

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Athens Community Library	County Calhoun
Fiscal Year End March 31, 2007	Opinion Date September 20, 2007	Date Audit Report Submitted to State October 12, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|-----------|----|--|
| YES
NO | NO | Check each applicable box below. (See instructions for further detail.) |
|-----------|----|--|
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. The local unit has adopted a budget for all required funds.
 5. A public hearing on the budget was held in accordance with State statute.
 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. The local unit only holds deposits/investments that comply with statutory requirements.
 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. The local unit is free of repeated comments from previous years.
 12. The audit opinion is UNQUALIFIED.
 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. The board or council approves all invoices prior to payment as required by charter or statute.
 15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 269-329-7007		
Street Address 710 E Milham		City Kalamazoo	State MI	Zip 49002
Authorizing CPA Signature <i>Carol A. Light CPA</i>		Printed Name Carol A. Light, CPA		License Number 1101020083

**Athens Community Library
Athens, Michigan**

**Annual Financial Statements
and
Auditors' Report**

March 31, 2007

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Athens Community Library
Athens, Michigan
Members of the Library Board and Administration
March 31, 2006

MEMBERS OF THE LIBRARY BOARD

Clela Bauer	President
Virginia Doubleday	Vice President
Elsie Simmons	Treasurer
Margaret Smith	Secretary
Linda Minier	Trustee
Judy Henckel	Trustee

ADMINISTRATION

Diane Garlets	Librarian
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Independent Auditors' Report

Members of the Library Board
Athens Community Library
Athens, Michigan

We have audited the accompanying financial statements of the governmental activities, of Athens Community Library as of March 31, 2007, which collectively comprise the library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Athens Community 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 disclosures 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.

As described in Note 2, Athens Community Library prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of Athens Community Library as of March 31, 2007 and the revenues it received and the expenditures it paid for the year then ended on the basis of accounting described in Note 2.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The budgetary comparison schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Athens Community 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's discussion and analysis is not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Yeo & Yeo, P.C.
Kalamazoo, Michigan

September 20, 2007

Athens Community Library
Management's Discussion and Analysis
March 31, 2007

This section of the Athens Community Library annual financial report presents our discussion and analysis of the Library's financial performance during the year ended March 31, 2007. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for General Fund

Athens Community Library
Management's Discussion and Analysis
March 31, 2007

Reporting the Library as a Whole – Government-wide Financial Statements

The statement of net assets and the statement of activities, which appear first in the Library's financial statements report information about the Library as a whole using the cash basis of accounting. The statement of net assets was prepared using the modified cash basis of accounting and includes all of the Library's assets and liabilities arising from cash transactions. All of the current year's revenues and expenses are accounted for in the statement of activities when cash is received or paid.

These two statements report the Library's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets – is one way to measure the Library's financial health, or position. Over time, increases or decreases in the Library's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's goal is to provide services to our patrons, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided to assess the overall health of the Library.

The statement of net assets and statement of activities report the governmental activities for the Library, which encompass all of the Library's services. Penal fines and property taxes make up 89% of the finance of these activities.

Reporting the Library's Funds – Fund Financial Statements

The Library's fund financial statements provide detailed information about the Library's funds – not the Library as a whole. Some funds are required to be established by State law. The Library establishes funds to help it control and manage money for particular purposes and to show that it's meeting its legal responsibilities for using certain fines, grants, and other money. The governmental funds of the Library use the following accounting approach:

Governmental funds – All of the Library's services are reported in Governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method for reporting cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

**Athens Community Library
Management's Discussion and Analysis
March 31, 2007**

The Library as a Whole

Recall that the statement of net assets provides the perspective of the Library as a whole. Table 1 provides a summary of the Library's net assets as of March 31, 2007 and 2006.

TABLE 1

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 84,899	\$ 58,993
Capital assets	<u>12,120</u>	<u>12,910</u>
Total Assets	<u><u>97,019</u></u>	<u><u>71,903</u></u>
Net Assets		
Invested in capital assets	12,120	12,910
Unrestricted	<u>84,899</u>	<u>58,993</u>
Total Net Assets	\$ <u><u>97,019</u></u>	\$ <u><u>71,903</u></u>

The above analysis focuses on the net assets

The results of this year's operations for the Library as a whole are reported in the statement of activities (see Table 2), which shows the sources of revenue for the year ended March 31, 2007 and 2006.

**Athens Community Library
Management's Discussion and Analysis
March 31, 2007**

TABLE 2

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Property taxes	\$ 25,660	\$ -
Penal fines	14,774	13,467
State aid	1,439	1,118
Other revenue	<u>3,625</u>	<u>4,192</u>
Total Revenues	<u>45,498</u>	<u>18,777</u>
Functions/program expenses		
Library services	<u>20,382</u>	<u>17,178</u>
Excess of revenues over expenditures	\$ <u>25,116</u>	\$ <u>1,599</u>

Penal fines constitute the vast majority of Library's operating revenue sources. The Library Board and librarian must annually evaluate the needs of the Library and balance those needs with other available unrestricted resources.

The Library as a Whole

The Library's net assets increased \$25,116 for the year ended March 31, 2007.

The Library's primary sources of revenue are from property tax and penal fines, which represents 56% and 32% of total revenue, respectively. Total revenues increased 142% which relates to the receipt of property taxes for the current year.

Salaries and fringes continue to be a significant expense, representing 53% of the Library's total expenses.

The Library's Fund

An analysis of the Library's major funds is included on page 4-3 and 4-5. This page provides detailed information about the most significant funds – not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes and to maintain accountability for certain activities. At this time the Library maintains only one fund.

The fund balance of the General Fund increased during the year ended March 31, 2007 by \$25,906.

**Athens Community Library
Management's Discussion and Analysis
March 31, 2007**

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 property taxes.

The increase in the budgeted amounts for property taxes relates the library receiving 3/4th of a mil were not originally budgeted for but were found to be necessary.

Capital Assets Administration

Capital Assets

At March 31, 2007, the Library had \$12,120 invested in capital assets, including building improvements and books in accordance with its capitalization policy. Amounts under \$1,000 are not included herein.

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Buildings improvements	\$ 1,986	\$ 1,986
Library books	43,858	40,750
Machinery and equipment	<u>4,215</u>	<u>4,215</u>
Total capital assets	50,059	46,951
Less accumulated depreciation	<u>(37,939)</u>	<u>(34,041)</u>
Total	<u>\$ 12,120</u>	<u>\$ 12,910</u>

Contacting the Library's Financial Management

This financial report is designed to provide the Library's citizens, customers, investors, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library at 106 East Burr Oak, Athens, Michigan 49011.

Athens Community Library
Statement of Net Assets - Modified Cash Basis
March 31, 2007

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash	12,436
Investments	69,141
Taxes receivable	<u>3,322</u>
Total current assets	<u>\$ 84,899</u>
Noncurrent assets	
Capital assets	
Building improvements	1,986
Library books	43,858
Machinery and equipment	4,215
Less: accumulated depreciation	<u>(37,939)</u>
Total noncurrent assets	<u>12,120</u>
Total assets	<u><u>\$ 97,019</u></u>
Net Assets	
Invested in capital assets	12,120
Unrestricted	<u>84,899</u>
Total net assets	<u><u>\$ 97,019</u></u>

See Accompanying Notes to Financial Statements

Athens Community Library
Statement of Activities - Modified Cash Basis
For the Year Ended March 31, 2007

Revenue

Property taxes	\$ 25,660
Penal fines	14,774
State aid	1,439
Grants	1,500
Interest on investments	1,935
Other miscellaneous	190
Total revenue	<u>45,498</u>

Expenses

Library books and materials	738
Miscellaneous	28
Professional fees	2,568
Repair and maintenance	2,400
Salaries and fringe benefits	10,351
Supplies	399
Depreciation	3,898
Total expenditures	<u>20,382</u>

Change in net assets 25,116

Net assets - beginning of year 71,903

Net assets - end of year \$ 97,019

See Accompanying Notes to Financial Statements

Athens Community Library
Balance Sheet - Modified Cash Basis
Governmental Funds
March 31, 2007

	<u>General Fund</u>
Assets	
Cash	\$ 12,436
Investments	69,141
Taxes recievable	<u>3,322</u>
 Total assets	 <u>\$ 84,899</u>
 Fund Balance	
Undesignated	 <u>\$ 84,899</u>

See Accompanying Notes to Financial Statements

Athens Community Library
Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets
March 31, 2007

Total fund balances for governmental funds \$ 84,899

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Building Improvements	\$ 1,986	
Library books	43,858	
Machinery and equipment	4,215	
Less: accumulated depreciation	<u>(37,939)</u>	<u>12,120</u>

Net assets of governmental activities **\$ 97,019**

Athens Community Library
Statement of Revenues, Expenditures, and Changes in Fund Balance - Modified Cash Basis
Governmental Funds
For the Year Ended March 31, 2007

	General Fund
Revenues	
Property taxes	\$ 25,660
Penal fines	14,774
State aid	1,439
Grants	1,500
Interest on investments	1,935
Other miscellaneous	190
Total revenues	45,498
Expenditures	
Library books and materials	3,846
Miscellaneous	28
Professional fees	2,568
Repair and maintenance	2,400
Salaries and fringe benefits	10,351
Supplies	399
Total expenditures	19,592
Excess of revenues over expenditures	25,906
Fund balance - beginning	58,993
Fund balance - ending	\$ 84,899

See Accompanying Notes to Financial Statements

Athens Community Library
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2007

Net change in fund balances - total governmental funds \$ 25,906

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$	3,108	
Depreciation expense		<u>(3,898)</u>	<u>(790)</u>

Change in net assets of governmental activities \$ 25,116

Athens Community Library
Notes to Financial Statements
March 31, 2007

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Athens Community Library (the "Library") conform to the modified cash basis of accounting as applicable to governmental units. The following is a summary of the Library's significant accounting policies:

Reporting Entity

The Library is located in Athens, Michigan and is governed by an appointed six-member board. The Library is primarily funded through fines. Revenue is used to operate and staff the Library. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. 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.

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 modified cash basis of accounting. Revenue is recorded when received and expenses are recorded when paid. In addition, capital assets arising from cash transactions, depreciation and long-term debt arising from cash transactions are recorded.

The statement of net assets includes and recognizes the result of cash transactions. The Library's net assets are reported in three parts (1) invested in capital assets, net of related debt (2) restricted net assets, and (3) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes penal fines and state aid to meet the operational or capital requirements of a particular function or segment.

Fund Financial Statements

Governmental fund financial statements are reported using the modified cash basis of accounting. Revenue is recognized when received and expenditures are recorded when paid.

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 maturity of three months or less when acquired. Investments are stated at fair value.

Athens Community Library
Notes to Financial Statements
March 31, 2007

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated assets are reported at an 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:

Improvements	10 – 20 years
Books	5 years

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 change.

Comparative Data

Comparative data is not included in the Library's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with modified cash basis of accounting and State law for the General Fund. All annual appropriations lapse at fiscal year end.

The appropriation level adopted by the Board is the level of control authorized under the Act. State law requires the Library to have its budget in place by February. A library is not considered in violation of

the Act if reasonable procedures are in use by the library to detect violations.

Budgeted amounts are as originally adopted, or as amended by the Library Board throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Appropriations lapse at yearend and therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

Cash	\$ 12,436
Investments	<u>69,141</u>
 Total	 <u>\$ 81,577</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings)	\$ 81,577
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Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates

Athens Community Library
Notes to Financial Statements
March 31, 2007

Credit risk – State statutes and the government’s investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government’s deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, none of the deposits were exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - GENERAL FIXED ASSETS

A summary of the changes in general fixed assets is as follows:

	Balance April 1, 2006	Additions	Deletions	Balance March 31, 2007
Other capital assets				
Buildings improvements	\$ 1,986	\$ -	\$ -	\$ 1,986
Library books	40,750	3,108	-	43,858
Machinery and equipment	<u>4,215</u>	<u>-</u>	<u>-</u>	<u>4,215</u>
Subtotal	46,951	3,108	-	50,059
Accumulated depreciation	<u>(34,041)</u>	<u>(3,898)</u>	<u>-</u>	<u>(37,939)</u>
Net book value	<u>\$ 12,910</u>	<u>\$ (790)</u>	<u>\$ -</u>	<u>\$ 12,120</u>

Depreciation for the year ended March 31, 2007 amounted to \$3,898.

Athens Community Library
Required Supplemental Information
Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended March 31, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Property taxes	\$ -	\$ 16,000	\$ 25,660	\$ 9,660
Penal fines	14,000	10,253	14,774	4,521
State aid	1,150	929	1,439	510
Grants	-	1,500	1,500	-
Interest on investments	1,600	1,620	1,935	315
Other miscellaneous	-	195	190	(5)
Total revenues	<u>16,750</u>	<u>30,497</u>	<u>45,498</u>	<u>15,001</u>
Expenditures				
Conferences, workshops, and travel	150	-	-	-
Library books and materials	3,800	4,020	3,846	(174)
Miscellaneous	50	50	28	(22)
Professional fees	1,700	2,568	2,568	-
Repair and maintenance	833	2,430	2,400	(30)
Salaries and fringe benefits	9,217	10,089	10,351	262
Supplies	1,000	400	399	(1)
Total expenditures	<u>16,750</u>	<u>19,557</u>	<u>19,592</u>	<u>35</u>
Excess (deficiency) of revenues over expenditures	-	10,940	25,906	14,966
Fund balance - beginning	<u>58,993</u>	<u>58,993</u>	<u>58,993</u>	<u>-</u>
Fund balance - ending	<u>\$ 58,993</u>	<u>\$ 69,933</u>	<u>\$ 84,899</u>	<u>\$ 14,966</u>

September 20, 2007

To the Management and
Board of Directors of
Athens Community Library

In planning and performing our audit of the financial statements of Athens Community Library as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Athens Community Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

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

Financial Statement Preparation Controls

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Library financial statements. However, if at any point in the audit we as auditors are part of the Library's control system for producing reliable financial statements, auditing standards indicate that the Library has a control deficiency. The preparation of financial statements and disclosures, even from information provided by Management, meets this definition and is, therefore, a control deficiency. We recommend that Management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting for this service with our firm.

Documentation of Internal Controls

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the Library. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was complete relative to the disbursements process. We recommend that the Library also document control procedures for receipts, payroll, and budget process. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

Segregation of Duties

We are sensitive to the fact that the Library is a small organization, however we are required to tell you under auditing standards that the Library has a control deficiency related to the segregation of duties. Even within very small organizations there is the ability to gain some amount of segregation of duties. We recommend that a certain minimum segregation of duties be implemented to increase the effectiveness of internal controls within the Library. These procedures will help prevent human errors as well as being a deterrent to fraud. We recommend that the disbursement cycle be segregated to ensure the person writing the checks and reconciling the bank statement is not the person signing the checks. We recommend that the receipts cycle be segregated to ensure the person recording the deposits, recording pledges, and reconciling the bank statement is not the person making the deposits. We further recommend a person who has not reconciled the bank account review the bank reconciliation. If you would like further information on how to segregate duties as they specifically relate to the Library's situation, we would be happy to provide you with additional information and consultation. The library is making a good effort to segregate their duties with the limited resources they have available. However, the best way to segregate the duties is to involve all member of the board. This will lessen the responsibilities of the Treasurer, who is involved in multiple functions.

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

Yeo & Yeo, P.C.

Yeo & Yeo
Kalamazoo, Michigan
September 20, 2007