

**GRANT AREA DISTRICT LIBRARY  
NEWAYGO COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2007**

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# GRANT AREA DISTRICT LIBRARY

## Board Members

<u>Appointed Official</u>	<u>Position</u>
Steve Rau	President
Sandy Risedorph	Vice-President
Scott Jensen	Secretary
A.J. McKinley	Treasurer
Dan Murray	Trustee
Senaida Hudson	Trustee
Eric Irwin	Trustee
Rita Haring	Trustee

## Administration

Deborah Bose	Director
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# H&S Companies

Hendon & Slate, PC  
Certified Public Accountants  
Business Consultants

Library Board  
Grant Area District Library  
Newaygo County  
Grant, MI 49327

## Independent Auditor's Report

We have audited the accompanying financial statements of the Grant Area District Library as of and for the year ended June 30, 2007 as listed in the accompanying table of contents. These financial statements are the responsibility of the Library's board. 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 general purpose financial statements are free from 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 Grant Area District Library as of June 30, 2007, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Grant Area District Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Grant Area District Library. We did not examine this data and, accordingly, do not express an opinion thereon.

*Hendon & Slate*

Hendon & Slate, P.C.  
Certified Public Accountants  
October 29, 2008

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## GRANT AREA DISTRICT LIBRARY

Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2007

### Using this Annual Report

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 information that presents two different views of the Library:

Notes A through I of the financial statements include information on the Library's General Fund under the modified accrual method. These notes focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

Note J of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.

Note J also provides 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 *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 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* that further explains and supports the information in the financial statements.

### Condensed Financial Information

The table below contains key financial information in a condensed format:

	<u>6/30/2007</u>	<u>6/30/2006</u>
Current Assets	\$ 217,533	\$ 265,169
Noncurrent Assets	<u>2,882,672</u>	<u>2,948,582</u>
Total Assets	3,100,205	3,213,751
Long-Term Liabilities	1,946,894	1,946,676
Other Liabilities	<u>63,861</u>	<u>133,682</u>
Total Liabilities	<u>2,010,755</u>	<u>2,080,358</u>

## Management's Discussion and Analysis (Continued)

Net Assets		
Invested in Capital Assets-Net of Debt	\$ 935,778	\$ 939,290
Restricted for Capital Projects	1,150	38,988
Restricted for Debt Service	103,862	104,776
Unrestricted	<u>48,660</u>	<u>50,339</u>
Total Net Assets	<u>\$ 1,089,450</u>	<u>\$ 1,133,393</u>
Revenue		
Property Taxes	\$ 294,871	\$ 285,452
Grants	25,295	60,350
Other	<u>70,160</u>	<u>80,260</u>
Total Revenues	390,326	426,062
Expenses		
Library Services	(422,847)	(442,767)
Other Financing Uses		
Loss on Sale of Books	<u>(11,422)</u>	<u>(40,173)</u>
Change in Net Assets	<u>\$ (43,943)</u>	<u>\$ (56,878)</u>

### **The Library as a Whole**

The Library's net assets decreased by \$43,943 in 2007 compared to \$56,878 in 2006.

The Library's primary source of revenue is property taxes, which represent 76% of total revenues for 2007 compared to 67% for 2006.

Salaries and fringe benefits are a significant expense of the Library, representing 35% of total expenses for 2007 compared to 34% in 2006.

Depreciation expense for the current year represented 23% of the Library's total expenses for 2007 compared to 20% for 2006.

### **The Library's Funds**

Our analysis of the Library's major funds is included on pages 5 and 6 in the first column of the respective statements. The fund columns provide detail information about the most significant funds, not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as property tax mileages. The Library's major funds consist of the General Fund, Capital Projects Fund and the Debt Service Fund.

The fund balance of the General Fund decreased during the year by \$2,410 (exclusive of a prior period adjustment that decreased fund balance an additional \$5,767-See Note I).

## Management's Discussion and Analysis (Continued)

The fund balance of the General Fund decreased during the year by \$2,410 (exclusive of a prior period adjustment that decreased fund balance an additional \$5,767-See Note I).

Salaries and fringe benefits were the largest uses of resources during the current fiscal year.

### **Library's Budgetary Highlights**

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in grant revenues and books & materials.

At the beginning of the fiscal year, the Library was guardedly optimistic about the upcoming financial conditions. Due to threats to State Aid for libraries based upon the poor economy in Michigan, the Library decreased its State Aid budget from \$6,000 for June 30, 2006 to \$5,000 for June 30, 2007. However, actual revenues of \$6,586 surpassed both the budgeted amount for 2007 as well as the actual amount of \$6,018 received during 2006.

Tax revenues were expected to be higher than the prior year as the Library set the budget at \$161,456 for June 30, 2007 compared to \$152,600 for June 30, 2006. Actual tax revenues received amount to \$162,757 which exceeded the budget by \$1,301 received during 2006. During the current year, the City of Grant instituted a Downtown Development Authority, but the Library opted out of this as the Board felt that tax dollars voted to a dedicated millage should not be diverted to another purpose.

### **Capital Asset and Debt Administration**

At the end of 2007, the Library had \$3,184,987 invested in land, buildings, furniture and equipment, and books and materials. The Library added \$42,357 in new equipment, building improvements and collection items during the current year. Of this total, \$565 was spent on a memorial park bench and the remaining \$41,792 added consisted of new collection items including books, various audio/visual materials and additions to the music collection.

The Library's bonded indebtedness totaled \$1,946,894 at June 30, 2007 consisting of \$1,945,000 in building and site bonds and \$1,894 in office equipment capital leases. No debt was issued during the fiscal year.

### **Next Year's Millage Rates**

On September 19, 2006, the Library Board approved a levy of .7200 mills per thousand dollars of taxable value to service bonded indebtedness. Subject to the Headlee rollback, .8871 was approved to be levied for the purpose of providing Library funds for the operation of the Library.

### **Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to demonstrate the Library's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Librarian of the Grant Area District Library, 122 Elder Street, Grant, MI 49327-8411.

**GRANT AREA DISTRICT LIBRARY**

Governmental Funds Balance Sheet/Statement of Net Assets  
June 30, 2007

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
<b>ASSETS</b>						
Cash	\$ 103,391	\$ 1,150	\$ 103,862	\$ 208,403	\$ -	\$ 208,403
Accounts Receivable	108	-	-	108	-	108
Due from Other Governments	3,280	-	-	3,280	-	3,280
Prepaid Expenses	-	-	-	-	5,742	5,742
Land	-	-	-	-	111,000	111,000
Capital Assets, Net of Accumulated Depreciation	-	-	-	-	2,771,672	2,771,672
<b>Total Assets</b>	<u>\$ 106,779</u>	<u>\$ 1,150</u>	<u>\$ 103,862</u>	<u>\$ 211,791</u>	2,888,414	<u>\$ 3,100,205</u>
<b>LIABILITIES &amp; FUND EQUITY</b>						
Liabilities						
Accounts Payable	\$ 6,719	\$ -	\$ -	\$ 6,719	-	6,719
Accrued Liabilities	28,798	-	-	28,798	4,997	33,795
Deferred Revenue	23,347	-	-	23,347	-	23,347
Long-Term Liabilities						
Bonds Payable, Due Within 1 Year	-	-	-	-	61,676	61,676
Bonds Payable, Due After 1 Year	-	-	-	-	1,885,218	1,885,218
<b>Total Liabilities</b>	58,864	-	-	58,864	1,951,891	2,010,755
Fund Balance/Net Assets						
Fund Balances						
Unreserved, Undesignated	47,915	-	-	47,915	(47,915)	-
Unreserved, Designated	-	1,150	-	1,150	(1,150)	-
Unreserved, Reported in Debt Service	-	-	103,862	103,862	(103,862)	-
<b>Total Fund Balances</b>	<u>47,915</u>	<u>1,150</u>	<u>103,862</u>	<u>152,927</u>	(152,927)	-
<b>Total Liabilities and Fund Balance</b>	<u>\$ 106,779</u>	<u>\$ 1,150</u>	<u>\$ 103,862</u>	<u>\$ 211,791</u>		
Net Assets						
Invested in Capital Assets - Net of Related Debt					935,778	935,778
Restricted for Capital Projects					1,150	1,150
Restricted for Debt Service					103,862	103,862
Unrestricted					48,660	48,660
<b>Total Net Assets</b>					<u>\$ 1,089,450</u>	<u>\$ 1,089,450</u>

\* Notes to the Financial Statements provide the details for main components of the adjustments.  
The Notes to the Financial Statements are an integral part of this statements.

**GRANT AREA DISTRICT LIBRARY**

Statement of Governmental Revenues, Expenditures and  
Changes in Fund Balance/Statement of Activities  
June 30, 2007

	General Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments*	Statement of Activities
<b>REVENUE</b>						
Local Sources						
Property Taxes	\$ 162,757	\$ -	\$ 132,114	\$ 294,871	\$ -	\$ 294,871
Rentals	4,579	-	-	4,579	-	4,579
Grants	25,295	-	-	25,295	-	25,295
Penal Fines	42,359	-	-	42,359	-	42,359
Interest	2,067	245	142	2,454	-	2,454
Book Fines	7,656	-	-	7,656	-	7,656
Donations & Memorials	3,265	-	-	3,265	-	3,265
Sale of Books	844	-	-	844	-	844
Miscellaneous	2,417	-	-	2,417	-	2,417
Total Local Sources	251,239	245	132,256	383,740	-	383,740
State Sources - State Aid	6,586	-	-	6,586	-	6,586
Total Revenue	257,825	245	132,256	390,326	-	390,326
<b>EXPENDITURES</b>						
Salaries and Wages	137,982	-	-	137,982	(756)	137,226
Payroll Taxes	10,543	-	-	10,543	-	10,543
Books and Materials	35,536	-	-	35,536	(41,792)	(6,256)
Utilities and Telephone	38,829	-	-	38,829	-	38,829
Repairs and Maintenance	26,511	-	-	26,511	-	26,511
Insurance	9,726	-	-	9,726	25	9,751
Capital Outlay	565	-	-	565	(565)	-
Professional and Contracted Services	4,323	-	-	4,323	-	4,323

Co-Op Services	15,772	-	-	15,772	-	15,772
Supplies	7,932	-	-	7,932	-	7,932
Summer Reading Program	2,804	-	-	2,804	-	2,804
Training & Transportation	620	-	-	620	-	620
Advertising	555	-	-	555	-	555
Miscellaneous	3,882	-	250	4,132	-	4,132
Depreciation	-	-	-	-	96,845	96,845
Debt Service - Principal	2,398	-	60,000	62,398	(62,398)	-
- Interest	340	-	72,920	73,260	-	73,260
	<u>298,318</u>	<u>-</u>	<u>133,170</u>	<u>431,488</u>	<u>(8,641)</u>	<u>422,847</u>
Total Expenditures						
Excess Revenue Over (Under) Expenditures	(40,493)	245	(914)	(41,162)	8,641	(32,521)
Other Financing Resources (Uses)						
Transfers In	38,083	-	-	38,083	(38,083)	-
Transfers Out	-	(38,083)	-	(38,083)	38,083	-
Loss on Sale of Books	-	-	-	-	(11,422)	(11,422)
	<u>(2,410)</u>	<u>(37,838)</u>	<u>(914)</u>	<u>(41,162)</u>	<u>(2,781)</u>	<u>(43,943)</u>
Change in Fund Balance/Net Assets						
Prior Period Adjustment - See Note I	(5,767)	-	-	(5,767)	5,767	-
	<u>56,092</u>	<u>38,988</u>	<u>104,776</u>	<u>199,856</u>	<u>933,537</u>	<u>1,133,393</u>
Fund Balance/Net Assets - July 1, 2006						
Fund Balance/Net Assets - June 30, 2007	<u>\$ 47,915</u>	<u>\$ 1,150</u>	<u>\$ 103,862</u>	<u>\$ 152,927</u>	<u>\$ 936,523</u>	<u>\$ 1,089,450</u>

\* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

## GRANT AREA DISTRICT LIBRARY

Notes to the Financial Statements  
For the Year Ended June 30, 2007

### NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Grant Area District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- ? A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- ? Financial statements prepared using full accrual accounting for all of the Library's activities.
- ? A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

#### 1. REPORTING ENTITY

The Grant Public Library was reorganized as the Grant Area District Library as created by Act 24 of the Public Acts of 1989, as amended, effective July 1, 1996. The purpose of the Grant Area District Library is to provide library services to the City of Grant and surrounding local units, including the Grant Public Schools. The Library's Board consists of eight appointed board members.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

**Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the 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 grantor or 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-investing in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

**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 are generally 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 record only when payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the library. Revenues are derived primarily from intergovernmental activities.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary or trust funds.

Notes to the Financial Statements (Continued)

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported 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 that do not add to the value of the asset or materially extend assets lives are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Library Books and Materials	3 - 10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND EQUIVALENTS

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

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

8. COMPENSATED ABSENCES

It is the Library's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Library employees are granted vacation and sick leave in varying amounts based on length on service. Upon termination, employees are paid accumulated vacation at full rates and accumulated sick leave at one-half their rate of pay. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for this amount is reported in the general fund.

9. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

10. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2007, the Library did incur material over expenditures in the general fund:

<u>Budget Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Debt Service - Principal	-	2,398	(2,398)

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budget for this budgetary fund was adopted at the line item level.

Notes to the Financial Statements (Continued)

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Library is allowed to invest in 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 obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Library's funds are held at Valley Ridge Bank and are carried at cost. At June 30, 2007, they consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
General Fund		
Cash on Hand	\$ 50	\$ 50
Checking - Choice One	63,571	63,132
CD's - Choice One	<u>39,770</u>	<u>39,770</u>
Total General Fund	103,391	102,952
Capital Projects Fund		
Checking - Choice One	1,150	1,150
Debt Service Fund		
Checking - Choice One	<u>103,862</u>	<u>103,862</u>
Total Debt Service Fund	<u>103,862</u>	<u>103,862</u>
Total Deposits	<u>\$ 208,403</u>	<u>\$ 207,964</u>
FDIC Insured	\$ 139,770	\$ 139,770
Uninsured	<u>68,633</u>	<u>68,194</u>
Total Deposits	<u>\$ 208,403</u>	<u>\$ 207,964</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investment in the funds comply with the investment authority noted above.

NOTE D DUE FROM OTHER GOVERNMENTAL UNITS / DEFERRED REVENUE

Receivables

Receivables at June 30, 2007 consisted of the following:

Total Due from State of Michigan	<u>\$ 3,280</u>
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Notes to the Financial Statements (Continued)

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	\$ -	\$ 23,347

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	7/1/2006			6/30/2007
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
<b>Governmental Activities</b>				
Capital Assets not Being Depreciated:				
Land	\$ 111,000	\$ -	\$ -	\$ 111,000
Capital Assets Being Depreciated:				
Library Collection	251,800	41,792	(18,080)	275,512
Buildings & Improvements	2,510,549	565	-	2,511,114
Equipment & Furniture	216,182	-	-	216,182
Intangible Assets	71,179	-	-	71,179
	<u>3,049,710</u>	<u>42,357</u>	<u>(18,080)</u>	<u>3,073,987</u>
Total at Historical Cost				
Less Accumulated Depreciation:				
Library Collection	(43,868)	(31,108)	6,658	(68,318)
Buildings & Improvements	(114,263)	(46,781)	-	(161,044)
Equipment & Furniture	(40,280)	(14,507)	-	(54,787)
Intangible Assets	(13,717)	(4,449)	-	(18,166)
	<u>(212,128)</u>	<u>(96,845)</u>	<u>6,658</u>	<u>(302,315)</u>
Total Accumulated Depreciation				
Net Capital Assets Being Depreciated	<u>2,837,582</u>	<u>(54,488)</u>	<u>(11,422)</u>	<u>2,771,672</u>
Total Governmental Activities Capital Assets - Net of Depreciation	<u>\$ 2,948,582</u>	<u>\$ (54,488)</u>	<u>\$ (11,422)</u>	<u>\$ 2,882,672</u>

Depreciation expense for the year ended June 30, 2007 was as follows:

General Fund	\$ 33,756
Capital Projects Fund	<u>63,089</u>
Total Depreciation	<u>\$ 96,845</u>

Notes to the Financial Statements (Continued)

NOTE F CHANGES IN LONG-TERM DEBT

A summary of the Library's long-term debt outstanding at June 30, 2007 is as follows:

	Balance 7/1/2006	Net Borrowings (Payments)	Balance 6/30/2007	Amounts Due Within One Year
Bonds Payable - Due in annual installments of \$35,000 to \$135,000 through August 2029; interest payable semiannually at 2.0% to 4.4%	\$ 2,005,000	\$ (60,000)	\$ 1,945,000	\$ 60,000
Capital Lease - Due in monthly installments of \$248.91 through January 2008; interest payable monthly at 11.8%	4,292	(2,398)	1,894	1,676
Total Long-Term Debt	<u>\$ 2,009,292</u>	<u>\$ (62,398)</u>	<u>\$ 1,946,894</u>	<u>\$ 61,676</u>

Debt Service Requirements

The annual requirements to amortized all debt outstanding at June 30, 2007 including both principal and interest are as follows:

Year Ended June 30	Bond Issue 2003 Library Building and Site		Capital Lease Office Equipment		Total Requirements
	Principal	Interest	Principal	Interest	
2008	\$ 60,000	\$ 71,720	\$ 1,894	\$ 67	\$ 133,681
2009	60,000	70,430	-	-	130,430
2010	65,000	68,928	-	-	133,928
2011	65,000	67,140	-	-	132,140
2012	65,000	65,190	-	-	130,190
2013-2017	370,000	292,058	-	-	662,058
2018-2022	450,000	219,085	-	-	669,085
2023-2027	550,000	118,600	-	-	668,600
2028-2031	260,000	11,660	-	-	271,660
Total	\$1,945,000	\$ 984,811	\$ 1,894	\$ 67	2,931,772
Less: Interest					<u>984,878</u>
Present Value of Minimum Lease Payments					<u>\$ 3,916,650</u>

Interest expense of the Library for the year ended June 30, 2007 amounted to \$72,920 on the Bond Issue and \$340 on the Capital Lease.

Notes to the Financial Statements (Continued)

NOTE G ENDOWMENT FUND

The Fremont Area Community Foundation holds an endowment fund which has been earmarked for the Grant Area District Library. The value of the endowment fund as of June 30, 2007 was \$62,715. The Foundation also holds funds for the Library from the capital campaign for the construction of the new building. The balance of the capital campaign fund as of June 30, 2007 was \$11,555 which is to be spent on improvements to or maintenance of the Library.

NOTE H RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE I PRIOR PERIOD ADJUSTMENT

The Library restated, as of June 30, 2007, the fund balance of the General Fund due to inadvertently recording prepaid insurance on the modified accrual statements during the prior year. Amounts of insurance that are paid in one period but affect a future period should only be recorded on the full accrual statements. The fund balance of the General Fund was decreased by \$5,767.

NOTE J RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and the statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic 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 the net change in fund balance to the net change in net assets:

<b>Total Fund Balance - Modified Accrual Basis</b>		<b>\$ 152,927</b>
Amounts reported in the statement of net assets are different because:		
Prepaid Insurance reflects amounts that will be used in a future period		5,742
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:		
Governmental Capital Assets	3,184,987	
Governmental Accumulated Depreciation	<u>(302,315)</u>	2,882,672

Notes to the Financial Statements (Continued)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net assets that are not reported in the governmental statement of activities:

Compensated Absences	\$ (4,997)	
Obligations Under Capital Leases	(1,894)	
Bonds Payable	<u>(1,945,000)</u>	<u>\$ (1,951,891)</u>

**Net Assets of General Fund - Full Accrual Basis** \$ 1,089,450

**Net Change in Fund Balances - Modified Accrual Basis** \$ (41,162)

Amounts reported in the statement of activities are different because:

Decrease in the expenses considered to be prepaid (25)

Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements 756

Capital outlays are reported as expenditures in the statement of revenues, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation

Library Books and Materials	41,792	
Capital Outlay	565	
Depreciation	<u>(96,845)</u>	<u>(54,488)</u>

Repayments of capital lease principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt) 62,398

Governmental funds only report the disposal of assets to the extent proceeds are received from the sales. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the disposal of fixed assets (11,422)

**Change in Net Assets of General Fund - Full Accrual Basis** \$ (43,943)

**GRANT AREA DISTRICT LIBRARY**

Required Supplementary Information  
 Budgetary Comparison Schedule - General Fund  
 For the Year Ended June 30, 2007

<b>REVENUE</b>	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Property Taxes	\$ 161,456	\$ 161,456	\$ 162,757	\$ 1,301
Rentals	2,200	2,200	4,579	2,379
Grants	41,000	41,000	25,295	(15,705)
Penal Fines	39,000	39,000	42,359	3,359
Interest	250	250	2,067	1,817
Book Fines	6,500	6,500	7,656	1,156
Donations & Memorials	4,780	4,780	3,265	(1,515)
Sale of Books	500	500	844	344
Miscellaneous	2,200	2,200	2,417	217
Total Local Sources	257,886	257,886	251,239	(6,647)
State Sources - State Aid	5,000	5,000	6,586	1,586
Total Revenue	262,886	262,886	257,825	(5,061)
<b>EXPENDITURES</b>				
Salaries and Wages	136,807	137,567	137,982	(415)
Payroll Taxes	10,466	10,676	10,543	133
Advertising	600	740	555	185
Books and Materials	32,200	34,675	35,536	(861)
Utilities and Telephone	49,000	39,260	38,829	431
Repairs and Maintenance	18,000	29,560	26,511	3,049
Insurance	10,500	9,845	9,726	119
Capital Outlay	5,000	2,250	565	1,685
Professional and Contracted Services	5,495	4,410	4,323	87
Co-Op Services	17,340	15,930	15,772	158
Summer Reading Program	2,428	3,103	2,804	299
Supplies	10,650	9,680	7,932	1,748
Training	600	500	506	(6)
Transportation	500	340	114	226
Miscellaneous	3,300	4,350	3,882	468
Debt Service - Principal	-	-	2,398	(2,398)
- Interest	-	-	340	(340)
Total Expenditures	302,886	302,886	298,318	4,568
Excess Revenue Over (Under) Expenditures	(40,000)	(40,000)	(40,493)	(493)
Other Financing Resources (Uses)				
Transfers In	40,000	40,000	38,083	(1,917)
Change in Fund Balance	-	-	(2,410)	(2,410)
Prior Period Adjustment - See Note J	-	-	(5,767)	(4,327)
Fund Balance - July 1, 2006	-	-	56,092	56,092
Fund Balance - June 30, 2007	\$ -	\$ -	\$ 47,915	\$ 49,355

**GRANT AREA DISTRICT LIBRARY**

Required Supplementary Information  
 Budgetary Comparison Schedule - Capital Projects Fund  
 For the Year Ended June 30, 2007

<b>REVENUE</b>	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Interest	\$ -	\$ -	\$ 245	\$ 245
Total Revenue	-	-	245	245
<b>EXPENDITURES</b>				
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess Revenue Over (Under) Expenditures	-	-	245	245
Other Financing Resources (Uses)				
Transfers Out	-	-	(38,083)	38,083
Change in Fund Balance	-	-	(37,838)	38,328
Fund Balance - July 1, 2006	-	-	38,988	38,988
Fund Balance - June 30, 2007	\$ -	\$ -	\$ 1,150	\$ 77,316

**GRANT AREA DISTRICT LIBRARY**

Required Supplementary Information  
 Budgetary Comparison Schedule - Debt Service Fund  
 For the Year Ended June 30, 2007

<b>REVENUE</b>	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Property Taxes	\$ -	\$ -	\$ 132,114	\$ 132,114
Interest	-	-	142	142
Total Revenue	-	-	132,256	132,256
<b>EXPENDITURES</b>				
Debt Service	-	-	60,000	(60,000)
Miscellaneous	-	-	250	(250)
Total Expenditures	-	-	60,250	(60,250)
Excess Revenue Over (Under) Expenditures	-	-	72,006	72,006
Other Financing Resources (Uses)				
Interest Expense	-	-	(72,920)	72,920
Change in Fund Balance	-	-	(914)	144,926
Fund Balance - July 1, 2006	-	-	104,776	104,776
Fund Balance - June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,862</u>	<u>\$ 249,702</u>

# H&S Companies

Hendon & Slate, PC  
Certified Public Accountants  
Business Consultants

October 29, 2008

Board Members,  
Grant Area District Library  
Grant, MI 49437

In planning and performing our audit of the financial statements of Grant Area District Library as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Grant Area District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Grant Area District Library's internal control.

Our consideration of the 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

#### Anti-Fraud Program

The company has not adopted an Anti-Fraud Program as required by SAS 99. However, a policy has been written and presented to the Board in draft form.

Grand Rapids  
4575 Lake Michigan Dr. NW  
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Muskegon  
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Phone (231) 798-1040  
Fax (231) 798-8409

Fremont  
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Fremont, MI 49412  
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Fax (231) 924-4088  
Toll Free (800) 924-6891

Montague  
4538 Dowling Street  
Montague, MI 49437  
Phone (231) 893-6772

Hart  
1550 N. Industrial Park Drive  
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Controls over the Selection and Application of Accounting Principles that are in Conformity with Generally Accepted Accounting Principles

The Board currently does not have personnel available with sufficient expertise to select and apply the accounting principles necessary to prepare the financial statements and note disclosures contained in the audit report.

Controls over Segregation of Accounting Duties

The small size of the Library's office staff and lack of segregation of duties creates the danger that intentional or unintentional errors could be made and not detected.

Preparation of Financial Statements

As is common in small organizations, the Library's accounting department currently does not perform the following functions:

- Prepare its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America. Accordingly, the Library is unable to, and has not, established internal controls over the preparation of financial statements.
- Prepare schedules of property and equipment and record depreciation on a monthly basis. Currently, in the course of performing the audit, depreciation schedules are updated for activity during the year, and depreciation is calculated and recorded.
- Prepare journal entries to record deferred revenue. Currently, in the course of performing the audit, deferred revenue is recorded for grant income and property taxes.

As part of the audit, management has requested us to prepare a draft of the Library's financial statements, including the related notes to the financial statements. Management then performed a review of the financial statements. However, in order to provide improved oversight of the financial statement preparation services at an appropriate level and implement controls over the financial reporting process, management might establish review policies and procedures including the performance of some or all of the following functions:

- Review the adequacy of financial statement disclosures, possibly including reviewing and approving a completed disclosure checklist we would provide to you or by completing a disclosure checklist.
- Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.
- Apply analytical procedures to the draft financial statements.
- Perform other procedures as considered necessary by management.

A material weakness is a significant deficiency, or 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 the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Controls over Cash Receipts

The Library lacks the necessary controls to prevent the misappropriation of assets as evidenced by the results of the forensic analysis performed by Plante & Moran, PLLC. By the time our audit was conducted the Library had already taken steps to strengthen controls over the cash receipting process.

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

Respectfully submitted,

*Hendon & Slate*

Hendon & Slate, P.C.  
Certified Public Accountants  
Fremont Office

# H&S Companies

Hendon & Slate, PC  
Certified Public Accountants  
Business Consultants

October 29, 2008

Library Board  
Grant Area District Library  
Grant, MI 49437

Dear Board Members:

We would like to thank you for the opportunity to provide our auditing services. It was again a pleasure working with the Grant Area District Library during the audit engagement.

A recent change in auditing standards (SAS 112 – *Communicating Internal Control Related Matters Identified in an Audit*) now requires that we provide a new letter, which we have included, that focuses on the internal controls over financial reporting.

In addition to the letter referenced above, we also reviewed the Library's accounting procedures as of and for the year ended June 30, 2007, and offer the following comments and recommendations:

## **PRIOR COMMENTS**

We previously commented on the following aspects of the books and records of the Library:

### **Interest Income**

We previously noted that the Library was not recording interest income on the certificates of deposit throughout the year. Because of this, the monthly interim financial statements are not as accurate as they could be. During the current year, we discovered that this has not been improved. We would again suggest that the bookkeeper request a report from the bank at least quarterly that states the amount of interest that each cd has earned so that she may record it into the accounting system. This will keep the balances on the financial statements and board reports as accurate as possible at all times.

### **Property Tax Income**

In past years, the Library has had some difficulty in obtaining property tax settlement reports from all of the local units. We are happy to report that all of the settlement statements were obtained in a timely manner.

### **Budgeting**

The Library previously encountered some budget overexpenditures as a result of not properly amending the budget for expenditures which were not expected at the time of adopting the original budget. The Board did a much better job of monitoring the budget during the current year and amending it when necessary.

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### **Capitalization Policy**

In the prior year, we noted that the Library needed to adopt a capitalization policy that identifies the minimum dollar value of fixed assets that should be inventoried and depreciated for financial statement reporting purposes. We were pleased to see that the Library adopted such a policy.

### **Receipts**

We previously commented that the Library was issuing receipts to customers when monies were received, but not using a pre-numbered, triplicate copy receipt book. We are pleased to report that this type of receipting process has been adopted. We feel the receipting process as well as the system of entering the receipts into the QuickBooks system has been strengthened by implementing this process.

### **Federal Depository Insurance**

The Library's deposits with Valley Ridge are covered by Federal Depository Insurance (FDIC). However, this coverage is limited to \$100,000 of demand accounts (checking) and \$100,000 of time accounts (savings, cd's). At June 30, 2007, the Library held \$64,833 that exceeded these limits. If the Library wanted to eliminate or reduce this amount of uninsured funds, accounts could be opened with other institutions. This would provide for up to \$200,000 of coverage at Choice One Bank as well as up to an additional \$200,000 at another institution. Various factors, including location and interest rates provided may influence the Board's decision to use multiple banks, but it is something that we feel continues to require Board discussion.

## **CURRENT COMMENTS**

### **Chart of Accounts**

We noticed that the Library is not in compliance with the Michigan Department of Treasury Uniform Chart of Accounts for Local Units of Government. We recommend that the Board review the Chart of Accounts (copy enclosed) and make the necessary changes to the Library's QuickBooks system.

### **Cash Receipts**

As evidenced by the results of the forensic analysis by Plante & Moran, PLC, the Library did not have the appropriate controls in place to prevent the misappropriation of assets. However, based upon our review of the current controls, we are glad to report that the Library has taken great strides toward a much stronger internal control system. One further improvement that could be made to the cash receipts system would be to have two separate reconciliations of the cash drawer. The first reconciliation should be completed by the cashier in view of the security camera. The second reconciliation should be completed by the bookkeeper. Each reconciler would provide an independent summary report to the director for comparison. Any differences would need to be reconciled by the director.

### **Segregation of Duties**

Due to the small size of the Library's office staff, segregating duties can be difficult. While the Library has taken significant steps to strengthen their internal controls and separate duties related to cash receipts, we believe that further steps could still be taken. One possibility would involve appointing a board member to oversee certain aspects such as performing bank transfers or reviewing bank reconciliations. Involving a board member in a review capacity would add upon the improvements already made to keep certain cash functions segregated.

Grant Area District Library  
October 29, 2008  
Page 3

**SUMMARY**

We appreciate the courtesy extended to us during the course of the audit including the prompt attention to our inquiries by Deb and Trina. If you have any questions regarding the above matters, please let me know. We look forward to continuing to serve the Grant Area District Library.

Respectfully submitted,

*Hendon & Slate*

Hendon & Slate, P.C.  
Certified Public Accountants  
Fremont Office