

**Eau Claire District Library
Berrien County, Michigan**

Financial Report

July 31, 2009

RENDEL ELIE
— & —
ASSOCIATES PLC
CERTIFIED PUBLIC ACCOUNTANTS

Eau Claire District Library

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Independent Auditors' Report

Library Board
Eau Claire District Library
Eau Claire, Michigan

We have audited the accompanying basic financial statements of the Eau Claire District Library as of July 31, 2009 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Eau Claire District Library as of July 31, 2009 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Eau Claire District Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Eau Claire District Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Rendel Elie & Associates, PLC

RENDEL ELIE & ASSOCIATES, PLC
CERTIFIED PUBLIC ACCOUNTANTS

January 8, 2010

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**Eau Claire District Library
Management's Discussion and Analysis
July 31, 2009**

Using this Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

**Eau Claire District Library
Management's Discussion and Analysis
July 31, 2009**

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	<u>2009</u>	<u>2008</u>
Current assets	\$ 106,983	\$ 96,152
Capital assets	<u>497,865</u>	<u>507,751</u>
Total assets	<u>604,848</u>	<u>603,903</u>
Other liabilities	<u>18,853</u>	<u>23,611</u>
Net assets:		
Invested in capital assets, net of related debt	497,865	507,751
Unrestricted	<u>88,130</u>	<u>72,541</u>
Total net assets	<u>\$ 585,995</u>	<u>\$ 580,292</u>
Revenue:		
Property taxes	\$ 143,552	\$ 137,558
Other	<u>84,443</u>	<u>86,868</u>
Total revenue	227,995	224,426
Expenses – library services	<u>222,292</u>	<u>202,757</u>
Changes in net assets	<u>\$ 5,703</u>	<u>\$ 21,669</u>

**Eau Claire District Library
Management's Discussion and Analysis
July 31, 2009**

The Library as a Whole

- The Library's net assets increased by \$5,703 this year and \$21,669 the prior year. The decrease is due to an increase in professional services for technical support.
- The Library's primary source of revenue is from property taxes, which represents 63% of total revenue as compared to 62% the prior year.
- Salaries and fringe benefits continue to be a significant expense of the Library, representing 58% of the Library's total expenses this year and 60% the prior year.
- Depreciation expense represents 19% of the Library's total expenses for this year and 20% the prior year.

The Library's Fund

Our analysis of the Library's major fund is included on page 6 and 7 in the first column of the statement. The fund column provides detailed information about the most significant fund – not the Library as a whole. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund increased during the current year by \$16,451 compared to a decrease of \$3,936 the prior year. The primary reason for the increase is the reduction in debt service.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$497,865 invested in land, building, furniture and equipment, and books and materials. The library added \$32,303 in capital assets consisting of \$9,422 of furniture and equipment, and \$22,881 in new collection items including new books and audio/visual materials.

No new debt was issued during the fiscal year. The note for the 2002 building addition was paid in full on May 12, 2008.

**Eau Claire District Library
Management's Discussion and Analysis
July 31, 2009**

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in capital outlay, repairs and maintenance, utilities, and professional services and dues.

The final budget included salaries and fringe benefits and capital outlay that were in excess of actual expenditures and library books and materials that were below actual expenditures. Total expenditures were \$7,154 over budget and revenue was \$4,525 over budget.

Contacting the Library's Management

This financial report is intended to provide 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, please contact the Eau Claire District Library.

Eau Claire District Library
Governmental Fund Balance Sheet / Statement of Net Assets
July 31, 2009

	General Fund Modified <u>Accrual Basis</u>	<u>Adjustments</u>	Statement of <u>Net Assets</u>
Assets			
Cash	\$ 104,170	\$ -	\$ 104,170
Municipality receivable	565	-	565
Prepaid expenses	2,248	-	2,248
Capital assets, net	<u>-</u>	<u>497,865</u>	<u>497,865</u>
Total assets	<u>\$ 106,983</u>	<u>497,865</u>	<u>604,848</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 4,126	\$ -	\$ 4,126
Salaries and benefits payable	7,782	-	7,782
Compensated absences	<u>-</u>	<u>6,945</u>	<u>6,945</u>
Total liabilities	<u>11,908</u>	<u>6,945</u>	<u>18,853</u>
Fund Balance/Net Assets			
Fund balance - unrestricted	<u>95,075</u>	<u>(95,075)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 106,983</u>		
Net assets:			
Invested in capital assets, net of related debt		497,865	497,865
Unrestricted		<u>88,130</u>	<u>88,130</u>
Total net assets		<u>\$ 585,995</u>	<u>\$ 585,995</u>

See auditors' report and notes to financial statements.

Eau Claire District Library
Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance /
Statement of Activities
Year Ended July 31, 2009

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 143,552	\$ -	\$ 143,552
Penal fines	72,208	-	72,208
State aid	4,742	-	4,742
Fees and book fines	2,558	-	2,558
Interest and dividends	194	-	194
Contributions and donations	4,741	-	4,741
Total revenue	<u>227,995</u>	<u>-</u>	<u>227,995</u>
Expenditures:			
Salaries and fringe benefits	127,330	862	128,192
Library books and materials	22,881	(22,881)	-
Repairs and maintenance	6,560	-	6,560
Utilities	11,991	-	11,991
Professional services and dues	14,153	-	14,153
Office and library supplies	10,118	-	10,118
Insurance and bonds	6,115	-	6,115
Newspaper and publications	2,032	-	2,032
Conventions and workshops	847	-	847
Miscellaneous	95	-	95
Capital outlay	9,422	(9,422)	-
Depreciation	-	42,189	42,189
Total expenditures	<u>211,544</u>	<u>10,748</u>	<u>222,292</u>
Excess of Revenue over Expenditures / Change in Net Assets	16,451	(10,748)	5,703
Fund Balance/Net Assets - beginning of year	<u>78,624</u>	<u>501,668</u>	<u>580,292</u>
Fund Balance/Net Assets - end of year	<u>\$ 95,075</u>	<u>\$ 490,920</u>	<u>\$ 585,995</u>

See auditors' report and notes to financial statements.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2009**

Summary of Significant Accounting Policies

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

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion an Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Library’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements, including notes to the financial statements.

Reporting Entity

Eau Claire District Library is a Class III public library. The Library serves a population of 7,549 patrons from the Village of Eau Claire, and the Townships of Berrien and Pipestone.

The Library is defined as a governmental unit under criteria set forth by AICPA’S Audits of State and Local Governmental Units (ASLGU). These criteria include; a Board of Trustees consisting of representative members appointed or elected from the governmental units served and, the power to enact and enforce a tax levy.

The accompanying general purpose 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. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2009**

Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in four parts – invested in capital assets; designated net assets; restricted net assets; and unrestricted net assets.

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

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

**Eau Claire District Library
Notes to Financial Statements
July 31, 2009**

Summary of Significant Accounting Policies (continued)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 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 they are collected within ninety days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, penal fines, and fees associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the Library receives cash.

The Library reports the following major governmental funds:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Financial Statement Amounts

Bank Deposits and Investments – The Library has defined cash and cash equivalents to 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.

Receivables and Payables – Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The Library receives an advance from the Berrien County Revolving Fund for delinquent property taxes. The County collects the delinquent property taxes on behalf of the Library.

Eau Claire District Library
Notes to Financial Statements
July 31, 2009

Summary of Significant Accounting Policies (continued)

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Furniture and equipment	5-10 years
Improvements	10-20 years
Library books and materials	3-10 years

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. Vacation and sick leave accrues to full-time, permanent employees to specified maximums.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to changes.

Risk Management - The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for employee health, property, liability and workers' compensation.

Property Taxes – On August 6, 1996, the electors of the library district, the Eau Claire District Library serves, approved a millage on the taxable property in the district for a period of twenty years. Berrien and Pipestone Townships collect and pay the tax revenues to the Library as collected.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2009**

Summary of Significant Accounting Policies (continued)

Budget Information

The annual budget is prepared by the Library Director 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. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (combined statement of revenue, expenditures and changes in fund balances – budget and actual – general fund types) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a line item basis; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. A comparison of the actual results of operations of the General Fund budget, as adopted by the Library Board, is presented in these financial statements.

Cash and Investments

State statutes authorize the Library to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investments vehicles legal for direct investment by local units of government in Michigan. The Library is in accordance with statutory authority. The Library has designated a local bank for the deposit of its funds. Its cash and cash equivalents consist of various interest bearing savings accounts, checking accounts and certificates of deposit.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2009**

Capital Assets

A summary of changes in capital assets is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Buildings	\$ 505,783	\$ --	\$ --	\$ 505,783
Improvements	55,116	2,549	--	57,665
Furniture & equipment	265,525	6,873	(442)	271,956
Book collection	<u>89,781</u>	<u>22,881</u>	<u>(13,678)</u>	<u>98,984</u>
Total	916,205	32,303	(14,120)	934,388
Accumulated depreciation	<u>(408,454)</u>	<u>(42,189)</u>	<u>14,120</u>	<u>(436,523)</u>
Net book value	<u>\$ 507,751</u>	<u>\$ (9,886)</u>	<u>\$ --</u>	<u>\$ 497,865</u>

Book Collection

The circulating library book collection and materials is capitalized. Accessions are accounted for in the year acquired. The Library follows a policy of periodically removing books that are in poor condition, not in demand, and/or no longer current. The estimated replacement value of the circulating collection at July 31st was \$442,099 and \$421,742 for 2009 and 2008, respectively.

Long-term Liabilities

The following is a summary of the changes in long-term liabilities for the fiscal year ended July 31, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Compensated absences	<u>\$ 6,083</u>	<u>\$ 7,385</u>	<u>\$ (6,523)</u>	<u>\$ 6,945</u>	<u>\$ 3,791</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation and sick pay policy. Under the Library's policy employees earn vacation time based on time of service with the Library.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2009**

Contingent Liabilities

Tax revenue - The Library has received advances from the Berrien County Tax Revolving Fund for delinquent taxes assessed on real property. If those taxes prove to be uncollectible, the Library will be responsible for repayment. Taxes advanced by the county, during the fiscal years ending July 31st were \$10,447 and \$9,439 for 2009 and 2008, respectively.

Unemployment taxes - The Library has elected to reimburse the Michigan Employment Security Agency for any unemployment benefits paid to former employees.

Subsequent Events

In preparing these financial statements, the Library Board has evaluated events and transactions for potential recognition or disclosure through January 8, 2010, the date the financial statements were available to be issued.

Upcoming Reporting Changes

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The Library is currently evaluating the impact this standard will have on the financial statements when adopted. The Library will implement Statement No. 54 beginning with the fiscal year ending July 31, 2011.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2009**

Reconciliation of Fund Financial Statements to Government-wide Financial Statements

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

Total Fund Balance – Modified Accrual Basis	\$ 95,075
Differences in the statement of net assets:	
Capital assets are not financial resources, and are not reported in the funds	497,865
Compensated absences are included as a liability	<u>(6,945)</u>
Net Assets of General Fund – Full Accrual Basis	<u>\$ 585,995</u>

**Eau Claire District Library
Notes to Financial Statements
July 31, 2009**

Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Change in Fund Balances – Modified Accrual Basis **\$ 16,451**

Differences in the statement of net assets:

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:

Library books and materials	22,881
Capital outlay	9,422
Depreciation	(42,189)

Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(862)
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Change in Net Assets of General Fund – Full Accrual Basis **\$ 5,703**

Eau Claire District Library
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended July 31, 2009

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Over (Under)
Revenues:				
Property taxes	\$ 137,000	\$ 143,000	\$ 143,552	\$ 552
Penal fines	70,000	72,210	72,208	(2)
State grants	2,500	2,500	4,742	2,242
Fees and book fines	2,250	2,250	2,558	308
Interest and dividends	750	175	194	19
Contributions and donations	<u>2,500</u>	<u>3,335</u>	<u>4,741</u>	<u>1,406</u>
Total revenue	215,000	223,470	227,995	4,525
Expenditures:				
Salaries and fringe benefits	120,242	123,042	127,330	4,288
Library books and materials	25,500	25,510	22,881	(2,629)
Repairs and maintenance	3,500	6,500	6,560	60
Utilities	15,500	11,500	11,991	491
Professional services and dues	11,850	14,850	14,153	(697)
Office and library supplies	8,608	8,858	10,118	1,260
Insurance and bonds	6,600	5,900	6,115	215
Newspaper and publications	2,200	2,200	2,032	(168)
Conventions & workshops	1,000	750	847	97
Miscellaneous	-	-	95	95
Capital outlay	<u>14,000</u>	<u>5,280</u>	<u>9,422</u>	<u>4,142</u>
Total expenditures	<u>209,000</u>	<u>204,390</u>	<u>211,544</u>	<u>7,154</u>
Excess of Revenue over Expenditures / Change in Net Assets	<u>6,000</u>	<u>19,080</u>	<u>16,451</u>	<u>(2,629)</u>
Fund Balance/Net Assets - beginning of year	<u>78,624</u>	<u>78,624</u>	<u>78,624</u>	<u>-</u>
Fund Balance/Net Assets - end of year	<u>\$ 84,624</u>	<u>\$ 97,704</u>	<u>\$ 95,075</u>	<u>\$ (2,629)</u>

RENDEL ELIE
— & —
ASSOCIATES PLC
CERTIFIED PUBLIC ACCOUNTANTS

January 8, 2010

Eau Claire District Library
PO Box 328
Eau Claire, MI 49111

We have audited the financial statements of the Eau Claire District Library for the year ended July 31, 2009, and have issued our report thereon dated January 8, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 27, 2009, our responsibility, as described by professional standards, is to express opinions 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

We performed the audit according to the planned scope and timing previously communicated to you on September 29, 2009 about planning matters.

Significant Audit Findings

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Eau Claire District Library are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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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.

Audit Adjustments

Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). We proposed numerous adjusting journal entries, which in our judgment, were not material, either individually or in the aggregate, to the financial statements taken as a whole.

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 January 8, 2010.

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

Difficulties Encountered in Performing the Audit

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

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

Sincerely,

Rendel Elie & Associates, PLC

RENDEL ELIE & ASSOCIATES, PLC
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— & —
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Audit Results Communication

January 8, 2010

Eau Claire District Library
PO Box 328
Eau Claire, MI 49111

We completed our audit of the financial statements of the Eau Claire District Library for the year ended July 31, 2009 and expect to issue our report thereon dated January 8, 2010. The following comments summarize the results of our audit: In planning and performing our audit of the financial statements of the Eau Claire District Library, in accordance with auditing standards generally accepted in the United States of America, we considered Eau Claire District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control.

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

Controls over Financial Reporting Process - Policies and procedures to prepare financial statements in accordance with U.S. generally accepted accounting principles, including recording of receivables and payables, were not in place. As in prior years, the Library board has relied upon our firm as auditor to identify and develop necessary year-end adjustments and to prepare financial statements and appropriate disclosures. This service is currently allowable under current auditing standards and ethical guidelines, and may be the most efficient and effective method for preparation of the Library's financial statements. However, when an organization, on its own, lacks the ability to

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produce financial statements that conform to generally accepted accounting principles, or when significant audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as significant deficiencies. Reliance on your external auditors cannot by definition be considered a part of the Library's internal controls. We recommend that management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting financial statement preparation services with its auditor.

Bank Reconciliations - A very important characteristic of effective internal control is an appropriate segregation of functional responsibilities. It appears that no one other than the bookkeeper, who prepares the bank reconciliations, reviews the bank reconciliations. We recommend the board president and/or treasurer review the bank reconciliations at the monthly board meeting with the related financial data.

We offer the following additional comments, which are not considered to be deficiencies in internal control:

Conflict of Interest Policy - The purpose of a conflict of interest policy is to protect an organization's interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the organization and give direction to the board when a possible conflict is identified. The Library does not currently have a written conflict of interest policy and we recommend the Library consider adopting a policy.

Account for Capital Outlay- The Michigan Uniform Chart of Accounts explains that account numbers 971-989 are for capital outlay expenditures resulting in the acquisition of or addition to capital assets. The amounts in these accounts must agree with the capitalization policy of the Library and equal the additions to the capital assets records. Supplies and items not considered capital assets according to your capitalization policy should be listed in a more appropriate account.

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

We wish to express our appreciation for the friendliness and cooperation extended to us during this audit.

Sincerely,

Rendel Elie & Associates

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