

**NILES DISTRICT LIBRARY**  
**NILES, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**Year ended September 30, 2009**

**NILES DISTRICT LIBRARY**

**NILES, MICHIGAN**

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**NILES DISTRICT LIBRARY**

**NILES, MICHIGAN**

**BOARD OF TRUSTEES**

<b>Gloria Cooper</b>	-	<b>President</b>
<b>Rolla Baumgartner</b>	-	<b>Vice-President</b>
<b>William Landgraf</b>	-	<b>Secretary</b>
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<b>Terry Merica</b>	-	<b>Trustee</b>



**SCARPONE & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

November 16, 2009

Members of the Library Board of Trustees  
Niles District Library  
Niles, Michigan

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the governmental activities and the major governmental funds of Niles District Library as of and for the year ended September 30, 2009, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Niles District 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 our audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Niles District Library as of September 30, 2009, and the respective 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 required supplemental information identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Scarpone & Co., P.C.*

**NILES DISTRICT LIBRARY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2009

**Mission and Organizational Structure**

The Library's mission is to provide our community with access and guidance to resources which inform, entertain and enrich. The Library is governed by an eight member Board of Trustees. Four trustees are appointed by the City of Niles and four by the Township of Niles. The Board has exclusive control over the expenditure of all monies collected to the credit of the Library fund. The Library Director handles the day-to-day management of the Library, including financial transactions, at the discretion of and under the direction of the Library Board.

**Condensed Financial Information**

The table below compares certain financial information in a condensed format for the years ended September 30, 2009 and 2008, respectively:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,089,003	\$ 557,029
Investments	697,383	685,282
Interest receivable	2,215	4,045
Taxes receivable	1,360	3,069
Capital assets, net of accumulated depreciation	<u>1,760,590</u>	<u>1,749,077</u>
<b>Total assets</b>	<b>3,550,551</b>	<b>2,998,502</b>
<b>Liabilities:</b>		
Current liabilities	55,851	50,594
Long-term liabilities	<u>939,693</u>	<u>431,280</u>
<b>Total liabilities</b>	<b>995,544</b>	<b>481,874</b>
<b>Net assets:</b>		
Invested in capital assets	820,404	1,324,173
Restricted	908,646	428,175
Unrestricted	825,957	764,280
<b>Total net assets</b>	<b>\$ <u>2,555,007</u></b>	<b>\$ <u>2,516,628</u></b>
<b>Revenues:</b>		
Property taxes	\$ 766,502	\$ 749,568
State source revenues	16,059	42,587
Penal fines	249,160	244,488
Charges for services	24,765	26,697
Interest and dividends	28,927	39,617
Other	<u>156,794</u>	<u>81,922</u>
<b>Total revenues</b>	<b>1,242,207</b>	<b>1,184,879</b>
<b>Expenditures</b>	<b>1,203,828</b>	<b>1,188,700</b>
<b>Changes in net assets</b>	<b>\$ <u>38,379</u></b>	<b>\$ <u>(3,821)</u></b>

# NILES DISTRICT LIBRARY

## MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED

September 30, 2009

### Overall Financial Position

The financial statements indicate that the Library has cash assets of \$1,089,003 and \$697,383 in certificates of deposit, for a total of \$1,786,386 in cash assets and investments at the close of the 2009 fiscal year. It is important to note that approximately \$546,000 of this total is borrowed money which will be expended on capital projects within the next few months. This compares to \$1,242,311 at the close of the previous fiscal year.

General operating revenues and other financing sources for fiscal year 2009 exceeded expenditures and other financing uses by \$59,469. In all funds combined, revenues and other financing sources exceeded expenditures and other financing uses by \$539,940. It should be noted that \$625,792 of these other financing sources represent proceeds from borrowings.

The Library's reserve cash assets and certificates of deposits are adequate to ensure the financial stability of the Library.

### Operating Fund Budget vs. Actual

Actual expenditures and revenues in the general operating fund were close to the amounts projected in the annual budget. Expenditures were less than 2% higher than budgeted; revenues were within 1% of budgeted amount.

	<u>Budgeted</u>	<u>Actual</u>	<u>Percent of Difference</u>
Expenditures	\$ 1,180,038	\$ 1,166,835	-1.12%
Revenues	1,189,216	1,196,409	0.60%

### Influencing Factors

**Economy:** Following a major downturn in the economy, the Library was concerned that their deposits in financial institution were safe. In October of 2008, the federal government increased the FDIC deposit insurance limit from \$100,000 to \$250,000. The Library moved money between its various accounts in an effort to stay under this limit.

The economic downturn also impacted the Library's income from interest on deposits. In all funds combined, there was a 27% decrease in revenues from interest compared to fiscal year 2008. In fiscal year 2008, the Library earned \$39,617 in interest; in fiscal year 2009, that decreased to \$28,927. Most CDs that matured during fiscal year 2009 were still at a higher rate. Interest on CDs renewed during the fiscal year 2009 dropped, at times, to less than 1%. Therefore, the full impact of the decrease in interest rates will not be felt until fiscal year 2010.

**Energy Efficiency Projects:** In June, 2009, the Library signed a contract with Ameresco for \$782,240 in upgrades to the Library's HVAC system, a solar panel and replacement of all rotunda windows. In October 2009, (fiscal year 2010) the Library signed an additional contract with Ameresco for the upgrade of all lamps and ballasts in the Library at a cost of \$35,873. This brought the total of these energy efficiency projects to \$818,113. To finance this project the Library plans to spend down \$185,681 of its reserves, receive a \$6,640 rebate from the Niles Utility Company and borrowed \$625,792 from United Federal Credit Union.

## NILES DISTRICT LIBRARY

### MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED

September 30, 2009

#### Revenues

The Library's primary revenue sources continue to be real property tax and penal fines. In fiscal year 2009, these two sources accounted for 85% of the Library's operating fund revenues. Real property tax revenues increased by 2%, penal fines increased by 2% from fiscal year 2008. State-shared revenues for the Library decreased significantly (62%) in fiscal year 2009. This is largely due to the elimination of the single business tax.

Overall revenues in the operating fund in fiscal year 2009 were 6% higher than fiscal year 2008. This increase is attributable, in part, to two large gifts received during fiscal year 2009. Without factoring in the increase in the contributions and gifts category, fiscal year 2009 revenues are 2% lower than fiscal year 2008.

The following revenues received in fiscal year 2009 are not expected to continue in coming years. The Library received two major gifts during fiscal year 2009, totaling approximately \$93,500.

#### Expenditures

Personnel expenses increased by less than 1%, due largely to a wage freeze for full-time employees. Still, personnel expenses continue to account for the largest portion of the Library's budget. In fiscal year 2009, wages and benefits accounted for 63% of the Library's operating fund expenses.

Expenditures on materials to support the Library's core service of providing patrons with books, videos, audio-books and magazines increased about 6.5%. The Library spent approximately \$134,000 on Library materials compared to \$126,000 last year. In addition, the Library spent just over \$8,500 from the gift and memorial line item for the purchase of materials.

The following are some of the significant expenses incurred during fiscal year 2009. The energy efficiency projects were the largest expense during fiscal year 2009. The Library paid \$78,239 to Ameresco during fiscal year 2009. In addition, the Library paid approximately \$18,000 in legal fees related to the Ameresco project and the resolution of issues which arose concerning the Library's lease agreement with the City of Niles.

#### Debt

The Library continues to make twice annual payments on a 1998 Building Authority Bond, which is scheduled to be repaid by the year 2018. The bond became callable in April 2009.

As noted above, the Library took on \$625,792 in new debt during fiscal year 2009. This is in the form of an installment purchase agreement. The loan is at United Federal Credit Union with an interest rate of 5.25% per annum. The first annual payment of the loan is due on May 22, 2011. The Library elected to make one payment on the loan during fiscal year 2009 in the amount of \$80,170.90. This debt may be repaid at anytime without penalty.

**NILES DISTRICT LIBRARY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS-CONCLUDED**

**September 30, 2009**

**Debt, concluded**

The Library's total debt at the close of the fiscal year 2009 was approximately \$925,621. This includes \$545,621 remaining principal on the UFCU loan and \$380,000 principal on the 1998 Building Authority Bond.

**Contacting the Library's Financial Management**

This financial report is designed to provide citizens and taxpayers with a general overview of the Library's finances. If you have any questions about this report or need additional information you may contact the Library Director, Nancy Studebaker.

**Nancy Studebaker  
Library Director**

**NILES DISTRICT LIBRARY**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**AND**  
**STATEMENT OF NET ASSETS**

September 30, 2009

	<u>Operating</u>	<u>Other</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of</u>
<u>ASSETS</u>	<u>Fund</u>	<u>Funds</u>	<u>Total</u>	<u>(Note L)</u>	<u>Net Assets</u>
Cash and cash equivalents	\$ 481,809	\$ 607,194	\$ 1,089,003	\$ -	\$ 1,089,003
Investments	351,906	345,477	697,383	-	697,383
Interest receivable	90	2,125	2,215	-	2,215
Taxes receivable	1,360	-	1,360	-	1,360
Due from other funds	46,150	-	46,150	(46,150)	-
Capital assets, net of accumulated depreciation	-	-	-	1,760,590	1,760,590
<b>TOTAL ASSETS</b>	<b>\$ 881,315</b>	<b>\$ 954,796</b>	<b>\$ 1,836,111</b>	<b>\$ 1,714,440</b>	<b>\$ 3,550,551</b>
 <u>LIABILITIES</u>					
Accounts payable	\$ 5,977	\$ -	\$ 5,977	\$ -	\$ 5,977
Accrued payroll, taxes and withholdings	35,309	-	35,309	-	35,309
Accrued interest	-	-	-	14,565	14,565
Due to other funds	-	46,150	46,150	(46,150)	-
Long-term liabilities:					
Notes payable	-	-	-	545,621	545,621
Bonds payable	-	-	-	380,000	380,000
Accumulated employee benefits	-	-	-	14,072	14,072
	<u>41,286</u>	<u>46,150</u>	<u>87,436</u>	<u>908,108</u>	<u>995,544</u>
<b>FUND BALANCES/NET ASSETS</b>					
Fund balances, reserved, reported in					
Reserve fund	-	177,699	177,699	(177,699)	-
Capital projects	-	730,947	730,947	(730,947)	-
Fund balances, unreserved	840,029	-	840,029	(840,029)	-
	<u>840,029</u>	<u>908,646</u>	<u>1,748,675</u>	<u>(1,748,675)</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 881,315</b>	<b>\$ 954,796</b>	<b>\$ 1,836,111</b>		
<b>Net Assets</b>					
Invested in capital assets					1,366,025
Restricted					363,025
Unrestricted					825,957
<b>TOTAL NET ASSETS</b>					<b>\$ 2,555,007</b>

See accompanying notes to basic financial statements.

NILES DISTRICT LIBRARY

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES AND STATEMENT OF ACTIVITIES

For the year ended September 30, 2009

	Operating Fund	Other Funds	Total	Adjustments (Note L)	Statement of Activities
<b>REVENUES:</b>					
Local taxes	\$ 766,502	\$ -	\$ 766,502	\$ -	\$ 766,502
Penal fines	249,160	-	249,160	-	249,160
State-shared revenues	16,059	-	16,059	-	16,059
Interest and dividends	15,700	13,227	28,927	-	28,927
Charges for services	24,765	-	24,765	-	24,765
Contributions and gifts	105,465	-	105,465	-	105,465
Copier revenues	12,494	-	12,494	-	12,494
Frazer Trust	-	32,571	32,571	-	32,571
Community room	1,075	-	1,075	-	1,075
Miscellaneous	5,189	-	5,189	-	5,189
<b>Total Revenues</b>	<b>1,196,409</b>	<b>45,798</b>	<b>1,242,207</b>	<b>-</b>	<b>1,242,207</b>
<b>EXPENDITURES:</b>					
Salaries	557,681	-	557,681	(2,208)	555,473
Payroll taxes and employee benefits	171,577	-	171,577	-	171,577
Professional fees	32,857	-	32,857	-	32,857
Building maintenance	55,529	-	55,529	-	55,529
Repairs and maintenance	11,341	-	11,341	-	11,341
Library materials	133,687	-	133,687	-	133,687
Supplies	14,053	-	14,053	-	14,053
Utilities	56,968	-	56,968	-	56,968
Communications	6,447	-	6,447	-	6,447
Postage	1,868	-	1,868	-	1,868
Programming	11,722	-	11,722	-	11,722
Staff development	3,659	-	3,659	-	3,659
Copy machine rental and supplies	4,561	-	4,561	-	4,561
Insurance	16,569	-	16,569	-	16,569
Capital outlay	10,607	78,224	88,831	(78,224)	10,607
Bond processing and handling fees	300	-	300	-	300
Debt service	54,808	83,000	137,808	(110,510)	27,298
Gift and memorial expenditures	16,572	-	16,572	-	16,572
Miscellaneous	6,029	-	6,029	-	6,029
Depreciation	-	-	-	66,711	66,711
<b>Total Expenditures</b>	<b>1,166,835</b>	<b>161,224</b>	<b>1,328,059</b>	<b>(124,231)</b>	<b>1,203,828</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>29,574</b>	<b>(115,426)</b>	<b>(85,852)</b>	<b>124,231</b>	<b>38,379</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds From Borrowing	-	625,792	625,792	(625,792)	
Transfers In	112,895	83,000	195,895	(195,895)	
Transfers Out	(83,000)	(112,895)	(195,895)	195,895	
<b>Total Other Financial Sources (Uses)</b>	<b>29,895</b>	<b>595,897</b>	<b>625,792</b>	<b>-</b>	
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>59,469</b>	<b>480,471</b>	<b>539,940</b>		
<b>Change in Net Assets</b>					<b>38,379</b>
<b>FUND BALANCES/NET ASSETS</b>					
Beginning of Year	780,560	428,175	1,208,735	1,307,893	2,516,628
End of Year	\$ 840,029	\$ 908,646	\$ 1,748,675	\$ 806,332	\$ 2,555,007

See accompanying notes to basic financial statements.

**NILES DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**

For the year ended September 30, 2009

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of Niles District Library ("Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the significant policies adopted by the Library are as follows:

**REPORTING ENTITY:**

The Library's reporting entity includes all activities related to the operation of the Niles District Library. The Library receives funding from local and state government sources and must comply with the requirements of these funding source entities. However, the Library is not included in any other governmental "reporting entity" as defined by the GASB pronouncement. In addition, there are no component units as defined by GASB which are included in the Library's reporting entity.

**BASIS OF PRESENTATION:**

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) and Fund Financial Statements. The government-wide and fund financial statements are combined, with a reconciliation shown between them.

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

The Governmental Funds Balance Sheet and Statement of Net Assets and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities combines information about the reporting government as a whole and funds statements to report its financial position and the results of its operations.

The Operating Fund is the only major individual governmental fund. For fund financial statements, the accounts of the Library are organized on the basis of funds each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise each fund's assets, liabilities, fund balances, revenues and expenditures. The following is a description of the funds included in the accompanying basic financial statements:

**Operating Fund -** The Operating Fund accounts for revenues and expenditures of the Library not required to be accounted for in other funds.

**Reserve Fund -** The Reserve Fund accounts for the accumulation of resources related to ensuring uninterrupted Library service.

**Capital Projects Fund -** The Capital Projects Fund accounts for the financial resources to be used for the acquisition of major capital expenditures.

**NILES DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**For the year ended September 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED:**

**Legacy Fund - The Legacy Fund accounts for the revenues and expenditures related to particular functions or activities of the Library, including income from the Frazee Trust Fund Endowment. The Legacy Fund was closed during the year ended September 30, 2009.**

**BASIS OF ACCOUNTING:**

**The government-wide statements (the Statement of Net Assets and the Statement of Activities) are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements (the Governmental Funds Balance Sheet and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances) are prepared using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.**

**BUDGETS AND BUDGETARY ACCOUNTING:**

**The Library Director prepares the annual budget which is adopted by the Library Board of Trustees. Budget amendments are required to be approved by the Library Board of Trustees. Unexpended budget appropriations lapse at year end. The budget is adopted on the basis of accounting described above. Original budgets and all budget revisions are listed on the Library's web-site. There were no significant budget overruns during the year ended September 30, 2009.**

**CASH AND CASH EQUIVALENTS AND INVESTMENTS:**

**Pursuant to Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), the Library may invest funds in the following types of investments:**

**Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.**

**Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution which are insured and which meet all criteria as depository of public funds.**

**Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and maturing no more than 270 days after date of purchase.**

**United States government or federal agency obligation repurchase agreements.**

**Bankers' acceptances of United States banks.**

**NILES DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

For the year ended September 30, 2009

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED:**

**CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONCLUDED:**

Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

Investment pools organized under the surplus funds investment pool act, 1982, PA 367, 129.111 to 129.118.

Mutual funds registered under the investment company act of 1940, title I of chapter 686.

Cash and cash equivalents are recorded at cost and include cash investments with an original maturity of three months or less.

**CAPITAL ASSETS:**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

**Government-wide Statements**

In the government-wide financial statements capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Leasehold improvements	50 years
Furniture and equipment	10-15 years
Computer equipment	5 years

The minimum capitalization threshold is any item with a total cost greater than \$2,500.

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

NILES DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2009

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONCLUDED:**

**COMPENSATED ABSENCES:**

It is the Library's policy to permit employees to accumulate earned but unused sick pay (to a maximum of 1,000 hours) and vacation pay benefits (to a maximum of 75 hours). There is no accrued liability for unpaid accumulated sick leave since the Library's policy does not allow for the payment of any amounts when employees separate from service with the Library. All vacation pay is accrued when incurred in the government-wide financial statements.

**PROPERTY TAXES:**

Property taxes are levied for Library operating purposes against properties within the Library's service area at a rate of 1.4842 mills.

**ESTIMATES:**

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**FUND BALANCES:**

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. Designations of fund balance represent tentative management plans and are subject to change.

**NOTE B - CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents consisted of the following at September 30, 2009:

Petty cash	\$	100
Deposits in financial institutions		<u>1,088,903</u>
	\$	<u>1,089,003</u>

The above deposits in financial institutions of \$1,088,903 were reflected in the accounts of the Library's financial institutions (without recognition of checks written but not yet cleared, or of deposits in transit) at \$1,104,643. Of that amount, approximately \$366,332 was covered by federal depository insurance coverage, \$250,000 was covered by private depository insurance coverage and \$488,311 was uninsured and uncollateralized.

**NILES DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

For the year ended September 30, 2009

**NOTE C - INVESTMENTS:**

Investments at September 30, 2009 consisted of certificates of deposit in financial institutions of \$697,383. All of such deposits were covered by federal depository insurance coverage.

**NOTE D - CAPITAL ASSETS:**

Capital asset activity for the Library's Governmental activities for the year ended September 30, 2009 was as follows:

	Balance September 30, 2008	Additions	Deletions	Balance September 30, 2009
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 78,224	\$ -	\$ 78,224
Capital assets being depreciated:				
Leasehold improvements	2,024,024	-	-	2,024,024
Furniture and equipment	210,926	-	-	210,926
Computer equipment	142,424	-	19,329	123,095
	<u>2,377,374</u>	<u>-</u>	<u>19,329</u>	<u>2,358,045</u>
Accumulated depreciation:				
Leasehold improvements	419,355	45,892	-	465,247
Furniture and equipment	89,287	14,987	-	104,274
Computer equipment	119,655	5,832	19,329	106,158
	<u>628,297</u>	<u>66,711</u>	<u>19,329</u>	<u>675,679</u>
Net capital assets being depreciated	<u>1,749,077</u>	<u>(66,711)</u>	<u>-</u>	<u>1,682,366</u>
Net capital assets	\$ <u>1,749,077</u>	\$ <u>11,513</u>	\$ <u>-</u>	\$ <u>1,760,590</u>

**NOTE E - LONG-TERM DEBT:**

Notes payable consist of the following at September 30, 2009:

5.25% installment note, with annual payments of \$64,148, including interest, first payment due May 22, 2011 and final payment due May 22, 2025. \$ 545,621

The Library opted to make an early payment of \$80,171 on July 23, 2009. No payment is budgeted for the year ending September 30, 2010.

**NILES DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

For the year ended September 30, 2009

**NOTE E - LONG-TERM DEBT - CONCLUDED:**

General obligation bonds consist of the following at September 30, 2009:

4.75% - 4.80% 1998 Building Authority Bonds, with annual payments of \$35,000 to \$50,000 and semi-annual interest payments, final maturity April, 2018. \$ 380,000

The following is a summary of the changes in general long-term debt for the year ended September 30, 2009.

	Balance September 30, <u>2008</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2009</u>	<u>Due Within One Year</u>
Notes Payable	\$ -	\$ 625,792	\$ 80,171	\$ 545,621	\$ -
Bonds Payable	415,000	-	35,000	380,000	35,000
Compensated Absences	16,280	-	2,208	14,072	-
	<u>\$ 431,280</u>	<u>\$ 625,792</u>	<u>\$ 117,379</u>	<u>\$ 939,693</u>	<u>\$ 35,000</u>

The annual requirements to service general long-term debt, excluding employee benefits, for the years ending September 30th, are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 35,000	\$ 18,145	\$ 53,145
2011	48,999	66,631	115,630
2012	76,238	42,730	118,968
2013	78,140	38,927	117,067
2014	80,143	35,025	115,168
Thereafter	607,101	129,913	737,014
<b>Total</b>	<u>\$ 925,621</u>	<u>\$ 331,371</u>	<u>\$ 1,256,992</u>

**NOTE F - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:**

Interfund receivable and payable balances at September 30, 2009 consisted of the following:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 46,150	\$ -
Capital Projects Fund	-	46,150
	<u>\$ 46,150</u>	<u>\$ 46,150</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenses occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NILES DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2009

**NOTE F - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - CONCLUDED:**

For the year ended September 30, 2009, interfund transfers consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 112,895	\$ 83,000
Capital Projects Fund	-	8,839
Legacy Fund	-	37,751
Reserve Fund	<u>83,000</u>	<u>66,305</u>
	<u>\$ 195,895</u>	<u>\$ 195,895</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

**NOTE G - FRAZEE TRUST FUND ENDOWMENT:**

The Library is the sole income beneficiary of the Carl H. and Faye W. Frazee Niles Community Library Foundation Trust established in 1990. Wells Fargo Bank Indiana, N.A. is the Trustee of the Foundation, and manages the income and distributions of the endowment. Distributions to the Library amounted to \$32,571 for the year ended September 30, 2009.

**NOTE H - PENSION PLAN:**

The Library has a defined benefit pension plan which provides retirement benefits to employees meeting eligibility requirements. The Library's defined benefit plan for its employees is administered through the Municipal Employees' Retirement System of Michigan (MERS). MERS is a statewide retirement plan that municipalities may adopt for their employees. Public Act 220 of 1996 of the State of Michigan provided MERS with the power to establish and amend the benefit provisions to Niles District Library. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

MERS members shall contribute an amount varying from 0.00 percent to 10.0 percent of compensation, depending upon which contribution plan is selected. The Library is required to contribute at an actuarially determined rate, which is currently 4.74% of reported wages. For the year ended September 30, 2009, the contributions to the plan totaled \$21,564.

In the December 31, 2008, actuarial valuation, the entry age actuarial cost method was used. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, including an inflation component of 4.5 percent, (b) projected salary increase of 4.5 percent per year attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year depending on age, attributable to seniority/merit, and (d) no

**NILES DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

For the year ended September 30, 2009

**NOTE H - PENSION PLAN - CONCLUDED:**

post retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

Three-year trend information is as follows:

	<u>Fiscal year ended September 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual pension cost (APC)	\$ 21,564	\$ 21,748	\$ 20,160
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-
	<u>Actuarial Valuation as of December 31</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarial value of assets	\$ 599,755	\$ 533,572	\$ 461,839
Actuarial Accrued Liability (AAL)	\$ 594,176	\$ 521,542	\$ 444,389
Overfunded ALL (OALL)	\$ 5,579	\$ 12,030	\$ 17,450
Funded ratio	\$ 101.0%	\$ 102.0%	\$ 104.0%
Covered payroll	\$ 462,361	\$ 450,717	\$ 419,143

**NOTE I - ACCUMULATED EMPLOYEE BENEFITS:**

Accumulated employee benefits represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library. The estimated liability as of September 30, 2009 is estimated to approximate \$14,072.

**NOTE J - RISK MANAGEMENT:**

The Library is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters. The Library maintains commercial insurance to insure potential significant losses. There have been no significant reductions in insurance coverage by the Library for the year ended September 30, 2009.

NILES DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2009

**NOTE K - ENERGY IMPROVEMENT PROJECT:**

In June 2009, the Library entered into an Energy Improvements Agreement with Ameresco, Inc. for a contract price of \$782,240. The terms of the agreement call for Ameresco to design and execute an energy consumption reduction plan for the Library, that is guaranteed to save the Library \$14,554 a year for ten years in energy and operational costs. The energy savings projects include replacement of windows, upgrades to the Library's HVAC system, and the addition of a solar panel. If the annual guaranteed savings amount is not achieved by the Library by the end of the first guarantee year, Ameresco is required to pay the Library the amount by which the annual guaranteed savings amount exceeds the actual savings amount. In addition, Ameresco has the option to either install additional modifications to the system to achieve the annual guaranteed savings, or pay the Library the difference between the guaranteed savings amount and the actual savings amount for each year of the contract.

In October 2009, (fiscal year 2010) the Library signed an additional contract with Ameresco for the upgrade of all lamps and ballasts in the Library at a cost of \$35,873. This brings the total cost of the energy efficiency project to \$818,113. To finance this project, the Library procured a commercial installment note in the amount of \$625,792, and plans to use a portion of its reserve allowance to finance the remainder of the project cost.

**NOTE L - 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 funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference is a result of the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental funds balance sheet and statement of revenue, expenditures, and changes 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 Balances- modified accrual basis	\$ 1,748,675
Amounts reported in the Statement of Net Assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	1,760,590
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(14,565)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	
Notes Payable	(545,621)
Bonds Payable	(380,000)
Accrued Employee Benefits	(14,072)
Net Assets (All Funds) - full accrual basis	\$ <u>2,555,007</u>

NILES DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS - CONCLUDED

For the year ended September 30, 2009

**NOTE L - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS-CONCLUDED:**

Net Change in Governmental Fund Balances - modified accrual basis \$ 539,940

Amounts reported in the Statement of Activities are different because:

Capital outlays are reported as expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay 78,224  
Depreciation (66,711)

Interest is reported as an expenditure when due in the funds; in the Statement of Activities interest is accrued on outstanding debt (4,661)

Repayment of bond and loan principal are reported as an expenditure in the fund statements; in the Statement of Activities these payments reduce long-term debt 115,171

Proceeds from borrowing provide current financial resources to governmental funds in the period received, but borrowing funds increases long-term liabilities in the statement of net assets (625,792)

Accrual for long-term employee benefits reported as an expenditure in the Statement of Activities, but not in the funds 2,208

Change in Net Assets (All Funds) - full accrual basis \$ 38,379

**REQUIRED SUPPLEMENTARY INFORMATION**

NILES DISTRICT LIBRARY

REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE

OPERATING FUND

For the year ended September 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>REVENUES:</b>				
Local taxes	\$ 751,000	\$ 758,500	\$ 766,502	\$ 8,002
Penal fines	237,000	244,500	249,160	4,660
State-shared revenues	18,500	16,500	16,059	(441)
Interest and dividends	23,000	22,500	15,700	(6,800)
Charges for services	25,500	25,000	24,765	(235)
Contributions and gifts	15,800	104,966	105,465	499
Copier revenues	11,500	12,500	12,494	(6)
Community room	1,450	750	1,075	325
Miscellaneous	2,000	4,000	5,189	1,189
	<u>1,085,750</u>	<u>1,189,216</u>	<u>1,196,409</u>	<u>7,193</u>
<b>EXPENDITURES:</b>				
Salaries	555,700	554,200	557,681	(3,481)
Payroll taxes and employee benefits	165,937	168,937	171,577	(2,640)
Professional fees	20,500	32,000	32,857	(857)
Building maintenance	58,773	58,773	55,529	3,244
Repairs and maintenance	20,700	20,700	11,341	9,359
Library materials	125,500	125,500	133,687	(8,187)
Supplies	13,550	13,550	14,053	(503)
Utilities	56,000	51,000	56,968	(5,968)
Communicatons	6,600	6,600	6,447	153
Postage	2,500	2,000	1,868	132
Programming	13,000	13,000	11,722	1,278
Staff development	5,100	4,600	3,659	941
Copy machine rental and supplies	3,100	5,800	4,561	1,239
Insurance	17,000	16,570	16,569	1
Capital outlay	3,000	26,000	10,607	15,393
Bond proccessing and handling fees	-	-	300	(300)
Debt service	54,808	54,808	54,808	-
Gift and memorial expenditures	9,000	20,000	16,572	3,428
Miscellaneous	7,000	6,000	6,029	(29)
	<u>1,137,768</u>	<u>1,180,038</u>	<u>1,166,835</u>	<u>13,203</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(52,018)</u>	<u>9,178</u>	<u>29,574</u>	<u>20,396</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	33,000	61,179	112,895	51,716
Operating transfers out	-	(83,000)	(83,000)	-
	<u>33,000</u>	<u>(21,821)</u>	<u>29,895</u>	<u>51,716</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<u>(19,018)</u>	<u>(12,643)</u>	<u>59,469</u>	<u>72,112</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>780,560</u>	<u>780,560</u>	<u>780,560</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 761,542</u>	<u>\$ 767,917</u>	<u>\$ 840,029</u>	<u>\$ 72,112</u>

See accompanying notes to basic financial statements.

**OTHER SUPPLEMENTAL INFORMATION**

**NILES DISTRICT LIBRARY  
COMBINING BALANCE SHEETS**

**OTHER FUNDS**

September 30, 2009

	<u>Reserve Fund</u>	<u>Capital Projects</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ -	\$ 607,194	\$ 607,194
Investments	177,591	167,886	345,477
Interest receivable	<u>108</u>	<u>2,017</u>	<u>2,125</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>177,699</u></b>	<b>\$ <u>777,097</u></b>	<b>\$ <u>954,796</u></b>
<b><u>LIABILITIES</u></b>			
Due to other funds	\$ -	\$ 46,150	\$ 46,150
<b><u>FUND BALANCES</u></b>			
Fund Balances, reserved	\$ <u>177,699</u>	\$ <u>730,947</u>	\$ <u>908,646</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>177,699</u></b>	<b>\$ <u>777,097</u></b>	<b>\$ <u>954,796</u></b>

See accompanying notes to basic financial statements.

**NILES DISTRICT LIBRARY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**OTHER FUNDS**

For the year ended September 30, 2009

	<u>Reserve</u> <u>Fund</u>	<u>Legacy</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u>
<b>REVENUES:</b>				
Interest and dividends	\$ 5,022	\$ 1	\$ 8,204	\$ 13,227
Frazer Trust	-	32,571	-	32,571
	<u>5,022</u>	<u>32,572</u>	<u>8,204</u>	<u>45,798</u>
<b>EXPENDITURES:</b>				
Debt Service	-	-	83,000	83,000
Capital Improvements	-	-	78,224	78,224
	<u>-</u>	<u>-</u>	<u>161,224</u>	<u>161,224</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>5,022</u>	<u>32,572</u>	<u>(153,020)</u>	<u>(115,426)</u>
<b>OTHER FINANCING USES:</b>				
Proceeds from borrowing	-	-	625,792	625,792
Operating transfers in	-	-	83,000	83,000
Operating transfers out	(66,305)	(37,751)	(8,839)	(112,895)
	<u>(66,305)</u>	<u>(37,751)</u>	<u>699,953</u>	<u>595,897</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<u>(61,283)</u>	<u>(5,179)</u>	<u>546,933</u>	<u>480,471</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>238,982</u>	<u>5,179</u>	<u>184,014</u>	<u>428,175</u>
<b>FUND BALANCES, END OF YEAR</b>	\$ <u>177,699</u>	\$ <u>-</u>	\$ <u>730,947</u>	\$ <u>908,646</u>

See accompanying notes to basic financial statements.

NILES DISTRICT LIBRARY

1998 BUILDING AUTHORITY BONDS

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS

For the year ended September 30, 2009

<u>Year Ending September 30,</u>	<u>Principal April 1</u>	<u>Interest Requirements</u>		<u>Total Interest</u>	<u>Total Requirements</u>
		<u>April 1</u>	<u>October 1</u>		
2010	\$ 35,000	\$ 9,073	\$ 9,072	\$ 18,145	\$ 53,145
2011	35,000	8,241	8,241	16,482	51,482
2012	40,000	7,410	7,410	14,820	54,820
2013	40,000	6,460	6,460	12,920	52,920
2014	40,000	5,510	5,510	11,020	51,020
2015	45,000	4,560	4,560	9,120	54,120
2016	45,000	3,480	3,480	6,960	51,960
2017	50,000	2,400	2,400	4,800	54,800
2018	50,000	1,200	1,200	2,400	52,400
	<u>\$ 380,000</u>	<u>\$ 48,334</u>	<u>\$ 48,333</u>	<u>\$ 96,667</u>	<u>\$ 476,667</u>

See accompanying notes to basic financial statements.



**SCARPONE & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

November 16, 2009

Members of the Library Board of Trustees  
Niles District Library  
Niles, Michigan

We have audited the financial statements of Niles District Library for the year ended September 30, 2009, and have issued our report thereon dated November 16, 2009. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Niles District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Niles District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you per our engagement letter.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Niles District Library are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Niles District Library during the year for which there is lack of authoritative guidance

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

### **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:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factor assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were 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 November 16, 2009.

### **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.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Niles District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

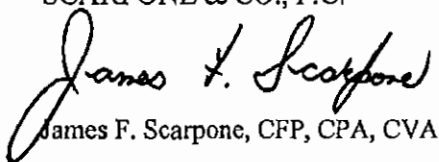
We encountered no difficulties in dealing with management in performing and completing our audit.

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

We appreciate the opportunity to be of service to you. As always, should you have any questions, please don't hesitate to contact us.

Sincerely,

SCARPONE & CO., P.C.

  
James F. Scarpone, CFP, CPA, CVA



SCARPONE & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

November 16, 2009

Members of the Library Board of Trustees  
Niles District Library  
Niles, Michigan

In planning and performing our audit of the financial statements of Niles District Library as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our 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 first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

#### COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROL

Our procedures disclosed the following conditions that we would like to bring to your attention:

During the year ended September 30, 2009, the Library made significant changes and improvements to its internal control system and operating procedures. These changes have greatly reduced the number of our internal control comments and recommendations from the year ended September 30, 2008.

#### Control Deficiency - Access to accounting software

Currently the administrative assistant and the contracted bookkeeper have the same access levels and use the same password to access the accounting software.

### **Recommendation**

If the accounting software allows for various levels of access, the administrative assistant should be given read only access to the software and new passwords should be assigned for both the contracted bookkeeper and the administrative assistant.

### **Control Deficiency - Lack of Review of Bank Reconciliations**

Currently the contracted bookkeeper posts all entries to the accounting software, prepares checks, and prepares the bank reconciliations.

### **Recommendation**

If staffing levels allow, the bank reconciliations should be prepared by an individual that does not have access to the bank deposits, the accounting software and does not have check writing privileges. If staffing levels will not allow for this control, we recommend that the bank reconciliations be reviewed by a Library Board Member that does not have check writing privileges.

### **Preparation of Financial Statements in Accordance with GAAP**

Governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Library's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e. maintaining internal books and records), and (2) reporting financial statements, including the related footnotes.

As is the case with entities of similar size, the Library has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Library's ability to prepare financial statements in accordance with GAAP is based in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Library's internal controls.

The cause for this condition is simply because it is more cost effective to out source the preparation of the Library's annual financial statements to the independent auditors, rather than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Library's annual financial statements and notes to the financial statements in accordance with GAAP. Accordingly, the Library relies on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We do not recommend any changes to this situation at this time and we communicate this to you solely as required by professional standards.

### **SUMMARY**

These conditions were considered in determining the nature, timing and extent of the audit procedures that were applied in our audit of the Library's financial statements and this communication to you of these matters does not affect our report on the Library's financial statements for the year ended September 30, 2009.

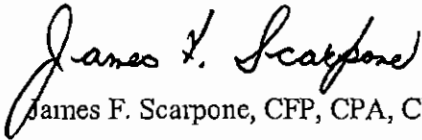
We welcome any questions regarding the foregoing comments and we would be happy to discuss these or any other questions that you may have at your convenience.

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

We appreciate and thank the Library's staff for their cooperation and assistance during this year's audit.

Sincerely,

SCARPONE & CO., P.C.

A handwritten signature in cursive script that reads "James F. Scarpone".

James F. Scarpone, CFP, CPA, CVA