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HERRICK DISTRICT LIBRARY

70-8000

HOLLAND, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

REHMANN ROBSON
Certified Public Accountants

496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☒ Other	HERRICK DISTRICT LIBRARY	OTTAWA

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
JUNE 30, 2004	OCTOBER 29, 2004	DECEMBER 16, 2004

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.

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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.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)			
REHMANN ROBSON			
Street Address	City	State	ZIP
PO BOX 6547	GRAND RAPIDS	MI	49516-6547
Accountant Signature			

HERRICK DISTRICT LIBRARY

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REHMANN ROBSON
Certified Public Accountants
A member of THE REHMANN GROUP
An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

October 29, 2004

Members of the District Library Board
Herrick District Library
Holland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Herrick District Library, as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Herrick District Library. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Herrick District Library as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2004 on our consideration of Herrick District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

2330 East Paris Avenue SE • P.O. Box 6547 • Grand Rapids, MI 49516-6547 • 616.975.4100 • Fax 616.975.4400 • www.rehmann.com

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Herrick District Library's basic financial statements. The combining fund financial statements, are presented for purposes of additional analysis and are not a required part of Herrick District Library's basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Rehmann Lohan

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Herrick District Library (the "Library"), we offer readers of the Herrick District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

During the year the debt on the library building was refinanced resulting in a current year expense increase of $54,550 but an overall cost reduction of $330,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library 's financial statements. The Library 's basic financial statements comprise three components:

1. Government-wide statements
2. Fund financial statements, and
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The *statement of net assets* presents information on all of the Library 's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library 's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 9-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library , like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library is accounted for in governmental funds, a proprietary fund and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and the government-wide statements.

The Library maintains four governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue fund, capital projects fund, and permanent fund each of which are major funds for financial reporting purposes as defined by GASB Statement #34.

The Library adopts an annual appropriated budget for the General fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

The Library maintains one proprietary fund. Financial statements can be found on pages 17-19 of this report.

The Library also maintains fiduciary funds, which can be found on page 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Library 's financial statements. The notes to the financial statements can be found on pages 21-31 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information.* This is limited to this management discussion and analysis.

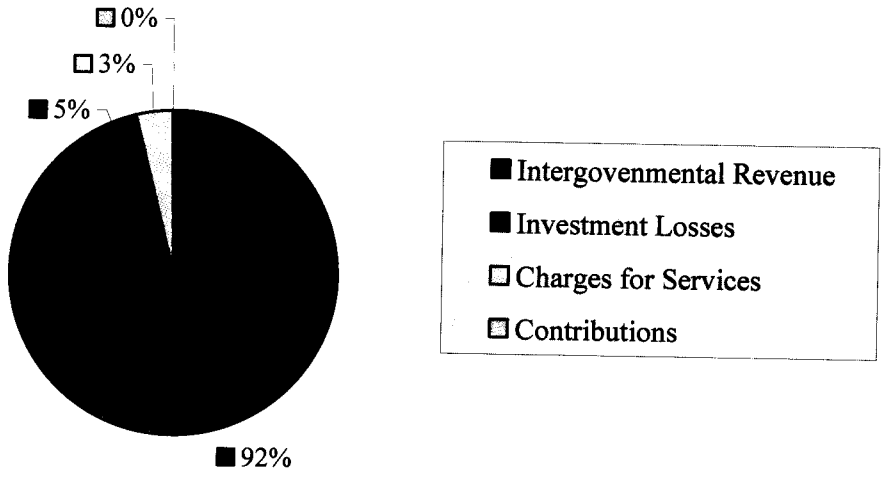
Herrick District Library Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 5,862,297	$ 5,600,035	$3,128	$2,170	$ 5,865,425	$ 5,602,205
Capital assets	11,225,064	11,715,301	-	-	11,225,064	11,715,301
Total assets	17,087,361	17,315,336	3,128	2,170	17,090,489	17,317,506
Long-term liabilities outstanding	7,275,000	7,565,000	-	-	7,275,000	7,565,000
Other liabilities	472,420	408,004	164	240	472,584	408,244
Total liabilities	7,747,420	7,973,004	164	240	7,747,584	7,973,244
Net assets:						
Invested in capital assets, net of related debt	3,950,064	4,150,301	-	-	3,950,064	4,150,301
Restricted for endowment	2,367,357	1,991,469	-	-	2,367,357	1,991,469
Unrestricted	3,022,520	3,200,562	2,964	1,930	3,025,484	3,202,492
Total net assets	$ 9,339,941	$ 9,342,332	$2,964	$1,930	$ 9,342,905	$ 9,344,262

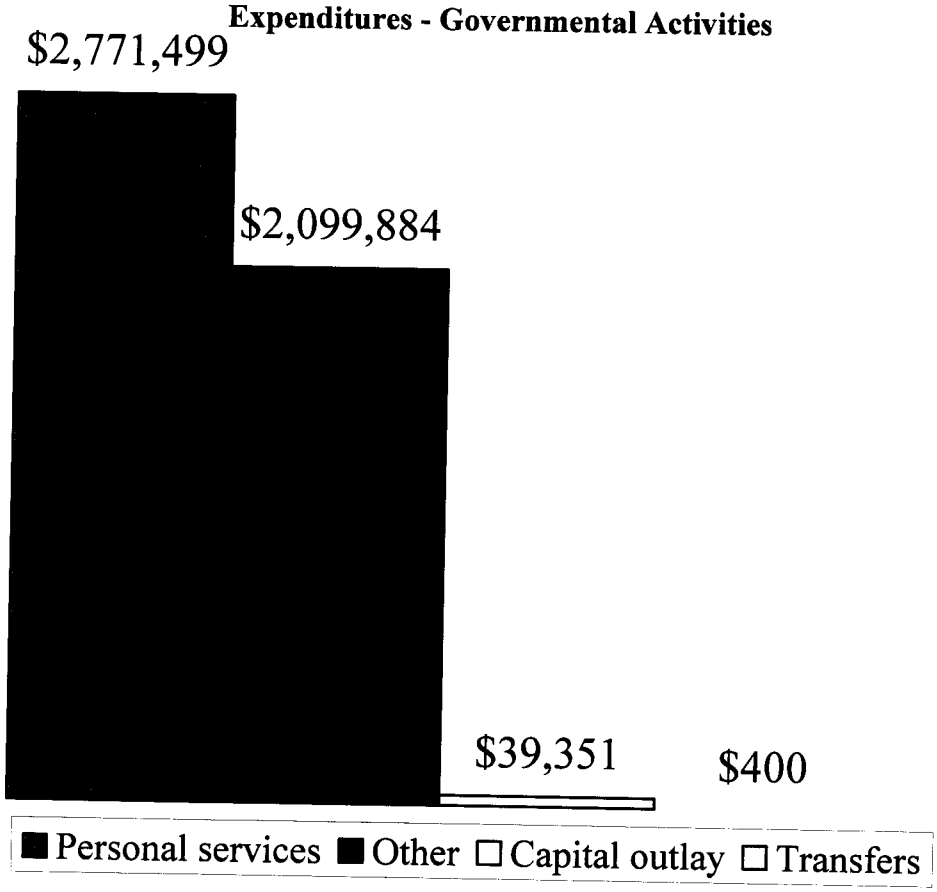
Herrick District Library Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue:						
Program revenue:						
Charges for services	$177,941	$156,308	$5,583	$7,735	$183,524	$164,043
Contributions	14,576	40,354	-	-	14,576	40,354
General revenue:						
Intergovernmental revenue	4,673,984	4,580,426	-	-	4,673,984	4,580,426
Investment earnings	262,691	(420,686)	-	-	262,691	(420,686)
Miscellaneous	876	240	-	-	876	240
Total revenue	5,130,068	4,356,642	5,583	7,735	5,135,651	4,364,377
Expenses:						
Library services	5,132,059	5,033,052	4,949	6,756	5,137,008	5,039,808
Total expenses	5,132,059	5,033,052	4,949	6,756	5,137,008	5,039,808
Increase (decrease) before transfers	(1,991)	(676,410)	634	979	(1,357)	(675,431)
Transfers	(400)	(400)	400	400	-	-
Increase (decrease) in net assets	(2,391)	(676,810)	1,034	1,379	(1,357)	(675,431)
Net assets – beginning of year	9,342,332	10,019,142	1,930	551	9,344,262	10,019,693
Net assets – end of year	$9,339,941	$9,342,332	$2,964	$1,930	$9,342,905	$9,344,262

Revenues by Source - Governmental Activities



Expenditures - Governmental Activities



Capital Assets and Debt Administration

Capital Assets

Herrick District Library
Capital Assets (net of depreciation)

	Governmental Activities	
	2004	2003
Land	$ 617,975	$ 617,975
Office equipment and furniture	789,830	847,318
Building and improvements	9,639,768	10,028,326
Equipment	177,491	221,682
Total	$11,225,064	$ 11,715,301

Additional information on the Library 's capital assets can be found in note 3 on page 28 of this report.

Long-term debt

Herrick District Library
Outstanding Debt

	Governmental Activities	
	2004	2003
Compensated absences	$ 191,684	$ 186,071
Capital Lease Agreements	7,275,000	7,565,000
Total	$7,466,684	$7,751,071

Additional information on the Library 's long-term debt can be found in Note 5 on pages 30 and 31 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Library 's budget for the 2004-2005 fiscal year:

- Because of State budget cuts, we expect 5% less in state funding.

Financial Analysis of the Government's Funds

As of the end of the current fiscal year the combined fund balance of $5,426,124 reflects an increase of $201,609 from the previous year. The decrease was due in large part to the decrease in investment earnings within the endowment.

Requests for Information

This financial report is designed to provide a general overview of Library 's finances for all those with an interest in the Library 's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Herrick District Library, 300 South River Avenue, Holland, MI 49423.

BASIC FINANCIAL STATEMENTS

HERRICK DISTRICT LIBRARY

STATEMENT OF NET ASSETS

JUNE 30, 2004

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS :			
Cash and cash equivalents	$ 834	$ -	$ 834
Investments	5,514,591	2,965	5,517,556
Accrued interest	9,969	-	9,969
Receivables - Net:			
Accounts	14,703	163	14,866
Taxes	2,775	-	2,775
Restricted assets			
Investments	311,825	-	311,825
Land	617,975	-	617,975
Capital assets, net of accumulated depreciation	10,607,089	-	10,607,089
	-		
Total assets	17,079,761	3,128	17,082,889
LIABILITIES:			
Accounts payable	122,351	164	122,515
Accrued payroll and benefits	114,538	-	114,538
Accrued interest	43,847	-	43,847
Earned employee compensated absences	191,684	-	191,684
Long term liabilities			
Due within one year	630,000	-	630,000
Due after one year	6,645,000	-	6,645,000
Total liabilities	7,747,420	164	7,747,584
NET ASSETS			
Invested in capital assets, net of related debt	3,950,064	-	3,950,064
Restricted for			
Endowment	2,367,357	-	2,367,357
Unrestricted	3,014,920	2,964	3,017,884
Total net assets	$ 9,332,341	$ 2,964	$ 9,335,305

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS	NET (EXPENSE) REVENUE
Governmental activities				
Library services	$ (5,139,659)	$ 177,941	$ 14,576	$ (4,947,142)
Business-type activities				
Employee's benefit fund	$ (4,949)	$ 5,583	$ -	$ 634

(Continued)

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2004

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
CHANGES IN NET ASSETS			
Net (expense) revenue	$ (4,947,142)	$ 634	$ (4,946,508)
General revenues			
Intergovernmental	4,673,984	-	4,673,984
Investment earnings	262,691	-	262,691
Miscellaneous	876	-	876
Transfers - internal activities	(400)	400	-
Total general revenues and transfers	4,937,151	400	4,937,551
Change in net assets	(9,991)	1,034	(8,957)
Net assets - beginning of year	9,342,332	1,930	9,344,262
Net assets - ending of year	$ 9,332,341	$ 2,964	$ 9,335,305

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

GOVERNMENTAL FUNDS

JUNE 30, 2004

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS					
Cash and cash equivalents	$ 834	$ -	$ -	$ -	$ 834
Investments	3,014,782	200,782	295,076	2,003,951	5,514,591
Accrued interest	9,969	-	-	-	9,969
Receivables - Net:					
Accounts	13,703	1,000	-	-	14,703
Taxes	2,775	-	-	-	2,775
Restricted assets					
Investments	-	311,825	-	-	311,825
Total assets	$ 3,042,063	$ 513,607	$ 295,076	$ 2,003,951	$ 5,854,697
LIABILITIES:					
Accounts payable	$ 122,150	$ 201	$ -	$ -	$ 122,351
Accrued payroll and benefits	114,538	-	-	-	114,538
Earned employee compensated absences	191,684	-	-	-	191,684
Total liabilities	428,372	201	-	-	428,573
FUND BALANCES					
Reserved					
Endowment	-	363,406	-	2,003,951	2,367,357
Unreserved					
Designated					
Replacement of equipment	40,045	150,000	-	-	190,045
Undesignated	2,573,646	-	295,076	-	2,868,722
Total fund balances	2,613,691	513,406	295,076	2,003,951	5,426,124
Total liabilities and fund balances	$ 3,042,063	$ 513,607	$ 295,076	$ 2,003,951	$ 5,854,697

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY
RECONCILIATION OF THE FUND BALANCES ON THE BALANCE SHEET FOR THE GOVERNMENTAL FUNDS TO THE NET ASSETS OF THE GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Fund balances- total governmental funds	$ 5,426,124
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.	
Add - land	617,975
Add - capital assets	13,206,469
Deduct - accumulated depreciation	(2,599,380)
Certain liabilities, such as leases payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct leases payable	(7,275,000)
Deduct accrued interest on long term liabilities	(43,847)
Net assets of governmental activies	$ 9,332,341

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2004

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES:					
Intergovernmental	$ 4,673,984	$ -	$ -	$ -	$ 4,673,984
Charges for services, fines and fees	175,632	2,309	-	-	177,941
Contributions and memberships	-	13,426	-	1,150	14,576
Investment earnings	51,442	67,328	4,521	139,400	262,691
Miscellaneous	876	-	-	-	876
Total revenues	4,901,934	83,063	4,521	140,550	5,130,068
EXPENDITURES:					
Current:					
Personal services	2,771,499	-	-	-	2,771,499
Other services and charges	2,099,884	8,900	-	-	2,108,784
Capital outlay	39,351	825	7,600	-	47,776
Total expenditures	4,910,734	9,725	7,600	-	4,928,059
Revenues over (under) expenditures	(8,800)	73,338	(3,079)	140,550	202,009
OTHER FINANCING SOURCES (USES):					
Transfers in	38,000	-	-	-	38,000
Transfers (out)	(400)	(38,000)	-	-	(38,400)
TOTAL OTHER FINANCING SOURCES(USES)	37,600	(38,000)	-	-	(400)
NET CHANGE IN FUND BALANCES	28,800	35,338	(3,079)	140,550	201,609
FUND BALANCES - Beginning of year	2,584,891	478,068	298,155	1,863,401	5,224,515
FUND BALANCES - End of year	$ 2,613,691	$ 513,406	$ 295,076	$ 2,003,951	$ 5,426,124

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	$ 201,609
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activites, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	48,129
Deduct - depreciation expense	(526,089)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add principal payments on long-term debt	290,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct loss on disposal of capital assets	(12,277)
Deduct increase in accrued interest on long term liabilities	(11,363)
Change in net assets of governmental activities	$ (9,991)

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES:				
Intergovernmental	$ 4,542,060	$ 4,542,060	$ 4,673,984	$ 131,924
Charges for services, fines and fees	157,500	157,500	175,632	18,132
Investment earnings	115,000	115,000	51,442	(63,558)
Miscellaneous	1,000	1,000	876	(124)
Total revenues	4,815,560	4,815,560	4,901,934	86,374
EXPENDITURES:				
Current:				
Personal services	2,711,391	2,711,391	2,771,499	(60,108)
Other services and charges	2,062,150	2,068,464	2,099,884	(31,420)
Capital outlay	154,504	153,741	39,351	114,390
Total expenditures	4,928,045	4,933,596	4,910,734	22,862
Revenues over (under) expenditures	(112,485)	(118,036)	(8,800)	109,236
OTHER FINANCING SOURCES (USES):				
Transfers in	38,000	38,000	38,000	-
Transfers out	(400)	(400)	(400)	-
TOTAL OTHER FINANCING SOURCES(USES)	37,600	37,600	37,600	-
NET CHANGE IN FUND BALANCES	(74,885)	(80,436)	28,800	109,236
FUND BALANCES - Beginning of year	2,584,891	2,584,891	2,584,891	-
FUND BALANCES - End of year	$ 2,510,006	$ 2,504,455	$ 2,613,691	$ 109,236

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF NET ASSETS
ENTERPRISE FUND

JUNE 30, 2004

ASSETS		
Investments	$	2,965
Accounts receivable - net		163
Total assets		3,128
LIABILITIES		
Accounts payable		164
NET ASSETS		
Unrestricted	$	2,964

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
ENTERPRISE FUND

YEAR ENDED JUNE 30, 2004

OPERATING REVENUES:		
Use fees and charges for services	$	5,583
OPERATING EXPENSES:		
Operations		4,949
Operating income		634
TRANSFERS:		
Transfers in		400
NET INCOME		1,034
NET ASSETS		
Beginning of year		1,930
NET ASSETS		
End of year	$	2,964

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF CASH FLOWS
ENTERPRISE FUND

YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 5,565
Cash paid to suppliers	(5,025)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	540
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfer in	400
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(940)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS - Beginning of year	-
CASH AND CASH EQUIVALENTS - End of year	$ -
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	$ 634
Adjustments to reconcile operating income (loss) to net cash used in operating activities:	
Changes in operating assets and liabilities:	
Accounts receivable	(18)
Accounts payable	(76)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 540

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2004

	AGENCY FUND
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 19,989
LIABILITIES	
LIABILITIES:	
Other accrued liabilities and deposits	$ 19,989

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Herrick District Library (the "Library") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Library. There are no component units to be included. Criteria for including a component unit include entities for which the Library is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Special Revenue Fund* is used to account for proceeds of specific revenue sources that are legally restricted for specified purposes.

The *Capital Projects Fund* accounts for the accumulation of resources and disbursements for construction projects of governmental funds.

The Herrick Library endowment permanent trust fund is used to account for the balances and activities of the trust which provides funds for library operations.

The *Employee Benefits Enterprise Fund* is used to account for the balances and activities of the various activities benefiting employees which is financed through user charges which support this service.

Additionally, the Library reports the following fund types:

Agency Funds are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government–wide and proprietary fund financial statements to the extent that those standard do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise fund include cafeteria expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general fund as required by generally accepted accounting principles. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the District Library Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the Library are governed by Public Act 621, which was followed for the year ended June 30, 2004. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the District Library Board.
7. Budgets for expenditures are adopted at the fund level.
8. Budgeted amounts are as originally adopted, or as amended by the District Library Board.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Library considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments consist of certificates of deposit with an original maturity of greater than three months, bank money market accounts and donated common stock. Investments are carried at fair value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of one year. Such 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets of the Library is computed using the straight-line method over the following estimated useful lives:

	Years
Land improvements	10-20
Buildings	40
Office furniture and equipment	5-7
Vehicles	7-10

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Intergovernmental Revenue

The Library's primary source of funding is intergovernmental revenue. This funding includes contributions by the City of Holland, Holland Charter Township, Park Township and Laketown Township based on collection of a unified millage on property values. This revenue source also includes Library State Aid and fines collected by other governments.

Accrued Vacation Time

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accrued vacation leave is recorded as a governmental fund liability at June 30, 2004, as it is expected to be paid from expendable available financial resources.

There was no vacation leave earned in the proprietary fund at fiscal year end.

Interfund Transactions

During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services and subsidies. The accompanying financial statements generally reflect such transactions as revenues and expenditures and transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by the Library.

Interfund Transfers	In	Out
Major Governmental Fund:		
General Fund	$ 38,000	$ 400
Special Revenue Fund	-	38,000
Major Enterprise Fund:		
Employee Benefit	400	-
Total	$ 38,400	$ 38,400

Transfers are used to move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. During the year ended June 30, 2004, the Library carried commercial insurance to cover all risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in the past fiscal year.

2. DEPOSITS AND INVESTMENTS

The Library's deposits and investments at June 30, 2004, are included on the statement of net assets under the following classifications:

Cash and cash equivalents	$ 834
Investments	5,525,156
Restricted assets – investments	311,825
Cash and cash equivalents of fiduciary funds	19,989
Total cash and investments	**$5,857,804**
Cash and investment disclosure breakdown:	
Petty cash	$ 834
Bank money market accounts	236,970
Certificates of deposit	3,960,000
Total deposits	4,197,804
Stock (donated)	1,660,000
	$5,857,804

	Carrying Amount	Bank Balance
Summary of insured and uninsured deposits are:		
Insured (FDIC)	$ 500,000	$ 500,000
Uninsured, uncollateralized	3,697,804	3,696,408
Total	**$4,197,804**	**$4,196,408**

These deposits are in five (5) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Library and a specific fund or common account. They are recorded in Library records at fair value. Accrued interest is recorded when earned.

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Statutory Authority

State statutes authorize the Library to invest in:

a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

d. Bankers acceptances of United States banks.

e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.

f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Investments

The Library investments are categorized to give an indication of the level of risk assumed by the Library. Risk category 1 includes investments that are insured, registered, or held by the Library or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Library's name.

The Library's investments are categorized as to risk as follows:

	Category			
	1	2	3	Carrying Amount
Common stock	$1,660,000			$1,660,000
Total investments				**$1,660,000**

3. CAPITAL ASSETS

Changes in Capital Assets for the year ending June 30, 2004, are as follows:

	Balance July 1, 2003	Additions	Dispositions	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 617,975	$ -	$ -	$ 617,975
Construction in progress	3,440	-	3,440	-
Total capital assets, not being depreciated	621,415	-	3,440	617,975
Capital assets, being depreciated				
Improvements other than buildings	191,433	-	-	191,433
Buildings	11,354,365	11,041	-	11,365,406
Equipment and machinery	557,640	31,800	51,270	538,170
Office equipment and furniture	1,109,597	5,288	3,425	1,111,460
Total capital assets being depreciated	13,213,035	48,129	54,695	13,206,469
Less accumulated depreciation for:				
Land improvements	42,204	8,947	-	51,151
Buildings	1,478,709	387,211	-	1,865,920
Equipment and machinery	335,958	67,512	42,791	360,679
Office equipment and furniture	262,278	62,419	3,067	321,630
Total accumulated depreciation	2,119,149	526,089	45,858	2,599,380
Total capital assets, being depreciated, net	11,093,886	(477,960)	8,837	10,607,089
Governmental activities capital assets, net	$11,715,301	$ (477,960)	$ 12,277	$11,225,064

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Library Services	$526,089

4. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined pension plan providing retirement, death and disability benefits covering full-time Library employees. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The Library is required to contribute at an actuarially determined rate; the current rate is 10.16% of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the Library are established and may be amended by the MERS Retirement Board.

The required contribution was determined as part of the December 31, 1999 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 36 years.

The Library's Annual Pension Cost and Net Pension Obligation for the current year are as follows:

Annual pension cost	$179,267
Contributions made	(179,267)
Decrease in net Pension Obligation	-
Net Pension Obligation beginning of year	-
Net Pension Obligation end of year	$ -

4. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Municipal Employees Retirement System of Michigan (Continued)

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	$225,327	100%	$ -
2003	172,988	100%	-
2004	179,267	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	$2,715,461	$3,441,640	$726,179	79%	$1,407,674	52%
12/31/02	2,870,019	3,777,574	907,555	76%	1,559,194	58%
12/31/03	3,124,434	4,085,463	961,029	76%	1,606,096	60%

5. LONG-TERM DEBT

The following is a summary of debt transactions of the Library for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year
Capital lease payable to the City of Holland Building Authority, due in annual installments of $225,000 to $485,000, through May 1, 2017, interest at 4.00% to 5.5%.	$5,815,000	$ -	$5,465,000	$350,000	$350,000

5. LONG-TERM DEBT (CONTINUED)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year
Capital lease payable to the City of Holland Building Authority, due in annual installments of $125,000 to $350,000, through May 1, 2009, interest at 4.00% to 4.375%.	$1,750,000	$ -	$ 225,000	$1,525,000	$225,000
Capital lease payable to the City of Holland Building Authority, due in annual installments of $55,000 to $475,000, through May 2017, interest at 2.00% to 4.25%.	-	5,400,000	-	5,400,000	55,000
Total	**$7,565,000**	**$5,400,000**	**$5,690,000**	**$7,275,000**	**$630,000**

The following is a schedule of annual future minimum lease payments required under the capital leases payable at June 30, 2004:

	Principal	Interest	Total
2005	$ 630,000	$ 269,538	$ 899,538
2006	700,000	248,770	948,770
2007	760,000	227,383	987,383
2008	785,000	202,533	987,533
2009	805,000	174,433	979,433
2010-2014	2,270,000	555,591	2,825,591
2015-2018	1,325,000	110,651	1,435,651
Total	**$7,275,000**	**$1,788,899**	**$9,063,899**

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COMBINING FINANCIAL STATEMENTS

FIDUCIARY FUNDS

HERRICK DISTRICT LIBRARY

COMBINING BALANCE SHEET
FIDUCIARY FUNDS

JUNE 30, 2004

	AGENCY FUNDS		
	IMPREST PAYROLL	EMPLOYEES' FLEXIBLE BENEFITS PLAN	TOTALS
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 16,442	$ 3,547	$ 19,989
Total current assets	$ 16,442	$ 3,547	$ 19,989
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Other accrued liabilities and deposits	$ 16,442	$ 3,547	$ 19,989
Total liabilities	$ 16,442	$ 3,547	$ 19,989

HERRICK DISTRICT LIBRARY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

YEAR ENDED JUNE 30, 2004

	BALANCE JULY 1, 2003	ADDITIONS	REDUCTION	BALANCE JUNE 30, 2004
IMPREST PAYROLL				
ASSETS				
Cash and investments	$ 7,642	$ 7,023,219	$ 7,014,419	$ 16,442
LIABILITIES				
Other accrued liabilities and deposits	7,642	2,160,128	2,168,928	16,442
Total liabilities	$ 7,642	$ 2,160,128	$ 2,168,928	$ 16,442
EMPLOYEES' FLEXIBLE BENEFITS PLAN				
ASSETS				
Cash and investments	$ 153	$ 16,852	$ 19,311	$ 3,547
LIABILITIES				
Other accrued liabilities and deposits	153	16,846	20,240	3,547
Total liabilities	$ 153	$ 16,846	$ 20,240	$ 3,547
TOTAL - ALL FUNDS				
ASSETS				
Cash and investments	$ 7,795	$ 7,040,071	$ 7,033,730	$ 19,989
LIABILITIES				
Other accrued liabilities and deposits	7,795	2,176,974	2,189,168	19,989
Total liabilities	$ 7,795	$ 2,176,974	$ 2,189,168	$ 19,989

COMPLIANCE AND INTERNAL CONTROL

REHMANN ROBSON
Certified Public Accountants
A member of THE REHMANN GROUP
An Independent Member of Baker Tilly International

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 29, 2004

Members of the District Library Board
Herrick District Library
Holland, Michigan

We have audited the financial statements of the Herrick District Library as of and for the year ended June 30, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Herrick District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Herrick District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Rehmann Robson

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