

Shiawassee District Library

**Financial Report
with Supplemental Information
November 30, 2009**

Shiawassee District Library

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Independent Auditor's Report

To the Board of Directors
Shiawassee District Library

We have audited the accompanying financial statements of the governmental activities and each major fund of Shiawassee District Library (the "Library") as of and for the year ended November 30, 2009, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Shiawassee District 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 basic financial statements referred to above present fairly, in all material respects, the governmental activities and each major fund of Shiawassee District Library at November 30, 2009 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

April 8, 2010

Shiawassee District Library

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include information that presents two different views of Shiawassee District Library (the "Library").

- The first three columns of the financial statements include information on the Library's General Fund, Special Revenue Fund, and Permanent Fund under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the financial statements of the Library as a whole under the full accrual method of accounting.
- The Library as a whole financial statement column provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Shiawassee District Library

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table shows key financial information in a condensed format:

| | 2009 | 2008 |
|--|----------------------------|----------------------------|
| Assets | | |
| Current assets | \$ 1,875,570 | \$ 1,746,187 |
| Capital assets | <u>380,600</u> | <u>395,511</u> |
| Total assets | 2,256,170 | 2,141,698 |
| Liabilities | | |
| Long-term liabilities | 37,428 | 35,836 |
| Other liabilities | <u>28,950</u> | <u>34,092</u> |
| Total liabilities | 66,378 | 69,928 |
| Net Assets | | |
| Invested in capital assets - Net of debt | 380,600 | 395,511 |
| Restricted for donor-restricted purpose | 927,401 | 844,189 |
| Unrestricted | <u>881,791</u> | <u>832,070</u> |
| Total net assets | <u>\$ 2,189,792</u> | <u>\$ 2,071,770</u> |
| Revenue | | |
| Property taxes | \$ 750,677 | \$ 728,870 |
| Donations | 5,466 | 13,123 |
| Other | <u>212,166</u> | <u>189,600</u> |
| Total revenue | 968,309 | 931,593 |
| Expenses - Library services | <u>850,287</u> | <u>917,413</u> |
| Change in Net Assets | <u>\$ 118,022</u> | <u>\$ 14,180</u> |

Shiawassee District Library

Management's Discussion and Analysis (Continued)

The Library as a Whole

- The Library is reporting financial statements that meet the requirements of GASB No. 34. These statements include an analysis of government-wide data for 2009.
- The Library's net assets were \$2,189,792 on a full accrual basis. This represents an increase of \$118,022 compared to the prior year.
- The Library's primary source of revenue is from property taxes. For 2009, total tax collections were \$750,677, which represent 78 percent of total revenue. Property taxes represented 78 percent of total revenue last year.
- Salaries and fringe benefits continue to be significant expenses of the Library, representing 69 percent of the Library's total expenses.
- Library materials, at \$115,799, are the second largest expenditure of the Library, representing 14 percent of the Library's total expenditures under the modified accrual basis.
- Total expenditures under the modified accrual method were \$833,784, a decrease of 12 percent over the prior year. The decrease is related to the prior year unrealized investment losses in the Helen Thome Trust and general reductions in expenditures.

The Library's Funds

Our analysis of the Library's General Fund, Special Revenue Fund, and Permanent Fund is included on pages 6 and 7 in the first three columns of the respective financial statements. The fund columns provide detailed information about these funds.

- The fund balance of the General Fund increased by \$51,313 for the year. This represents unspent revenue greater than expenses.
- The Library board has designated funds to help manage money for specific purposes, such as building (furnishings) expansion, technology upgrades, and capital improvements.
- The fund balance of the Special Revenue Fund - Helen Thome Trust increased \$82,820 for the 2009 year. This represents interest income and unrealized investment gains that exceeded investment losses.
- The Permanent Fund - Staff Scholarship Fund was created in 2008 to account for donations made to the Kenneth and Suzanne Uptigrove Scholarship Fund. Only interest earned on these funds can be spent, and it is restricted to be used for scholarships for the employees of the Library.

Shiawassee District Library

Management's Discussion and Analysis (Continued)

Library Budgetary Highlights

Over the course of the year, the Library board amended the budget to allow for a decrease in revenue, an unexpected capital outlay, and lower than expected expenses. Most amendments were minor.

During 2009, all revenue areas except fines and fees, video rental, and private donation revenues were below budget. Although these three revenue areas were higher than expected, the amounts did not significantly impact the budget. What did impact the budget is that the Library was able to reduce expenditures in almost all categories.

The unplanned capital outlay made during the year was the installation of a smoke and fire detection system that is integrated with the building alarm system in Owosso. While not anticipated during the budget planning cycle, the Library board thought it an important purchase. This unplanned purchase was funded using a combination of state aid monies and unspent budget monies.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$380,600 (net of depreciation) invested in furniture, equipment, books, and materials. In 2009, the Library added \$91,142 in new collection items consisting mainly of books, video materials, audio books, and music CDs.

The Library carries no long-term debt other than compensated absences.

Next Year's Millage Rates

On August 26, 2009, the Library board approved an operating millage rate of 1.2031 mills per thousand dollars of taxable value. This will generate an estimated \$750,000 in property tax revenue based on the current taxable value of property in the Library district.

Shiawassee District Library

Governmental Fund Balance Sheet/Statement of Net Assets November 30, 2009

| | Modified Accrual Basis | | | | Adjustments (Note 8) | Statement of Net Assets - Full Accrual Basis |
|---|------------------------|---|--|---------------------|-------------------------|---|
| | General Fund | Special Revenue Fund - Helen Thome Trust | Permanent Fund - Staff Scholarship Fund | Total | | |
| Assets | | | | | | |
| Cash (Note 2) | \$ 536,601 | \$ 106,070 | \$ 10,741 | \$ 653,412 | \$ - | \$ 653,412 |
| Investments (Note 2) | 411,024 | 810,590 | - | 1,221,614 | - | 1,221,614 |
| Other receivables | 544 | - | - | 544 | - | 544 |
| Capital assets (Note 3) | - | - | - | - | 380,600 | 380,600 |
| Total assets | \$ 948,169 | \$ 916,660 | \$ 10,741 | \$ 1,875,570 | 380,600 | 2,256,170 |
| Liabilities | | | | | | |
| Accounts payable and accrued liabilities | \$ 28,950 | \$ - | \$ - | \$ 28,950 | - | 28,950 |
| Accumulated employee benefits greater than one year (Note 4) | - | - | - | - | 37,428 | 37,428 |
| Total liabilities | 28,950 | - | - | 28,950 | 37,428 | 66,378 |
| Fund Balances | | | | | | |
| Reserved for Library materials and equipment | - | 916,660 | - | 916,660 | (916,660) | - |
| Reserved for staff scholarships: | | | | | | |
| Nonexpendable | - | - | 10,040 | 10,040 | (10,040) | - |
| Expendable | - | - | 701 | 701 | (701) | - |
| Unreserved: | | | | | | |
| Designated for: | | | | | | |
| Retirement reserve | 12,000 | - | - | 12,000 | (12,000) | - |
| Building expansion | 115,000 | - | - | 115,000 | (115,000) | - |
| Durand lease | 2,500 | - | - | 2,500 | (2,500) | - |
| Penal fines stabilization fund | 138,352 | - | - | 138,352 | (138,352) | - |
| Digitalization projects | 3,450 | - | - | 3,450 | (3,450) | - |
| Literacy support | 923 | - | - | 923 | (923) | - |
| Equipment replacement | 20,000 | - | - | 20,000 | (20,000) | - |
| Budgeted working capital | 150,000 | - | - | 150,000 | (150,000) | - |
| Undesignated | 476,994 | - | - | 476,994 | (476,994) | - |
| Total fund balance | 919,219 | 916,660 | 10,741 | 1,846,620 | (1,846,620) | - |
| Total liabilities and fund balance | \$ 948,169 | \$ 916,660 | \$ 10,741 | \$ 1,875,570 | (1,809,192) | 66,378 |
| Net Assets | | | | | | |
| Investment in capital assets | | | | | 380,600 | 380,600 |
| Restricted for donor-restricted purposes - Expendable | | | | | 917,361 | 917,361 |
| Restricted for donor-restricted purposes - Nonexpendable | | | | | 10,040 | 10,040 |
| Unrestricted | | | | | 881,791 | 881,791 |
| Total net assets | | | | | \$ 2,189,792 | \$ 2,189,792 |

Shiawassee District Library

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended November 30, 2009

| | Modified Accrual Basis | | | Total | Adjustments (Note 8) | Statement of Activities - Full Accrual Basis |
|--|------------------------|---|--|---------------------|-------------------------|---|
| | General Fund | Special Revenue Fund - Helen Thome Trust | Permanent Fund - Staff Scholarship Fund | | | |
| Revenue | | | | | | |
| Property tax revenue | \$ 750,677 | \$ - | \$ - | \$ 750,677 | \$ - | \$ 750,677 |
| Penal fines | 78,147 | - | - | 78,147 | - | 78,147 |
| State aid | 18,401 | - | - | 18,401 | - | 18,401 |
| Fines and fees | 14,894 | - | - | 14,894 | - | 14,894 |
| Rental revenue | 6,680 | - | - | 6,680 | - | 6,680 |
| Interest income | 9,063 | 40,696 | 227 | 49,986 | - | 49,986 |
| Donation income | 5,301 | - | 165 | 5,466 | - | 5,466 |
| Unrealized investment gain | - | 44,058 | - | 44,058 | - | 44,058 |
| Total revenue | 883,163 | 84,754 | 392 | 968,309 | - | 968,309 |
| Expenditures | | | | | | |
| Salaries and wages | 431,338 | - | - | 431,338 | - | 431,338 |
| Compensated absences | 2,770 | - | - | 2,770 | 1,592 | 4,362 |
| Payroll taxes | 32,869 | - | - | 32,869 | - | 32,869 |
| Employee benefits | 104,896 | - | - | 104,896 | - | 104,896 |
| Pension | - | - | - | - | - | - |
| Supplies | 20,053 | - | - | 20,053 | - | 20,053 |
| Professional services | 41,004 | - | - | 41,004 | - | 41,004 |
| Membership and dues | 2,620 | - | - | 2,620 | - | 2,620 |
| Education and training | 3,589 | - | - | 3,589 | - | 3,589 |
| Capital outlay - Equipment | 3,800 | 1,892 | - | 5,692 | (6,204) | (512) |
| Utilities | 24,948 | - | - | 24,948 | - | 24,948 |
| Maintenance and repairs | 16,054 | 42 | - | 16,096 | - | 16,096 |
| Library materials | 115,799 | - | - | 115,799 | (81,958) | 33,841 |
| Postage | 4,784 | - | - | 4,784 | - | 4,784 |
| State aid | 15,218 | - | - | 15,218 | (2,980) | 12,238 |
| Insurance | 12,108 | - | - | 12,108 | - | 12,108 |
| Depreciation | - | - | - | - | 106,053 | 106,053 |
| Total expenditures | 831,850 | 1,934 | - | 833,784 | 16,503 | 850,287 |
| Excess of Revenue Over Expenditures/ Change in Net Assets | 51,313 | 82,820 | 392 | 134,525 | (16,503) | 118,022 |
| Fund Balance/Net Assets - Beginning of year | 867,906 | 833,840 | 10,349 | 1,712,095 | 359,675 | 2,071,770 |
| Fund Balance/Net Assets - End of year | \$ 919,219 | \$ 916,660 | \$ 10,741 | \$ 1,846,620 | \$ 343,172 | \$ 2,189,792 |

Shiawassee District Library

**Notes to Financial Statements
November 30, 2009**

Note I - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of Shiawassee District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

Effective July 1, 1994, the City of Owosso, the City of Durand, and Bennington, Owosso, and Rush Townships signed a district library agreement, creating the Shiawassee District Library. The Library is comprised of all the territory that is currently located in the jurisdictional limits of the Township of Bennington, the Township of Owosso, the Township of Rush, the City of Durand, and the City of Owosso. The Library is funded through property taxes, fines, fees, grants, state aid, and donations. The voters of the district approved a 1.25 mill tax for a 10-year period, which began with a tax levy effective December 31, 2002. This millage provides for funding of Library operations through December 1, 2011.

The Library is governed by a six-member board. The board consists of three members appointed by the City of Owosso, two members appointed by the City of Durand, and one member appointed by each of the townships. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's operations are accounted for in a General Fund. The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses.

Shiawassee District Library

**Notes to Financial Statements
November 30, 2009**

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

The Special Revenue Fund - Helen Thome Trust is used to account for the activity related to the donation from the Helen Thome Trust to be used for the purchase of library materials, furnishings, and equipment. The donor specified that both principal and interest can be used for these specific purposes.

The Permanent Fund - Staff Scholarship Fund is used to account for donations made to the Kenneth and Suzanne Uptigrove Scholarship Fund. This fund is set up to provide scholarships to the Library's staff and families. All contributions made to the fund are permanently restricted and only the interest may be used for scholarships. Also, no scholarships may be awarded until total contributions to the fund exceed \$10,000.

In addition to presenting information for the General Fund and Special Revenue Funds on a modified accrual basis, the financial statements present information for the Library using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Financial Statement Amounts

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Capital Assets - Generally, capital assets are defined by the Library as having initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Library books which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$5,000 capitalization threshold.

Shiawassee District Library

Notes to Financial Statements November 30, 2009

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

| | |
|-----------------------------|------------|
| Furniture and equipment | 3-10 years |
| Library books and materials | 7 years |

Compensated Absences - It is the Library's policy to permit employees to accumulate earned but unused sick pay benefits. There is no liability for unused accumulated vacation and personal days since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

Property Taxes - Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2008 tax is levied and collectible on December 1, 2008 and is recognized as revenue for the year ended November 30, 2009, when the proceeds of the levy are budgeted and available for the financing operations. The 2008 taxable value of the district totaled \$641,555,031 (a portion of which is not captured from all jurisdictions), on which taxes levied consisted of 1.2031 mills for operating purposes. This resulted in \$750,677 recognized as property tax revenue.

Fund Equity - In the General Fund financial statements, the Library reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

Shiawassee District Library

Notes to Financial Statements November 30, 2009

Note 2 - Deposits

Michigan Compiled Law Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of the purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed by authority as listed above. The Library's deposits and investments policy is in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$0 of bank deposits (certificates of deposit and checking accounts) that were uninsured and uncollateralized.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not restrict the average maturity of its long-term investments. At November 30, 2009, the average maturity of investments is as follows:

| Type of Investment | Fair Value | More than 10 Years |
|--------------------|------------|-----------------------|
| Municipal bonds | \$ 810,590 | \$ 810,590 |

Shiawassee District Library

Notes to Financial Statements November 30, 2009

Note 2 - Deposits (Continued)

Credit Risk

The Library's investment policy limits its investment choices to those specified by state statute. At November 30, 2009, the credit quality rating of debt securities (other than the U.S. government) is as follows:

| Investment | Fair Value | Rating | Rating Organization |
|-----------------|------------|--------|---------------------|
| Municipal bonds | \$ 810,590 | AAA | S&P |

Concentration of Credit Risk

The Library places no limit on the amount the Library may invest in any one issuer. More than 5 percent of the Library's investments are in Detroit, Michigan City School District and Saginaw, Michigan City School District Bonds; these investments are 88 percent of the Library's total investments of the Helen Thome Trust Fund.

Note 3 - Capital Assets

A summary of the changes in capital assets is as follows:

| Capital Assets Being Depreciated | Balance December 1, 2008 | Additions | Deletions | Balance November 30, 2009 |
|-------------------------------------|--------------------------------|-------------|-----------|---------------------------------|
| Furniture and equipment | \$ 356,035 | \$ 9,184 | \$ - | \$ 365,219 |
| Library books and materials | 1,310,411 | 81,958 | 338,688 | 1,053,681 |
| Total | 1,666,446 | 91,142 | 338,688 | 1,418,900 |
| Accumulated depreciation: | | | | |
| Furniture and equipment | 245,108 | 25,920 | - | 271,028 |
| Library books and material | 1,025,827 | 80,133 | 338,688 | 767,272 |
| Total | 1,270,935 | 106,053 | 338,688 | 1,038,300 |
| Net book value | \$ 395,511 | \$ (14,911) | \$ - | \$ 380,600 |

Shiawassee District Library leases buildings from the City of Owosso and the City of Durand at a nominal amount.

Shiawassee District Library

Notes to Financial Statements November 30, 2009

Note 4 - Long-term Debt

A summary of the debt outstanding of the Library is as follows:

| | Balance December 1, 2008 | | Additions | Deletions | Balance November 30, 2009 |
|-----------------------|--------------------------------|-----------------|-------------|-------------|---------------------------------|
| Compensated absences: | | | | | |
| Due < 1 year | \$ - | \$ - | \$ - | \$ - | \$ - |
| Due > 1 year | <u>35,836</u> | <u>1,592</u> | <u>-</u> | <u>-</u> | <u>37,428</u> |
| Total | <u>\$ 35,836</u> | <u>\$ 1,592</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 37,428</u> |

Compensated absences represent the estimated liability to be paid to employees under the Library's sick pay policy.

Note 5 - Budget Information

The annual budget is prepared by Library management and adopted by the Library's board of trustees; subsequent amendments are approved by the board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The General Fund budget has been approved on an activity basis. A comparison of actual results of operations to the General Fund budget as adopted by the Library board is included in the required supplemental information.

A budget has not yet been completed for the Special Revenue Fund, as there are no material expenditures expected in 2009. All provisions related to the donation of the monies into these funds have been followed. A budget is not required for the Permanent Fund.

Shiawassee District Library

**Notes to Financial Statements
November 30, 2009**

Note 6 - 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 employee medical benefits. The Library participates in the Michigan Municipal Risk Management Authority (the "Authority") for property loss, torts, and errors and omissions claims. The Library participates in the Michigan Municipal League program for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 7 - Pension Plan

Plan Description

The Library participates in the Michigan Municipal Employees' Retirement System, an agent, multiple-employer defined benefit pension plan that covers all full-time employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by board approval and requires a contribution from employees of 6.00 percent of gross wages.

Shiawassee District Library

Notes to Financial Statements November 30, 2009

Note 7 - Pension Plan (Continued)

Annual Pension Cost

For the year ended November 30, 2009, the Library's annual pension cost was \$0, which was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial calculation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, and (c) additional projected salary increases ranging from 0 percent to 8.4 percent per year, depending on age, attributable to seniority/merit. Both (a) and (b) include an inflation assumption of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period.

Trend Information

| | Years Ended November 30 | | |
|--|-------------------------|--------------|--------------|
| | 2007 | 2008 | 2009 |
| Annual pension cost | \$ 965 | \$ 500 | \$ - |
| Percentage of annual pension cost contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |
| Actuarial valuation as of December 31: | 2006 | 2007 | 2008 |
| Actuarial value of assets | \$ 1,400,342 | \$ 1,510,838 | \$ 1,520,471 |
| Actuarial accrued liability (entry age) | \$ 1,290,167 | \$ 1,442,658 | \$ 1,512,078 |
| Overfunded AAL | \$ (110,175) | \$ (68,180) | \$ (8,393) |
| Funded ratio | 108.5% | 104.7% | 100.6% |
| Covered payroll | \$ 281,340 | \$ 240,076 | \$ 273,956 |

Shiawassee District Library

Notes to Financial Statements November 30, 2009

Note 8 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

The total governmental funds' fund balance and the net change in fund balance differs from net assets and change in net assets reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental funds' balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Governmental Funds - Modified accrual basis \$ 1,846,620

Amounts reported in the statement of net assets are different because:

| | |
|---|-----------------|
| Capital assets are not financial resources and are not reported in the General Fund | 380,600 |
| Compensated absences are included as a liability | <u>(37,428)</u> |

Net Assets of the Library - Full accrual basis \$ 2,189,792

Net Changes in Fund Balances - Total governmental funds -
Modified accrual basis \$ 134,525

Amounts reported in the statement of activities are different because:

| | |
|---|------------------|
| Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Furniture and equipment capital outlay | 9,184 |
| Library books and materials capital outlay | 81,958 |
| Depreciation | <u>(106,053)</u> |

| | |
|--|----------------|
| Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the General Fund statements | <u>(1,592)</u> |
|--|----------------|

Changes in Net Assets of the Library - Full accrual basis \$ 118,022

Note 9 - Upcoming GASB Pronouncement

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The Library is currently evaluating the impact this standard will have on the financial statements when adopted. The Library will implement Statement No. 54 beginning with the fiscal year ending November 30, 2011.

Required Supplemental Information

Shiawassee District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended November 30, 2009

| | Originally Adopted Budget | Final Amended Budget | Actual Balances | Variance Favorable (Unfavorable) |
|--|---------------------------------|----------------------------|--------------------------|--|
| Revenue | | | | |
| Property tax revenue | \$ 768,020 | \$ 750,600 | \$ 750,677 | \$ 77 |
| Penal fines | 97,200 | 78,140 | 78,147 | 7 |
| State aid | 22,750 | 18,400 | 18,401 | 1 |
| Fines and fees | 13,800 | 14,600 | 14,894 | 294 |
| Rental revenue | 5,900 | 6,600 | 6,680 | 80 |
| Interest income | 27,500 | 8,000 | 9,063 | 1,063 |
| Donation income | 3,100 | 5,300 | 5,301 | 1 |
| Total revenue | <u>938,270</u> | <u>881,640</u> | <u>883,163</u> | <u>1,523</u> |
| Expenditures | | | | |
| Salaries and wages | 468,863 | 433,332 | 431,338 | 1,994 |
| Compensated absences | 4,000 | 2,770 | 2,770 | - |
| Payroll taxes | 33,417 | 33,150 | 32,869 | 281 |
| Employee benefits | 123,760 | 106,783 | 104,896 | 1,887 |
| Pension | 1,000 | 1,000 | - | 1,000 |
| Supplies | 26,000 | 21,500 | 20,053 | 1,447 |
| Professional services | 34,880 | 38,280 | 41,004 | (2,724) |
| Membership and dues | 3,000 | 3,000 | 2,620 | 380 |
| Education and training | 9,000 | 4,700 | 3,589 | 1,111 |
| Capital outlay - Equipment | - | 4,180 | 3,800 | 380 |
| Utilities | 32,600 | 25,515 | 24,948 | 567 |
| Maintenance and repairs | 28,000 | 18,000 | 16,054 | 1,946 |
| Library materials | 125,000 | 119,900 | 115,799 | 4,101 |
| Postage | 8,000 | 5,000 | 4,784 | 216 |
| State aid | 22,750 | 18,400 | 15,218 | 3,182 |
| Insurance | 18,000 | 18,000 | 12,108 | 5,892 |
| Total expenditures | <u>938,270</u> | <u>853,510</u> | <u>831,850</u> | <u>21,660</u> |
| Excess of Revenue Over Expenditures | - | 28,130 | 51,313 | 23,183 |
| Fund Balance - Beginning of year | <u>769,191</u> | <u>832,658</u> | <u>867,906</u> | <u>35,248</u> |
| Fund Balance - End of year | <u><u>\$ 769,191</u></u> | <u><u>\$ 860,788</u></u> | <u><u>\$ 919,219</u></u> | <u><u>\$ 58,431</u></u> |

April 8, 2010

To the Board of Directors
Shiawassee District Library

We have audited the financial statements of Shiawassee District Library (the "Library") for the year ended November 30, 2009 and have issued our report thereon dated April 8, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 1, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Shiawassee District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated March 2, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the 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 fiscal year ended November 30, 2009.

We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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. There were no significant components in the financial statements based on sensitive management estimates.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 such misstatements which related to recording investments at fair market value.

Disagreements with Management

For the purpose 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 April 8, 2010.

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 Library'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, business conditions affecting the Library, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

This information is intended solely for the use of the board of directors and management of Shiawassee District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Jean Young". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Jean M. Young, CPA
Partner

April 8, 2010

To the Board of Directors
Shiawassee District Library

Dear Board Members:

In planning and performing our audit of the financial statements of Shiawassee District Library (the "Library") as of and for the year ended November 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

- The Library used funds from the Helen Thome Trust to purchase municipal bonds in the previous year. The fair market value of the bonds was not properly recorded in the general ledger throughout the year. The unrealized loss reported in the general ledger was significantly overstated. Once adjusted, the fair market value of the bonds resulted in an unrealized gain for the year. To ensure proper reporting throughout the year, we recommend the Library request accounting assistance for new or unusual transactions throughout the fiscal year.

The following items were also identified during our audit and are provided for your consideration:

- The Library accountant prepares the monthly bank reconciliations, prepares accounts payable check batches, and makes all of the journal entries. It is recognized that the lack of segregation of duties is due to the size of the Library and number of staff. Therefore, it is critical that the Library continue to maintain the compensating controls that are in place such as the Library director's review of the bank reconciliations, checks, and journal entries and the board of the directors' review of the monthly financial statements.
- It was noted that an employee submitted a \$250 reimbursement request for vision expenses incurred when the invoice for the expense only totaled \$248. The \$250 request was approved and the employee was paid \$2 over the actual amount of the expense. It is important that the Library review all reimbursement requests and the associated expenses before approving for payment.

The following item is provided for your information:

GASB No. 54, Fund Balance Reporting and Governmental Fund-type Definitions

The Governmental Accounting Standards Board has issued a new pronouncement, GASB No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. GASB No. 54 eliminates the current use of the terms "reserved" and "designated" in the reporting of fund balance and replaces those terms with five new categories for segregating fund balance. The standard is effective for periods beginning after June 15, 2010 (which would be the Library's fiscal year ending November 30, 2011).

This GASB also redefines Special Revenue Funds. The main change will be that some of these funds might be required to be rolled up into the General Fund for financial statement reporting purposes.

Even though this standard is not effective until November 30, 2011, the Library will be starting to budget for that fiscal year over the next few months. This has the potential to change the way the Library budgets for the General Fund and accounting for fund balance.

The following are the new categories and related definitions to be used for describing the components of your fund balance:

- * Nonspendable - Includes amounts either not in spendable form or amounts that are legally or contractually required to be maintained intact. This would include inventory, prepaids, noncurrent receivables, and permanent fund principal balance.

- * **Restricted** - Reflects the same definition as restricted net assets: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital project funds, grant funds, and debt service funds.
- * **Committed** - Includes amounts that are committed for specific purposes by formal action of the government's highest level of decision-making authority. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the government removes or changes the limitation by taking the same form of action it employed to previously impose the limitation.
- * **Assigned** - Amounts that are intended by the government to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the decision-makers themselves or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the decision-makers. This would include any activity reported in a fund other than the General Fund.
- * **Unassigned** - Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated."

The standard also requires disclosure in the financial statements of any minimum fund balance policies. We encourage you to become familiar with the new terms and definitions to determine the appropriate presentation for your upcoming financial statements.

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

Very truly yours,

Plante & Moran, PLLC



Jean Young, CPA
Partner