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	CLINTON MACOMB PUBLIC LIBRARY	MACOMB

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
11/30/04	1/21/05	3-18-05

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)			
ANDREWS HOOPER & PAVLIK, P.L.C.			
Street Address	City	State	ZIP
3201 UNIVERSITY, SUITE 350	AUBURN HILLS	MI	48326
Accountant Signature: Roger E Hitchcock CPA		Date: 3-18-05	

Clinton-Macomb Public Library

Audited Financial Statements

Year Ended November 30, 2004

Table of Contents

Report of Independent Auditors..... 1

Management's Discussion and Analysis..... 2

Basic Financial Statements
Governmental Fund Balance Sheet / Statement of Net Assets..... 6
Statement of General Fund Revenues, Expenditures, and
Changes in Fund Balance / Statement of Activities..... 7
Notes to Financial Statements..... 8

Required Supplemental Information
Budgetary Comparison Schedules..... 19

ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

To the Library Officials
Clinton-Macomb Public Library
Clinton Township, Michigan

We have audited the basic financial statements of the Clinton-Macomb Public Library as of November 30, 2004, and for the year ended as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Clinton-Macomb Public Library, as of November 30, 2004, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of November 30, 2004.

The management discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of 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.

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
January 21, 2005

3201 University Drive, Suite 350 • Auburn Hills, Michigan 48326 • ph 248.340.6050 fx 248.340.6104 • www.ahpplc.com

The Management's Discussion and Analysis portion of the Annual Financial Report of Clinton-Macomb Public Library provides an overview of the Library's financial performance for the fiscal year ended November 30, 2004. It should be read in combination with the Library's audited financial statements beginning on page 6.

FINANCIAL HIGHLIGHTS

	Fiscal Year Ended November 30,			Percentage
	2004	2003	Change	Change
Total revenues	$ 5,126,753	$ 4,999,534	$ 127,219	2.5%
Operating expenses	$ 4,486,576	$ 3,943,140	$ 543,436	13.8%
Total expenses	$ 6,875,933	$ 5,134,799	$ 1,741,134	33.9%
Change in net assets	$(1,749,180)	$ (135,265)	$(1,613,915)	n/m%
Unrestricted net assets	$ 619,834	$ 1,540,271	$ (920,437)	(59.8)%
Circulation	1,390,852	877,994	512,858	58.4%
Library card users	71,388	44,467	26,921	60.5%
Collection	259,101	232,440	26,661	11.5%

n/m – not meaningful

The year 2004 reflects the first full year of operations for the new main library building, which opened in October 2003. With the move to the new 84,000 square-foot facility, the Library's three branches now offer approximately 105,000 square feet of library service area, an increase of over 300%. Accordingly, usage of Library services has increased, as illustrated by the increase in the rate of circulation and the number of library card users in the table above.

The opening of the new main building also has impacted the Library's financial results in comparison to the prior year. While revenues, principally property tax receipts, remained relatively stable, operating expenses have increased by 13.8%. This reflects increased staff at the new main library as well as the costs associated with operating the 84,000 square-foot building. The increase of 33.9% in total expenses includes the impact of the first full year of depreciation expense for the new facility.

A more detailed analysis of the Library's financial results follows later in this report.

Using this Annual Report

This annual report consists of three parts – *Management's Discussion and Analysis*, *Basic Financial Statements*, and *Required Supplementary Information*. The Basic Financial Statements include information that presents two different views of the Library:

- The first three columns of the financial statements include information on the Library's General Fund and Debt Service Fund under the modified accrual method. These *fund financial statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

- 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 Library services were financed in the short term as well as what remains for future spending.

The adjustments 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. A reconciliation explaining the adjustments between the fund financial statements and the government-wide financial statements is presented in Note 10 of the Audited Financial Statements on Page 17 of this financial report.

Government-wide Financial Analysis

This analysis focuses on the net assets (Table I) and the changes in net assets (Table II) of the Library.

Net assets of the Library decreased by 19.3% during the year, to $7,304,644 at November 30, 2004. Unrestricted net assets (those that can be used to finance day-to-day activities without constraints) were $619,834 at November 30, 2004, as compared to $1,540,271 at November 30, 2003, a decrease of 59.8%. The decrease in unrestricted net assets was consistent with expectations because the Library incurred the final costs associated with the construction of the new main building. As of November 30, 2004, unrestricted net assets were 13.8% of operating expenses (i.e., excluding depreciation). The Library plans to increase unrestricted net assets over the long term to approximately 50% or six months of operating expenses. This balance will provide for working capital needs and funds for capital improvements and maintenance in future years.

Table I
Net Assets

	11/30/2004	11/30/2003	Percentage Change
Assets:			
Cash and cash equivalents	$ 791,994	$ 1,449,488	(45.4)%
Other current assets	198,155	1,052,852	(81.2)
Capital and other non-current assets	22,463,867	23,597,904	(4.8)
Total assets	23,454,016	26,100,244	(10.1)
Liabilities:			
Current liabilities	$ 511,680	$ 1,130,182	(54.7)
Long term liabilities	15,637,692	15,916,238	(1.8)
Total liabilities	16,149,372	17,046,420	(5.3)
Net Assets:			
Invested in capital assets, net of related debt	6,684,604	7,513,444	(11.0)
Restricted for debt service payments	206	109	89.0
Unrestricted	619,834	1,540,271	(59.8)
Total net assets	$ 7,304,644	$ 9,053,824	(19.3)%

Net assets invested in capital assets, net of related debt, decreased by 11.0% because the depreciation of the Library's capital assets (the majority of which were additions in 2003) exceeded the total of new capital asset additions and the amount of long-term debt repaid during the year. This was the result of a significant investment in new furnishings and equipment in 2003 as part of the construction of the new main library, which is depreciated over a shorter period of time than the average life of the related bond debt.

Table II
Changes in Net Assets

	Governmental Activities		
	Fiscal 2004	**Fiscal 2003**	**Percentage Change**
Program Revenues			
Property taxes	$ 4,504,343	$ 4,224,675	6.6 %
Intergovernmental - state aid	123,507	117,489	5.1
Penal fines	148,525	144,237	3.0
Investment income	40,471	315,103	(87.2)
Library fines and fees	145,470	70,475	106.4
Contributions and donations	76,217	27,210	180.1
Other revenue	88,220	100,345	(12.1)
Total revenues	5,126,753	4,999,534	2.5
Program Expenses:			
Salaries and benefits	2,389,057	1,784,763	33.9
Operating supplies	78,839	103,814	(24.1)
Facilities expenses	866,093	621,972	39.2
Equipment	10,268	196,102	(94.8)
Professional fees	106,613	127,373	(16.3)
Telecommunications	50,386	24,719	103.8
Programs - youth and adult	12,932	15,711	(17.7)
Periodicals	6,178	16,353	(62.2)
Electronic subscriptions	63,877	53,290	19.9
Conferences, workshops and travel	44,360	54,211	(18.2)
Publicity	79,749	78,617	1.4
Miscellaneous	26,424	64,011	(58.7)
Interest on long-term debt	751,800	756,200	(0.6)
Loss on disposal of fixed assets	-	46,004	(100.0)
Total operating expenses	4,486,576	3,943,140	13.8
Depreciation	2,389,357	1,191,659	100.5
Total expenses	6,875,933	5,134,799	33.9
Increase (decrease) in net assets	(1,749,180)	(135,265)	n/m
Beginning net assets	9,053,824	9,189,089	(1.5)
Ending net assets	$ 7,304,644	$ 9,053,824	(19.3)%

n/m-not meaningful

As illustrated in Table II, revenues for the Library increased by 2.5% in fiscal year 2004. Property tax revenues increased by 6.6% as a result of continued growth and appreciating real estate values in the district. Investment income declined as the proceeds from the bond issue for the construction of the new main library building were fully spent by the end of 2003. Library fines and fees, which consist primarily of library late fines and copy machine fees, increased significantly. This reflects the continually increasing circulation rates enjoyed since the new main library building opened in late 2003.

Salary and benefit costs of $2,389,057 are the most significant expense to the Library, accounting for 53.2% of total operating expenses in 2004. Facilities expenses, including utilities, insurance, maintenance and rent, increased 39.2% over the prior year, reflecting the increased costs of operating the additional 80,000 square feet of library service area added in October 2003. Facilities expenses accounted for 19.3% of operating expenses for the current year, as compared to 15.8% in 2003.

Budgetary Highlights

As required by law in the State of Michigan, the Library sets an annual operating budget for the general fund. From time to time, the budget was amended to take into account changes in circumstances during the year. Because fiscal year 2004 was the first full year of operation for the new main library building, amendments were made to the budget to adjust for the costs associated with operating the new facility. Significant items that were amended included staffing levels, facility costs and capital outlay. Capital outlay was increased to account for the remaining costs incurred related to the new facility, including the remaining contractual payments to the architect and construction contractor, additional furnishing and equipment costs and interior signage.

Capital Assets and Debt Administration

As of November 30, 2004, the Library had $27,034,475 invested in capital assets, as detailed in Table III below:

Table III
Capital Assets

	11/30/2004	11/30/2003	Percentage Change
Land and land improvements	$ 1,920,138	$ 1,815,199	5.8 %
Building and building improvements	16,085,098	15,512,860	3.7
Furniture and equipment	4,322,154	4,110,192	5.1
Library collection	4,707,085	4,345,173	8.3
Total at historical cost	27,034,475	25,783,424	4.9
Accumulated depreciation	(4,651,549)	(2,262,192)	105.6
Net capital assets	$22,382,926	$23,521,232	(4.9)%

During the year, the Library added nearly 27,000 items to the collection. It also purchased the interior signage for the new main library building and added additional furnishings as needs were identified.

The Library's long-term debt consists of $15,800,000 in Library Building and Site Bonds, dated March 1, 2002. The debt is due in annual installments through April 1, 2027, and bears interest rates ranging from 3.38% to 5.00%. Interest payments are made semiannually. These bonds were rated AAA by Fitch Ratings and Standard & Poor's at date of issue.

Economic Factors and Next Year's Budgets and Rates

The Library considered many factors when setting the budget for fiscal year 2005, including the increase in property tax revenue due to growth in the district. Also, the Library anticipates that the major capital outlay requirements associated with the opening of the new main library building were complete by the end of fiscal year 2004. In total, the general fund budget for 2005 decreased by approximately 11.7% to an estimated $5,377,500.

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 show the Library's accountability for the funds it receives. If you have any questions about this report or need additional information, contact the director, Christine Lind Hage, at Clinton-Macomb Public Library, 40900 Romeo Plank Road, Clinton Township, MI 48038 or call (586) 226-5010.

Clinton-Macomb Public Library

Governmental Fund Balance Sheet / Statement of Net Assets
November 30, 2004

	Governmental Funds - Modified Accrual Basis				Statement of
	General	Debt Service	Total	Adjustments	Net Assets
Assets:					
Cash and cash equivalents	$ 791,788	$ 206	$ 791,994	$ -	$ 791,994
Deposits	50,375	-	50,375	101,678	152,053
Library store inventory	16,314	-	16,314	-	16,314
Bond issue costs, net of amortization	80,941	-	80,941	-	80,941
Prepaid expenses	29,788	-	29,788	-	29,788
Fixed assets, net of accumulated depreciation	-	-	-	22,382,926	22,382,926
Total assets	$ 969,206	$ 206	$ 969,412	22,484,604	23,454,016
Liabilities:					
Trade accounts payable	$ 30,513	$ -	$ 30,513	$ -	$ 30,513
Accrued wages	47,872	-	47,872	-	47,872
Accrued payroll taxes	3,567	-	3,567	-	3,567
Pension contribution payable	3,328	-	3,328	-	3,328
Other liabilities	1,467	-	1,467	-	1,467
Accrued interest payable	-	-	-	124,933	124,933
Bonds payable, due within one year	-	-	-	300,000	300,000
Bonds payable, due after one year	-	-	-	15,500,000	15,500,000
Compensated absences	-	-	-	137,692	137,692
Total liabilities	86,747	-	86,747	16,062,625	16,149,372
Fund Balances/Net Assets:					
Fund balances-unreserved					
Designated for self insurance	48,000	-	48,000	(48,000)	-
Designated for future major facility expenditures	400,000	-	400,000	(400,000)	-
Undesignated	434,459	206	434,665	(434,665)	-
Total fund balances	882,459	206	882,665	(882,665)	-
Total liabilities and fund balances	$ 969,206	$ 206	$ 969,412		
Net Assets:					
Invested in capital assets, net of related debt				6,684,604	6,684,604
Restricted for debt service payments				206	206
Unrestricted				619,834	619,834
Total net assets				$ 7,304,644	$ 7,304,644

See accompanying notes to the basic financial statements

Clinton-Macomb Public Library

Statement of General Fund Revenues, Expenditures, and
Changes in Fund Balance / Statement of Activities
Year ended November 30, 2004

	Governmental Funds - Modified Accrual Basis				Statement of Activities
	General	Debt Service	Total	Adjustments	
Revenues:					
Property taxes	$ 4,504,343	$ -	$ 4,504,343	$ -	$ 4,504,343
Intergovernmental - state aid	123,507	-	123,507	-	123,507
Penal fines	148,525	-	148,525	-	148,525
State grants	16,840	-	16,840	-	16,840
Library fines and fees	145,470	-	145,470	-	145,470
Library store	31,775	-	31,775	-	31,775
Interest	40,374	97	40,471	-	40,471
Contributions and donations	76,217	-	76,217	-	76,217
Miscellaneous	39,605	-	39,605	-	39,605
Total revenues	5,126,656	97	5,126,753	-	5,126,753
Expenditures:					
General government					
Salaries and wages	1,894,057	-	1,894,057	21,454	1,915,511
Employee benefits	473,546	-	473,546	-	473,546
Operating supplies	78,839	-	78,839	-	78,839
Voice and data services	50,386	-	50,386	-	50,386
Library store	20,289	-	20,289	-	20,289
Miscellaneous	6,135	-	6,135	-	6,135
Insurance	47,186	-	47,186	-	47,186
Contract maintenance	59,152	-	59,152	-	59,152
Facilities maintenance	230,884	-	230,884	-	230,884
Utilities	263,866	-	263,866	-	263,866
Rent	265,005	-	265,005	-	265,005
Programs - youth and adult	12,932	-	12,932	-	12,932
Periodicals	6,178	-	6,178	-	6,178
Electronic subscriptions	63,877	-	63,877	-	63,877
Conferences, workshops and travel	44,360	-	44,360	-	44,360
Professional fees	105,725	888	106,613	-	106,613
Publicity	79,749	-	79,749	-	79,749
Capital outlay					
Library books and materials	361,913	-	361,913	(361,913)	-
Capital outlay	1,008,871	-	1,008,871	(998,603)	10,268
Depreciation	-	-	-	2,389,357	2,389,357
Debt service					
Principal	-	200,000	200,000	(200,000)	-
Interest	-	752,900	752,900	(1,100)	751,800
Total expenditures	5,072,950	953,788	6,026,738	849,195	6,875,933
Excess (deficiency) of revenues over expenditures/ change in net assets	53,706	(953,691)	(899,985)	(849,195)	(1,749,180)
Other financing sources (uses)					
Operating transfers in	-	953,788	953,788	(953,788)	-
Operating transfers out	(953,788)	-	(953,788)	953,788	-
Total other financing sources (uses)	(953,788)	953,788	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses/change in net assets	(900,082)	97	(899,985)	(849,195)	(1,749,180)
Fund balance/net assets, December 1, 2003	1,782,541	109	1,782,650	7,271,174	9,053,824
Fund balance/net assets, November 30, 2004	$ 882,459	$ 206	$ 882,665	$ 6,421,979	$ 7,304,644

See accompanying notes to the basic financial statements

1. Nature of organization and summary of significant accounting policies

Introduction

The Clinton-Macomb Public Library (the Library) complies with accounting principles generally accepted in the United States of America as applicable to governmental units. Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB).

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations and financial statements prepared using the full accrual accounting method for all of the Library's activities. These changes are reflected in the accompanying financial statements (including notes to financial statements).

The more significant of the Library's accounting policies are described below.

Financial Reporting Entity

The Clinton-Macomb Public Library was organized by the Charter Township of Clinton and Chippewa Valley Schools and began operations May 1, 1992. The District Library agreement was amended on May 12, 1997 to include Macomb Township as a participating municipality. Subsequent to Macomb Township joining Clinton Township as a participating municipality of the Clinton-Chippewa Valley District Library, in May 1997, the name of the district library was changed to Clinton-Macomb Public Library. The Library operates under the authority of the Michigan District Library Establishment Act, Public Act 24 of 1989, as amended, and is governed by an eight member appointed Board of Trustees. It provides resources for the informational, educational, cultural and recreational needs of its patrons.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in the accounting principles generally accepted in the United States of America, currently GASB Statement No. 14, *The Financial Reporting Entity*.

Based upon the application of those criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library's Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discreetly presented component of the Library.

1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 of the Library conforms to accounting principles generally accepted in the United States of America as applicable to governmental units.

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 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 the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 components – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Fund Financial Statements

Governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources and the servicing of long-term debt.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest and special assessments are susceptible to accrual. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred,

1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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 local unit. Revenues are derived primarily from property taxes, state distributions, grants and other intergovernmental revenues.

Debt Service Fund

This fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the Library. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Assets, Liabilities and Equity

Cash and Cash Equivalents

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

Inventories and Prepaid Items

Inventories are valued at cost, on a last-in, first out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased. Certain payments to vendors reflect costs applicable to the future fiscal year and are recorded as prepaid items in both government-wide and fund financial statements.

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 two years. Such assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	15-30 years
Buildings	30 years
Building components	10-30 years
Building and leasehold improvements	7-30 years
Furniture and equipment	5-15 years
Library materials	5-7 years

Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, if applicable, as well as issuance costs, are deferred and amortized over the term of the related debt. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the bonds.

In the fund financial statements, governmental-type funds recognize bond premiums and discounts in the current period. The face amount of debt issued is reported as other financing sources in the statement of governmental fund revenues, expenditures and changes in fund balance.

Employee Vacation and Sick Leave (Compensated Absences)

Library employees have a vested right to receive payment for unused vacation and sick leave under conditions specified in the personnel policy manual. Accruals for these liabilities are recorded as earned by employees and reported in the government-wide financial statements.

Fund Equity

In the fund financial statements, the unreserved fund balances represent the amount available for budgeting future operations. Designations of unreserved fund balances in governmental funds indicate tentative plans for use of financial resources in a future period.

Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Deposits and Investments

Cash deposits and investments (certificates of deposit with maturities greater than 90 days) are carried at cost. Cash deposits and certificates of deposit of the Library are in the name of the Library at three banks.

At November 30, 2004, the book value of the Library's deposits, consisting of interest-bearing checking accounts and governmental cash investment accounts was $791,994. Of the bank balances, $300,000 was covered by Federal Depository Insurance and $542,394 was uninsured.

Deposits and investments are categorized into these three categories of credit risk:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized.

	Fair Value Category			
	1	2	3	Total
Cash and equivalents	$ 300,000	$ -	$ 542,394	$ 842,394

State statutes authorize the Library to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank, savings and loan association or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation or National Credit Union Administration, respectively. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Library had no investments as of November 30, 2004.

3. Fixed Assets

A summary of fixed asset activity of the Library is as follows:

	Balance 11/30/2003	Increases	Decreases	Balance 11/30/2004
Assets not being depreciated				
Land	$ 512,000	$ -	$ -	$ 512,000
Other capital assets				
Land improvements	1,303,199	104,939	-	1,408,138
Buildings and improvements	13,781,795	572,238	-	14,354,033
Leasehold improvements	1,731,065	-	-	1,731,065
Furniture and fixtures	1,924,921	221,033	-	2,145,954
Equipment	2,185,271	92,607	(101,678)	2,176,200
Library books and materials	4,345,173	361,912	-	4,707,085
Total	25,783,424	1,352,729	(101,678)	27,034,475
Accumulated depreciation	(2,262,192)	(2,389,357)	-	(4,651,549)
Net book value	$ 23,521,232	$(1,036,628)	$(101,678)	$ 22,382,926

4. Long Term Debt

At November 30, 2004, bonds payable consisted of the following:

	General Long-Term Debt
2002 Library Building and Site Bond (Limited Tax General Obligation), dated March 1, 2002, due in annual installments through April 1, 2027, bearing interest rates of 3.38% to 5.00%	$15,800,000
Amount due within one year	300,000

Long-term debt activity can be summarized as follows:

	Balance 11/30/2003	Additions	Reductions	Balance 11/30/2004
Bonds payable	$ 16,000,000	$ -	$ (200,000)	$15,800,000
Other long-term liabilities				
Compensated absences	116,238	21,454	-	137,692
Total	$16,116,238	$ 21,454	$ (200,000)	$15,937,692

Compensated absences is the liability to employees under the Library's vacation and sick pay policy. Under the Library's policy employees earn vacation and sick time based on length and amount of service with the Library.

Annual debt service requirements to maturity for all debt outstanding as of November 30, 2004 (excluding compensated absences) are as follows:

Years Ending November 30	Principal	Interest	Total
2005	$ 300,000	$ 744,540	$ 1,044,540
2006	300,000	734,040	1,034,040
2007	400,000	720,800	1,120,800
2008	400,000	705,000	1,105,000
2009	500,000	686,500	1,186,500
2010-2014	2,800,000	3,078,150	5,878,150
2015-2019	3,500,000	2,349,650	5,849,650
2020-2024	4,400,000	1,375,000	5,775,000
2025-2027	3,200,000	245,000	3,445,000
Total	$15,800,000	$10,638,680	$26,438,680

Interest expense of the Library for the year ended November 30, 2004 approximated $752,000.

5. Leases

The Library entered into a 10-year non-cancelable operating lease dated May 3, 1999, for the rental of land and buildings located in the Charter Township of Clinton (South Branch). The lease requires monthly payments of $6,908, with annual adjustments based upon the Consumer Price Index – United States. The lease carries a renewal option for two additional five-year periods. The lease requires the Library to pay for utilities and insurance.

The Library entered into a 10-year non-cancelable operating lease dated August 11, 2000, for the rental of land and buildings located in Macomb Township (North Branch). The lease requires monthly payments of $15,189 during the first five years and $17,476 during the second five years. The lease requires the Library to pay for utilities and insurance.

Future minimum rental payments for each of the succeeding five fiscal years are as follows:

2005	$ 265,164
2006	265,164
2007	283,460
2008	292,608
2009	292,608

6. Retirement Programs

Defined Contribution Plan

The Clinton-Macomb Public Library Employee Money Purchase Plan is a defined contribution plan pursuant to Section 414(h) of the Internal Revenue Code, established by the Library to provide benefits at retirement to eligible employees. The plan is administered by Nationwide Retirement Solutions. There are no employee contributions allowed to the plan. The Library is required to contribute 10% of annual compensation to the plan. The Library contributed $108,805 to the plan for the year ended November 30, 2004.

Deferred Compensation Plan

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Library employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. There are no employer contributions required by the plan. During the year ended June 30, 1997, the law was changed to allow trusts to be created for the plan assets, thereby insulating the assets from the unit of government's general creditors. The Library's plan administrator, Nationwide Retirement Solutions, created the trust and placed the assets of the plan within the trust. As a result, the plan assets are not reported in the Library's financial statements to properly reflect that the Library does not have any fiduciary or administrative responsibility for the plan.

7. Property Taxes

The Library, as an authorized district library, has levied 1 mil for operating purposes in the Charter Township of Clinton and Macomb Township. Property taxes are collected and remitted to the Library by the townships. Property taxes are levied and become a lien on each December 1st and are due by February 14th. Property taxes are recorded as revenue in the fiscal year beginning immediately subsequent to the tax levy date of December 1st. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received, except for those received within 60 days of year-end, which are recognized as revenue as of November 30th.

8. Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund and the Debt Service Fund. All annual appropriations lapse at the fiscal year end. The General Fund and Debt Service Fund's appropriated budgets are prepared on a detailed line-item basis. The Library does not maintain a formalized encumbrance accounting system. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the August Board meeting, the Library Director submits to the Finance Committee, a proposed operating budget for the fiscal year commencing the following December 1. In August, the Finance Committee submits the proposed operating budget to the Library Board. The budget is legally adopted by a Library Board Resolution by September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Library's annual board meeting to obtain taxpayer comments.
3. Prior to December 1, the budget is legally adopted by a Library Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the budgetary comparison schedule (accounting principles generally accepted in the United States of America) – General Fund and Debt Service Fund.
4. The Director is authorized to transfer budgeted amounts between line-items within an activity. However, the Library Board must approve any revisions that alter the total expenditures for any activity.

8. Stewardship, Compliance and Accountability (Continued)

5. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to November 30th.

Excess Expenditures Over Appropriations In Budgetary Funds

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.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional and line-item basis.

During the year ended November 30, 2004, the Library incurred expenditures in excess of the amounts appropriated as follows:

Budget Item	Budget Appropriation	Actual Expenditure	Variance
General Fund			
Employee benefits	$ 473,100	$ 473,546	$ 446
Voice and data services	50,100	50,386	286
Miscellaneous	5,000	6,135	1,135
Utilities	260,000	263,866	3,866
Conferences, workshops and travel	43,400	44,360	960
Professional fees	97,700	105,725	8,025
Publicity	79,000	79,749	749
Library books and materials	349,800	361,913	12,113
Equipment	62,000	67,205	5,205
Debt Service Fund			
Professional fees	240	888	648

9. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Library carries commercial insurance for claims related to these losses. The Library also carries commercial insurance for other risks of loss, including employee health and accident insurance.

The Clinton-Macomb Public Library Board of Trustees has approved a self-insurance plan for the Library with regard to short-term disability insurance and unemployment compensation. At November 30, 2004, the short-term disability insurance plan and the unemployment compensation plan were funded at $48,000.

10. 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 funds differs from 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 net assets:

Total Fund Balance – Modified Accrual Basis	$ 882,665
Amounts reported in the statement of net assets are different because	
Capital assets are not financial resources and are not reported in the funds	22,382,926
Equipment capitalized in prior year returned to vendor for credit on future purchases	101,678
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(15,800,000)
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the fund	(124,933)
Compensated absences are included as a liability	(137,692)
Net Assets – Full Accrual Basis	**$ 7,304,644**

Net Change in Fund Balance – Modified Accrual Basis	$ (899,985)
Capital outlays are reported as expenditures in the 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	
Capital outlay	1,360,516
Depreciation	(2,389,357)
Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities but not in the fund statements	(21,454)
Decrease in accrued interest reported as an expenditure in the statement of activities but not in the fund statements	1,100
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)	200,000
Net Change in Net Assets – Full Accrual Basis	**$ (1,749,180)**

Required Supplemental Information

Clinton-Macomb Public Library

Budgetary Comparison Schedule
Year Ended November 30, 2004

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	$ 4,506,600	$ 4,504,000	$ 4,504,343	$ 343
Intergovernmental - state aid	123,100	123,500	123,507	7
Penal fines	135,000	148,500	148,525	25
State grants	-	18,000	16,840	(1,160)
Library fines and fees	64,500	139,000	145,470	6,470
Library store	-	29,000	31,775	2,775
Interest	90,000	40,500	40,374	(126)
Contributions and donations	2,000	69,500	76,217	6,717
Miscellaneous	36,000	50,000	39,605	(10,395)
Total revenues	4,957,200	5,122,000	5,126,656	4,656
Expenditures:				
General government				
Salaries and wages	1,741,500	1,907,000	1,894,057	12,943
Employee benefits	506,900	473,100	473,546	(446)
Operating supplies	75,000	80,500	78,839	1,661
Voice and data services	55,500	50,100	50,386	(286)
Library store	-	28,500	20,289	8,211
Miscellaneous	10,000	5,000	6,135	(1,135)
Insurance	47,900	47,200	47,186	14
Contract maintenance	58,900	59,900	59,152	748
Facilities maintenance	249,300	236,900	230,884	6,016
Utilities	256,000	260,000	263,866	(3,866)
Rent	269,100	265,100	265,005	95
Programs - youth and adult	6,000	13,000	12,932	68
Periodicals	18,000	20,000	6,178	13,822
Electronic subscriptions	113,500	90,000	63,877	26,123
Conferences, workshops and travel	53,000	43,400	44,360	(960)
Professional fees	88,500	97,700	105,725	(8,025)
Publicity	40,000	79,000	79,749	(749)
Total general government	3,589,100	3,756,400	3,702,166	54,234
Capital outlay				
Library books and materials	400,000	349,800	361,913	(12,113)
Equipment	15,000	62,000	67,205	(5,205)
Building and furniture	100,000	971,000	941,666	29,334
Total capital outlay	515,000	1,382,800	1,370,784	12,016
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total debt service	-	-	-	-
Total expenditures	4,104,100	5,139,200	5,072,950	66,250
Excess (deficiency) of revenues over expenditures	853,100	(17,200)	53,706	70,906
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	(953,100)	(953,800)	(953,788)	12
Total other financing sources (uses)	(953,100)	(953,800)	(953,788)	12
Excess (deficiency) of revenues and other sources over expenditures and other uses	(100,000)	(971,000)	(900,082)	70,918
Fund balance, December 1, 2003	1,782,541	1,782,541	1,782,541	-
Fund balance, November 30, 2004	$ 1,682,541	$ 811,541	$ 882,459	$ 70,918

See accompanying basic financial statements and notes

Clinton-Macomb Public Library

Budgetary Comparison Schedule
Year Ended November 30, 2004

	Debt Service Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	$ -	$ -	$ -	$ -
Intergovernmental - state aid	-	-	-	-
Penal fines	-	-	-	-
State grants	-	-	-	-
Library fines and fees	-	-	-	-
Library store	-	-	-	-
Interest	-	-	97	97
Contributions and donations	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	-	-	97	97
Expenditures:				
General government				
Salaries and wages	-	-	-	-
Employee benefits	-	-	-	-
Operating supplies	-	-	-	-
Voice and data services	-	-	-	-
Library store	-	-	-	-
Miscellaneous	-	-	-	-
Insurance	-	-	-	-
Contract maintenance	-	-	-	-
Facilities maintenance	-	-	-	-
Utilities	-	-	-	-
Rent	-	-	-	-
Programs - youth and adult	-	-	-	-
Periodicals	-	-	-	-
Electronic subscriptions	-	-	-	-
Conferences, workshops and travel	-	-	-	-
Professional fees	240	240	888	(648)
Publicity	-	-	-	-
Total general government	240	240	888	(648)
Capital outlay				
Library books and materials	-	-	-	-
Equipment				
Building and furniture	-	-	-	-
Total capital outlay	-	-	-	-
Debt service				
Principal	200,000	200,000	200,000	-
Interest	752,900	752,900	752,900	-
Total debt service	952,900	952,900	952,900	-
Total expenditures	953,140	953,140	953,788	(648)
Excess (deficiency) of revenues over expenditures	(953,140)	(953,140)	(953,691)	(551)
Other financing sources (uses)				
Operating transfers in	953,140	953,140	953,788	648
Operating transfers out	-	-	-	-
Total other financing sources (uses)	953,140	953,140	953,788	648
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	97	97
Fund balance, December 1, 2003	109	109	109	-
Fund balance, November 30, 2004	$ 109	$ 109	$ 206	$ 97

See accompanying basic financial statements and notes

ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

RECEIVED
DEPT. OF TREASURY
AUG 16 2005
LOCAL AUDIT & FINANCE DIV.

CLINTON-MACOMB PUBLIC LIBRARY

REPORT TO THE BOARD OF TRUSTEES

January 21, 2005

Andrews Hooper & Pavlik P.L.C.
Certified Public Accountants
3201 University Drive, Suite 350
Auburn Hills, Michigan 48326

3201 University Drive, Suite 350 • Auburn Hills, Michigan 48326 • ph 248.340.6050 fx 248.340.6104 • www.ahpplc.com

ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

January 21, 2005

Board of Trustees
Clinton-Macomb Public Library
40900 Romeo Plank Road
Clinton Township, MI 48038-2955

In planning and performing our audit of the financial statements of the Clinton-Macomb Public Library for the year ended November 30, 2004, we considered the entity's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated January 21, 2005, on the financial statements of the Clinton-Macomb Public Library.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations. Our comments are summarized as follows:

PERIODIC INVENTORIES

During our fieldwork we noted no manual periodic inventory is completed for fixed assets. A periodic inventory would help uncover errors in the fixed asset listing and losses by theft. We recommend an annual periodic inventory be completed.

AUTHORIZATION

During our fieldwork we reviewed 782 checks, we noted two cancelled checks that had no signatures and three that did not have the proper number of authorized check signers based on the check amount and the library policy. The checks with no signatures do not provide any assurance that they were approved by the library management or the board of directors. We recommend the Library's authorization and check signing policy be followed for all checks.

Sincerely,

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan

3201 University Drive, Suite 350 • Auburn Hills, Michigan 48326 • ph 248.340.6050 fx 248.340.6104 • www.ahpplc.com