

WATERVLIET DISTRICT LIBRARY

FINANCIAL REPORT

June 30, 2009

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Independent Auditor's Report

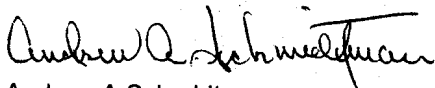
To the Watervliet District Library
Watervliet, Michigan

I have audited the accompanying basic financial statements of the Watervliet District Library as of and for the year ended June 30, 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Watervliet District Library's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 disclosures in the financial statements. An audit also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Watervliet District Library as of June 30, 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.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements, but are supplemental information required by the Government Accounting Standards Board. I have applied certain procedures, which consist principally of inquiries of management regarding methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.



Andrew A Schmidtman

November 11, 2009

WATERVLIET DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basic Financial Statements

This annual report consists of three parts: management's discussion and analysis, the basic financial statements, and the required supplemental information. The basic financial statements include information that presents two different views of the Watervliet District Library (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 the 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 column provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and 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 basic financial statements also includes Notes that explain some of the information in the financial statements and provide more detailed information.

The required supplemental information follows the basic financial statements and provides additional information related to the general fund.

WATERVLIED DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Condensed Financial Information

The following provides financial information in a condensed format using the full-accrual basis of accounting.

	June 30, <u>2009</u>	June 30, <u>2008</u>
Current assets	151,808	\$154,497
Capital assets	<u>239,401</u>	<u>243,956</u>
Total assets	<u>391,209</u>	<u>398,453</u>
Current liabilities	<u>4,224</u>	<u>5,040</u>
Total liabilities	<u>4,224</u>	<u>5,040</u>
Net assets:		
Invested in capital assets	239,401	243,956
Unrestricted	<u>147,584</u>	<u>149,457</u>
Total net assets	<u>386,985</u>	<u>393,413</u>
Revenues:		
Property taxes	75,073	69,534
Fines	50,074	48,654
Other	<u>18,077</u>	<u>18,598</u>
Total Revenue	143,224	136,786
Expenses - library services	<u>149,652</u>	<u>127,749</u>
Change in net assets	<u>(6,428)</u>	<u>9,037</u>

WATERVLIET DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Watervliet District Library as a Whole

The Library's net assets decreased by \$6,428 during the year. Revenue increased by 4.7% this year and expenses increased by 17.1%. The expenditure items with significant increases include wages and buildings and grounds maintenance.

The Library's primary sources of revenue are property taxes and fines (both library fines and penal fines). These items combined to account for 87% of total revenue. The revenue from fines will vary from year to year depending upon fines assessed and collected by the courts.

Personnel expenses are a significant cost to the Library. Wages and payroll taxes represent 54% of total expenses. Other significant expenses include utilities and repairs and maintenance costs of the building and equipment.

Watervliet District Library's Fund

An analysis of the Library's major fund is included in the financial statements in the first column. This column presents information about the Library's General Fund. The fund balance of the General Fund decreased during the year by \$1,873. The expenditures in the general fund include \$29,165 for books, audio, video, periodicals and other capital outlays.

Budgetary Highlights

The Library Board reviews the budget and actual expenditures during the year to monitor how the budgeted expenditures compare with the events that occur during the year. The Library Board amends the budget as necessary to reflect changes that occur during the year.

The Library incurred expenditures in excess of the amounts budgeted for certain line items. The largest budget overrun was for capital expenditures which exceeded the budgeted amount by \$2,851. The overrun is mainly due to the purchase of a computer server for \$1,804 and Follet Web Collection software of \$1,195. These items were budgeted as computer repairs and maintenance expenditures. A complete budgetary comparison schedule is presented in the required supplemental information.

WATERVLIET DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$239,401 invested in land, buildings, building improvements, library collection, furniture and fixtures, and office equipment. The Library invested \$29,165 in capital assets during the year. The largest expenditure was \$26,166 for items added to the collection.

The Library did not have any debt activity during the fiscal year.

Request for Information

This financial report is designed to provide a general overview of the Library's finances. Questions concerning the information provided in this report should be directed to the Library's management, Watervliet District Library, 333 South Main Street, Watervliet, MI 49098

WATERVLIET DISTRICT LIBRARY
GOVERNMENTAL FUND BALANCE SHEET AND
STATEMENT OF NET ASSETS

June 30, 2009

	<u>General Fund - Modified Accrual Basis</u>	<u>Adjustments Note 2</u>	<u>Statement of Net Assets - Full Accrual</u>
<u>Assets</u>			
Cash and cash equivalents - Note 4	\$ 149,166	\$ -	\$ 149,166
Prepaid expenses	2,642	-	2,642
Capital assets - Note 5	<u>-</u>	<u>239,401</u>	<u>239,401</u>
Total assets	<u>151,808</u>	<u>239,401</u>	<u>391,209</u>
 <u>Liabilities</u>			
Bank overdraft	3,053	-	3,053
Accrued liabilities	<u>1,171</u>	<u>-</u>	<u>1,171</u>
Total liabilities	<u>4,224</u>	<u>-</u>	<u>4,224</u>
 <u>Fund Balance / Net Assets</u>			
Fund Balance:			
Unreserved	<u>147,584</u>	<u>(147,584)</u>	<u>-</u>
Total liabilities and fund balance	<u>151,808</u>	<u>(147,584)</u>	<u>4,224</u>
 Net Assets:			
Invested in capital assets, net of debt		239,401	239,401
Unrestricted		<u>147,584</u>	<u>147,584</u>
Total net assets		<u>\$ 386,985</u>	<u>\$ 386,985</u>

See accompanying notes to financial statements.

WATERVLIED DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE AND
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

	General Fund - Modified Accrual Basis	Adjustments Note 2	Statement of Activities - Full Accrual
<u>Revenue</u>			
City of Watervliet property taxes	\$ 14,884	\$ -	\$ 14,884
Watervliet Township property taxes	60,189	-	60,189
State aid	4,485	-	4,485
Fines	50,074	-	50,074
Interest	3,854	-	3,854
Other	9,738	-	9,738
	<hr/>	<hr/>	<hr/>
Total revenue	143,224	-	143,224
	<hr/>	<hr/>	<hr/>
<u>Expenditures</u>			
Wages and payroll taxes	78,444	-	78,444
Office supplies	2,136	-	2,136
Postage	374	-	374
Janitorial	2,550	-	2,550
Audit fee	3,125	-	3,125
Communications	3,251	-	3,251
Insurance	2,741	-	2,741
Utilities	6,157	-	6,157
Building and grounds maintenance	8,125	-	8,125
Equipment repairs and maintenance	4,302	-	4,302
Miscellaneous	4,727	-	4,727
Audio, visual, and books	26,166	(26,166)	-
Capital expenditures	2,999	(2,999)	-
Depreciation	-	33,720	33,720
	<hr/>	<hr/>	<hr/>
Total expenditures	145,097	4,555	149,652
	<hr/>	<hr/>	<hr/>
Excess of Revenue Over (Under) Expenditures	(1,873)	(4,555)	(6,428)
Fund Balance / Net Assets - July 1, 2008	149,457	243,956	393,413
	<hr/>	<hr/>	<hr/>
Fund Balance / Net Assets - June 30, 2009	\$ 147,584	\$ 239,401	\$ 386,985
	<hr/>	<hr/>	<hr/>

See accompanying notes to financial statements.

WATERVLIET DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 - Summary of Significant Accounting Policies

The Watervliet District Library (the "Library") is a district library located in the City of Watervliet, Michigan and is governed by an appointed board. The City of Watervliet and Watervliet Township each appoints members to the board. The Library provides services to the residents of the City of Watervliet and Watervliet Township. The Library is primarily financed through tax levies, fines, state aid and charitable donations. The revenue is used to staff and operate the Library.

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 entity. Based on the significance of any operational or financial relationship with the Library, there are no component units to be included in these financial statements.

The accounting policies of the 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.

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 fund).

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 the 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.

WATERVLIET DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

The General Fund is the Library's only major governmental fund. It accounts for all financial resources of the Library.

Financial Statement Amounts

Bank Deposits and Investments - The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$100 and an estimated useful life in excess of one year. The cost of books, audio, and visual items are also capitalized. 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. 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 useful lives:

Building	50 years
Building improvements	20 years
Furniture and fixtures	10 years
Computers and office equipment	5 years
Library books, audio, and video items	10 years

WATERVLIET DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue - Property taxes are levied on the taxable valuation of property located in the Library district as of the preceeding December 31. The Library's 2008 ad valorem tax is levied on July 1, 2008 for property located in the City of Watervliet and December 1, 2008 for property located in Watervliet Township. The 2008 ad valorem tax is recognized as revenue in the year ended June 30, 2009, when the proceeds of the levy are budgeted and available for the financing of operations.

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 reporting of certain assets, liabilities, revenues, and expenditures during the period. Actual amounts could differ from those estimates.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

Note 2 - Reconciliation of Fund Financial Statements to Government-wide Statements

The General Fund's fund balance and the net change in the fund balance differ from net assets and change in net assets reported in the statement of net assets and statement of activities. The difference results primarily from the long-term economic focus of the statement of net assets and the statement of activities versus the current economic focus of the statement of the General Fund balance sheet and statement of revenues, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and change in fund balance to change in net assets:

WATERVLIET DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 2 - Reconciliation of Fund Financial Statements to Government-wide Statements (Continued)

Total Fund Balance - modified accrual basis	\$ 147,584
Differences in the amounts reported in the statement of net assets:	
Capital assets are not financial resources and are not reported in the funds	239,401
Total Net Assets - full accrual basis	\$ 386,985
Net Change in Fund Balance - modified accrual basis	(1,873)
Differences in the amounts reported in the statement of activities:	
Governmental funds report capital outlays as expenditures, these costs are allocated over their useful lives as depreciation:	
Audio,visual,books, and capital outlays	29,165
Depreciation	(33,720)
Change in Net Assets - full accrual basis	\$ (6,428)

Note 3 - Budget Information

The annual budget is prepared by the Treasurer and bookkeeper and then submitted to the Library Board for adoption. Subsequent amendments are approved by the Library Board during the course of the year. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on a line item basis, expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget is presented in the required supplemental information.

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

	Budget	Actual
Audit fee	2,650	3,125
Miscellaneous	4,674	4,727
Audio,visual,and books	25,781	26,166
Capital expenditures	148	2,999

WATERVLIET DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 4 - Deposits and Investments

State statutes authorize local government units to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. State statutes also allows investments in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States.

The Library's funds were deposited into a bank that meets the requirements of state statutes. The carrying amount of the deposits was \$146,113 and the bank balance was \$150,645 at June 30, 2009. The Library had Federal Depository Insurance Corporation insured deposits of \$150,645.

Note 5 - Capital Assets

Capital assets activity for the year are as follows:

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 27,800	\$ -	\$ -	\$ 27,800
Capital assets being depreciated:				
Buildings	\$ 111,200	\$ -	\$ -	\$ 111,200
Building improvements	25,882	-	-	25,882
Library collection	339,578	26,166	-	365,744
Equipment - grants	19,787	-	4,712	15,075
Furniture, fixtures and equipment	<u>192,943</u>	<u>2,999</u>	<u>26,723</u>	<u>169,219</u>
Subtotal	689,390	29,165	31,435	687,120
Less accumulated depreciation	<u>473,234</u>	<u>33,720</u>	<u>31,435</u>	<u>475,519</u>
Net capital assets being depreciated	<u>216,156</u>	<u>(4,555)</u>	<u>-</u>	<u>211,601</u>
Net capital assets	<u>\$ 243,956</u>	<u>\$ (4,555)</u>	<u>\$ -</u>	<u>\$ 239,401</u>

Depreciation expense was \$33,720 for the year ended June 30, 2009.

WATERVLIET DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 6 - Risk Management

The Library is exposed to various risks of loss including property loss, torts, theft, errors and omissions, employee injuries (workers compensation). The Library has purchased commercial insurance for risks of losses due to employee injuries and liability claims. Settled claims from these risks have not exceeded insurance coverage in the past fiscal year.

Note 7 - Related Party Transactions

The Library purchases insurance coverage from the insurance agency owned by a Board member. The amount of premiums paid in 2009 were \$3,092.

WATERVLIET DISTRICT LIBRARY
 REQUIRED SUPPLEMENTAL INFORMATION
 GENERAL FUND - BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2009

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual Amounts</u>	<u>Variance Amended Budget</u>
Revenue				
City of Watervliet property taxes	14,958	14,958	\$ 14,884	(74)
Watervliet Township property taxes	62,796	62,796	60,189	(2,607)
State aid	2,200	2,200	4,485	2,285
Fines	49,000	49,000	50,074	1,074
Interest	1,500	1,500	3,854	2,354
Other	<u>14,885</u>	<u>14,885</u>	<u>9,738</u>	<u>(5,147)</u>
 Total revenue	 <u>145,339</u>	 <u>145,339</u>	 <u>143,224</u>	 <u>(2,115)</u>
 Expenditures				
Wages and payroll taxes	74,000	78,646	78,444	202
Office supplies	3,000	2,136	2,136	-
Postage	-	500	374	126
Janitorial	2,704	2,550	2,550	-
Audit fee	2,500	2,650	3,125	(475)
Communications	1,900	3,251	3,251	-
Insurance	3,600	3,092	2,741	351
Utilities	10,950	6,632	6,157	475
Building and grounds maintenance	4,000	8,126	8,125	1
Equipment repairs and maintenance	10,500	7,153	4,302	2,851
Miscellaneous	5,900	4,674	4,727	(53)
Audio, visual, and books	25,581	25,781	26,166	(385)
Capital expenditures	<u>704</u>	<u>148</u>	<u>2,999</u>	<u>(2,851)</u>
 Total expenditures	 <u>145,339</u>	 <u>145,339</u>	 <u>145,097</u>	 <u>242</u>
 Excess of Revenue Over (Under) Expenditures	 -	 -	 (1,873)	 (1,873)
 Fund Balance, July 1, 2008	 <u>149,457</u>	 <u>149,457</u>	 <u>149,457</u>	 <u>-</u>
 Fund Balance, June 30, 2009	 <u>149,457</u>	 <u>149,457</u>	 <u>147,584</u>	 <u>(1,873)</u>

See accompanying notes to financial statements.

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JAMES M. WOLF, C.P.A.

Library Board
Watervliet District Library
Watervliet, Michigan 49098

In planning and performing my audit of the financial statements of Watervliet District Library as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, I considered Watervliet District Library's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, I do not express an opinion on the effectiveness of the Watervliet District Library's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, I have identified certain deficiencies in internal control that I consider to be significant deficiencies.

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 Library'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 Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control. I consider the following deficiencies to be significant deficiencies in internal control.

SEGREGATION OF DUTIES

Because of the size of the accounting and administrative staff the Library is precluded from instituting an optimal level of segregation of duties. It is, therefore, necessary that the Library Board maintain its active role in the financial affairs of the Library to provide the oversight and review functions.

BUDGET

The Library cannot budget expenditures in excess of anticipated revenues nor can it overspend its adopted budget unless the budget is amended and approved by the Library Board prior to the expenditure that would cause the overspending. The details of the amendments to the budget should be included in the Board minutes.

ACCOUNTING PROCEDURES

It was noted during my audit procedures of receipts, that remittance advices were loosely included in the file folder of paid invoices by month. Not all checks received have a remittance advice included with the check. Receipts for the deposits given by the bank have only the total amount of the deposit.

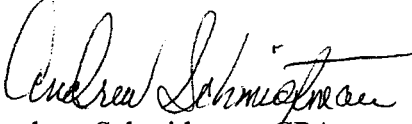
It is my suggestion, to improve the audit trail, that each deposit should contain the following, which would be submitted to the bookkeeper for recording in the accounting program:

- A copy of the check being deposited
- The remittance advice, if any
- The source and the amount of any cash being deposited
- The receipt for the deposit from the bank

The deposit record should be filed in a separate folder from the paid invoice file.

I thank the Library staff for their excellent cooperation during this year's audit. These comments and recommendations are intended to be only of a constructive nature and trust that they will be received in the spirit of cooperation in which they are offered.

This communication is intended solely for the information and use of management, the Library Board of the Watervliet District Library and the State of Michigan, Michigan Department of Treasury, and should not be used by anyone other than the specified parties.



Andrew Schmidtman, CPA
St. Joseph, MI

December 17, 2009