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LOCAL AUDIT & FINANCE DIV.

CROMAINE DISTRICT LIBRARY

FINANCIAL REPORT
June 30, 2005

C O N T E N T S

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Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☑ Other	CROMAINE DISTRICT LIBRARY	

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
6/30/05	10/12/05	11/18/05

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ Yes ☑ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☑ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☑ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☑ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☑ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☑ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☑ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☑ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)			
BREDERNITZ, WAGNER & CO., P.C.			
Street Address	City	State	ZIP
109 WEST CLINTON STREET	HOWELL	MI	48843
Accountant Signature		Date	

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
the Cromaine District Library
Hartland, Michigan

We have audited the accompanying financial statements of the Cromaine District Library as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cromaine District Library's management. Our responsibility is to express an opinion 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 financial position of the Cromaine District Library as of June 30, 2005 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cromaine District Library's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brodersmith, Wagner & Co., P.C.

Howell, Michigan
September 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the years Ended June 30, 2005 and June 30, 2004
(Unaudited)

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.

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

- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.

- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remain 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 shows key financial information in a condensed format:

	June 30, 2005	June 30, 2004
Current assets	$1,927,069	1,928,954
Capital assets	1,796,062	1,407,184
Total assets	3,723,131	3,336,138
Current liabilities	111,100	48,020
Long-term liabilities	63,467	63,538
Total liabilities	174,567	111,558
Net assets:		
Invested in capital assets, net of debt	1,732,595	1,358,009
Unrestricted	1,815,969	1,886,571
Total net assets	$3,548,564	3,224,580
Revenue:		
Property taxes	$1,538,948	1,431,799
Other	183,521	195,749
Total revenue	1,722,469	1,627,548
Expenses - Library services	1,398,485	1,186,995
Change in net assets	$ 323,984	440,553

The Library as a Whole

- The Library is reporting financial statements this year that meet the requirements of GASB Number 34. The primary change requires reporting all assets at full cost less depreciation expense. This includes all Library materials, which were previously recorded at $1 per item in the General Fixed Assets Account Group, which was generally accepted practice among Libraries in Michigan.

- As a result of this change, the Library reports net assets of $3,548,564 and $3,224,580 on a full accrual basis, as compared to $1,815,969 and $1,886,571 on the modified accrual basis of accounting, for the years ended June 30, 2005 and June 30, 2004, respectively.

- The Library's primary source of revenue is from property taxes. For the years ended June 30, 2005 and June 30, 2004, total tax collections were $1,538,948 and $1,431,799, respectively. This represents approximately 89.3 and 88.0 percent of total revenue, respectively.

- Salaries and fringe benefits are the largest overall expenditure of the Library. For the years ended June 30, 2005 and June 30, 2004, this expenditure was $894,773 and $770,729, representing 64.0 and 64.9 percent of the Library's total expenditures, respectively.

- Depreciation expense represents 14.3 and 15.7 percent of the Library's total expenses for the years ended June 20, 2005 and June 30, 2004, respectively.

- Total expenditures for the entire year under the modified accrual method of accounting were $1,787,434 and $1,253,001 for the years ended June 30, 2005 and June 30, 2004, respectively.

- The Library's conversion to meet GASB 34 Standards, which includes capitalization of Library owned assets and associated depreciation expense is reflected in the Statement of Activities on page 8 of the financial report.

The Library's Fund

Our analysis of the Library's General fund is included on pages 7 and 8 in the first column of the respective statements. The fund column provides detailed information about the General fund on a modified accrual basis of accounting, which is a short term perspective measuring the flow of financial resources, - not the Library's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources. The Library's only fund is the General Fund.

The fund balance of the General Fund increased during the years ended June 30, 2005 and June 30, 2004 by $323,984 and $440,553, respectively. This represents unspent revenue greater than expenses.

Capital Assets and Debt Administration

As of June 30, 2005 and June 30, 2004, the Library had $1,796,062 and $1,407,184, respectively, invested in land, building, furniture and equipment, and books and materials. During the years ended June 30, 2005 and June 30, 2004, the Library added $165,547 and $185,350, respectively, in new collection items consisting of new books, various audio/visual materials, and enhancement of the music collection.

The Library's debt rating is excellent. No debt was issued during the fiscal year. The Library's bonded indebtedness totaled $41,705 and $49,175 at June 30, 2005 and June 30, 2004, respectively.

CROMAINE DISTRICT LIBRARY
GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET ASSETS
JUNE 30, 2005

	General Fund, Modified Accrual Basis	Adjustments (Note 8)	Statement of Net Assets
Assets			
Cash and investments (Note 3)	$ 1,912,495	-	1,912,495
Accrued interest	3,797	-	3,797
Accounts receivable	1,265	-	1,265
Prepaid expense	5,214	-	5,214
Deposits	4,298	-	4,298
Property and equipment (Note 4)	-	1,796,062	1,796,062
Total Assets	$ 1,927,069	1,796,062	3,723,131
Liabilities			
Accounts payable and accrued liabilities	$ 105,919	-	105,919
Due to other governmental units	5,181	-	5,181
Long term liabilities:			
Bonds payable, due within one year (Note 4)	-	4,171	4,171
Bonds payable, due after one year (Note 4)	-	37,534	37,534
Accumulated employee benefits	-	21,762	21,762
Total Liabilities	111,100	63,467	174,567
Fund Balance/Net Assets			
Fund balances - Unreserved:			
Board Designated	1,493,398	(1,493,398)	-
Undesignated	322,571	(322,571)	-
			-
Total Fund Balance	1,815,969	(1,815,969)	-
Total Liabilities and Fund Balance	$ 1,927,069		
Net assets:			
Invested in capital assets, net of debt		1,732,595	1,732,595
Unrestricted		1,815,969	1,815,969
Total net assets		$ 3,548,564	3,548,564

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

CROMAINE DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE / STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	General Fund, Modified Accrual Basis	Adjustments (Note 8)	Statement of Activities
Revenue			
Property taxes	$ 1,538,948	-	1,538,948
State aid	9,387	-	9,387
Charges for services	4,408	-	4,408
Investment income	49,217	-	49,217
Contributions	6,150	-	6,150
Fines and forfeitures	92,031	-	92,031
Other miscellaneous	22,328	-	22,328
Total Revenues	1,722,469	-	1,722,469
Expenditures			
Administrative	13,176	-	13,176
Salaries and fringe benefits	887,374	7,399	894,773
Supplies	32,101	-	32,101
Community relations	26,684	-	26,684
Library books and materials	165,547	(165,547)	-
Professional and contractual services	54,574	-	54,574
Technology	19,659	-	19,659
Training and education	16,502	-	16,502
Insurance	13,795	-	13,795
Utilities	45,738	-	45,738
Rental	10,285	-	10,285
Repairs and maintenance	33,685	-	33,685
Capital outlay, non-capitalizable	8,424	-	8,424
Capital outlay	423,243	(423,243)	-
Depreciation	-	199,913	199,913
Debt service:			
Principal	7,471	(7,471)	-
Interest	1,336	-	1,336
Loss on sale of investments	27,840	-	27,840
Total Expenditures	1,787,434	(388,949)	1,398,485
Excess of Revenues Over Expenditures/Change in Net Assets	(64,965)	388,949	323,984
Fund Balance/Net Assets - Beginning of year	1,880,934	1,343,646	3,224,580
Fund Balance/Net Assets - End of year	$ 1,815,969	1,732,595	3,548,564

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION

Description of Cromaine District Library Operations:

The Cromaine District Library was organized in 1995 under the provisions of the Michigan District Library Establishment Act, Public Acts 24 of 1989. The Library serves the Hartland Consolidated School District, which includes Hartland township and portions of Tyrone, Deerfield, Brighton, Genoa and Oceola townships. The Library is governed by a seven member board of trustees elected at large from the Hartland Consolidated School District.

Definition of the reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, these financial statements present the Cromaine District Library. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, the Library has no component units.

Basis of presentation:

The financial statements present the fund financial statement on a modified accrual basis with an adjustment to present the statement of net assets and the statement of activities on a full accrual basis.

Fund Financial Statements:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Library, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposed into funds which are maintained in accordance with the activities or objectives specified.

The financial activities of the Library are recorded on one fund as follows:

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION (Concluded)

Governmental Fund:

General Fund: This fund accounts for all financial resources except those provided for in another fund. Revenues are derived primarily from property taxes and penal fines. This fund includes the general operating expenses of the Library.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cromaine 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 accounting policies:

Measurement focus/basis of accounting:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the Cromaine District Library conform to generally accepted accounting principles as applicable to governmental units.

Governmental Fund

The Governmental Fund Type (General Fund) uses a financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within thirty-one days of the end of the fiscal period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Major revenue sources susceptible to accrual include: taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when the cash is received.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents:

Cash and cash equivalents are considered to be cash on demand deposits and short-term investments with a maturity of three months or less when acquired.

Investments:

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

Compensated absences (vacation and sick leave):

Full-time Library employees earn vacation time in various amounts based on length of service. Sick leave is earned by full-time employees at a rate of 1 day per month of service. Upon separation, employees will be paid for the accumulated vacation time. Vacation accrued as of June 30, is recorded as a liability and expenditure in the General Fund. No payment is made for unused, accumulated sick leave upon separation. Therefore, no liability is accrued for accumulated sick leave.

Current property taxes:

Properties are assessed as of December 31 and the related property taxes become a lien on December 1. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The 2004 State equalized valuation of the Library totaled $1,293,775,167. The State taxable valuation of the Library totaled $990,441,317 on which ad valorem taxes levied consisted of 1.6 mills raising $1,503,915 for operating purposes.

Capital Assets:

Capital assets are defined by the Library as assets with an initial cost of more than $1,000 and an estimated useful life in excess of three 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 cost incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Furniture and equipment	5-10 years
Improvements	10-20 years
Library books and materials	3-10 years

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Use of Estimates:

The preparation of financial statements in conformity with 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.

Budgets and budgetary accounting:

The budget of the General Fund is legally adopted through a Board resolution prior to the beginning of the budgetary year. During the year, the Library Board amended the budget to take into account events that occurred during the year. The encumbrance method of budgeting is not used. Any unexpended appropriations lapse at year end.

Formal budgetary integration is employed as a management control device for the General Fund. Budgets are prepared on a modified accrual basis, which is in conformity with generally accepted accounting principles.

Note 3. CASH AND CASH INVESTMENTS:

At June 30, 2005, the deposits and investments of the Library are classified by Governmental Accounting and Standards Board Statement No. 3 in the following categories:

Bank deposits (checking accounts, money market accounts and certificates of deposit)	$1,649,148
Investments in securities	263,120
Petty cash	227
Total	$1,912,495

DEPOSITS

Deposits are carried at cost. The Library considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The total deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at $1,674,091. Of that amount, $200,000 was covered by federal depository insurance and $1,474,091 was uninsured and uncollateralized.

Note 3. CASH AND CASH INVESTMENTS (Concluded)

INVESTMENTS

The Library is authorized by Michigan Public Act 20- of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, banker's acceptances, mutual funds and bank investment pools that are composed of authorized investment vehicles. The Library's deposits and investments are in accordance with statutory authority.

Investments at year end consisted of $233,120 in U.S. governmental securities. The U.S. government securities are uninsured and unregistered: they are held by the counterparty's trust department in the Library's name. The deposits and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Note 4. PROPERTY AND EQUIPMENT

A summary of changes in property and equipment follows:

	July 1, 2004	Additions	Deletions	Balance June 30, 2005
Land	$ 20,000	-	-	20,000
Building	1,091,133	168,180	-	1,259,313
Building improvements	75,260	17,813	-	93,073
Leasehold improvements	-	114,562	-	114,562
Computers	185,002	119,994	-	304,996
Equipment	164,973	2,695	-	167,668
Library books and materials	1,259,801	165,547	120,472	1,304,876
Total	2,796,169	588,791	120,472	3,264,488
Accumulated depreciation	(1,388,985)	(199,913)	120,472	(1,468,426)
Net Book Value	$ 1,407,184	388,878	-	1,796,062

Note 5. LONG-TERM DEBT

The following is a summary of the debt outstanding of the Library for the year ended June 30, 2005:

	Balance July 1, 2004	Additions (Deductions)	Balance June 30, 2005
Hartland Township Sewer Bond, Annual principal payments of $4,170 plus interest at 2.5% until 2015	$45,875	(4,170)	41,705
Hartland Consolidated Schools Energy Improvement Bonds, annual Principal payments ranging from $2,400 to $3,300, plus interest at 4.3% to 5.15%, paid off during year.	3,300	(3,300)	-
	$49,175	(7,470)	41,705

The annual requirements to amortize all debt outstanding as of June 30, 2005, (plus interest payments of approximately $5,800) are as follows:

Year Ended June 30,	
2006	4,171
2007	4,171
2008	4,171
2009	4,171
2010	4,171
2011-2015	20,850
	$41,705

Note 6. PENSION PLANS

A. Defined Contribution Retirement Plan

Plan Description. The Cromaine District Library Defined Contribution Retirement Plan is a defined contribution pension plan established in accordance with Internal Revenue Code section 403(b). All full time employees are eligible to participate in the plan after six months of service. The plan is administered by the Library. The Library contributes 10% of compensation for eligible employees. During the year ended June 30, 2005 the employer

Note 6. PENSION PLANS (Concluded)

made contributions totaling $45,594. Contributions are recognized in the period that the contributions are due.

B. Tax-Deferred Annuity Plan

The Cromaine District Library Tax-Deferred Annuity Plan is a defined contribution plan established in accordance with Internal Revenue Code section 403(b). All full time employees are eligible to participate. Contributions are made through salary reductions as elected by the employee. All contributions are fully and immediately vested. During the year ended June 30, 2005, employees made contributions totaling $36,641.

Note 7. RISK MANAGEMENT

The Cromaine District Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefit provided to employees. The library has purchased commercial insurance for medical benefit claims, settled claims for which have not exceeded the amount of insurance coverage in any of the past three years.

The Library is a member of the Michigan Municipal League Liability and Property Pool which provides members with loss protection for general liability and property and crime coverage. The pool has entered into reinsurance agreements providing for loss coverage in excess of the amounts retained by the pool and individual members. The Library's coverage on general liability and public officials' liability is $5,000,000, with a combined liability of 5,000,000. The Library's coverage on property and crime is as follows: $3,575,969 for building and personal property contents thereof, $100,000 for valuable records and papers, $100,000 for loss of rents, $237,000 for electric data processing equipment and media, and $100,000 for extra expense. There is also employee dishonesty coverage in the amount of $100,000, money and securities coverage for both inside and outside premises in the amount of $10,000 for each. Any liability for losses which exceed these amounts would remain with the Library.

The Library is also a member of the Michigan Municipal League Workers Compensation. Premiums from participants are combined to provide all members with coverage for claims. The premiums and interest thereon are used to pay claims, administrative expenses and to purchase reinsurance to protect the fund from exceptionally large losses. In the event of a deficit in a fund year, assessments could be made against the members. No such assessments have been made against the Library.

Note 8. 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 the net assets and changes in net assets 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 are reconciliations of fund balance to net assets and the net change in fund balance to the net change in assets:

Total Fund Balance - Modified Accrual Basis	$1,815,969
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	1,796,062
Long-term liabilities are not financial resources, and are not reported in the funds	(41,705)
Compensated absences are included as a liability	(21,762)
Net Assets of General Fund - Full Accrual Basis	$3,548,564
Net Change in Fund Balances - Modified Accrual Basis	$ (64,965)
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in statement of revenue, 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	165,547
Capital outlay	423,243
Depreciation	(199,913)
Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(7,399)

Note 8. RECONCILIATION of FUND FINANCIAL STATEMENTS to GOVERNMENT-WIDE FINANCIAL STATEMENTS (Concluded)

Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	7,471
Change in Net Assets of General Fund - Full Accrual Basis	$323,984

Note 9. LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE

To gain the space needed for an additional branch location, the Library entered into an operating lease agreement with Y & S Development on February 1, 2005. Total rental expense for the year ended June 30, 2005 was $8,367. This lease expires September 30, 2007.

The following is a summary of future annual lease payments:

Year Ended June 30,	
2006	$60,982
2007	64,144
2008	17,667

Note 10. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUND

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, expenditures incurred in excess of amounts appropriated were as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
Salaries and fringe benefits	$887,334	887,374	40
Rental	6,656	10,285	3,629
Capital outlay	244,496	431,667	187,171

Total actual expenditures of $1,787,434 exceeded final budgeted expenditures of $1,619,082 by $168,352.

CROMAINE DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005

	Original Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenue				
Property taxes	$ 1,503,915	1,503,915	1,538,948	35,033
State aid	18,755	18,755	9,387	(9,368)
Charges for services	6,200	6,200	4,408	(1,792)
Investment income	48,150	48,150	49,217	1,067
Contributions	6,500	6,500	6,150	(350)
Fines and forfeitures	98,100	98,100	92,031	(6,069)
Other miscellaneous	-	-	22,328	22,328
Total Revenues	1,681,620	1,681,620	1,722,469	40,849
Expenditures				
Administrative	9,930	13,559	13,176	383
Salaries and fringe benefits	775,420	887,334	887,374	(40)
Supplies	28,440	32,404	32,101	303
Community relations	21,140	26,790	26,684	106
Library books and materials	180,000	180,000	165,547	14,453
Professional and contractual services	47,470	54,585	54,574	11
Technology	28,670	19,722	19,659	63
Training and education	15,120	16,935	16,502	433
Insurance	13,750	13,795	13,795	-
Utilities	39,500	59,266	45,738	13,528
Rental	1,040	6,656	10,285	(3,629)
Repairs and maintenance	17,810	54,695	33,685	21,010
Capital outlay	170,430	244,496	431,667	(187,171)
Contingencies	20,000	-	-	-
Debt service	8,960	8,845	8,807	38
Loss on sale of investments	-	-	27,840	(27,840)
Total Expenditures	1,377,680	1,619,082	1,787,434	(168,352)
Excess (Deficiency) of Revenues Over (Under) Expenditures	303,940	62,538	(64,965)	(127,503)
Fund Balance - Beginning of year	-	380,924	1,880,934	1,500,010
Fund Balance - End of year	$ 303,940	443,462	1,815,969	1,372,507

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To the Board of Trustees and
the Director of the Cromaine
District Library
Hartland, Michigan

In planning and performing our audit of the financial statements of the Cromaine District Library for the year ended June 30, 2005, we considered the Cromaine District Library's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control that is presented for your consideration. This letter does not affect our report dated September 10, 2005 on the financial statements of the Cromaine District Library. We will review the status of these comments during our next audit engagement. Our comments which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendation. Our comments are summarized in the accompanying memorandum.

We appreciate the assistance provided to us by the staff of the Cromaine District Library. This report is intended solely for the information and use of the audit committee, management, others within the organization, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Brederniz, Wagner & Co., P.C.

Howell, Michigan
October 20, 2005

Status of prior year recommendation:

1) The Library has implemented GASB 34 during the current year. One of the requirements of GASB 34 requires the capitalization and depreciation of assets that meet the capitalization policy of the Library. The Library should investigate the addition of software that will track capital assets and will compute depreciation on the assets. Such software will provide the necessary information to be in compliance with GASB 34.

   Status: Recommendation has not been implemented. The Library Director has indicated a program may be available with the implementation of new software in the subsequent year.

Current year recommendations:

1) The bookkeeper is the person in charge of reconciling the bank statement, as well as writing the checks.

   We suggest that the unopened bank statements be received by the Library director. The director should open and review the bank statements and copies of the canceled checks. Any unusual items should be investigated and resolved as soon as possible. Documentation of the review of the items should be made on the face of the bank statement. These procedures will help improve controls over cash and will strengthen internal control.

2) The Library's budgeted expenditures were less than the actual expenses incurred by the Library.

   The Library should monitor and amend the budget to ensure actual expenditures do not exceed budgeted expenditures of the Library. If this amendment results in budgeted expenditures exceeding budgeted revenues, then budgeted revenues would also need to be amended to at least equal budgeted expenditures. Preparation of the budget in this manner will help ensure that the Library is in conformance with the Uniform Accounting and Budgeting Act.

3) The size of the Library's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

   This situation dictates that the Board of Directors remain actively involved in the financial affairs of the Organization to provide oversight and independent review functions.