

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Community District Library	County Shiawassee
Fiscal Year End 6/30/2007	Opinion Date October 26, 2007	Date Audit Report Submitted to State November 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

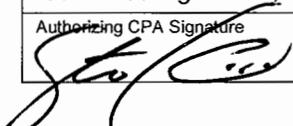
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  NO  **Check each applicable box below.** (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State   Zip MI   48823
Authorizing CPA Signature 	Printed Name Steven R. Kirinovic, CPA		License Number 1101022020

**Community District Library  
Corunna, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2007**

Community District Library

Corunna, Michigan

BOARD OF TRUSTEES

June 30, 2007

Carol Chrisinske	Chairperson
Kathy Pavlica	Vice-Chair
Linda Sedlock	Treasurer
Patricia Yott	Secretary
Pat Borst	Member
Geraldine Hagadon	Member
Debra Newman	Member

Community District Library

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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

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Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Members of the Library Board  
Community District Library  
Corunna, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund information of Community District Library as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Community District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 26, 2007

### New Financial Reporting

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2007 and also provides a comparison with the financial activities of the prior fiscal year. Please read it in conjunction with the Library's financial statements immediately following this section.

### Financial Highlights

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

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$636,297 (net assets) at the government-wide level.
- The Library's total net assets increased by \$52,172 as a result of current year activity. This figure has been adjusted to recognize depreciation expense and to remove capital outlay expenditures that are included at the fund level.
- Unrestricted Fund Balance increased as a result of revenues exceeding expenditures in the current year at the fund level by \$57,596.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Community District Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting and measures the cost of providing services during the current year.

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

### The Library as a Whole

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

	June 30,	
	2007	2006
<b>Assets</b>		
Current assets	\$ 456,480	\$ 397,857
Capital assets	<u>191,281</u>	<u>196,705</u>
Total assets	647,761	594,562
<b>Liabilities</b>		
Current liabilities	<u>11,464</u>	<u>10,437</u>
<b>Net Assets</b>		
Invested in capital assets	191,281	196,705
Unrestricted	<u>445,016</u>	<u>387,420</u>
Total net assets	<u>\$ 636,297</u>	<u>\$ 584,125</u>

# Community District Library

## Management's Discussion and Analysis

The Library's total net assets were \$636,297 at June 30, 2007. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$445,016 at the end of the fiscal year. The net assets invested in capital assets were at \$191,281.

The following table shows the changes in net assets during the current year and the prior year.

	June 30,	
	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 8,380	\$ 8,191
Operating grants and contributions	615	20,780
Capital grants and contributions	23,544	-
General revenue:		
Property taxes	295,565	276,124
State aid - unrestricted	18,668	17,059
Penal fines	81,948	98,079
Interest	16,096	10,087
Miscellaneous	<u>5,370</u>	<u>6,992</u>
Total revenues	450,186	437,312
<b>Program Expenses</b>		
Recreation and cultural	<u>398,014</u>	<u>351,982</u>
<b>Change in Net Assets</b>	<b><u>\$ 52,172</u></b>	<b><u>\$ 85,330</u></b>

### Governmental Activities

The Library's governmental revenues totaled \$450,186 with the greatest revenue source being property taxes levied by the district. Property taxes make up approximately 65.7 percent of total governmental revenue.

The Library incurred expenses of \$398,014 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function.

### The Library's Fund

The analysis of the Library's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the specific fund, not the Community District Library as a whole. The Community District Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's only fund for the fiscal year ended June 30, 2007 was the General Fund.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$392,590 for the fiscal year.

### Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$191,281 invested in equipment, furniture, and books (net of accumulated depreciation). The main capital assets added were \$25,279 for computers and other equipment throughout the branches and \$44,476 in books, etc. which were added to the collection.

No debt was issued during the fiscal year. The Library had no indebtedness at June 30, 2007.

### **Next Year's Millage Rate**

A four-year, .5 operating millage was approved August 3, 2004. For fiscal year 2006/2007 the estimated revenue was \$295,070 and actual was \$295,565. The Shiawassee County Equalization Department projects \$310,844 in revenue for fiscal year 2006/2007. Actual revenue may vary due to tax capture by local Downtown Development Authorities.

At its June 19, 2007 meeting, the Library Board of Trustees approved fiscal year 2007/2008 revenue estimates of \$446,613 and expenditures of \$446,613.

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

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Betsy Hull, Library Director, 231 N. Shiawassee Street, Corunna, MI 48817, (989)743-3287, [cdl-director@michonline.net](mailto:cdl-director@michonline.net).

## **BASIC FINANCIAL STATEMENTS**

Community District Library  
STATEMENT OF NET ASSETS  
June 30, 2007

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash	\$ 404,704
Due from other governmental units	44,515
Prepays	7,261
Total current assets	456,480
Noncurrent assets	
Capital assets, net	191,281
<b>TOTAL ASSETS</b>	<b>647,761</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	7,210
Accrued liabilities	4,254
Total current liabilities	11,464
<b>NET ASSETS</b>	
Invested in capital assets	191,281
Unrestricted	445,016
<b>TOTAL NET ASSETS</b>	<b>\$ 636,297</b>

See accompanying notes to financial statements.

Community District Library  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets Governmental Activities
Governmental activities					
Recreation and cultural	\$ 398,014	\$ 8,380	\$ 615	\$ 23,544	\$ (365,475)
			General revenues		
			Property taxes		295,565
			State aid-unrestricted		18,668
			Penal fines		81,948
			Investment earnings		16,096
			Miscellaneous		5,370
			Total general revenues		417,647
			Change in net assets		52,172
			Net assets, beginning of the year		584,125
			Net assets, end of the year		\$ 636,297

See accompanying notes to financial statements.

Community District Library  
GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General
<b>ASSETS</b>	
Cash	\$ 404,704
Due from other governmental units	44,515
Prepays	7,261
<b>TOTAL ASSETS</b>	<b>\$ 456,480</b>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 7,210
Accrued wages	3,737
Other accrued liabilities	517
<b>TOTAL LIABILITIES</b>	11,464
<b>FUND BALANCE</b>	
Reserved for prepaids	7,261
Unreserved	
Undesignated	437,755
<b>TOTAL FUND BALANCE</b>	445,016
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 456,480</b>

See accompanying notes to financial statements.

Community District Library

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

June 30, 2007

**Total fund balance - governmental funds** \$ 445,016

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

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

The cost of capital assets is	\$ 410,971
Accumulated depreciation is	<u>(219,690)</u>

Capital assets, net	<u>191,281</u>
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<b>Net assets of governmental activities</b>	<u><u>\$ 636,297</u></u>
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See accompanying notes to financial statements.

Community District Library

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

Year Ended June 30, 2007

	<u>General</u>
REVENUES	
Taxes	\$ 295,565
Intergovernmental	19,283
Fines and forfeits	81,948
Charges for services	8,380
Interest	16,096
Other	<u>28,914</u>
TOTAL REVENUES	450,186
EXPENDITURES	
Current	
Recreation and cultural	322,835
Capital outlay	<u>69,755</u>
TOTAL EXPENDITURES	<u>392,590</u>
NET CHANGE IN FUND BALANCE	57,596
Fund balance, beginning of year	<u>387,420</u>
Fund balance, end of year	<u><u>\$ 445,016</u></u>

See accompanying notes to financial statements.

Community District Library

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

Year Ended June 30, 2007

**Net change in fund balances - total governmental funds** \$ 57,596

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

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

Capital outlay	\$ 69,755	
Depreciation expense	<u>(75,179)</u>	
Excess of depreciation expense over capital outlay		<u>(5,424)</u>

**Change in net assets of governmental activities** \$ 52,172

See accompanying notes to financial statements.

Community District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

The Library is a District Library formed pursuant to the District Library Establishment Act (1989 Public Act 24) by an agreement between the City of Corunna and the townships of Burns, Caledonia, Hazleton, Perry, Shiawassee, and Venice. The Library has a separate tax millage and governing board. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The local municipalities within the Libraries boundaries collect and distribute property taxes that are levied by the Library. The Library has no stockholders and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board which is comprised of seven (7) members appointed in accordance with the provisions of the District Library Establishment Act (MCL 397.171).

The Community District Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs for the community. The Library's more significant accounting policies are described below.

1. Reporting Entity

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

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major fund. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major fund of the Library is:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources. General fund activities are financed by revenue from general property taxes, penal fines, and other sources.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

3. Measurement Focus

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

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

4. Basis of Accounting

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

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

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

5. Budgets and Budgetary Accounting

Budgets shown as required supplementary information were prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

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

Community District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

6. Cash

Cash consists of a checking account and cash on hand.

7. Receivables

Receivables consist of penal fines, interest, and other amounts due from organizations or other governments.

8. Property Taxes

The participating City and Townships levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year the City and Townships settle their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Shiawassee County. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The voters approved a levy of .5 mills for general operating.

9. Capital Assets

Capital assets include land, buildings, equipment, and collections and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

Collections	5 years
Equipment and furniture	3 - 20 years

10. Comparative Data

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

**NOTE B: CASH**

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

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

Community District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH - CONTINUED**

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

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

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Community District Library.

As of June 30, 2007, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Money market checking	<u>\$ 404,489</u>	<u>\$ 430,229</u>

As of June 30, 2007, the Library's deposits were insured by the FDIC in the amount of \$100,000 and the amount of \$330,229 was uninsured and uncollateralized. The cash and cash equivalents captions in the basic financial statements includes \$215 in imprest cash.

Interest rate risk

The Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Library's cash requirements.

Concentration of credit risk

The Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio by security type to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by limiting investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's) and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the Library will do business.

Community District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH - CONTINUED**

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

**NOTE C: CAPITAL ASSETS**

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

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2007</u>
Governmental Activities				
Equipment and furniture	\$ 12,623	\$ 25,279	\$ -	\$ 37,902
Collections	<u>328,593</u>	<u>44,476</u>	<u>-</u>	<u>373,069</u>
Totals at historical cost	341,216	69,755	-0-	410,971
Less accumulated depreciation for:				
Equipment and furniture	( 2,022 )	( 5,013 )	-	( 7,035 )
Collections	<u>( 142,489 )</u>	<u>( 70,166 )</u>	<u>-</u>	<u>( 212,655 )</u>
Total accumulated depreciation	<u>( 144,511 )</u>	<u>( 75,179 )</u>	<u>-0-</u>	<u>( 219,690 )</u>
Capital assets, net	<u>\$ 196,705</u>	<u>\$( 5,424 )</u>	<u>\$ -0-</u>	<u>\$ 191,281</u>

Depreciation expense was wholly allocated to the lone governmental function (recreation and cultural) in the amount of current depreciation expense of \$75,179.

**NOTE D: NONCANCELABLE OPERATING LEASE OBLIGATIONS**

Community District Library has entered into a four-year, noncancelable long-term lease with Solomon Investments for the Administration offices located in Corunna. Rent expense related to this lease was \$9,180 for the year ended June 30, 2007. Future minimum lease payments on the years remaining on the lease are as follows:

<u>Fiscal Year</u>	
2008	\$ 9,180
2009	<u>1,530</u>
TOTAL PAYMENTS	<u>\$ 10,710</u>

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

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

In the budgetary comparison schedule presented as required supplementary information, the Library's budgeted expenditures in the General Fund have been shown at the account level. The approved budgets of the Library have been adopted at the account level.

Community District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

During the year ended June 30, 2007, the Library incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Recreation and cultural			
Marketing	\$ 2,600	\$ 2,862	\$ 262
Utilities	3,800	4,073	273
Capital outlay	55,700	69,755	14,055

**NOTE F: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or have been legally segregated for a specific future use.

The following is the fund balance reserve as of June 30, 2007:

General Fund	
Reserved for prepaids	<u>\$ 7,261</u>

**NOTE G: RISK MANAGEMENT**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

Community District Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 295,070	\$ 295,070	\$ 295,565	\$ 495
Intergovernmental				
State	17,005	17,005	18,668	1,663
Local	1,000	1,000	615	(385)
Library fees and fines	6,900	6,900	8,380	1,480
Interest	6,500	6,500	16,096	9,596
Penal fines	72,000	72,000	81,948	9,948
Other				
Gates Foundation grant	-	-	23,544	23,544
Other	4,000	4,000	5,370	1,370
<b>TOTAL REVENUES</b>	<b>402,475</b>	<b>402,475</b>	<b>450,186</b>	<b>47,711</b>
<b>EXPENDITURES</b>				
Recreation and cultural				
Salaries and wages	189,662	189,662	187,598	2,064
Fringe benefits	38,466	38,466	32,696	5,770
Supplies	12,025	12,025	9,025	3,000
Occupancy	9,180	9,180	9,180	-0-
Contracted services	28,545	28,545	27,801	744
Insurance	7,702	7,702	7,001	701
Communications	3,595	3,595	3,152	443
Marketing	2,600	2,600	2,862	(262)
Utilities	3,800	3,800	4,073	(273)
Memberships and dues	12,500	12,500	7,913	4,587
Transportation and training	6,700	6,700	6,450	250
Repairs and maintenance	1,000	1,000	55	945
Technology	31,000	31,000	25,029	5,971
Total recreation and cultural	346,775	346,775	322,835	23,940
Capital outlay	55,700	55,700	69,755	(14,055)
<b>TOTAL EXPENDITURES</b>	<b>402,475</b>	<b>402,475</b>	<b>392,590</b>	<b>9,885</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-0-</b>	<b>-0-</b>	<b>57,596</b>	<b>57,596</b>
Fund balance, beginning of year	387,420	387,420	387,420	-0-
Fund balance, end of year	\$ 387,420	\$ 387,420	\$ 445,016	\$ 57,596

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

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MANAGEMENT LETTER

To the Members of the Library Board  
of the Community District Library  
Corunna, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Community District Library, Michigan for the year ended June 30, 2007. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Records detailing authorized rates of pay should be retained for audit purposes.

During our analysis of the Library's payroll process, it was noted that the Library does not update salary contracts as salary changes are made. In addition, through reviewing the Library's Board Minutes, it was noted that the Library only recorded the percentage of change, but not actual amounts. Therefore, we were unable to verify approved pay rates for salary-basis employees. To have proper control over payroll process, it is important to update salary contracts for all employees on an annual basis.

We suggest that the Library maintain and update written records of authorized pay rates for all employees on the Board approved list or in the personnel files.

2. The Library should establish a dollar threshold to record significant assets purchased.

During the course of our audit, we noted that the Library does not have a policy in place to specify a dollar threshold to define long-lived assets that would be capitalized and depreciated in the financial statements.

Governmental Accounting Standards Board Statement No. 34 (GASB 34) allows each government to define for itself which assets are significant enough to be capitalized and depreciated for the financial statements.

We suggest the Library adopt a capitalization policy that would define assets that are to be included in the financial statements as capital assets.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated October 26, 2007.

This report is intended solely for the use of management and the Board members of the Community District Library and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 26, 2007

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

Members of the Library Board  
Community District Library  
Corunna, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund of the Community District Library as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Community District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

07-1 PREPARATION OF FINANCIAL STATEMENTS

Governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Library rests with the Library's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

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

## 07-1 PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

The condition noted in the preceding paragraph exists at Community District Library. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Library's annual financial statements and notes to the financial statements in accordance with GAAP. The Library relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Library consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

## 07-2 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the proper recognition of various accruals were proposed by the auditors. These misstatements were not detected by the Library's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

We recommend that the Library take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

## 07-3 FRAUD RISK MANAGEMENT PROGRAM

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

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

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

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses in internal control over financial reporting.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance:

### 07-4 VIOLATION OF BUDGETING ACT

As noted in the financial statements, some of the expenditure accounts of the Library exceeded the amount appropriated. The variances were noted in the General Fund.

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

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

We noted certain matters that we reported to management of the Community District Library in a separate letter dated October 26, 2007.

This report is intended solely for the information and use of management and Board members of the Community District Library, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY P.C.  
Certified Public Accountants

October 26, 2007