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INDEPENDENT AUDITOR'S REPORT

To the Library Board
Litchfield District Library
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Litchfield District Library, Hillsdale County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these basic 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 basic 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 financial position of the governmental activities and each major fund of the Litchfield District Library as of March 31, 2008, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 to 4 and page 12, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and express no opinion on it.

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan
March 10, 2009

USING THIS ANNUAL REPORT

As management of the Litchfield District Library, Litchfield, Michigan, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended March 31, 2008. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Library. Starting with fiscal year 2005-06, the Litchfield District Library, (the "Library") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Library's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended March 31, 2008 from the point of view of the Library's administration. Please read it in conjunction with the Library's financial statements, which will immediately follow this section.

FINANCIAL HIGHLIGHTS

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2008:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$173,821 (net assets) at the government-wide level.
- The Library's total net assets increased by \$21,519 as a result of current year activity at the government wide level.
- Total governmental fund balance increased by \$15,033 in the current year at the fund level.
- At the close of the current fiscal year, unreserved fund balance of the general fund was \$61,089 or 72% of total general fund expenditures.

USING THIS ANNUAL REPORT

The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These Fund Financial Statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

Litchfield District Library

Management's Discussion and Analysis Year Ended March 31, 2008

- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.
- The government wide financial statement columns provide both long-term and short-term information about the Library's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The *governmental activities* financial statements are designed to provide readers with a broad view of the Library's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Library's finances and whether the full cost of government services have been funded.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information presenting budgetary comparisons for the Library's General Fund.

CONDENSED FINANCIAL INFORMATION

The following tables show, in a condensed format, the net assets as of March 31, 2008 and the changes in the net assets during the past two years.

TABLE 1 - NET ASSETS

Assets	<u>3-31-2007</u>	<u>3-31-2008</u>
Current Assets	\$ 68,495	\$ 87,223
Capital Assets, Net	<u>83,874</u>	<u>88,782</u>
Total Assets	<u>\$ 152,369</u>	<u>\$ 176,005</u>
Liabilities	<u>\$ 67</u>	<u>\$ 2,184</u>
Net Assets		
Invested in Capital Assets	\$ 83,874	\$ 88,782
Restricted for Building Purchase	8,885	21,127
Restricted for Internet Service	1,164	1,245
Unrestricted	<u>58,379</u>	<u>62,667</u>
Total Net Assets	<u>\$ 152,302</u>	<u>\$ 173,821</u>

TABLE 2 - CHANGE IN NET ASSETS

Revenue	\$ 79,814	\$ 100,972
Expenses - Library Services	<u>(75,481)</u>	<u>(79,453)</u>
Change in Net Assets	<u>\$ 4,333</u>	<u>\$ 21,519</u>

The Library's total net assets were \$173,821 at March 31, 2008. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$62,667 at the end of the fiscal year. The net assets invested in capital assets were \$88,782. The remaining balance was restricted for the eventual purchase or construction of a new library building (\$21,127) and high-speed Internet service (\$1,245).

GOVERNMENTAL ACTIVITIES

The Library's governmental revenues totaled \$ 100,972 with the greatest revenue source being property taxes (56%). Donations made up approximately 27% of total governmental revenue. The Library incurred expenses of \$79,453 during the year. The majority of governmental expense is associated with the staffing of the Library, and depreciation expense on capital assets. Wages and payroll taxes represented 50% of the Library's total expenses and depreciation represented 20%.

THE LIBRARY'S FUNDS

The Library's major fund consists solely of the General Fund. An analysis of the General Fund can be found in the first column on pages 6 and 7. The fund column provides detailed information about the most significant fund, not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities. The Library did not have any nonmajor funds for the fiscal year ended March 31, 2008.

BUDGETARY HIGHLIGHTS

The general fund budget was amended during the year to reflect unexpected increases and decreases in various expense categories. Some expenses were uncertain during the Library Board's last meeting of the fiscal year causing expenditures in excess of budgeted amounts in three line items totaling \$939. A more conservative approach to estimating and amending expenditures will be made to minimize the variances in future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets of the Library consist of books, videos, computers, fixtures, and a vacant parcel of land for the potential future construction of a new library building. The Library has no long-term debt.

FACTORS BEARING ON THE FUTURE

The Library Board and staff are reviewing available options for a larger facility. The current facility offers approximately 1,200 square feet of space. However, an analysis of current population and projected growth over the next twenty years indicate a need for a 3,100 - 4,000 square foot facility. Private donors have contributed generously to this project and continue to provide support through fund raisers. The facility space restraint issue is expected to be resolved within the next two years.

Litchfield District Library's current economic outlook in the short term is stable. However, serious declines witnessed in the overall economy have indicated the Library will have little or no growth in revenues over the next few fiscal years.

CONTACTING THE LIBRARY'S MANAGEMENT

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

LITCHFIELD DISTRICT LIBRARY
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
MARCH 31, 2008

	General Fund Modified Accrual		Statement of
	<u>Basis</u>	<u>Adjustments</u>	<u>Net Assets</u>
ASSETS			
Cash and Investments	\$ 82,404	\$	\$ 82,404
Taxes Receivable	3,241	1,578	4,819
Fixed Assets, net	<u>0</u>	<u>88,782</u>	<u>88,782</u>
Total Assets	<u>\$ 85,645</u>	<u>\$ 90,360</u>	<u>\$ 176,005</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	<u>\$ 2,184</u>	\$	<u>\$ 2,184</u>
FUND BALANCE/NET ASSETS			
Fund Balance			
Reserved for Building	\$ 21,127	\$ (21,127)	
Reserved for Internet Service	1,245	(1,245)	
Unreserved	<u>61,089</u>	<u>(61,089)</u>	
Total Fund Balance	<u>\$ 83,461</u>	<u>\$ (83,461)</u>	
Total Liabilities and Fund Balance	<u>\$ 85,645</u>		
Net Assets			
Invested in Capital Assets - Net of Related Debt		\$ 88,782	\$ 88,782
Restricted for Building		21,127	21,127
Restricted for Internet Service		1,245	1,245
Unrestricted		<u>62,667</u>	<u>62,667</u>
Total Net Assets		<u>\$ 173,821</u>	<u>\$ 173,821</u>
Total Liabilities and Net Assets			<u>\$ 176,005</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
MARCH 31, 2008

	General Fund Modified Accrual		Statement of
	<u>Basis</u>	<u>Adjustments</u>	<u>Activities</u>
REVENUE			
Property Taxes	\$ 54,883	\$ 1,578	\$ 56,461
Penal Fines	8,641		8,641
State Aid	2,706		2,706
Grants	700		700
Gifts and Memorials	27,169		27,169
Fines and Fees	1,204		1,204
Movie Rentals	1,191		1,191
Interest on Investments	2,724		2,724
Miscellaneous	<u>176</u>		<u>176</u>
Total Revenue	<u>\$ 99,394</u>	<u>\$ 1,578</u>	<u>\$ 100,972</u>
EXPENDITURES			
Wages	\$ 37,157	\$	\$ 37,157
Payroll Taxes	2,843		2,843
Insurance	868		868
Utilities	3,565		3,565
Rent	4,200		4,200
Operating Supplies	4,250		4,250
Postage and Delivery	314		314
Cleaning Services	2,650		2,650
Programs	1,439		1,439
Repairs and Maintenance	512		512
Woodlands Cooperative	1,353		1,353
Mileage Reimbursed	1,599		1,599
Training	468		468
Subscriptions	594		594
Miscellaneous Expense	1,939		1,939
Capital Outlay - Circulation Materials	8,240	(8,240)	0
Capital Outlay - Other	12,370	(12,370)	0
Depreciation	<u>0</u>	<u>15,702</u>	<u>15,702</u>
Total Expenditures	<u>\$ 84,361</u>	<u>\$ (4,908)</u>	<u>\$ 79,453</u>
Excess of Revenue Over (Under)			
Expenditures/Change in Net Assets	\$ 15,033	\$ 6,486	\$ 21,519
Fund Balance/Net Assets - Beginning	<u>68,428</u>	<u>83,874</u>	<u>152,302</u>
Fund Balance/Net Assets - Ending	<u>\$ 83,461</u>	<u>\$ 90,360</u>	<u>\$ 173,821</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Litchfield District Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The following is a summary of the significant accounting policies used by the Library:

Financial Reporting Entity

The Litchfield District Library is located in the City of Litchfield, Hillsdale County, Michigan, and is governed by a six-member board. Three members are appointed by the City of Litchfield and three are appointed by Litchfield Township. The financial support is provided primarily through a district-wide tax levy and Hillsdale County penal fines, with additional support from municipal contributions, State Aid, and charitable donations/memorials. The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, property taxes and the municipal contributions are susceptible to accrual. All other revenue items are considered to be available only when the cash is received by the Library.

LITCHFIELD DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

The Library reports the following major governmental fund: the General Fund is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - Capital assets are defined by the Library as assets with a cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Leasehold improvements, furniture and fixtures, equipment, and library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

Leasehold Improvements	10 years
Library books, periodicals, etc.	15 years
Furniture and Fixtures	10 years
Office Equipment	7 years
Computer Equipment	3 years

Budgets, Budgetary Accounting and Budget Basis of Accounting - Budgets are adopted for all governmental fund types, as required by law. Budgets for the general fund are adopted at the line item level and reported in the budgetary comparison schedule at this level. The Library uses the same basis of accounting for budgeting purposes as for financial statement presentation.

Encumbrance Accounting - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by Litchfield District Library.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

**LITCHFIELD DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Library Board at the line-item level. Any budgetary modifications may only be made by resolution of the Library Board. Encumbrance accounting is not used, and all annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budget as reflected in the financial statements:

- 1) Prior to March 31, a public hearing is conducted on the proposed budget to obtain taxpayer comments.
- 2) Prior to March 31, the budget is legally enacted through passage of a resolution.
- 3) The Library Board is authorized to transfer budgeted amounts between line items.
- 4) During the year the budget is monitored, and amendments are made when necessary.

During the year, the following accounts had expenditures in excess of budgeted amounts, which is a violation of State of Michigan budgeting laws:

<u>Description</u>	<u>Amount of</u>		
	<u>Budget</u>	<u>Expenditure</u>	<u>Variance</u>
Operating Supplies	\$ 4,000	\$ 4,250	\$ 250
Training	400	468	68
Miscellaneous	1,308	1,939	631

NOTE 3 - CASH AND INVESTMENTS

State of Michigan laws authorize the Library to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Library's investment policy puts no further limits on its investment choices. As of March 31, 2008, the Library's deposits and investments are in accordance with statutory authority.

Following are the components of the Library's cash and investments at March 31, 2008:

Cash on hand	\$ 25
Checking account	753
Savings account	1,197
Investment pool	<u>80,429</u>
Total	<u>\$ 82,404</u>

**LITCHFIELD DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 3 - CASH AND INVESTMENTS (continued)

Interest Rate Risk - The Library manages its exposure to declines in interest rates by avoiding variable rate instruments and limiting maturities of investments to five years or less.

Credit Risk - The Library minimizes credit risk, which is the risk of loss due to the failure of the security issuer or backer, by reviewing the investment's credit rating from a national statistical organization. The Library's investment in the MBIA-CLASS investment pool has been rated AAA/V1+ by Fitch, Inc.

Concentration of Credit Risk - The Library does not have limits on the amount the Library may deposit with any one issuer.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC). The Library's investment policy requires that at least 50% of the Library's bank deposits shall be insured by the FDIC. As of March 31, 2008, the carrying amount of the Library's deposits was \$1,950 and the bank balance was \$3,554. The entire amount was covered by federal depository insurance.

Foreign Currency Risk - The Library is not authorized to invest in investments which have this type of risk.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2008, was as follows:

	<u>Balance</u> <u>April 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>March 31, 2008</u>
Land	\$ 0	\$ 12,107	\$ 0	\$ 12,107
Books, Audios, Videos	283,237	8,240	0	291,477
Furniture and Equipment	34,353	263	0	34,616
Leasehold Improvements	<u>9,873</u>	<u>0</u>	<u>0</u>	<u>9,873</u>
Total Capital Assets	\$ 327,463	\$ 20,610	\$ 0	\$ 348,073
Less: Accum. Depreciation	<u>(243,589)</u>	<u>(15,702)</u>	<u>0</u>	<u>(259,291)</u>
Net Capital Assets	<u>\$ 83,874</u>	<u>\$ 4,908</u>	<u>\$ 0</u>	<u>\$ 88,782</u>

Depreciation expense for the fiscal year ended March 31, 2008 was \$15,702.

NOTE 5 - LEASE OF FACILITIES

The Library utilizes space in a building in downtown Litchfield owned by a private individual. Rent is \$350 per month.

NOTE 6 - UNEMPLOYMENT TAXES

The Library is a reimbursing employer to the Michigan Unemployment Insurance Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities (if any) have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfiled.

LITCHFIELD DISTRICT LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2008

NOTE 7 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Library has purchased commercial insurance for claims relating to general liability, physical damage (equipment and building contents), workers compensation, and other appropriate coverages. There has been no significant reduction in insurance coverages and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 8 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. The difference primarily results from the long-term focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and net change in fund balances to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 83,461
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	88,782
Receivables collected more than 60 days after the end of the fiscal year are not financial resources, and are not reported in the funds	<u>1,578</u>
Net Assets of General Fund - Full Accrual Basis	<u>\$ 173,821</u>
Net Change in Fund Balances - Modified Accrual Basis	\$ 15,033
Amounts reported in the statement of net activities are different because:	
Capital costs are allocated over their estimated useful lives as depreciation	
Capital outlay	20,610
Depreciation expense	<u>(15,702)</u>
Revenues collected more than 60 days after the end of the fiscal year are not financial resources, and are not reported in the funds	<u>1,578</u>
Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ 21,519</u>

LITCHFIELD DISTRICT LIBRARY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 MARCH 31, 2008

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Over (Under) Amended <u>Budget</u>
Beginning of Year Fund Balance	\$ 68,428	\$ 68,428	\$ 68,428	\$ 0
Resources (Inflows)				
Property Taxes	54,200	55,059	54,883	(176)
Penal Fines	9,252	8,641	8,641	0
State Aid	500	2,706	2,706	0
Grants	0	500	700	200
Gifts and Memorials	7,550	27,432	27,169	(263)
Fines and Fees	1,500	1,200	1,204	4
Movie Rentals	1,200	1,200	1,191	(9)
Interest on Investments	2,000	2,600	2,724	124
Miscellaneous	<u>0</u>	<u>176</u>	<u>176</u>	<u>0</u>
Amounts Available for Appropriation	<u>\$ 144,630</u>	<u>\$ 167,942</u>	<u>\$ 167,822</u>	<u>\$ (120)</u>
Charges to Appropriations (Outflows)				
Wages	\$ 41,350	\$ 37,525	\$ 37,157	\$ (368)
Payroll Taxes	3,164	2,871	2,843	(28)
Insurance	706	868	868	0
Utilities	3,800	3,719	3,565	(154)
Dues	145	145	0	(145)
Rent	4,200	4,200	4,200	0
Operating Supplies	2,120	4,000	4,250	250
Postage and Delivery	650	400	314	(86)
Cleaning Services	2,860	2,650	2,650	0
Programs	1,000	1,548	1,439	(109)
Repairs and Maintenance	1,550	889	512	(377)
Woodlands Cooperative	1,100	1,353	1,353	0
Mileage Reimbursement	1,900	1,600	1,599	(1)
Subscriptions	325	700	594	(106)
Training	500	400	468	68
Miscellaneous	1,294	1,308	1,939	631
Capital Outlay - Circulation Materials	9,527	8,874	8,240	(634)
Capital Outlay - Other	<u>0</u>	<u>12,370</u>	<u>12,370</u>	<u>0</u>
Total Charges to Appropriations	<u>\$ 76,191</u>	<u>\$ 85,420</u>	<u>\$ 84,361</u>	<u>\$ (1,059)</u>
Budgetary Fund Balances - March 31, 2008	<u>\$ 68,439</u>	<u>\$ 82,522</u>	<u>\$ 83,461</u>	<u>\$ 939</u>

The accompanying notes are an integral part of this statement.

**Bailey, Hodshire
& Company, P.C.**
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March 10, 2009

Litchfield District Library
Litchfield, Michigan

In planning and performing our audit of the financial statements of Litchfield District Library of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses; however, we did note certain matters involving the internal control structure that we recommend be addressed:

Annual Budget

The Library has the same requirements as the City and Township regarding a public hearing on the budget. We recommend that the required public hearing be advertised in the local newspaper, held at an open meeting, and documented in the Board minutes prior to the adoption of the budget each year. In addition, the budget should be monitored carefully throughout the year and amended when necessary to avoid any over-expenditure.

Vacation Pay

We recommend that the Board formalize its policies regarding employee vacation pay and other employment issues through the adoption of a basic personnel policy manual.

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

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan
March 10, 2009