

### 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 Ovid Public Library	County Clinton
Fiscal Year End June 30, 2007	Opinion Date September 13, 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 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 checked="" type="checkbox"/>	N/A		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836		
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA		License Number 1101024055

**Ovid Public Library  
Clinton County, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2007**

Ovid Public Library  
Clinton County, Michigan  
BOARD OF TRUSTEES  
June 30, 2007

Erin Dutton	President
Margo Martin	Vice-President
Heather Kline	Secretary
Kevin VanGieson	Treasurer
Art Price	Trustee
Joyce Bossel	Trustee

Ovid Public Library

TABLE OF CONTENTS

June 30, 2007

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii-iv
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Funds Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenue, Expenditures, and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	6
Notes to Financial Statements	7-12
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	13
Budgetary Comparison Schedule - Building Fund	14

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Ovid Public Library  
Ovid, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Ovid Public Library 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 Ovid Public 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. 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 Ovid Public Library as of June 30, 2007, and the respective changes in financial position, thereof 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 budgetary comparison information, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by the Government 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 supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 13, 2007

Ovid Public Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

The discussion and analysis of the Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Library's financial statements.

**Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$470,617 (net assets) at the government-wide level.
- The Library's total net assets increased by \$4,227 at the government-wide level.
- Total governmental fund balances increased by \$15,352 in the current year at the fund level.
- The Library's materials collection is constantly being updated with current titles.
- The Library's operating millage remained at 0.75 mills.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Ovid Public Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Ovid Public Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

**The Library as a Whole**

The following table shows, in a condensed format, the net assets as of June 30, 2007 and 2006.

	<u>June 30,</u>	
	2006	2007
<b>Assets</b>		
Current assets	\$ 114,964	\$ 128,958
Capital assets, net	<u>355,153</u>	<u>344,028</u>
Total assets	470,117	472,986
<b>Liabilities</b>		
Current liabilities	<u>3,727</u>	<u>2,369</u>
<b>Net Assets</b>		
Invested in capital assets	355,153	344,028
Unrestricted	<u>111,237</u>	<u>126,589</u>
Total net assets	<u>\$ 466,390</u>	<u>\$ 470,617</u>

Ovid Public Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

The Library's total net assets were \$470,617 at June 30, 2007. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$126,589 at the end of the fiscal year – an increase of \$15,352 from the prior year. The net assets invested in capital assets were at \$344,028, which was a decrease of \$11,125 from the prior year.

The following table shows the changes in net assets during the years ended June 30, 2007 and 2006.

	<u>June 30,</u>	
	2006	2007
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 2,995	\$ 2,310
Operating grants and contributions	-	2,000
General revenue:		
Property taxes	86,011	91,739
State Aid - unrestricted	7,085	2,410
Penal Fines	37,296	38,777
Interest	1,967	2,962
Miscellaneous	<u>1,275</u>	<u>2,143</u>
Total revenues	136,629	142,341
<b>Program Expenses</b>		
Library services/operations	<u>147,237</u>	<u>138,114</u>
<b>Change in Net Assets</b>	<b><u>\$( 10,608 )</u></b>	<b><u>\$ 4,227</u></b>

**Governmental Activities**

The Library's governmental revenues totaled \$142,341 with the greatest revenue source being property taxes. Property taxes make up approximately 65 percent of total governmental revenue. Property taxes increased approximately 7 percent from the prior year. County penal fine income increased slightly since last year.

The Library incurred expenses of \$138,114 during the year. The majority of governmental expense is associated with the staffing of the Library, which provides all library services.

**The Library's Funds**

The analysis of the Library's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Ovid Public Library as a whole. The Ovid Public Library's Board of Directors creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Library's major funds for the fiscal year ended June 30, 2007 include the General Fund and the Building Fund.

The General Fund pays for most of the Library's governmental services. The most significant service provided during the fiscal year was library staffing, which incurred expenditures of approximately \$66,031 for the fiscal year. There was an increase in salaries and wages of approximately \$2,154 over the prior year. This increase is largely due to the rise in the state mandated minimum wage. Total General Fund expenditures increased only \$36 over the prior year.

Ovid Public Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

**General Fund Budgetary Highlights**

Over the course of the fiscal year, the Library Board did not make any budget amendments. The General Fund spent less than appropriated in total and therefore there was an overall favorable variance for expenditures of approximately \$12,324 from the budget. Of that variance, \$5,969 was due to spending less than anticipated on salaries and wages.

**Capital Asset and Debt Administration**

At the end of the fiscal year, the Library had \$626,165 invested in a broad range of capital assets, including buildings, land, and materials. In addition, the Library has made certain investments in building updates from past years with the issuance of Library Facility Bonds (Bonds) from 1995. The Bonds were paid in full in 2005.

**Next Year's Millage Rate**

At its regular meeting on June 28, 2007, the Library Board approved certifying a tax levy of .7500 mills (including the County Treasurer's necessary correction) for the fiscal year 2007-2008. This will generate approximately \$80,000. The Library Board adopted an operating budget for the 2007-2008 fiscal year anticipating total revenues of \$139,000 and expenditures of the same amount.

**Library Cooperative**

Effective June 1, 2007, the Library belongs to the White Pine Library Cooperative. The Library formerly belonged to the Capital Library Cooperative, which is no longer in existence. Cooperative membership is significant to the Library as it is necessary to continue to receive State Aid.

**Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, patrons, and investors with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Secretary or Treasurer of the Ovid Public Library Board of Directors.

## **BASIC FINANCIAL STATEMENTS**

Ovid Public Library

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 94,116
Due from other governmental units	<u>34,842</u>
Total current assets	128,958
Noncurrent assets	
Capital assets not being depreciated	5,000
Capital assets net of accumulated depreciation	<u>339,028</u>
Total noncurrent assets	<u>344,028</u>
<b>TOTAL ASSETS</b>	472,986
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	<u>2,369</u>
<b>NET ASSETS</b>	
Invested in capital assets	344,028
Unrestricted	<u>126,589</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 470,617</u></u>

See accompanying notes to financial statements.

Ovid Public Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Recreational and cultural	<u>\$ 138,114</u>	<u>\$ 2,310</u>	<u>\$ 2,000</u>	(133,804)
		General revenues:		
				91,739
				2,410
				38,777
				2,962
				<u>2,143</u>
		Total general revenues		<u>138,031</u>
		Change in net assets		4,227
		Net assets, beginning of year		<u>466,390</u>
		Net assets, end of year		<u>\$ 470,617</u>

See accompanying notes to financial statements.

Ovid Public Library

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Special Revenue Building Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 80,467	\$ 13,649	\$ 94,116
Due from other governmental units	34,842	-	34,842
Due from other funds	-	10,008	10,008
<b>TOTAL ASSETS</b>	<b>\$ 115,309</b>	<b>\$ 23,657</b>	<b>\$ 138,966</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,369	\$ -	\$ 2,369
Due to other funds	10,008	-	10,008
<b>TOTAL LIABILITIES</b>	<b>12,377</b>	<b>-0-</b>	<b>12,377</b>
<b>FUND BALANCES</b>			
Unreserved			
Designated for:			
Operations and maintenance	10,500	-	10,500
Undesignated, reported in:			
General fund	92,432	-	92,432
Special revenue fund	-	23,657	23,657
<b>TOTAL FUND BALANCES</b>	<b>102,932</b>	<b>23,657</b>	<b>126,589</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 115,309</b>	<b>\$ 23,657</b>	<b>\$ 138,966</b>

See accompanying notes to financial statements.

Ovid Public Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2007

**Total fund balance - governmental funds** \$ 126,589

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 626,165	
Accumulated depreciation is	<u>(282,137)</u>	
Capital assets, net		<u>344,028</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 470,617</u></u>

See accompanying notes to financial statements.

Ovid Public Library

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	General	Special Revenue Building Fund	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 91,739	\$ -	\$ 91,739
Intergovernmental	3,410	1,000	4,410
Fines and forfeits	38,777	-	38,777
Charges for services	2,310	-	2,310
Interest	2,666	296	2,962
Other	50	2,093	2,143
<b>TOTAL REVENUES</b>	<b>138,952</b>	<b>3,389</b>	<b>142,341</b>
<b>EXPENDITURES</b>			
Recreation and cultural			
Salaries and wages	66,031	-	66,031
Payroll taxes	5,470	-	5,470
Utilities	9,865	-	9,865
Supplies	9,717	2,313	12,030
Repairs and maintenance	8,348	-	8,348
Insurance	2,111	-	2,111
VERSO	2,954	-	2,954
Contracted Services	1,300	-	1,300
Travel and workshops	2,938	-	2,938
State Aid	1,205	-	1,205
Miscellaneous	376	-	376
<b>Total recreation and cultural</b>	<b>110,315</b>	<b>2,313</b>	<b>112,628</b>
Capital outlay			
Materials	13,669	-	13,669
Equipment	692	-	692
<b>Total capital outlay</b>	<b>14,361</b>	<b>-0-</b>	<b>14,361</b>
<b>TOTAL EXPENDITURES</b>	<b>124,676</b>	<b>2,313</b>	<b>126,989</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>14,276</b>	<b>1,076</b>	<b>15,352</b>
Fund balances, beginning of year	88,656	22,581	111,237
Fund balances, end of year	<u>\$ 102,932</u>	<u>\$ 23,657</u>	<u>\$ 126,589</u>

See accompanying notes to financial statements.

Ovid Public Library

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

Year Ended June 30, 2007

**Net change in fund balances - total governmental funds** **\$ 15,352**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	13,669	
Depreciation expense	<u>(24,794)</u>	
Excess of depreciation expense over capital outlay		<u>(11,125)</u>

**Change in net assets of governmental activities** **\$ 4,227**

See accompanying notes to financial statements.

Ovid Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Under Public Act 24 of 1989, the Village of Ovid and the Townships of Ovid and Middlebury created the Ovid Public Library which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The Townships collect and distribute property taxes that are levied by the Library. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board which is comprised of six (6) members; two (2) appointed by the Village of Ovid, two (2) appointed by the Township of Ovid, and two (2) appointed by the Township of Middlebury for a term of four (4) years.

The Ovid Public Library's goal is to provide quality library service to Ovid area residents by improving library service, encouraging educational advancement and personal welfare of Library personnel, and supporting the bill of rights as stated by the American Library Association.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Ovid Public Library (primary government). The Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Library as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

2. Basis of Presentation - continued

The major funds of the Library are:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, penal fines, state aid, and other sources.
- b. Building Fund - The Building Fund is a Special Revenue Fund used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (i.e., building expenditures and debt service payments) by administrative action or bond resolution.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

Budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the basis used to reflect actual results. The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

5. Budgets and Budgetary Accounting - continued

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the total expenditure level; however, it is maintained at the account level for control purposes.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

6. Cash

Cash consists of money market checking and savings accounts.

7. Due from other governmental units

Due from other governmental units consist of penal fines and property taxes due from other governments.

8. Property Taxes

The municipalities within the Library's jurisdictional territory levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the township Treasurers. At March 1 each year the townships settle their delinquent taxes with the respective County Treasurers' and the unpaid real property tax is remitted to the Library by the County Treasurer in Clinton County and by the Township Treasurer in Shiawassee County. Delinquent personal property taxes are retained by the township Treasurers for subsequent collection. The Library is permitted to levy up to \$4 per \$1,000 of assessed valuation on property within the District, the portion of which is authorized above \$2 per \$1,000 may be levied for a period not to exceed 20 years. For the year ended June 30, 2007, the Library levied 0.75 mills.

9. Capital Assets

Capital assets include land, buildings and improvements, equipment and furniture, and books and are recorded (net of accumulated depreciation, if applicable) in the Government-wide financial statements. All assets with a useful life exceeding three (3) years and with a cost of \$1,500 or more are recorded as capital assets. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the Government-wide financial statements. Purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	10 - 40 years
Equipment and furniture	3 - 20 years
Books and other collections	5 years

The Library has no assets that would be classified as infrastructure assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

10. Comparative Data

Comparative data for the prior year has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH**

In accordance with Michigan Compiled Laws, the Ovid Public Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2007, the carrying amount of the Library's deposits was \$94,116 and the bank balance was \$102,788.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Library. As of June 30, 2007, the Library accounts were insured by the FDIC for \$100,000 and the amount of \$2,788 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Ovid Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2007, are as follows:

Due to Building Fund from:	
General Fund	<u>\$ 10,008</u>

Amounts appearing as interfund receivables and payables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE D: CAPITAL ASSETS**

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

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2007</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated				
Buildings and improvements	375,787	-	-	375,787
Equipment and furniture	115,956	-	-	115,956
Books and other collections	<u>115,753</u>	<u>13,669</u>	<u>-</u>	<u>129,422</u>
Subtotal	607,496	13,669	-0-	621,165
Less accumulated depreciation for:				
Buildings and improvements	( 108,418 )	( 9,407 )	-	( 117,825 )
Equipment and furniture	( 65,853 )	( 4,805 )	-	( 70,658 )
Books and other collections	<u>( 83,072 )</u>	<u>( 10,582 )</u>	<u>-</u>	<u>( 93,654 )</u>
Subtotal	<u>( 257,343 )</u>	<u>( 24,794 )</u>	<u>-0-</u>	<u>( 282,137 )</u>
Net capital assets being depreciated	<u>350,153</u>	<u>( 11,125 )</u>	<u>-0-</u>	<u>339,028</u>
Capital assets, net	<u>\$ 355,153</u>	<u>\$ ( 11,125 )</u>	<u>\$ -0-</u>	<u>\$ 344,028</u>

**NOTE E: RISK MANAGEMENT**

The Library is exposed to various risks of loss for liability, property, employee dishonesty, workers' compensation, and employer's liability for which the Library carries commercial insurance.

**NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

Ovid Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED**

In the budgetary comparison schedules reported as required supplementary information to the financial statements, the Library's budgeted expenditures in the Special Revenue Fund have been shown at the functional classification level. The approved budgets of the Library have been adopted at the total expenditure level for both the General and Special Revenue Funds.

During the year ended June 30, 2007, the Library incurred expenditures in the Special Revenue (Building) fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Recreation and cultural	\$ 1,500	\$ 2,313	\$ 813

**REQUIRED SUPPLEMENTARY INFORMATION**

Ovid Public Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 89,000	\$ 89,000	\$ 91,739	\$ 2,739
Intergovernmental				
State	4,500	4,500	2,410	(2,090)
Local	-	-	1,000	1,000
Library fees	2,500	2,500	2,310	(190)
Interest	1,500	1,500	2,666	1,166
Penal fines	39,500	39,500	38,777	(723)
Miscellaneous	-	-	50	50
<b>TOTAL REVENUES</b>	<b>137,000</b>	<b>137,000</b>	<b>138,952</b>	<b>1,952</b>
<b>EXPENDITURES</b>				
Recreation and cultural				
Salaries and wages	72,000	72,000	66,031	5,969
Payroll taxes	5,500	5,500	5,470	30
Utilities	10,500	10,500	9,865	635
Supplies	13,000	13,000	9,717	3,283
Repairs and maintenance	6,200	6,200	8,348	(2,148)
Insurance	2,700	2,700	2,111	589
VERSO	2,000	2,000	2,954	(954)
Contracted services	1,300	1,300	1,300	-0-
Travel and workshops	2,500	2,500	2,938	(438)
State Aid	2,500	2,500	1,205	1,295
Miscellaneous	800	800	376	424
<b>Total recreation and cultural</b>	<b>119,000</b>	<b>119,000</b>	<b>110,315</b>	<b>8,685</b>
Capital outlay				
Books and other collections	15,000	15,000	13,669	1,331
Equipment	3,000	3,000	692	2,308
<b>Total capital outlay</b>	<b>18,000</b>	<b>18,000</b>	<b>14,361</b>	<b>3,639</b>
<b>TOTAL EXPENDITURES</b>	<b>137,000</b>	<b>137,000</b>	<b>124,676</b>	<b>12,324</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-0-</b>	<b>-0-</b>	<b>14,276</b>	<b>14,276</b>
Fund balance, beginning of year	88,656	88,656	88,656	-0-
Fund balance, end of year	<u>\$ 88,656</u>	<u>\$ 88,656</u>	<u>\$ 102,932</u>	<u>\$ 14,276</u>

Ovid Public Library

Building Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental - Local	\$ -	\$ -	\$ 1,000	\$ 1,000
Interest	-	200	296	96
Other				
Donations	-	1,300	2,093	793
<b>TOTAL REVENUES</b>	<b>-0-</b>	<b>1,500</b>	<b>3,389</b>	<b>1,889</b>
<b>EXPENDITURES</b>				
Recreation and cultural				
Supplies and equipment	-	1,500	2,313	(813)
<b>NET CHANGE IN FUND BALANCE</b>	<b>-0-</b>	<b>-0-</b>	<b>1,076</b>	<b>1,076</b>
Fund balance, beginning of year	22,581	22,581	22,581	-0-
Fund balance, end of year	<u>\$ 22,581</u>	<u>\$ 22,581</u>	<u>\$ 23,657</u>	<u>\$ 1,076</u>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Members of the Library Board  
Ovid Public Library  
Ovid, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Ovid Public Library 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 September 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting 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 the Library's 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, 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 a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America 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 controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

07-1 PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Library rests with 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 accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the Ovid Public Library. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors 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. The Library relies, in part, 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 recommend the Library consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

#### 07-2 FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Library has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Library not developing a fraud risk assessment and monitoring program it is unable to assess the Library's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Library develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

#### 07-3 DETERMINATION OF ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

During the course of our audit, we have annually performed a search for unrecorded receivable and payable amounts. As a result of that search, journal entries were suggested to the Library's management for entry into the general ledger. In many instances, the suggested receivable and payable amounts would be considered material to the Library's financial statements.

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. Part of that external financial reporting process is determining the amounts due to the entity as of year-end (i.e., accounts receivable) and amounts due from the entity as of year end (i.e., accounts payable). As a result, a government's ability to prepare financial statements in accordance with generally accepted accounting principles has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

Responsibility for the fair presentation of the Library's financial statements, including the amounts and disclosure within the financial statements, rests with the Library's management. The Library should establish sufficient internal controls to assure that the financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles.

We recommend the Library make determinations of accounts receivable and accounts payable amounts by fund as part of their year-end closing procedures. Documentation supporting the receivable and payable amounts recorded in the general ledger should be retained for audit purposes.

A material weakness is a significant deficiency, or a 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 Ovid Public Library's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 07-03 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 the following instances of noncompliance:

#### 07-4 CREDIT CARD POLICY

During the course of the audit, it was noted that the Library utilizes credit cards. An inquiry of Library personnel indicated that the Library had not adopted a formal written credit card policy as required by PA 266 of 1955 (MCL 129.241). Therefore, this condition not only affects the Library's internal control over financial reporting, but it is also considered a significant deficiency related to compliance with Michigan Compiled Law.

We recommend that the Library review their credit card policy that was recently adopted to assure it complies with the State of Michigan requirements. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee credit card issuance, accounting, monitoring, and compliance with the policy;
- b. The use of the credit card only for the purchase of goods and services for the official business of the local unit;
- c. User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
- d. Office or employee is responsible for credit card protection and custody and must report lost or stolen cards;
- e. Credit card to be returned to local unit at termination of official or employee;
- f. Internal control systems over the use of credit cards;
- g. Approval of credit card invoices prior to payment;
- h. The balance, including interest, must be paid within 60 days of the initial statement date;
- i. Disciplinary measures for unauthorized use of credit card; and
- j. Other matters the local unit considers advisable.

#### 07-5 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As noted in the financial statements, the total expenditures of the Special Revenue Fund exceeded the amounts appropriated.

Michigan Public Act 621 of 1978, as amended, provides that the Library adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Library monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management, the members of the Board of the Ovid Public Library, and others within the Library and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 13, 2007