

**INTERLOCHEN PUBLIC LIBRARY**

**INTERLOCHEN, MICHIGAN**

**DECEMBER 31, 2010**

*Baird, Cotter and Bishop, P. C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

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INTERLOCHEN PUBLIC LIBRARY

INTERLOCHEN, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2010

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# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
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June 2, 2011

### INDEPENDENT AUDITORS' REPORT

To the Library Board  
Interlochen Public Library  
Grand Traverse County  
Interlochen, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Interlochen Public Library, Grand Traverse County, Interlochen, Michigan as of and for the year ended December 31, 2010, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Interlochen Public Library, Grand Traverse County, Interlochen, Michigan as of December 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through viii and 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries,

the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# INTERLOCHEN PUBLIC LIBRARY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR FISCAL YEAR ENDED DECEMBER 31, 2010

The management of Interlochen Public Library offers this narrative overview and analysis of the financial activities of the Library for the fiscal year ended December 31, 2010, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Library's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

#### **Financial Highlights**

##### **Government-Wide**

- ❖ The assets of the Library exceeded its liabilities at the close of this fiscal year by \$466,965 (shown as *Net Assets*). Of this amount, \$172,435 (*Unrestricted Net Assets*) may be used to meet the Library's ongoing obligations to citizens and creditors.
- ❖ The Library's net assets increased by \$10,697 during the fiscal year.

##### **Fund Level Financial Highlights**

- ❖ As of December 31, 2010, the governmental funds of Interlochen Public Library reported an ending fund balance of \$429,984, of which \$19,827 was unreserved and undesignated.

#### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Interlochen Public Library's basic financial statements. Interlochen Public Library's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The *government-wide financial statements* are designed to provide a broad overview of the Library's financial position, presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Library's assets and liabilities, the difference between the two being reported as the Net Assets of the Library. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Library is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

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 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 future periods.

INTERLOCHEN PUBLIC LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2010

**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. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. Interlochen Public Library uses fund accounting to ensure compliance with finance-related legal requirements.

**Governmental Funds** Governmental funds are used to account for essentially the same functions as governmental activities 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 governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Library maintains one governmental fund, the General Fund, which is considered to be a major fund.

Interlochen Public Library adopts an annual budget for the general fund. A budgetary comparison has been provided for the general fund to demonstrate compliance with this budget.

**Notes to the Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 7 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Net Assets of the Library were \$466,965 at December 31, 2010, meaning that the Library's assets were greater than its liabilities by this amount.

INTERLOCHEN PUBLIC LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2010

The most significant portion of the Library's Net Assets reflects its investment in cash and capital assets (e.g., furniture and fixtures, equipment and circulating materials). The Library uses capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Interlochen Public Library  
Net Assets  
Years Ended December 31,**

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Current Assets	\$ 432,449	\$ 422,343
Non Current Assets		
Capital Assets	73,323	70,041
Less Accumulated Depreciation	(36,342)	(32,315)
Total Non Current Assets	<u>36,981</u>	<u>37,726</u>
Total Assets	<u>469,430</u>	<u>460,069</u>
<b>Liabilities</b>		
Current Liabilities	<u>2,465</u>	<u>3,791</u>
<b>Net Assets</b>		
Invested in Capital Assets	36,981	37,726
Restricted	257,549	135,975
Unrestricted	<u>172,435</u>	<u>282,567</u>
<b>Total Net Assets</b>	<u>\$ 466,965</u>	<u>\$ 456,268</u>

The remaining balance of unrestricted net assets, \$172,435, may be used to meet the Library's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Library is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Library increased \$10,697 in this fiscal year, which is an indicator that the Library experienced financial growth during the year. As a result, the Library ended the fiscal year in better condition than when the year started.

The following table illustrates the results of the changes in the Net Assets for the Library. The condensed information was derived from the Government-Wide Statement of Activities.

INTERLOCHEN PUBLIC LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED DECEMBER 31, 2010

**Interlochen Public Library**  
**Change in Net Assets**  
**Years Ended December 31,**

	<b>2010</b>	<b>2009</b>
<b>General Revenues</b>		
State Sources	\$ 1,976	\$ 3,146
Interest	7,706	6,880
Other	5,948	0
Total General Revenues	15,630	10,026
<b>Program Revenues</b>		
Charges for Services	2,621	3,769
Operating Grants and Contributions	189,764	195,812
Capital Grants and Contributions	855	100,462
Total Program Revenues	193,240	300,043
Total Revenues	208,870	310,069
<b>Expenses</b>		
Culture and Recreation	198,173	208,990
Change in Net Assets	\$ 10,697	\$ 101,079

**Financial Analysis of the Government's Funds**

**Governmental Activities** – At the completion of the Library's fiscal year ended December 31, 2010, its governmental fund reported a fund balance of \$429,984. Of this amount, \$19,827 is unreserved and undesignated.

**General Fund** – The General Fund is the main operating fund of the Library. The General Fund increased its fund balance in this fiscal year by \$11,442, bringing the balance to \$429,984. The primary reason for the increase was culture and recreation revenues outstripped expenditures this year. The State also only paid one half of State Aid this year, and will not pay the other half.

**General Fund Budgetary Highlights**

During the year, there was an increase in appropriations between the original budget and final amended budget as follows:

- Culture and Recreation Expenses – increased \$1,227

INTERLOCHEN PUBLIC LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2010

The following schedule shows a comparison of the original general fund budget, the final general fund budget and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 196,635</u>	<u>\$ 197,862</u>	<u>\$ 208,870</u>
Total Expenditures	<u>\$ 196,635</u>	<u>\$ 197,862</u>	<u>\$ 197,428</u>

**Capital Asset and Debt Administration**

**Capital Assets.** The Library's investment in capital assets for the governmental activities as of December 31, 2010, amounted to \$36,981 (net of accumulated depreciation). Capital assets of the Library include any items purchased that cost in excess of \$1,000 and have an expected useful life of over three years. The Library has invested in a broad range of capital assets, as detailed below:

**Interlochen Public Library  
Capital Assets  
December 31, 2010**

Land Improvements	\$ 5,440
Buildings Improvements	48,753
Equipment and Furnishings	<u>19,130</u>
Total Assets	73,323
Less Accumulated Depreciation	<u>36,342</u>
Capital Assets, Net of Depreciation	<u><u>\$ 36,981</u></u>

Major capital asset events during the fiscal year included the purchase of cabinets amounting to \$3,282.

Additional information regarding the Library's capital assets can be found in the Notes to Financial Statements section.

**Economic Outlook for Interlochen Public Library**

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future. A significant portion of the Library's funding comes from Traverse Area District Library and penal fines. Any impairment to these funding sources would greatly impact the future of the Library.

INTERLOCHEN PUBLIC LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED DECEMBER 31, 2010

**Contacting the Library's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Interlochen Public Library, P.O. Box 359, Interlochen, Michigan 49643.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 431,142
Prepaid Expense	1,307
	<hr/>
Total Current Assets	432,449

NON CURRENT ASSETS

Capital Assets	73,323
Less Accumulated Depreciation	(36,342)
	<hr/>
Total Non Current Assets	36,981
	<hr/>
Total Assets	469,430

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accrued Payroll and Liabilities	2,465
	<hr/>

NET ASSETS

Invested in Capital Assets	36,981
Restricted	257,549
Unrestricted	172,435
	<hr/>
Total Net Assets	\$ 466,965

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>GOVERNMENTAL ACTIVITIES</u>					
Culture and Recreation	\$ 198,173	\$ 2,621	\$ 189,764	\$ 855	\$ (4,933)
<u>GENERAL REVENUES</u>					
State Sources					1,976
Interest					7,706
Other					5,948
Total General Revenues					15,630
Change in Net Assets					10,697
<u>NET ASSETS</u> - Beginning of Year					456,268
<u>NET ASSETS</u> - End of Year					\$ 466,965

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY

INTERLOCHEN, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2010

	<u>ASSETS</u>	<u>GENERAL FUND</u>
Cash and Cash Equivalents		\$ 431,142
Prepaid Expenditures		1,307
TOTAL ASSETS		<u>\$ 432,449</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accrued Payroll and Liabilities		<u>\$ 2,465</u>
 <u>FUND BALANCE</u>		
Reserved for:		
Prepaid Expenditures		1,307
Donor Restrictions - Building		223,699
Endowments		33,850
Unreserved, Designated for Building		151,301
Unreserved, Undesignated		19,827
Total Fund Balance		<u>429,984</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 432,449</u>

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS

DECEMBER 31, 2010

Total Governmental Fund Balances	\$ 429,984
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
The cost of the capital assets is	\$ 73,323
Accumulated depreciation is	<u>(36,342) 36,981</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 466,965</u>

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY

INTERLOCHEN, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2010

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
State Grants	\$ 1,976
Contributions from Local Units	169,000
Charges for Services	2,621
Fines and Forfeits	20,764
Interest	7,706
Other Revenues	6,803
Total Revenues	<u>208,870</u>
<u>EXPENDITURES</u>	
Culture and Recreation	
Personal Services	133,075
Supplies	5,343
Other Services and Charges	27,045
Capital Outlay	31,965
Total Expenditures	<u>197,428</u>
Excess (Deficiency) of Revenues Over Expenditures	11,442
<u>FUND BALANCE</u> - Beginning of Year	<u>418,542</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 429,984</u>

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

Net Change in Fund Balance	\$ 11,442
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(4,027)
Capital Outlay	<u>3,282</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 10,697</u></u>

The notes to the financial statements are an integral part of this statement.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A. Reporting Entity**

Interlochen Public Library is a public library established pursuant to Act 138 of the Public Acts of 1917. The Library provides library services primarily to the Green Lake Township residents in Grand Traverse County and portions of Benzie County.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary 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 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. Other items not properly included among program revenues are reported instead as general revenues.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

All other revenue items are considered to be measurable and available only when cash is received by the Library.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Governmental funds include the following fund types:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- i. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- ii. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- iii. Commercial paper rated at 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.
- iv. Repurchase agreements consisting of instruments listed in (i).
- v. Banker's acceptances of United States banks.
- vi. Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than one standard rating service.
- vii. Mutual funds registered under the Investment Company Act of 1940, title I of chapter 686, 54 Stat. 789 15 U.S.C. 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Library. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - a) The purchase of securities on a when-issued or delayed delivery basis.
  - b) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - c) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- viii. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

- ix. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- x. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367.
- xi. The investment pools organized under the local government Investment Pool Act, 1985 PA 121.

**2. *Inventories and Prepaid Items***

Payments for inventorial types of supplies are recorded as expenditures at the time of purchase. There were no material inventories at year end.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

**3. *Capital Assets***

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. 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 assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

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

Buildings	40 years
Building Improvements	25 years
Furniture and Fixtures	7 years
Land Improvements	20 years
Equipment	5 years
Vehicles	10 years

The Library's policy is to capitalize Equipment and Machinery with an individual cost of \$2,500 or more and all other assets with an individual cost of \$5,000 or more and an estimated useful life of one year or more.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**4. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. At this time, the Library does not have any long-term debt.

**5. Fund Equity**

In the fund financial statements, the unreserved fund balance for governmental funds represents the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**6. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The annual budget is prepared by the Library treasurer. After a public budget hearing is held, the budget is adopted by the Library board at an open meeting of the board. The Library approves all subsequent amendments to the budget. The General Fund is under formal budgetary control. The budget has been prepared on the modified accrual basis of accounting, which is in accordance with generally accepted accounting principles. Budgeted revenues and expenditures include any authorized amendments to the original budget as adopted. Unexpended appropriations lapse at year end.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Library's deposits are all on deposit with Honor Bank, Northwestern Bank and TBA Credit Union.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2010, none of the library's bank balance of \$537,130 was exposed to custodial credit risk because it was uninsured and uncollateralized.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

*Foreign currency risk* - The Library's investment policy does not address foreign currency risk.

**B. Capital Assets**

A summary of changes in the Library's capital assets follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, being depreciated:				
Land Improvements	\$ 5,440	\$ 0	\$ 0	\$ 5,440
Building Improvements	48,753	0	0	48,753
Equipment and Furnishings	15,848	3,282	0	19,130
Subtotal	<u>70,041</u>	<u>3,282</u>	<u>0</u>	<u>73,323</u>
Less Accumulated Depreciation for:				
Land Improvements	1,972	272	0	2,244
Building Improvements	18,526	1,950	0	20,476
Equipment and Furnishings	11,817	1,805	0	13,622
Total Accumulated Depreciation	<u>32,315</u>	<u>4,027</u>	<u>0</u>	<u>36,342</u>
Total capital assets, being depreciated, net	<u>37,726</u>	<u>(745)</u>	<u>0</u>	<u>36,981</u>
Net Capital Assets	<u>\$ 37,726</u>	<u>\$ (745)</u>	<u>\$ 0</u>	<u>\$ 36,981</u>

Depreciation for the fiscal year ended December 31, 2010, amounted to \$4,027.

**C. Leases**

The Library rents its facilities from Green Lake Township under a lease commencing January 1, 1999 and renewing each January 1st thereafter until written termination by either party. The current yearly lease amount is \$1 per year. The Library is responsible for upkeep, repairs and maintenance, utilities and insurance on the leased property.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**D. Fund Balance Reserves and Designations**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Library has reserved fund balance and has designated certain portions of unreserved fund balances/retained earnings for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE

Reserved For:

Prepaid Expenses	\$ 1,307
Donor Restrictions - Building	223,699
Endowments	<u>33,850</u>
Total Reserved Fund Balance	<u><u>\$ 258,856</u></u>
 Unreserved, Designated for Building	 <u><u>\$ 151,301</u></u>

**E. Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Library purchased commercial insurance which covers general liability, auto liability, property damage, and injuries to employees. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

INTERLOCHEN PUBLIC LIBRARY  
INTERLOCHEN, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED DECEMBER 31, 2010

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
State Grants	\$ 2,600	\$ 1,976	\$ 1,976
Contributions from Local Units	149,065	169,000	169,000
Charges for Services	2,250	2,621	2,621
Fines and Forfeits	33,600	20,764	20,764
Interest and Rents	3,420	556	7,706
Other Revenues	5,700	2,945	6,803
Total Revenues	196,635	197,862	208,870
<u>EXPENDITURES</u>			
Culture and Recreation			
Personal Services			
Salaries and Wages	116,800	121,401	121,401
Payroll Taxes and Benefits	10,500	11,674	11,674
Supplies	6,900	5,343	5,343
Other Services and Charges			
Professional Services	5,900	6,206	6,206
Repairs and Maintenance	5,700	3,119	3,119
Contracted Services - Janitorial	4,000	3,658	3,658
Utilities	7,600	6,790	6,790
Public Relations	1,600	1,255	1,255
Insurance	3,500	3,539	3,539
Lease and Maintenance Reserve	600	451	451
Website and IT	0	186	186
MMLL Dues	1,300	988	988
Miscellaneous	1,000	853	853
Capital Outlay			
Books and Library Materials	24,735	28,308	28,308
Shelving, Furniture and Equipment	1,500	3,657	3,657
Contingency	5,000	434	0
Total Expenditures	\$ 196,635	\$ 197,862	197,428
Excess (Deficiency) of Revenues			
Over Expenditures			11,442
<u>FUND BALANCE</u> - Beginning of Year			418,542
<u>FUND BALANCE</u> - End of Year			\$ 429,984

# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

June 2, 2011

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Library Board  
Interlochen Public Library  
Grand Traverse County  
Interlochen, Michigan

We have audited the financial statements of the governmental activities and the major fund of Interlochen Public Library for the year ended December 31, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 12, 2011. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Interlochen Public Library are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2010 fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Library's financial statements was:

Management's estimate of the useful lives of capital assets is based on previous history. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

##### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 2, 2011.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of Interlochen Public Library for the year ended December 31, 2010, we noted the following items which we feel deserve comment:

#### Budgeting

PA 621 requires that the Library officially adopt an annual budget before the beginning of the fiscal year. This should be done in December each year instead of January. The budget document should include all items required by PA 621, including estimated beginning and ending fund balances for each fund.

## GASB 54

The Governmental Accounting Standards Board has issued new standard #54. This standard changes the definition of various components of fund balance. It also sets some guidelines on what separate funds the Library may have. We will provide the Library with some additional guidance on GASB 54 during the current fiscal year, and the Library will be required to report under GASB 54 effective for the year ending December 31, 2011.

### Condition of Accounting Records and Accounting Controls

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

This information is intended solely for the use of the Board and management of Interlochen Public Library and is not intended to be and should not be used by anyone other than these specific parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*