

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 BAYLISS PUBLIC LIBRARY	County CHIPPEWA
Fiscal Year End 6/30/2007	Opinion Date 12/28/2007	Date Audit Report Submitted to State 2/1/2008	

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 **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 type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 231-627-3143		
Street Address 902 S. HURON STREET, PO BOX 250		City CHEBOYGAN	State MI	Zip 49721
Authorizing CPA Signature <i>Annette Eustice, CPA, CCFM</i>		Printed Name ANNETTE EUSTICE		License Number 1101019667

BAYLISS PUBLIC LIBRARY

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

BAYLISS PUBLIC LIBRARY

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INDEPENDENT AUDITORS' REPORT

December 28, 2007

Board of Trustees
Bayliss Public Library
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of **Bayliss Public Library** (the "Library"), a component unit of the City of Sault Ste. Marie as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Library as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2007, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Library has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing 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.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN

STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES

JUNE 30, 2007

Assets	
Cash and cash equivalents	\$ 361,027
Investments	251,362
Restricted investments	166,549
Accounts receivable	33,452
Prepaid expenses	5,017
Capital assets not being depreciated	22,822
Capital assets, net of depreciation	<u>254,405</u>
Total assets	<u>1,094,634</u>
Liabilities	
Accounts payable	49,488
Compensated absences	10,792
Noncurrent liabilities	
Compensated absences	<u>10,068</u>
Total liabilities	<u>70,348</u>
Net assets	
Invested in capital assets	277,227
Restricted for endowments	166,549
Unrestricted	<u>580,510</u>
Total net assets	<u>\$ 1,024,286</u>

The accompanying notes are an integral part of these financial statements.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN

STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

Program expenses	
Recreation and culture	\$ 634,963
Program revenues	
Charges for services	403,038
Operating grants	68,036
	<hr/>
Total program revenues	471,074
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Net program expenses	(163,889)
	<hr/>
General revenues	
Local sources	206,069
Interest earnings	27,660
	<hr/>
Total general revenues	233,729
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Change in net assets	69,840
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Net assets, beginning of year	954,446
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Net assets, end of year	\$ 1,024,286

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2007

	General Fund	Permanent Funds		Total Governmental Funds
ASSETS		Bayliss Trust	Seal Trust	
Assets				
Cash and cash equivalents	\$ 361,027	\$ -	\$ -	\$ 361,027
Investments	251,362	-	-	251,362
Restricted investments	-	67,062	99,487	166,549
Accounts receivable, net	33,452	-	-	33,452
Due from other funds	1,662	-	-	1,662
Prepaid expenditures	5,017	-	-	5,017
Total assets	\$ 652,520	\$ 67,062	\$ 99,487	\$ 819,069
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 49,488	\$ -	\$ -	\$ 49,488
Due to other funds	-	-	1,662	1,662
Total liabilities	49,488	-	1,662	51,150
Fund balance				
Reserved for endowments	-	67,062	97,825	164,887
Unreserved and undesignated	603,032	-	-	603,032
Total fund balance	603,032	67,062	97,825	767,919
Total liabilities and fund balance	\$ 652,520	\$ 67,062	\$ 99,487	\$ 819,069
Reconciliation of fund balance above to the statement of net assets				\$ 767,919
Amounts reported in the statement of net assets are different because				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Add - capital assets (net)				277,227
Certain liabilities, such as accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.				
Deduct - compensated absences payable				(20,860)
Net assets of governmental activities				\$ 1,024,286

The accompanying notes are an integral part of these financial statements

BAYLISS PUBLIC LIBRARY

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

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

FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Permanent Funds		Total Governmental Funds
		Bayliss Trust	Seal Trust	
Revenues				
Local sources	\$ 206,069	\$ -	\$ -	\$ 206,069
Penal fines	204,249	-	-	204,249
Refunds and reimbursements	123,222	-	-	123,222
Charges for services	75,567	-	-	75,567
State sources	24,199	-	-	24,199
Interest earnings	21,034	3,257	3,369	27,660
Donations	26,227	-	-	26,227
Grants	4,430	-	-	4,430
Other	13,180	-	-	13,180
Total revenues	698,177	3,257	3,369	704,803
Expenditures				
Recreational and culture	647,285	-	-	647,285
Revenues over expenditures	50,892	3,257	3,369	57,518
Other financing sources (uses)				
Transfers in	1,662	-	-	1,662
Transfers out	-	-	(1,662)	(1,662)
Total other financing sources (uses)	1,662	-	(1,662)	-
Change in fund balance	52,554	3,257	1,707	57,518
Fund balance, beginning of year	550,478	63,805	96,118	710,401
Fund balance, end of year	\$ 603,032	\$ 67,062	\$ 97,825	\$ 767,919

Reconciliation of the statement of revenues, expenditures and changes in fund balance to the statement of activities

Net change in fund balance \$ 57,518

Amounts reported in the statement of activities are different because

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

Add - capital asset additions	57,069
Deduct - loss on capital asset disposals	(551)
Deduct - depreciation expense	(43,515)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in compensated absences	(681)
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Change in net assets \$ 69,840

The accompanying notes are an integral part of these financial statements.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR YEAR ENDED JUNE 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
Revenues				
City appropriation	\$ 201,600	\$ 206,068	\$ 206,069	\$ 1
Penal fines	207,567	204,249	204,249	-
Refunds and reimbursements	130,950	128,946	123,222	(5,724)
Charges for service	76,270	82,324	75,567	(6,757)
State sources	23,742	24,669	24,199	(470)
Interest	9,896	21,237	21,034	(203)
Donations	4,500	11,200	26,227	15,027
Operating grants	1,000	5,935	4,430	(1,505)
Centennial donations	1,500	-	-	-
Other	5,970	8,487	13,180	4,693
Total revenues	662,995	693,115	698,177	5,062
Expenditures				
Recreation and culture				
Salaries and wages	406,713	410,023	392,576	(17,447)
Fringes	43,061	42,564	41,938	(626)
Supplies and materials	69,481	83,499	80,184	(3,315)
Printing and publishing	1,000	1,000	1,061	61
Postage	2,825	3,490	2,141	(1,349)
Maintenance supplies	1,700	300	840	540
Telephone	7,348	8,580	7,684	(896)
Travel	3,400	4,700	3,173	(1,527)
Professional development	2,500	3,335	2,727	(608)
Insurance	4,073	4,108	4,108	-
Electricity	10,000	13,404	12,221	(1,183)
Fuel	9,000	9,000	5,927	(3,073)
Water and sewer	1,100	1,600	1,176	(424)
Equipment repairs	2,500	2,500	662	(1,838)
Building maintenance	39,000	39,000	32,039	(6,961)
Contractual services	41,389	44,191	34,540	(9,651)
Capital outlay	3,384	3,623	2,256	(1,367)
Cooperative services	12,522	12,522	10,569	(1,953)
Miscellaneous	1,175	2,396	11,463	9,067
Total expenditures	662,171	689,835	647,285	(42,550)
Other financing sources (uses)				
Transfers in	-	-	1,662	1,662
Changes in fund balance	824	3,280	52,554	49,274
Fund balance, beginning of year	550,478	550,478	550,478	-
Fund balance, end of year	\$ 551,302	\$ 553,758	\$ 603,032	\$ 49,274

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accounting policies of the *Bayliss Public Library*, a component unit of the City of Sault Ste. Marie, Michigan (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:

In accordance with the provisions of the Governmental Accounting Standards Board Statement 14, and the Statement on Michigan Governmental Accounting and Auditing No. 5, certain other governmental organizations are not considered to be part of the Library entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the Library’s financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, there are no other governmental organizations’ financial statements included in the financial statements of the Library.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the Library. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Library had no *business-type activities* during the year ended 2007.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible 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 60 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.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following funds as major funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library.

The *Bayliss Trust and Seal Trust* are the Library's Permanent Funds. The principal portion of these funds must stay intact, but the interest earnings are used to provide for purposes defined by each trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. *Deposits and investments*

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted investments, consisting of certificates of deposit restricted for Library maintenance and endowments, are reported at fair value.

2. *Accounts Receivable*

All receivables are reported at their gross value.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

3. *Capital assets*

Capital assets, which include land and land improvements, furniture and equipment, building and improvements, and book collection, are reported in the governmental activities in the government-wide financial statements. Capital assets are defined by the Library as assets that are used in operations and have initial useful lives beyond a single reporting period. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are purchased or constructed. Capital assets of the Library are depreciated using the straight line method over the following estimated useful lives:

Land improvements	20 years
Furniture and equipment	5-7 years
Building and improvements	40 years
Book collection	5 years

4. *Compensated absences*

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

5. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The Library adopts an annual budget each year for expenditures applicable to the General Fund. The operating budget includes proposed expenditures and the means of financing them and is stated on a basis consistent with generally accepted accounting principles (GAAP). Budgets lapse at fiscal year end.

B. Excess of expenditures over appropriations

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Following is a summary of deposit and investment balances as of June 30, 2007:

Cash and cash equivalents	\$ 361,027
Investments	251,362
Restricted investments	<u>166,549</u>
Total	<u>\$ 778,938</u>
Bank deposits (checking accounts, savings accounts and CDs)	<u>\$ 778,938</u>

At year end, the carrying amount of the Library's deposits was \$778,938. The bank balance of these deposits was \$821,605, of which \$430,123 was uninsured and uncollateralized.

Michigan law authorizes the Library to deposit and invest in:

- (a) Bonds, securities, and other obligations of the United States of America or an agency or instrumentality of the United States of America.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this State or the United States of America.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in (a) above and Bankers' acceptances of United States of America banks.
- (e) 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.
- (f) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 USC 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (g) Obligations described in (a) through (f) above if purchased through an interlocal agreement under the Urban Corporation Act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (h) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- (i) The investment pools organized under the Local Government Investment Pool Act, 1985, PA 121, MCL 129.141 to 129.150.

B. Capital assets

Capital assets activity was as follows for the year ended June 30, 2007:

	<u>July 1,</u> <u>2006</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>June 30,</u> <u>2007</u>
Capital assets not being depreciated				
Land	<u>\$ 22,822</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,822</u>
Capital assets being depreciated				
Land improvements	\$ 15,250	\$ -	\$ -	\$ 15,250
Furniture and equipment	172,957	8,663	(6,662)	174,958
Building and improvements	475,203	-	-	475,203
Book collection	<u>323,468</u>	<u>48,406</u>	<u>-</u>	<u>371,874</u>
Subtotal	<u>986,878</u>	<u>57,069</u>	<u>(6,662)</u>	<u>1,037,285</u>

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

	July 1, 2006	Additions	(Deductions)	June 30, 2007
Accumulated depreciation				
Land improvements	\$ 15,250	\$ -	\$ -	\$ 15,250
Furniture and equipment	143,185	(14,241)	6,111	151,315
Building and improvements	361,735	(11,992)	-	373,727
Book collection	225,306	(17,282)	-	242,588
Total accumulated depreciation	745,476	(43,515)	6,111	782,880
Capital assets being depreciated, net	241,402	13,554	(551)	254,405
Governmental activities capital assets, net	\$ 264,224	\$ 13,554	\$ (551)	\$ 277,227

Depreciation expense for the year ended June 30, 2007 of \$43,515 has been recorded with recreation and culture expenses.

C. Compensated Absences

Accumulated compensated absences activity was as follows for the year ended June 30, 2007:

	Balance July 1 2006	Increases	Balance June 30, 2007	Due Within One Year
Accrued compensated absences	\$ 20,179	\$ 681	\$ 20,860	\$ 10,792

D. Interfund transfers, receivables and payables

Amounts due to/from other funds consist of \$1,662 due to the General Fund from the Seal Trust Fund.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Defined benefit pension plan

Plan Description

The Library's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Library is required to contribute at an actuarially determined rate. The Library is currently required to make no contributions to the Plan. Library employees are also currently not required to make contributions. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.5% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the last actuarial valuation, was 29 years.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$ -	0%	\$ -
6/30/06	-	0%	-
6/30/07	-	0%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Over-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$1,017,843	\$ 812,901	\$ 204,942	125%	\$ 150,842	0%
12/31/03	986,076	553,784	432,292	178%	140,820	0%
12/31/04	1,026,782	522,890	503,892	196%	184,224	0%
12/31/05	1,067,818	566,224	501,594	189%	198,525	0%
12/31/06	1,135,751	582,433	553,318	195%	212,547	0%

B. Commitments and Contingencies

The Library receives financial assistance from state agencies in the form of grants. The disbursement of funds from the various programs generally requires compliance with terms and conditions specified in the applicable grant agreement and is subject to examination by the grantor agency. Any disallowed claims resulting from such examination could become a liability of the Library.

C. 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; injuries to employees; and natural disasters.

The Library continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN

BALANCE SHEET BY OPERATIONS
GENERAL FUND

JUNE 30, 2007

	<u>General Operations</u>	<u>Branch Operations</u>	<u>Total</u>
ASSETS			
Assets			
Cash and cash equivalents	\$ 175,081	\$ 185,946	\$ 361,027
Investments	164,571	86,791	251,362
Accounts receivable	21,401	-	21,401
Due from other governmental units	12,051	-	12,051
Due from other funds	10,438	(8,776)	1,662
Prepaid expenditures	4,767	250	5,017
Total assets	<u>\$ 388,309</u>	<u>\$ 264,211</u>	<u>\$ 652,520</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 48,690	\$ 798	\$ 49,488
Fund balance			
Unreserved and undesignated	<u>339,619</u>	<u>263,413</u>	<u>603,032</u>
Total liabilities and fund balance	<u>\$ 388,309</u>	<u>\$ 264,211</u>	<u>\$ 652,520</u>

BAYLISS PUBLIC LIBRARY

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GENERAL FUND - BY OPERATION**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>General Operations</u>	<u>Branch Operations</u>	<u>Total</u>
Revenues			
City appropriations	\$ 206,069	\$ -	\$ 206,069
Penal fines	131,012	73,237	204,249
Refunds and reimbursements	120,765	2,457	123,222
Charges for service	27,578	47,989	75,567
State sources	24,199	-	24,199
Interest	9,340	11,694	21,034
Donations	3,541	22,686	26,227
Operating grants	495	3,935	4,430
Other	6,050	7,130	13,180
Total revenues	529,049	169,128	698,177
Expenditures			
Recreational and culture	515,246	132,039	647,285
Revenues over expenditures	13,803	37,089	50,892
Other financing sources (uses)			
Transfers in	1,662	-	1,662
Changes in fund balance	15,465	37,089	52,554
Fund balance, beginning of year	324,154	226,324	550,478
Fund balance, end of year	\$ 339,619	\$ 263,413	\$ 603,032

BAYLISS PUBLIC LIBRARY

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND GENERAL OPERATIONS**

FOR YEAR ENDED JUNE 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
Revenues				
City appropriation	\$ 201,600	\$ 206,068	\$ 206,069	\$ 1
Penal fines	134,330	131,012	131,012	-
Refunds and reimbursements	130,650	128,346	120,765	(7,581)
Charges for service	33,250	35,680	27,578	(8,102)
State sources	23,742	24,669	24,199	(470)
Interest	6,896	17,237	9,340	(7,897)
Donations	4,500	4,500	3,541	(959)
Operating grants	1,000	2,000	495	(1,505)
Centennial donations	1,500	-	-	-
Other	5,970	5,970	6,050	80
Total revenues	543,438	555,482	529,049	(26,433)
Expenditures				
Recreation and culture				
Salaries and wages	327,270	329,579	324,122	(5,457)
Fringes	38,026	37,449	37,153	(296)
Supplies and materials	48,727	54,104	46,242	(7,862)
Printing and publishing	1,000	1,000	1,061	61
Postage	1,900	2,500	1,457	(1,043)
Maintenance supplies	1,700	300	840	540
Telephone	5,000	5,000	4,646	(354)
Travel	2,200	3,500	2,491	(1,009)
Professional development	1,700	2,535	2,227	(308)
Insurance	4,073	4,108	4,108	-
Electricity	10,000	13,404	12,221	(1,183)
Fuel	9,000	9,000	5,927	(3,073)
Water and sewer	1,100	1,600	1,176	(424)
Equipment repairs	2,500	2,500	662	(1,838)
Building maintenance	39,000	39,000	32,039	(6,961)
Contractual services	33,970	34,378	26,875	(7,503)
Capital outlay	2,750	2,003	669	(1,334)
Cooperative services	12,522	12,522	10,569	(1,953)
Miscellaneous	1,000	1,000	761	(239)
Total expenditures	543,438	555,482	515,246	(40,236)
Revenues over expenditures	-	-	13,803	13,803
Other financing sources (uses)				
Transfers in	-	-	1,662	1,662
Changes in fund balance	-	-	15,465	15,465
Fund balance, beginning of year	324,154	324,154	324,154	-
Fund balance, end of year	\$ 324,154	\$ 324,154	\$ 339,619	\$ 15,465

BAYLISS PUBLIC LIBRARY

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND BRANCH OPERATIONS**

FOR YEAR ENDED JUNE 30, 2007

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
Revenues				
Refunds and reimbursements	\$ 300	\$ 600	\$ 2,457	\$ 1,857
Penal fines	73,237	73,237	73,237	-
Charges for service	43,020	46,644	47,989	1,345
Interest	3,000	4,000	11,694	7,694
Donations	-	6,700	22,686	22,686
Operating grants	-	3,935	3,935	3,935
Other	-	2,517	7,130	7,130
Total revenues	119,557	137,633	169,128	44,647
Expenditures				
Recreation and culture				
Salaries and wages	79,443	80,444	68,454	(11,990)
Fringes	5,035	5,115	4,785	(330)
Supplies and materials	20,754	29,395	33,942	4,547
Postage	925	990	684	(306)
Telephone	2,348	3,580	3,038	(542)
Travel	1,200	1,200	682	(518)
Professional development	800	800	500	(300)
Contractual services	7,419	9,813	7,665	(2,148)
Capital outlay	634	1,620	1,587	(33)
Miscellaneous	175	1,396	10,702	9,306
Total expenditures	118,733	134,353	132,039	(2,314)
Changes in fund balance	824	3,280	37,089	33,809
Fund balance, beginning of year	226,324	226,324	226,324	-
Fund balance, end of year	\$ 227,148	\$ 229,604	\$ 263,413	\$ 33,809



**INDEPENDENT AUDITORS' 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***

December 28, 2007

Board of Trustees
Bayliss Public Library
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities and each major governmental fund of the ***Bayliss Public Library*** (the "Library"), a component unit of the City of Sault Ste. Marie, as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated December 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting 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 Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

Finding 2007-1: Inability of management to prepare the financial statements in accordance with generally accepted accounting principles

Criteria: All Michigan 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 government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized governmental units, the Library has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, primarily, on its reliance on its external auditors, who cannot by definition be considered a part of the Library's internal controls.

Cause: This condition was caused by the Library's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Library to perform this task internally.

Effect: As a result of this condition, the Library lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead, relies, primarily, on its external auditors for assistance with this task.

Library's Response: It is more cost effective to outsource the preparation of the financial statements than to incur the time and expense of obtaining the necessary training and expertise required to draft the financial statements internally.

Finding 2007-2: A lack of segregation of duties exists in the accounting function

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Library's assets.

Condition: Certain key financial duties of the Library are being performed by the same individual and there are limited mitigating controls in place to ensure effective internal controls. Specifically, we noted that the following incompatible functions are being performed by one individual:

- Persons responsible for receipting also have disbursement responsibilities.
- Persons responsible for cash receipting and disbursing are also responsible for the recording the accounting transactions in the Library's financial accounting system.

Cause: As is the case with many organizations of similar size, the Library lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within the accounting function.

Effect: As a result of this condition, the Library's current system of internal control has no safeguards in place to ensure that fraud or abuse is being prevented. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Recommendation: While there are no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or Board of Directors when possible.

Library's Response: It is not cost effective to employ additional staff necessary to provide for adequate segregation of duties within the accounting function. Rather, the Library will identify areas in the cash receipts and disbursements cycle where appropriate monitoring and oversight are required and will add review and approval procedures to be performed by those most removed from the management, custody of assets and accounting functions related to the transactions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Library in a separate letter dated December 28, 2007. The Library's responses to the findings identified in our audit are described above. We did not audit the Library's responses to the findings noted above and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization and the City of Sault Ste. Marie's City Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.