assets	<u>\$ 7,790,689</u>	<u>\$ (256,643)</u>	<u>\$ -</u>	<u>\$ 7,534,046</u>

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 7 - Long-term Debt

The Library issued bonds to provide for the acquisition and construction of a library facility. The Library has the following long-term debt outstanding as of March 31, 2013:

	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities							
2012 Library Refunding Bonds (Unlimited Tax General Obligation) original issue of \$5,425,000 maturing through 2022	1.5%-2.25	\$495,000- \$610,000	<u>\$5,425,000</u>	<u>\$ -</u>	<u>\$ (480,000)</u>	<u>\$4,945,000</u>	<u>\$ 495,000</u>
Total bonds payable			5,425,000	-	(480,000)	4,945,000	495,000
Other long-term liabilities - Compensated absences		N/A	<u>111,706</u>	<u>32,550</u>	<u>(24,105)</u>	<u>120,151</u>	<u>22,919</u>
Total governmental activities			<u>\$5,536,706</u>	<u>\$ 32,550</u>	<u>\$ (504,105)</u>	<u>\$5,065,151</u>	<u>\$ 517,919</u>

The compensated absences represent the estimated liability to be paid to employees under the Library's paid time-off policy. Under the Library's policy, employees earn paid time off based on time of service with the Library.

Debt Service Requirements

The annual requirements to service all debt outstanding as of March 31, 2014 (excluding compensated absences), including principal and interest, are as follows:

<u>Year Ending March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 495,000	\$ 84,245	\$ 579,245
2016	510,000	76,708	586,708
2017	525,000	68,945	593,945
2018	530,000	61,033	591,033
2019	545,000	52,289	597,289
2020-2022	<u>2,340,000</u>	<u>101,425</u>	<u>2,441,425</u>
Total	<u>\$ 4,945,000</u>	<u>\$ 444,645</u>	<u>\$ 5,389,645</u>

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 8 - Fund Balance Constraints

Fund balance constraints are as follows:

	General Fund	Debt Service Fund	Total
Fund Balances			
Restricted for debt service	\$ -	\$ 632,285	\$ 632,285
Assigned:			
Property tax float	620,000	-	620,000
Capital improvements and replacements	860,000	-	860,000
Library construction - Second floor	1,310,000	-	1,310,000
Total assigned	2,790,000	-	2,790,000
Unassigned	102,885	-	102,885
Total fund balances	\$ 2,892,885	\$ 632,285	\$ 3,525,170

The property tax float assignment represents approximately 75 percent of the taxes levied in December 2013 to fund Library operations from January 2014 to December 2014, until taxes are collected next year.

Capital improvements and replacements are assignments to fund the estimated future capital outlay needs of the Library.

The Library construction - second floor assignment will fund the costs associated with completing the construction of the unfinished space on the second floor of the Library.

Unassigned fund balance has not been assigned for a specific purpose at this time, but management is in the process of evaluating several potential uses.

Note 9 - Risk Management

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

Note 10 - Pension Plan

Plan Description - The Library provides a defined benefit pension plan to its employees through the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer pension plan. MERS provides retirement and disability benefits; these benefits were established in Library policies and may be amended at any time. MERS issues a publicly available financial report that includes financial statements as well as trend information for the system; that report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 10 - Pension Plan (Continued)

Funding Policy - The obligation to contribute to and maintain MERS for these employees was established by negotiation with the Library's employees and currently does not require employee contributions.

Annual Pension Cost - For the year ended March 31, 2014, the Library's annual pension cost of \$82,764 was equal to the required and actual contribution that was determined by the actuarial valuation at December 31, 2011, using the entry age normal actuarial cost method. The actuarial assumptions included (a) an 8 percent investment rate of return, (b) projected salary increases of 2 percent per year, with a 4.5 percent inflation increase, and (c) no cost of living adjustments.

Employer contributions and annual pension cost data for the current and two preceding years were as follows:

Fiscal Year Ended	Annual Pension Costs	Employer Contributions Percentage of ARC Contributed
3/31/12	\$ 76,000	100.0 %
3/31/13	76,686	100.0
3/31/14	82,764	100.0

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/11	\$ 1,844,386	\$ 2,151,114	\$ 306,728	85.7	\$ 498,841	61.5
12/31/12	1,894,277	2,232,584	338,307	84.8	492,334	68.7
12/31/13	1,978,368	2,360,839	382,471	83.8	492,949	77.6

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 10 - Pension Plan (Continued)

Actuarial Methods and Assumptions - In the December 31, 2013 actuarial valuation, the entry age actuarial cost method was used. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) projected salary increases of 0 percent to 13 percent, attributable to seniority/merit. Both (a) and (b) include inflation at 1 percent for 2014, 2 percent for 2015, 3 percent for 2015, and 4.5 percent thereafter. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 26 years.

Note 11 - Other Postemployment Benefits

The Library provides healthcare benefits to all full-time employees upon retirement, in accordance with current Library policy; however, the board reserves the right to change or withdraw that benefit at any time. In the current year, the board authorized a \$30,000 transfer into a single employer-defined benefit plan administered by the Municipal Employees' Retirement System. Currently, the Library has one retiree who qualifies for postemployment benefits. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due.

Plan Description - The Library provides retiree healthcare benefits to eligible employees and their spouses. This is a single-employer defined benefit plan administered by the Library. The benefits are provided to employees based on board approval. MERS issues a publicly available financial report that includes financial statements as well as trend information for the system; that report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The employee benefit currently does not require a contribution from employees. The Library has no obligation to make contributions in advance of when the insurance premiums are due for payment.

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 11 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended March 31, 2014, the Library has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of March 31, 2013. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 201,883
Interest on the prior year's net OPEB obligation	36,578
Less adjustment to the annual required contribution	<u>(55,999)</u>
Annual OPEB cost	182,462
Less amounts contributed:	
Payments of current premiums	(10,599)
Advance funding	<u>(30,000)</u>
Increase in net OPEB obligation	141,863
OPEB obligation - Beginning of year	<u>914,442</u>
OPEB obligation - End of year	<u>\$ 1,056,305</u>

Employer contributions and annual OPEB cost data for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Annual OPEB Costs	Employer Contributions		Net OPEB Obligation
				Percentage of ARC Contributed	Percentage OPEB Costs Contributed	
3/31/12	3/31/10	\$ 189,104	\$ 173,767	9.0 %	9.3 %	\$ 782,541
3/31/13	3/31/13	189,104	173,443	22.0	25.8	914,442
3/31/14	3/31/13	201,883	182,462	20.1	22.2	1,056,305

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
3/31/10	\$ -	\$ 3,253,746	\$ 3,253,746	- %	\$ 508,569	639.8 %
3/31/13	103,757	1,811,613	1,707,856	5.7	442,963	385.6

Note 11 - Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the March 31, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of 9 percent initially and then graded down to 5 percent in 2017. The UAAL is being amortized on a level dollar closed basis. The remaining amortization period at March 31, 2013 was 27 years.

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 12 - Reconciliation of the Library as a Whole and the Individual Fund Financial Statements

Total fund balances and the net change in fund balances of the Library's individual funds differ from net position and change in net position of the Library as a whole 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 focus of the statement of the individual governmental funds' 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:

Fund Balance Reported in Governmental Funds	\$ 3,525,170
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	7,534,046
Property tax revenue not collected within 60 days of year end is recorded as deferred revenue in the funds	132,396
Bonds payable are not due and payable in the current period and are not reported in the funds	(4,945,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(36,649)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(120,151)
Net OPEB obligation does not present a claim on current financial resources. Therefore, it is not reported as a fund liability	<u>(1,056,305)</u>
Net Position of Governmental Activities	<u>\$ 5,033,507</u>

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 12 - Reconciliation of the Library as a Whole and the Individual Fund Financial Statements (Continued)

The change in net position reported in the statement of activities column is different than the change in fund balance reported in the individual fund columns because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Net Change in Fund Balances - Total Governmental Funds	\$ (740,819)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library books and audiovisual materials	166,240
Capital outlay	60,143
Depreciation expense	(483,026)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(22,112)
Repayment of bond principal is an expenditure in the fund financial statements, but not in the statement of activities	480,000
Change in accrued interest payable and other	3,000
Increase in the accrual for compensated absences is reported as an expenditure in the fund financial statements, but not in the statement of activities	(8,445)
Increase in net OPEB obligation expenses reported in the statement of activities does not require the use of current resources; therefore, it is not reported in the fund statements until it comes due for payment	(141,863)
Change in Net Position of Governmental Activities	<u>\$ (686,882)</u>

Redford Township District Library

Notes to Financial Statements March 31, 2014

Note 13 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Library is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending March 31, 2016.

Required Supplemental Information

Redford Township District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 707,350	\$ 707,350	\$ 697,607	\$ (9,743)
Penal fines	42,000	42,000	34,659	(7,341)
State aid	21,500	21,500	24,135	2,635
Fines/Fees	55,000	55,000	57,672	2,672
Investment earnings	42,000	42,000	(32,759)	(74,759)
Miscellaneous	74,000	77,189	85,940	8,751
Total revenues	941,850	945,039	867,254	(77,785)
Expenditures/Expenses				
Personnel	977,160	973,016	949,397	23,619
Contractual services and books	294,477	306,370	294,442	11,928
Operating costs	299,495	298,675	300,857	(2,182)
Capital outlay	53,500	53,760	49,311	4,449
Total expenditures/expenses	1,624,632	1,631,821	1,594,007	37,814
Excess of Expenditures Over Revenues	(682,782)	(686,782)	(726,753)	(39,971)
Fund Balances - Beginning of year	3,619,638	3,619,638	3,619,638	-
Fund Balances - End of year	<u>\$ 2,936,856</u>	<u>\$ 2,932,856</u>	<u>\$ 2,892,885</u>	<u>\$ (39,971)</u>

Redford Township District Library

Required Supplemental Information Pension System Schedule Year Ended March 31, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/11	\$ 1,844,386	\$ 2,151,114	\$ 306,728	85.7 %	\$ 498,841	61.5 %
12/31/12	1,894,277	2,232,584	338,307	84.8	492,334	68.7
12/31/13	1,978,368	2,360,839	382,471	83.8	492,949	77.6

Redford Township District Library

Required Supplemental Information OPEB System Schedule Year Ended March 31, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
3/31/10	\$ -	\$ 3,253,746	\$ 3,253,746	- %	\$ 508,569	639.8 %
3/31/13	103,757	1,811,613	1,707,856	5.7	442,963	385.6

July 18, 2014

To the Board of Directors
Redford Township District Library

We have audited the financial statements of Redford Township District Library (the "Library") as of and for the year ended March 31, 2014 and have issued our report thereon July 18, 2014. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under AU 265

Section II - Communications Required Under AU 260

Section III - Legislative and Informational Items

Section I includes any deficiencies we observed in the Library's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Library's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of directors of Redford Township District Library.

Section III presents recommendations related to legislative, informational, and other matters noted during our current year audit. These comments are offered in the interest of helping the Library in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the Library's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the board of directors and management of Redford Township District Library and is not intended to be and should not be used by anyone other than these specified parties.

To the Board of Directors
Redford Township District Library

July 18, 2014

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "W. E. Brickey", with a stylized flourish at the end.

William E. Brickey

Section I - Communications Required Under AU 265

In planning and performing our audit of the financial statements of Redford Township District Library as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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, material weaknesses or significant deficiencies may exist that were not identified. 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 and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiencies in the Library's internal control to be material weaknesses:

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles, including full accrual presentation of the governmental funds. This qualifies as a material weakness in internal control. The entries included adjustments required for the full accrual presentation of the government-wide statements, an adjustment to record accounts receivable and deferred inflows of resources related to property taxes, and properly recording long-term debt and capital asset activity. If journal entries are not posted, this could lead to inaccurate financial reporting during the year.

Section II - Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 28, 2014, 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. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 28, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Redford Township District Library are described in Note I to the financial statements.

Accounting Changes

As described in Note 2, the Library changed accounting policies related to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The new statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position. The statement impacts the format and reporting of the balance sheet at the government-wide level and also at the fund level. As a result of implementing this new accounting standard, the Library now reports a deferred inflow of resources for delinquent property taxes. In the past, this item was reported as a liability.

We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction was recorded.

Accounting Estimates

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 estimates affecting the financial statements were the estimates related to pension and other postemployment benefits (OPEB) funding. We evaluated the key factors and assumptions used to develop the allowance and annual required contribution in determining that they are reasonable in relation to the financial statements taken as a whole.

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. The most sensitive disclosures affecting the financial statements were the disclosures of Note 10 - Pension Plan and Note 11 - Other Postemployment Benefits.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose 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.

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. All misstatements detected as a result of audit procedures were corrected by management. The entries included adjustments required for the full accrual presentation of the government-wide statements, an adjustment to record accounts receivable and deferred inflows of resources related to property taxes, and properly recording long-term debt and capital asset activity.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 18, 2014.

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.

Section III - Legislative and Informational Items

Personal Property Tax

Significant personal property tax legislation is moving quickly through the Legislature. Key provisions of the 10-bill package include the following:

1. In August 2014, Michigan voters will be asked to approve a shift in Use Tax dollars to create a replacement fund. If rejected, the eligible manufacturing exemption described below will not occur, and the \$40,000 Small Taxpayer Exemption under PA 48 of 2012 would be effective for just the 2014 tax year (personal property tax would be levied again in 2015 for these small businesses).
2. The much-talked about local Essential Services Assessment (ESA) would be replaced with a State-assessed ESA, which is actually a tax but is being referred to as an assessment simply so that it is recognized as the substitute for the local ESA.
3. The new bills increase the reimbursement to local units for lost personal property tax revenue to an amount stated as 100 percent replacement.

Two key provisions under the previous personal property tax reform legislation (PA 408 of 2012) remain:

1. Under PA 408 of 2012, businesses with less than \$40,000 of combined industrial and commercial personal property TV (\$80,000 true cash value) would not have to file PPT returns or pay any personal property tax. This provision remains unchanged in these new bills. This exemption begins with the 2014 tax year (December 31, 2013 assessments).
2. "Eligible Manufacturing" property would be exempt from PPT. This would be phased in beginning in 2016 (December 31, 2015 assessment July 18, 2014), with the following provisions:
 - a. Any property purchased subsequent to December 31, 2012 would be exempt immediately.
 - b. Property purchased prior to December 31, 2012 would be reduced to zero by its 10th year of existence (should take nine years).

Reimbursement to Communities:

Communities will first need to calculate their losses. Losses are either debt loss or nondebt loss, as follows:

- **Debt Loss** - Debt loss is defined as the amount of ad valorem and dedicated taxes that go toward debt that are lost as a result of the personal property tax exemption. During FY 2014-2015 and 2015-2016, revenue distributed by the newly created Local Community Stabilization Authority (LCSA) would equal either a community's debt loss or, in the case of a TIF, the small taxpayer loss. Through the 2015-2016 fiscal year, the losses are limited to the impact of the \$40,000 small business exemption. When the phase-out of eligible manufacturing property would begin to occur when tax bills go out in 2016, the debt loss (and corresponding reimbursement) will increase.
- **Nondebt Loss** - Nondebt loss is calculated using the lowest rate of each individual millage levied in the period between 2012 and the year immediately preceding the current year. This will exclude debt millage. The department will compute the loss by comparing the current year taxable value of commercial and industrial property to the taxable value that existed at December 31, 2012 (2013 tax year). In 2016, cities will be reimbursed for nondebt loss for 2014 and 2015 related to the small taxpayer exemption loss. This is for cities only. For 2014 and 2015, townships will be getting reimbursed for the debt loss related to the small business exemption, but not the other losses created by the small business exemption. Starting in 2016, all municipalities are reimbursed for non-debt loss.

Reimbursement Mechanisms:

Beginning in 2015-2016, the LCSA would reimburse local units. Reimbursement to communities for the losses comes from two funding sources:

- **Use Tax Shift** - A portion of use tax will shift to the LCSA.
- **Essential Services Reimbursement** - Beginning in 2015-2016, the LCSA would receive a portion of the use tax as well as the full Essential Services Assessments in which to reimburse local units. This assessment is set at a prescribed millage rate based on the acquisition cost of property (depreciation will no longer apply). The rate is set at 2.4 mills for a property's first five years; then 1.25 mills for the next five; then 0.9 mills thereafter. Essential services are defined as ambulance, fire, and police services as well as jail operations. This includes the cost of related pension funding.

The losses described by the bill are to be paid in order of this priority: school debt; Intermediate School District losses; school operations; government essential services; debt and TIFA forgone increases; and all other reimbursements. In theory, if there is not enough money available, the lower priority items may not be fully reimbursed. However, that department has indicated that it expects the fund to have enough to cover all reimbursements.

All Other Reimbursements - These reimbursements come from the use tax and would also begin in 2015-2016 and initially be proportional to each local unit's share of total "qualified losses," taking into account the losses of all municipalities. Over time, the reimbursement will shift to be based on each entity's share of eligible manufacturing personal property (based on the amount used in the ESA calculation above). Beginning in FY 2017-2018, 5 percent of the revenue would be distributed proportionally based on each local unit's share of eligible manufacturing personal property. The 5 percent portion would increase in 5 percent increments in each subsequent year. By FY 2036-2037, all revenue in the last category of reimbursements would be distributed based on the local unit's share of eligible manufacturing personal property. In short, in the beginning, the reimbursement is closely tied to the amount of lost personal property taxes, but over time, the community's reimbursement will be tied to the level of eligible manufacturing personal property.

New Pension Standards

Beginning with the Library's March 31, 2016 year end, a new accounting standard issued by the Governmental Accounting Standards Board (GASB) will significantly impact the Library's financial statements. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, significantly revises the current accounting and reporting requirements for pensions.

Employers providing defined benefit pensions to its employees must now recognize their unfunded pension benefit obligation as a liability for the first time and must more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplementary information (RSI). As a result of implementing this new standard, the Library may need to add a net pension liability to its statement of net position, potentially resulting in a significant impact to the Library's governmental activities; this should have no impact on the Library's General Fund since the pension accrual is recognized only on the government-wide statements.