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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Library Board
Reading Community Library
Reading, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Reading Community Library, Hillsdale County, Michigan, as of and for the year ended June 30, 2008, 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. 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 respective financial position of the governmental activities and each major fund of the Reading Community Library as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the

Reading Community Library
July 1, 2010
Page 2

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's financial statements as a whole. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan
July 1, 2010

Using this Annual Report

The Reading Community Library's (Library) management's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Library's financial activity; c) identify changes in the Library's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Library.

- The government-wide financial statements are included in on pages 7 and 8 provide both long-term and short-term information about the Library's overall financial status. These statements report information about the Library, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Library's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on the general operating fund, reporting the operation in more detail than the government-wide statements.

Reporting the Library as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Library as a whole, and about its activities in a way that helps answer the question of whether the Library, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Library's net assets and the changes in them. The reader can think of the Library's net assets (the difference between assets and liabilities) as one way to measure the Library's financial health or financial position. Over time, increases and decreases in the Library's net assets are one indicator of whether its financial health is improving or deteriorating.

Reading Community Library

Management's Discussion and Analysis Year Ended June 30, 2008

Reporting the Library's Major Fund

The financial statements begin on page seven and provide detailed information about the major fund. The Library has only one fund, the General Operations Fund, in which all of the Library's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund – The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Library's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation on page 15.

The Library as a Whole

The Library's financial position improved during the 2008 fiscal year. The change can be attributed to additional contributions. The Library's net assets for the governmental funds decreased \$18,808 from a year ago for the governmental activities which was primarily due to depreciation expense. In a condensed format, the table below shows the net assets as of June 30, 2007 and 2008 and the changes in the net assets.

	Governmental Activities <u>6/30/2007</u>	Governmental Activities <u>6/30/2008</u>
Other Assets	\$ 49,640	\$ 79,466
Capital Assets, Net	<u>271,297</u>	<u>222,623</u>
Total Assets	\$ 320,937	\$ 302,089
	=====	=====
Liabilities	\$ 571	\$ 531
	=====	=====
Net Assets		
Invested in Capital Assets	\$ 271,297	\$ 222,623
Restricted	0	0
Unrestricted	<u>49,069</u>	<u>78,935</u>
Total Net Assets	\$ 320,366	\$ 301,558
	=====	=====

All of the Library's operations are considered one fund.

Reading Community Library

Management's Discussion and Analysis Year Ended June 30, 2008

Changes in Net Assets

Revenue was affected by changes in funding level and donation activity.

A summary of changes in net assets for the years ended June 30, 2007 and 2008, follows:

	Governmental Activities <u>6/30/2007</u>	Governmental Activities <u>6/30/2008</u>
Program Revenues		
Charges for Services	\$ 41,400	\$ 66,338
Operating Grants and Contributions	2,675	2,094
General Revenues		
Unrestricted Investment Earnings	<u>846</u>	<u>1,126</u>
Total Revenues	<u>\$ 44,921</u>	<u>\$ 69,558</u>
Program Expenses		
Recreation and Culture	\$ 30,715	\$ 34,508
Depreciation Expense	<u>53,623</u>	<u>53,858</u>
Total Expenses	<u>\$ 84,338</u>	<u>\$ 88,366</u>
Change in Net Assets	\$ (39,417) =====	\$ (18,808) =====

The Library's Fund

The Library's General Operations Fund is used to control the expenditures of grants, penal fines and donation monies which are for library operations.

For the year ended June 30, 2008, the fund balance of the General Operations Fund increased by \$29,866. Total operating revenues were \$69,558. The increase was primarily the result of an increase in contributions.

Total expenditures were \$39,692. The change in expenditures was small and was primarily the result of less capital outlay expenditures.

Library Budgetary Highlights

Prior to the beginning of any year, the Library's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Library's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews all expenditures throughout the year.

The Library's original expenditures were projected at \$40,150, while actual expenditures were \$39,692. Actual expenditures were slightly under the final budget by \$458.

Capital Assets and Debt Administration

The Library's capital assets consist of the building, equipment and the library collection. Depreciation expense amounted to \$53,858 in fiscal year 2008. The net capital assets of \$222,623 is shown on the government-wide financial statements. The Library capital asset threshold adopted by the board for capitalization of capital assets is \$200. In the July 2008 board meeting, the Library committed to purchasing two computers costing up to \$1,200. There are no known changes to credit rating or debt limitations.

Economic Factors and Next Year's Budget

The Library's financial position is tied to the State's economy. Most of the Library's funding is received through the Library of Michigan and penal fines. Much of this is dependent on the State's financial condition. In addition, county donations are also affected by the economy. All of these revenue sources are at risk until the economy rebounds. The Library is well-positioned to obtain future State aid and penal fines.

The board realizes, and the reader should understand, that there are not sufficient funds available to provide additional library hours and services; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the citizens of the library district.

Contacting the Library's Management

This financial report is designed to provide our citizens and other interested parties a general overview of the Library's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Reading Community Library administrative offices at: 104 Main Street, P.O. Box 184, Reading, Michigan 49274-0184. Phone: (517) 283-3916.

READING COMMUNITY LIBRARY
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET
ASSETS
JUNE 30, 2008

	General Fund Modified Accrual		Statement of
	<u>Basis</u>	<u>Adjustments</u>	<u>Net Assets</u>
ASSETS			
Cash and Cash Equivalents	\$ 64,919	\$ 0	\$ 64,919
Accounts Receivable	14,547	0	14,547
Capital Assets - net	<u>0</u>	<u>222,623</u>	<u>222,623</u>
Total Assets	<u>\$ 79,466</u>	<u>\$ 222,623</u>	<u>\$ 302,089</u>
LIABILITIES			
Accrued Liabilities	<u>\$ 531</u>	<u>\$ 0</u>	<u>\$ 531</u>
Total Liabilities	<u>\$ 531</u>	<u>\$ 0</u>	<u>\$ 531</u>
FUND BALANCE/NET ASSETS			
Fund Balance - Unreserved/Undesignated	<u>\$ 78,935</u>	<u>\$ (78,935)</u>	<u>\$ 0</u>
Total Fund Balance	<u>\$ 78,935</u>	<u>\$ (78,935)</u>	<u>\$ 0</u>
Total Liabilities and Fund Balance	<u>\$ 79,466</u>	<u>\$ (78,935)</u>	<u>\$ 531</u>
Net Assets			
Invested in Capital Assets - Net of Related Debt		\$ 222,623	\$ 222,623
Restricted		0	0
Unrestricted		<u>78,935</u>	<u>78,935</u>
Total Net Assets		<u>\$ 301,558</u>	<u>\$ 301,558</u>
Total Liabilities and Net Assets			<u>\$ 302,089</u>

The accompanying notes are an integral part of this statement.

READING COMMUNITY LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
JUNE 30, 2008

	General Fund Modified Accrual		Statement of
	<u>Basis</u>	<u>Adjustments</u>	<u>Activities</u>
REVENUE			
Taxes	\$ 5,736	\$ 0	\$ 5,736
State Grants	2,094	0	2,094
Contributions from Local Units of Government	14,547	0	14,547
Charges for Services	878	0	878
Fines and Forfeits	14,910	0	14,910
Interest	1,126	0	1,126
Other Revenue	<u>30,267</u>	<u>0</u>	<u>30,267</u>
Total Revenue	<u>\$ 69,558</u>	<u>\$ 0</u>	<u>\$ 69,558</u>
EXPENDITURES			
Current			
Recreation and Culture	\$ 34,508	\$ 0	\$ 34,508
Capital Outlay	5,184	(5,184)	0
Depreciation Expense	<u>0</u>	<u>53,858</u>	<u>53,858</u>
Total Expenditures	<u>\$ 39,692</u>	<u>\$ 48,674</u>	<u>\$ 88,366</u>
Excess of Revenue Over (Under) Expenditures	\$ 29,866	\$ 0	\$ 0
Change in Net Assets	0	(48,674)	(18,808)
Fund Balance/Net Assets - Beginning	<u>49,069</u>	<u>271,297</u>	<u>320,366</u>
Fund Balance/Net Assets - Ending	<u>\$ 78,935</u>	<u>\$ 222,623</u>	<u>\$ 301,558</u>

The accompanying notes are an integral part of this statement.

READING COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – DESCRIPTION OF LIBRARY OPERATIONS AND FUND TYPES

The accounting policies of the Reading Community Library (Library) conform to accounting principles accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Reading Community Library.

Reporting Entity

Reading Community Library is located in the City of Reading, Hillsdale County, Michigan and provides services to county resident in many cultural areas. Reading Community Library is governed by a six member board. Three members are appointed by the City of Reading and three are appointed by Reading Township. The Library board consists of the chair, vice-chair, secretary, treasurer and two directors whom reside in the community.

The library is connected with Woodlands Library Cooperative and in return for a portion of state aid, books may be borrowed through an inter-loan system. The financial support is provided primarily through Hillsdale County penal fines with additional support from the State of Michigan, Reading City, and the townships of Reading and Cambria, as well as charitable donations and memorials. Revenue is used to operate and staff the Library.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” these financial statements present the records of the library. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Accordingly, there are no other governmental units that are required to be included in the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Government-Wide and Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) include all of the activities of Reading Community Library. There is only one fund reported in the government-wide financial statements.

The statement of net assets presents the library’s assets and liabilities with the difference being reported as: invested in capital assets-net of related debt, restricted, and/or unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to

READING COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements-General Operating Fund

Separate financial statements are provided for the Operating Fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. This fund is used to account for all financial transactions of the library. Revenues are primarily derived from Hillsdale County penal fines, state grants, municipal contributions, memorials and donations. The fund includes the general operating expenditures of the library.

Measurement Focus/Basis of Accounting-Government-Wide Financial Statements

The government-wide financial statements 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. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) State aid and other grants; 3) charges for services; and 4) municipal contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting-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 government considers revenues to be available if they are collected within 30 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State Aid, other State and Federal grants, charges for services, contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have

READING COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the library.

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.

Deposits and Investments

The 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 from the date of acquisition. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value, when obtained.

Capital Assets

Capital assets, which include property, plant and equipment (there are no infrastructure assets), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by the Library as assets with an individual cost of \$200 that have a 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. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are expenses as incurred.

Depreciation

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings and Improvements	39 years
Furniture and Fixtures	7 years
Library books, periodicals, etc.	10 years
Computer equipment	5 years

In determining the useful life, the library takes into consideration: quality, application or use, and environmental conditions.

Compensated Absences (Vacation and Sick Leave)

It is the library's policy to permit the library director to accumulate unused paid time off (PTO) benefits during the year at varying amounts depending on the length of service. PTO may not be carried forward from one year to another. PTO may be used for sickness, vacation or other reasons.

READING COMMUNITY LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from these estimates.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended (MCL 141.421), which requires the board to approve a budget for the library. Pursuant to the Act, the director's chief administrative officer prepares and submits a proposed operating budget to the board for its review and consideration. The board of directors conducts a public budget hearing and subsequently adopts an operating budget. The budget is adopted at the line item level and control is exercised at that level. The library's board monitors and amends the budgets as necessary. The budgetary basis of accounting does not differ significantly from the modified accrual basis used to reflect revenues and expenditures for the fund. Encumbrance accounting is not used, and all annual appropriations lapse at fiscal year end.

The budget revenues and expenditures for the General Operating Fund, as presented on page 16, include any authorized amendments to the original budget as adopted.

Budget Violation

Public Act 2 of 1968, as amended, requires the legislative body to adopt a general appropriations act for the budget of the General Fund. The act also requires that amendments be approved as needed to prevent actual expenditures from exceeding those provided for in the General Appropriations Act.

The following expenditure line items exceeded the final amended budget:

<u>Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries and Fringes	\$19,435	\$20,697	\$ 1,262
Supplies	570	575	5
Technology Assistance	1,075	3,154	2,079

READING COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Adoption of Automated Clearing House Policy (ACH)

According to Michigan Compiled Laws (MCL) 124.303: “A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body”.

Reading Community Library electronically transfers funds for payroll without legal authority.

NOTE 4 - CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in 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 which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The library has adopted a written investment policy in accordance with the requirements of Public Act 20 of 1943, as amended. However, the policy is not compliant with GASB Statement No. 40. The library's deposits are in accordance with statutory authority. The library board has designated two banks for the deposit of library funds.

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

	Governmental
	<u>Activities</u>
Cash and Cash Equivalents	\$ 64,919
Total	\$ 64,919
	=====

Investments Authorized by the Township's Investment Policy

The library's investment policy only authorizes investment in all those that are authorized by law. The library has limited their investments to certificates of deposit that may extend beyond

READING COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4 - CASH AND INVESTMENTS (continued)

one year. The library has a written formal investment policy. However, it does not conform to GASB Statement No. 40. Therefore, management has not addressed their exposure to custodial credit risk as required by GASB Statement No. 40.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a) Uncollateralized;
- b) Collateralized with securities held by the pledging financial institution; or
- c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

Michigan law and the library's formal investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The library has not addressed custodial credit risk. However, all deposits are FDIC insured.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 26,734	\$ 0	\$ 0	\$ 26,734
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 105,438	\$ 0	\$ 0	\$ 105,438
Furniture and Fixtures	39,505	0	0	39,505
Books, Audios, Videos	<u>232,728</u>	<u>5,184</u>	<u>0</u>	<u>237,912</u>
Total Capital Assets Being Depreciated	<u>\$ 377,671</u>	<u>\$ 5,184</u>	<u>\$ 0</u>	<u>\$ 382,855</u>
Less Accumulated Depreciation for				
Buildings and Improvements	\$ 29,558	\$ 2,703	\$ 0	\$ 32,261
Furniture and Fixtures	31,197	1,138	0	32,335
Books, Audios, Videos	<u>72,353</u>	<u>50,017</u>	<u>0</u>	<u>122,370</u>
Total Accumulated Depreciation	<u>\$ 133,108</u>	<u>\$ 53,858</u>	<u>\$ 0</u>	<u>\$ 186,966</u>
Net Capital Assets Being Depreciated	<u>\$ 244,563</u>	<u>\$ 48,674</u>	<u>\$ 0</u>	<u>\$ 195,889</u>
Capital Assets – Net	<u>\$ 271,297</u>	<u>\$ 48,674</u>	<u>\$ 0</u>	<u>\$ 222,623</u>

READING COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 – VESTED EMPLOYEE BENEFITS

The Reading Community Library Bylaws and Policies provide that the library director may earn paid leave time (vested employee benefits in varying amounts depending on the number of years of service. The library director may earn two weeks paid leave time per year as determined by the hours open per week during the first and second years of employment. It provides that the library director may earn up to three weeks paid leave time the third and fourth years of employment. After five years of employment, the library director shall receive four weeks paid leave time and one personal day. Leave days may be used for sickness, vacation, and/or other reasons. Leave time does not carry over from one year to another.

NOTE 7- RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Library continues to carry commercial insurance for property, liability, wrongful acts, crime, inland marine, and other risks of loss including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three (3) fiscal 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:

	<u>2007</u>	<u>2008</u>
Total Fund Balance - Modified Accrual Basis	\$ 49,069	\$ 78,935

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

Capital assets are not financial resources, and are not reported in the funds	<u>271,297</u>	<u>222,623</u>
Net Assets of General Fund - Full Accrual Basis	<u>\$ 320,366</u>	<u>\$ 301,558</u>

Net Change in Fund Balances - Modified Accrual Basis	\$ 1,153	\$ 29,866
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Amounts reported in the statement of net activities are different because:

Fixed Asset costs are capitalized	13,053	5,184
Capital costs are allocated over their estimated useful lives as depreciation	<u>(53,623)</u>	<u>(53,858)</u>
Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ (39,417)</u>	<u>\$ (18,808)</u>

READING COMMUNITY LIBRARY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
JUNE 30, 2008

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Over (Under) Amended <u>Budget</u>
Revenues				
Property Taxes	\$ 5,500	\$ 5,500	\$ 5,736	\$ 236
State Grants	1,000	1,000	2,094	1,094
Contributions from Local Units of Government	14,000	14,000	14,547	547
Charges for Services	800	800	878	78
Fines and Forfeits	16,000	16,000	14,910	(1,090)
Interest and Rents	400	400	1,126	726
Other	<u>2,450</u>	<u>2,450</u>	<u>30,267</u>	<u>27,817</u>
Total Revenue	<u>\$ 40,150</u>	<u>\$ 40,150</u>	<u>\$ 69,558</u>	<u>\$ 29,408</u>
Expenditures				
Recreation and Cultural	\$ 33,700	\$ 34,215	\$ 34,508	\$ 293
Capital Outlay	<u>6,450</u>	<u>5,935</u>	<u>5,184</u>	<u>(751)</u>
Total Expenditures	<u>\$ 40,150</u>	<u>\$ 40,150</u>	<u>\$ 39,692</u>	<u>\$ 458</u>
Excess of Revenues Over (Under) Expenditures	\$ 0	\$ 0	\$ 29,866	\$ 29,866
Fund Balance – July 1, 2007	<u>49,069</u>	<u>49,069</u>	<u>49,069</u>	<u>0</u>
Fund Balance – June 30, 2008	<u>\$ 49,069</u>	<u>\$ 49,069</u>	<u>\$ 78,935</u>	<u>\$ 29,866</u>

The accompanying notes are an integral part of this statement.

READING COMMUNITY LIBRARY
SCHEDULE OF REVENUES
BUDGET AND ACTUAL
GENERAL FUND
JUNE 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Amended Budget</u>
Revenues				
Taxes				
Current	\$ 5,500	\$ 5,500	\$ 5,736	\$ 236
State Grants				
State Aid	1,000	1,000	2,094	1,094
Contributions from				
Local Units of Government	14,000	14,000	14,547	547
Charges for Services	800	800	878	78
Fines and Forfeits				
Penal Fines	16,000	16,000	14,910	(1,090)
Interest and Rentals				
Interest Earned	400	400	1,126	726
Other Revenue				
Memorials	80	80	26,914	26,834
Refunds	300	300	1,150	850
Miscellaneous	0	0	171	171
Donations	698	698	660	(38)
Community Foundation Grants	<u>1,372</u>	<u>1,372</u>	<u>1,372</u>	<u>0</u>
Total Revenue	<u>\$ 40,150</u>	<u>\$ 40,150</u>	<u>\$ 69,558</u>	<u>\$ 29,408</u>

The accompanying notes are an integral part of this statement.

READING COMMUNITY LIBRARY
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND
JUNE 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Amended Budget</u>
Expenditures				
Current				
Recreation and Cultural				
Salaries and Fringes	\$ 21,200	\$ 19,435	\$ 20,697	\$ 1,262
Supplies	300	570	575	5
Utilities	3,500	4,045	3,888	(157)
Insurance	900	1,030	1,027	(3)
Building Maintenance and Repairs	1,700	1,685	1,073	(612)
Technology Assistance	1,000	1,075	3,154	2,079
Children's Programs	500	500	151	(349)
Contracted Services	2,000	2,220	2,220	0
Miscellaneous	2,600	3,655	1,723	(1,932)
Capital Outlay				
Equipment	350	350	0	(350)
Books	5,500	4,660	4,264	(396)
Periodicals	<u>600</u>	<u>925</u>	<u>920</u>	<u>(5)</u>
 Total Expenditures	 <u>\$ 40,150</u>	 <u>\$ 40,150</u>	 <u>\$ 39,692</u>	 <u>\$ 458</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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To the Library Board
Reading Community Library

In planning and performing our audit of the financial statements of the governmental activities and each major fund information of the Reading Community Library as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Reading Community 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 Reading Community Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Reading Community Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Reading Community Library's internal control to be material weaknesses:

Financial Statement Preparation

The Library does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenue and expenditures, to track changes in capital assets, and to present required financial statement disclosures. We recognize the time and expense that would be required to obtain the necessary training and expertise to perform this task internally. We recommend that you continue to carefully review the draft financial statements and notes prepared by your external auditors prior to approving them and accepting responsibility for their content and presentation.

General Ledger

The Library does not maintain a complete general ledger. Journal entries are not used by the library to record accruals, adjustments for errors, and other entries as deemed proper. No balance sheet accounts, other than cash, were included in the records of the library. No trial balances were prepared or available. Amounts due from local units of government were not recorded.

The Uniform Accounting Procedures Manual issued by the Local Audit and Finance Division, Michigan Department of Treasury requires libraries to maintain a general ledger. Our examination indicates that the library only maintains a record of receipts, disbursements, and cash balances. Properly maintained, the general ledger is a valuable tool of management. Failure to post the complete accounting records on a timely basis may result in the financial condition of the library not being readily determined, the board not being able to make sound business decisions because it has no financial data on which to make an evaluation, or the board may obligate more funds than are available which is a violation of the Uniform Budgeting and Accounting Act.

This finding is repeated from the previous audit. We recommend the Library maintain a complete general ledger.

Lack of Segregation of Duties

The treasurer makes bank deposits, records the revenues, reconciles the bank accounts and is the custodian of the library's funds. However, the treasurer does not give a full accounting to the board at their regularly scheduled board meetings.

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the library's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the library's unique circumstances.

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 its accounting function. Ideally, no single individual should be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

This finding is repeated from the previous audit. We recommend the board consider additional control procedures over the receipts, revenues, and disbursements.

Capital Assets

A capital asset listing was not updated by library personnel. The Michigan Department of Treasury and generally accepted accounting principles requires that each governmental unit maintain a record of capital assets. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be presented on the Statement of Net Assets, net of depreciation and related debt. It is the responsibility of the library to update the capital assets listing for additions and deletions. For governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. Disposals should equal the reductions to the capital asset records. Depreciation is also to be calculated on the capital assets and included in the listing.

This finding is repeated from the previous audit. We recommend that the library develop a property management system that includes compiling an inventory of all the capital assets the library owns and updating this listing at least on an annual basis. All assets owned by the library should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the library to be removed or used by unauthorized personnel. The library should keep records on all of the assets owned by the library, which includes the date of acquisition, tag number, description of property, original cost, location, date of disposal, and salvage value (if any).

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets; it will also provide an excellent record for insurance and replacement purposes as well.

This finding is also repeated from the previous audit. The library must maintain its capital asset listing throughout the year and periodically review it to ensure that the capital outlay is properly posted, disposals are updated, and the related depreciation is calculated.

SIGNIFICANT DEFICIENCY

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Reading Community Library's internal control to be significant deficiencies:

- State statutes require all governments to use a standard chart of accounts in maintaining financial records. We recommend that the Library implement the State chart of accounts to comply with State requirements.

OTHER MATTERS

Although the following are not considered significant deficiencies in internal control, we wish to point out certain other matters for consideration by the management of the library.

Investment Policy

The board of directors has adopted a formal investment policy that complies with Public Act 20 or 1943, as amended. However, the policy has not been updated to take into consideration GASB Statement No. 40 reporting requirements.

According to Public Act 20 or 1943, as amended, a formal investment policy is to be adopted by the board no later than August 31, 1998. GASB Statement No. 40 added additional requirements related to deposit and investment risk which should be incorporated into the policy. GASB Statement No. 40 became effective for financial periods beginning after June 15, 2004.

We recommend that the investment policy be updated in accordance with State statute and include reporting requirements as recommended by GASB Statement No. 40.

This recommendation is repeated from the last audit.

Library Board – Fraud Risk Management Program

The management of the library has not developed a fraud risk management program that is appropriate for the size and complexity of the library, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

American Institute of Certified Public Accountants (AICPA), Statement on Auditing Standards (SAS), Section AU 110.03 states in part: “Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.”

Management, along with those who have responsibility for oversight of the financial reporting process (such as the audit committee, board of trustees, board of directors, or the owner in owner-managed entities), should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.

This recommendation is repeated from the last audit.

NONCOMPLIANCE WITH STATE STATUTES

Electronic Transactions of Public Funds

The library electronically transfers funds for payroll withholdings and receives direct deposits without legal authority. According to MCL 124.303: “A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include: (a) that an officer or employee designated by the treasurer or ETO is responsible for the local units ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy, (b) that the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit, (c) a system of internal accounting controls to monitor the use of ACH transactions made by the local unit, (d) the approval of ACH invoices before payment, (e) any other matters the treasurer or ETO considers necessary.

We recommend that the library board adopt a resolution to authorize electronic transactions that includes the above mentioned items, as required by the statute.

This finding is repeated from the last audit.

Budgetary Procedures

The budget did not include beginning and ending fund balances. The library exceeded budget in a few line-items as follows:

<u>Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries and Fringes	\$19,435	\$20,697	\$ 1,262
Supplies	570	575	5
Technology Assistance	1,075	3,154	2,079

Public Act 2 of 1968, the Uniform Budgeting Act, Section 19 states: “A member of the legislative body, the chief administrative officer, and administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. Expenditures shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit. The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.”

Library Board
Page 6

The board should receive, or be able to view, a copy of their revenue and expenditure reports on a monthly basis. Line-item transfers and/or increases/decreases in the budget should be done as soon as a deviation is detected.

This communication is intended solely for the information and use of management and the Library Board, and others within the organization, 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

July 1, 2010