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	SPRING LAKE DISTRICT LIBRARY	OTTAWA

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
12/31/04	3/3/05	5/3/05

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)			
REHMANN ROBSON			
Street Address	City	State	ZIP
2330 EAST PARIS AVENUE SE	GRAND RAPIDS	MI	49546
Accountant Signature		Date	
		5/3/05	

SPRING LAKE DISTRICT LIBRARY

SPRING LAKE, MICHIGAN

FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

SPRING LAKE DISTRICT LIBRARY

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements for the Year Ended December 31, 2004	
Statement of Net Assets	10
Statement of Activities	11
Balance Sheet	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balance	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – (General Fund)	16
Notes to Financial Statements	17-24
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on a Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	25

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

INDEPENDENT AUDITORS' REPORT

March 3, 2005

To the Board of Directors
Spring Lake District Library
Spring Lake, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund, of **Spring Lake District Library** (the "Library") as of and for the year ended December 31, 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 Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 and each major fund of **Spring Lake District Library**, as of December 31, 2004, and the respective changes in financial position 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 a report dated March 3, 2005, on our consideration of the Spring Lake District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 3-9 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 supplementary information. However, we did not audit the information and express no opinion on it.

Rehmann Lohan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Spring Lake District Library (the "Library"), we offer readers of the Spring Lake District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended December 31, 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

1. The library experienced a year of growth in use by the community in 2004 and responded to that growth with an increase in services such as additional story hours and additional programs in the meeting room and the Tech Lab.

2. Some construction related expenses were a feature of the 2004 budget. Wolverine Construction Management completed some of the outstanding construction work and was paid most of the funds owed to them. A bike rack was added on the south side of the east driveway. A hot drink vending machine and a cold drink vending machine also were purchased due to popular demand.

3. The Library continues to repay its installment purchase agreement debt and bond debt.

4. Some of the change in costs seen from 2003 to 2004 is due to the partial year of operation in the new building in 2003 versus a full year of operation in 2004.

5. The financial statements enclosed and their accompanying notes are prepared under the directions of GASB Statement No. 34.

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 statement, and
3. notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves. The supplementary information includes this management discussion and analysis.

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 10 and 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 including the general, debt service and capital projects 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 fund statements 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 general fund and the government-wide statements.

The Library maintains three governmental funds. Information is presented in the governmental funds balance sheet and in the government funds statement of revenues, expenditures, and changes in fund balances for the Government. The general, debt service and capital projects funds are major funds for financial reporting purposes as defined by GASB Statement #34.

The Library adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with this budget.

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

The Library does not maintain proprietary nor fiduciary funds.

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 17 through 24 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.

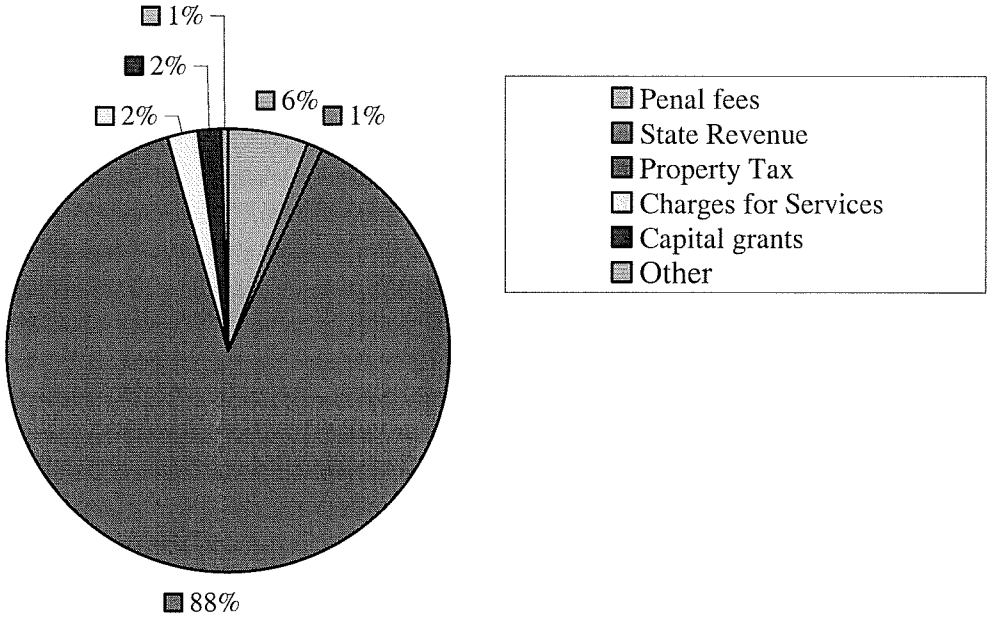
Spring Lake District Library Net Assets

	Governmental Activities	
	2004	2003
Current and other assets	$2,668,394	$2,623,655
Capital assets	6,486,760	6,438,270
Total assets	9,155,154	9,061,925
Long-term liabilities outstanding	4,304,852	4,590,954
Other liabilities	1,503,082	1,297,377
Total liabilities	5,807,934	5,888,331
Net assets:		
Invested in capital assets, net of related debt	2,043,921	2,058,010
Restricted	589,243	703,916
Unrestricted	714,056	411,668
Total net assets	**$3,346,070**	**$3,173,594**

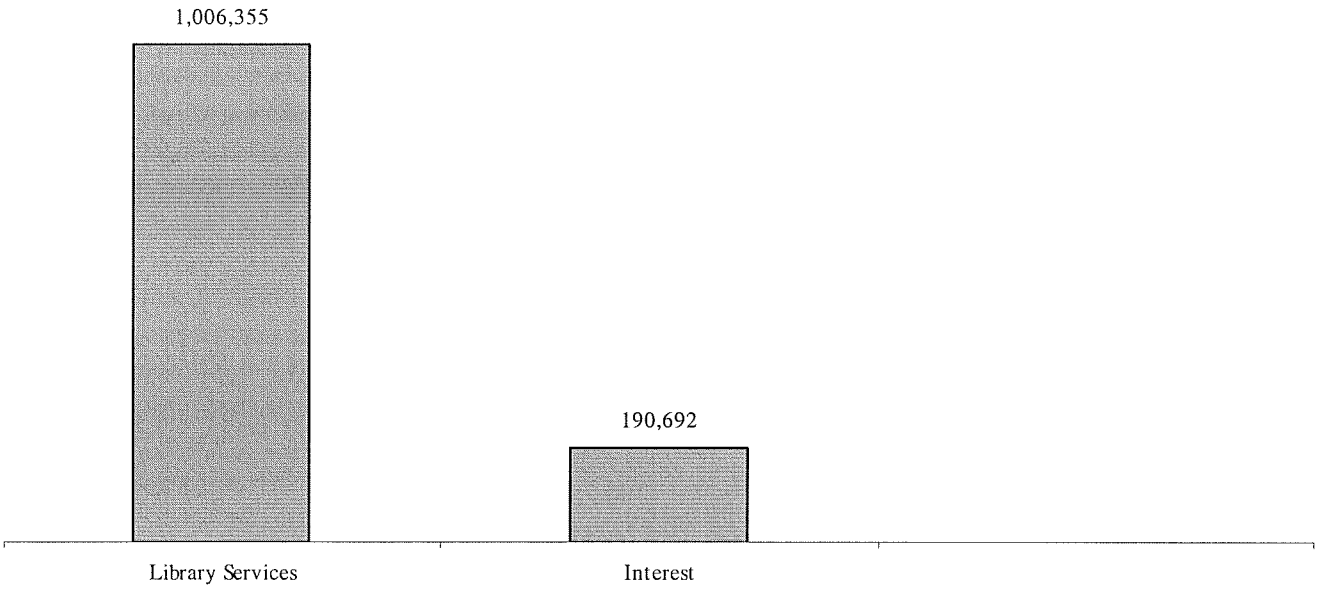
Spring Lake District Library Change in Net Assets

	Governmental Activities	
	2004	2003
Revenue:		
Program revenue:		
Charges for services	$ 25,543	27,973
Operating grants	10,415	3,970
Capital grants	21,497	23,046
Total program revenue	57,455	54,989
General revenue:		
Property taxes	1,211,685	1,192,208
Penal fines	77,950	79,862
State revenue	15,542	14,854
Interest income	6,891	4,086
Total general revenue	1,312,068	1,291,010
Expenses:		
Library services	1,006,355	750,674
Interest expense	190,692	200,285
Total expenses	1,197,047	950,959
Increase in net assets	173,626	395,040
Net assets – beginning of year	3,173,594	2,778,554
Net assets – end of year	**$3,346,070**	**$3,173,594**

Revenues by Source - Governmental Activities



Expenses - Governmental Activities



Financial Analysis of the Governmental Funds

As of the end of the current fiscal year the combined fund balance of $1,277,388 reflects an increase of $133,388 from the previous year. The increase was due in large part to the use of fund balance in the capital projects fund of approximately $169,000 for the Library construction project and revenues in excess of expenditures in the general fund of approximately $ 305,000.

Significant changes in the general fund original budget were as follows:

1. Increase supplies costs due to the opening of the new facility.

2. Decrease professional and utility costs due to high estimates being utilized prior to the first full year of operation.

Capital Assets

Major capital asset purchases during the current fiscal year included the following:

- Building construction of $178,484
- Equipment additions of $24,688

Spring Lake District Library Capital Assets (net of depreciation)

	Governmental Activities	
	2004	2003
Land	$ 599,210	$ 599,210
Equipment	965,502	995,752
Building	4,922,048	4,843,308
Total	**$6,486,760**	**$6,438,270**

Additional information on the Library's capital assets can be found in Note 7 on page 24 of this report.

Long-term debt

Spring Lake District Library Outstanding Debt

	Governmental Activities	
	2004	2003
Compensated absences	$ 16,296	$ 13,830
Installment notes	242,839	267,124
General obligation bonds	4,200,000	4,310,000
Total	**$4,459,135**	**$4,590,954**

Additional information on the Library's long-term debt can be found in Note 4 on pages 22 through 23 of this report.

Economic Factors and Next Year's Budgets and Rates

The 2005 fiscal year budget considerations included increased costs for utilities, supplies, library materials, staffing and programming due to inflation and increased use of the library. Some construction related costs also are planned for the 2005 budget as well as an increase in youth services computers due to heavy use. The library anticipates flat income in state aid funding and a slight decrease in penal fine income based on the decrease in 2004, although a slight increase in tax income is expected based on growth in the area.

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, Spring Lake District Library, 123 East Exchange Street, Spring Lake, Michigan 49456.

SPRING LAKE DISTRICT LIBRARY

STATEMENT OF NET ASSETS

DECEMBER 31, 2004

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	$ 1,388,758
Investments	26,700
Taxes receivable	1,174,802
Total current assets	2,590,260
Noncurrent assets	
Pledges receivable	76,984
Capital assets	
Land	599,210
Improvements, buildings and equipment (net)	5,887,550
Total noncurrent assets	6,563,744
Total assets	**9,154,004**
Liabilities	
Current liabilities	
Accounts payable	9,944
Accrued liabilities	6,198
Interest payable	35,927
Deferred revenue	1,296,730
Bonds and notes payable within one year	154,283
Total current liabilities	1,503,082
Noncurrent liabilities	
Compensated absences	16,296
Bonds and notes payable in more than one year	4,288,556
Total noncurrent liabilities	4,304,852
Total liabilities	**5,807,934**
Net assets	
Invested in capital assets, net of related debt	2,043,921
Restricted for	
Capital projects	562,088
Debt service	26,005
Unrestricted	714,056
Total net assets	**$ 3,346,070**

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

SPRING LAKE DISTRICT LIBRARY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2004

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Governmental activities:					
Library services	$ 1,006,355	$ 25,543	$ 10,415	$ 21,497	$ (948,900)
Interest on long-term debt	190,692	-	-	-	(190,692)
Total governmental activities	$ 1,197,047	$ 25,543	$ 10,415	$ 21,497	(1,139,592)
General revenues:					
Property taxes					1,211,685
Penal fines					77,950
State revenue					15,542
Unrestricted investment earnings					6,891
Total general revenues					1,312,068
Change in net assets					172,476
Net assets, beginning of year					3,173,594
Net assets, end of year					**$ 3,346,070**

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

SPRING LAKE DISTRICT LIBRARY

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2004

	General	Capital Projects	Debt Service	Total
ASSETS				
Cash and cash equivalents	$ 839,070	$ 458,631	$ 91,057	$ 1,388,758
Investments	-	26,700	-	26,700
Taxes receivable	894,176	-	280,626	1,174,802
Pledges receivable	-	76,984	-	76,984
Total assets	**$ 1,733,246**	**$ 562,315**	**$ 371,683**	**$ 2,667,244**
LIABILITIES AND FUND EQUITY				
Accounts payable	$ 9,717	$ 227	$ -	$ 9,944
Accrued liabilities	6,198	-	-	6,198
Deferred revenue	986,979	76,984	309,751	1,373,714
Total liabilities	**1,002,894**	**77,211**	**309,751**	**1,389,856**
Fund equity				
Fund balance				
Unreserved	730,352	485,104	61,932	1,277,388
Total liabilities and fund equity	**$ 1,733,246**	**$ 562,315**	**$ 371,683**	**$ 2,667,244**

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

SPRING LAKE DISTRICT LIBRARY

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

DECEMBER 31, 2004

Fund balances - total governmental funds	$1,277,388
Amounts reported for governmental activities in the statement of net assets are different	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	6,715,896
Deduct - accumulated depreciation	(229,136)
Some assets reported in the balance sheet do not provide current financial resources and therefore are not included in fund balance on the fund financial statements.	
Add - deferred revenue on long-term pledges receivable	76,984
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(16,296)
Deduct - bonds/notes payable	(4,442,839)
Deduct - accrued interest on bonds/notes payable	(35,927)
Net assets of governmental activities	$3,346,070

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

SPRING LAKE DISTRICT LIBRARY

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

FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Capital Projects	Debt Service	Total
REVENUES				
Property tax	$ 922,817	$ -	$288,868	$1,211,685
State revenue	15,542	-	-	15,542
Contributions	10,415	166,100	-	176,515
Fines and forfeitures	77,950	-	-	77,950
Other revenues	18,364	1,991	45	20,400
Interest income	6,891	4,067	1,076	12,034
TOTAL REVENUES	1,051,979	172,158	289,989	1,514,126
EXPENDITURES				
Current				
Library services	747,125	-	-	747,125
Capital outlay	-	305,254	-	305,254
Debt Service:				
Principal	-	24,285	110,000	134,285
Interest and fiscal charges	-	11,729	182,345	194,074
TOTAL EXPENDITURES	747,125	341,268	292,345	1,380,738
NET CHANGE IN FUND BALANCES	304,854	(169,110)	(2,356)	133,388
FUND BALANCES, BEGINNING OF YEAR	425,498	654,214	64,288	1,144,000
FUND BALANCES, END OF YEAR	$ 730,352	$ 485,104	$ 61,932	$1,277,388

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

SPRING LAKE DISTRICT LIBRARY

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds	$133,388
Amounts reported for *governmental activities* in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	203,172
Deduct - depreciation expense	(154,682)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but is reported as a decrease in long-term liabilities on the statement of net assets.	
Add - principal payments on bonds and notes payable	134,285
Some revenue reported in the statement of activities does not provide current financial resources and therefore are not reported as revenues in the statement of revenues, expenditures and changes in fund balances.	
Deduct - change in pledges receivable in the capital projects fund	(144,603)
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 statement of revenues, expenditures and changes in fund balances.	
Deduct - increase in compensated absences payable	(2,466)
Add - decrease in accrued interest payable on bonds	3,382
Change in net assets of governmental activities	$172,476

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

SPRING LAKE DISTRICT LIBRARY

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

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amount			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Property tax	$ 951,600	$ 922,700	$ 922,817	$ 117
State revenue	13,423	15,523	15,542	19
Contributions	1,000	8,600	10,415	1,815
Fines and forfeitures	80,100	77,200	77,950	750
Other revenues	8,000	17,700	18,364	664
Interest income	4,000	6,000	6,891	891
TOTAL REVENUES	1,058,123	1,047,723	1,051,979	4,256
EXPENDITURES				
Current				
Salaries and wages	400,000	400,000	375,005	24,995
Employee benefits	106,000	105,800	95,443	10,357
Publications	90,000	88,000	82,307	5,693
Supplies	38,000	41,300	37,321	3,979
Professional fees	138,500	110,223	82,256	27,967
Utilities	97,800	88,800	71,950	16,850
Miscellaneous	12,500	13,950	2,843	11,107
TOTAL EXPENSES	882,800	848,073	747,125	100,948
NET CHANGES IN FUND BALANCE	175,323	199,650	304,854	105,204
FUND BALANCES, BEGINNING OF YEAR	425,498	425,498	425,498	-
FUND BALANCES, END OF YEAR	$ 600,821	$ 625,148	$ 730,352	$ 105,204

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Spring Lake District Library (the "Library") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Spring Lake District Library was established as the Warner Baird District Library on May 2, 1994 pursuant to Act No. 24 of the Public Acts of 1989 by participating municipalities of Spring Lake Township and the Village of Spring Lake. During 2003 the Library's name was changed to the Spring Lake District Library. The Library provides library services to the public.

The Reporting Entity

The Library is governed by a Board, appointed in accordance with the Library bylaws. The Board has governance responsibilities over all activities related to the Spring Lake District Library. The Board receives funding from local and state government sources and must comply with concomitant requirements of these funding entities. However, the Board is not included in any other governmental "reporting entity" as defined by the Government Accounting Standards Board since the Board members, who are appointed have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

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 activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by charges for services and tax revenues.

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. Internally dedicated resources are reported as general revenues rather than as program revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

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 government considers revenues to be available if they are collected within 30 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, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State revenue, fees 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 government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for financial resources of the Library which are not required to be reported in another fund.

The *capital projects fund* is utilized to account for the accumulation and disbursement of funds for the construction and equipping of the new Library facility.

The *debt service fund* is utilized to account for the accumulation and disbursement of funds to provide for the debt service on Library construction debts.

Budgetary Data

The annual budget is prepared by the Library's management and adopted by the Library Board; subsequent amendments are approved by the Library Board. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenue, expenditures and changes in fund balances – budget and actual – general fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Board is included in the financial statements.

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

a. On or about December 1, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
b. Public hearings are conducted to obtain taxpayer comments.
c. On or about December 31, the budget is legally enacted through passage of a resolution.

d. The District Library Director is authorized to transfer budgeted amounts within any activities.
e. Appropriations for the general fund lapse at the end of the fiscal year.

Property Taxes Receivable

Property taxes are levied and attach as an enforceable lien of property on December 1. Property taxes are payable through February 14. The property taxes are billed and collected by Spring Lake Township, which then remits the District Library's designated portion on a semi-monthly basis. During March of each year, uncollected real property taxes are transferred to Ottawa County which pays the Library for those balances and accepts responsibility for collection. Responsibility for the collection of unpaid personal property taxes remains with the Spring Lake Township.

Although the Library's 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the Library's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the Library's operations.

Compensated Absences

District Library employees earn vacation and sick leave in varying amounts based on length of service. Unused vacation pay and sick pay leave may accumulate and be carried over to a subsequent year, subject to restrictions. No portion of unused sick leave is paid to employees at the time of termination or retirement. It is the District Library's policy to recognize the cost of sick leave at the time payments are made. Vacation leave accrued at year end which is subject to payment upon termination has been included as a liability on the statement of net assets and not on the fund balance sheet as the balance is not expected to be liquidated with expendable available financial resources.

Use of Estimates

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

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted resources are utilized first when allowable costs are incurred where both restricted and unrestricted net assets are available.

Cash and Cash Equivalents

The District Library considers all cash, demand deposits and short-term investments with an original maturity of three months or less to be cash and cash equivalents.

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net assets). Capital assets are defined by the Library as assets with an initial, individual cost of more than $5,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of revenues, expenditures and changes in fund balances) and are subsequently capitalized on the government-wide statements.

Depreciation is recorded over the estimated useful lives of the assets, using the straight-line method for all capital assets, as follows:

	Years
Furniture, fixtures and equipment	20
Building	50

Deferred Compensation Plan

The Library offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Library employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Library's financial statements.

2. CASH DEPOSITS AND INVESTMENTS

Deposits

The Library's bank deposits with a carrying value of $1,388,758 were reflected in the accounts of banks (without recognition of checks written but not yet cleared or of deposits in transit) at $1,403,744, of which $200,000 was covered by federal depository insurance, and $1,203,744 was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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
Uncategorized as to risk:				
Money Market Mutual Funds				$26,700
Total investments				**$26,700**

Money market mutual funds are uncategorized because they are not evidenced by securities that exist in a physical or book entry form.

3. RETIREMENT PLAN

The Library participates in the Spring Lake District Library defined contribution pension plan administered by the ICMA Retirement Corporation. The plan was established by the Library to provide benefits at retirement to the Library full-time staff. Plan members are not required to contribute. The Library is required to contribute 10% of annual covered payroll. The employer contribution for the year totaled $19,582. Plan provisions and contribution requirements are established and may be amended by the Library Board.

4. LONG-TERM DEBT

Long-term debt of the Library consists of the following:

	Balance January 1, 2004	Increases	(Decreases)	Balance December 31, 2004	Due Within One Year
Compensated absences	$ 13,830	$16,296	$13,830	$ 16,296	$ -
2001 general obligation bonds at 3-4.5% interest with principal payments ranging from $50,000 to $130,500 through 2021	4,310,000	-	110,000	4,200,000	130,000
Installment purchase re-financing (Whiting) at 3.63% interest with principal payments ranging from $10,379 to $10,378 through 2014	114,164	-	10,379	103,785	10,378
Installment purchase re-financing (Sluis) at 3.63% interest with principal payments ranging from $6,863 to $6,862 through 2014	75,492	-	6,863	68,629	6,863
Installment purchase re-financing (Evans) at 3.63% interest with principal payments ranging from $7,043 to $7,042 through 2014	77,468	-	7,043	70,425	7,042
Totals	**$4,590,954**	**$16,296**	**$148,115**	**$4,459,135**	**$154,283**

General obligation bonds are paid from the debt service fund millage while installment purchases are paid from contributions recorded in the capital projects fund.

The annual requirements to pay principal and interest on long-term debt outstanding at year end, are as follows:

Year Ending December 31	Principal	Interest
2005	$ 154,283	$ 186,878
2006	174,285	181,098
2007	199,283	174,310
2008	214,285	166,111
2009	224,283	156,944
2010-2014	1,276,420	632,216
2015-2019	1,490,000	334,011
2020-2021	710,000	32,399
	$4,442,839	**$1,863,967**

5. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage during the past year.

6. COMMUNITY FOUNDATION

The Grand Haven Area Community Foundation maintains three separate funds. (Library expansion, Endowment and Restricted funds) which have not been included on the financial statements. Resources of the Library expansion and restricted fund can be obtained and expended by the Library under provisions of the individual fund agreement and upon approval by the Foundation. Earnings on the endowment after specific annual additions to the endowment corpus can also be obtained and expended by the Library upon request by the Library Board and approval by the Foundation. At December 31, 2004 balances of the Library expansion, endowment and restricted funds held by the Grand Haven Area Community Foundation were $45,432, $569,389 and $112,015, respectively.

7. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
Capital assets not being depreciated:				
Land	$ 599,210	$ -	$ -	$ 599,210
Capital assets being depreciated:				
Building	4,892,230	178,484	-	5,070,714
Furniture and equipment	1,021,284	24,688	-	1,045,972
Total capital assets	**6,512,724**	**203,172**	**-**	**6,715,896**
Accumulated depreciation				
Building	48,922	99,744	-	148,666
Furniture and equipment	25,532	54,938	-	80,470
Total accumulated depreciation	**74,454**	**154,682**	**-**	**229,136**
Net capital assets	**$6,438,270**	**$48,490**	**$ -**	**$6,486,760**

8. PLEDGES RECEIVABLE – CAPITAL PROJECTS FUND

Pledges receivable at December 31, 2004, are as follows:

	2000 Pledges	2001 Pledges	Total
Pledges	$569,450	$132,717	$702,167
Pledges received	541,116	84,067	625,183
Pledges receivable	**$28,334**	**$48,650**	**$76,984**

These pledges receivable are also recorded as deferred revenues in the liabilities section of the balance sheet in accordance with the modified accrual basis of accounting.

9. COMMITMENTS

At December 31, 2004, the Library has remaining construction commitments of approximately $35,000 related to the Library construction project.

* * * * * *

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

INDEPENDENT AUDITORS' REPORT AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

March 3, 2005

To the Board of Directors
Spring Lake District Library
Spring Lake, Michigan

We have audited the financial statements of the governmental activities and each major fund of Spring Lake District Library, as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated March 3, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Spring Lake District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the basic 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spring Lake District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the board members, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson

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