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CURTIS TOWNSHIP LIBRARY
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2007

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PAGE

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 2 - 5

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

EXHIBIT A STATEMENT OF NET ASSETS 6

EXHIBIT B STATEMENT OF ACTIVITIES 7

FUND FINANCIAL STATEMENTS

EXHIBIT C BALANCE SHEET - GOVERNMENTAL FUND 8

EXHIBIT D RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES 9

EXHIBIT E STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE - GOVERNMENTAL FUND 10

EXHIBIT F RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES 11

EXHIBIT G **NOTES TO FINANCIAL STATEMENTS** 12 - 19

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT H STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL FUND 20

REPORT 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 21 - 22



Stephenson, Gracik & Co., P.C.

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September 29, 2008

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Independent Auditors' Report

Library Board
Curtis Township Library
Alcona County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Curtis Township Library, Alcona County, Michigan, component unit of the Township of Curtis, Alcona, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements, as listed in the index. 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 the 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 in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Curtis Township Library, Alcona County, Michigan, as of December 31, 2007, 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.

As described in Note 2, the Curtis Township Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of December 31, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of the Curtis Township Library's internal control over financial reporting and on 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 important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.

Curtis Township Library
4884 Bamfield Road
Glennie, MI 48737

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Curtis Township Library's (the Library) financial performance provides an overview of the Library's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at the Library's financial performance as a whole. The discussion focuses on the Library's primary government. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

Financial Highlights

- The Library's assets exceeded its liabilities by \$168,508.
- The Library's total net assets decreased by \$9,522.
- The Library's governmental fund reported an ending fund balance of \$7,882 this year, a decrease of \$1,823. The entire amount is available for spending (*unreserved fund balance*).

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Library as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Library's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Library as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

With this report, all capital assets are listed for the Curtis Township Library. These assets are comprised of buildings, machinery and equipment, library materials and land owned by the Library. These assets total over \$360,000.

Fund Financial Statements

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Library operates under one fund which is considered a *Governmental Fund*.

Governmental Funds:

Governmental funds are those through which all governmental functions of the Library are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Library *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

Government -Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the Curtis Township Library at December 31, 2007:

| | Governmental Activities |
|----------------------------|------------------------------------|
| Current Assets | \$ 7,882 |
| Capital Assets, net | <u>160,626</u> |
| Total Assets | <u>168,508</u> |
| | |
| Current Liabilities | <u>0</u> |
| | |
| Net Assets | |
| Invested in Capital Assets | 160,626 |
| Unrestricted | <u>7,882</u> |
| | |
| Total Net Assets | <u>\$ 168,508</u> |

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2007.

Generally speaking, the Library's net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. The Curtis Township Library, through its governing body, i.e., Library Board of Trustees, has taken a sensible approach regarding capital asset acquisition. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

| | <u>Governmental Activities</u> |
|------------------------------------|---|
| Program Revenues: | |
| Operating Grants and Contributions | \$ <u>5,458</u> |
| General Revenue: | |
| Property Taxes | 26,226 |
| State Revenue Sharing | 545 |
| Penal Fines | 8,830 |
| Investment Earnings | 348 |
| Other | <u>1,426</u> |
| Total General Revenue | <u>37,375</u> |
| Total Revenues | 42,833 |
| Program Expenses: | |
| Recreation and Cultural | <u>52,355</u> |
| Change in Net Assets | (9,522) |
| Beginning Net Assets | <u>178,030</u> |
| Ending Net Assets | <u>\$ 168,508</u> |

Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$5,458 from *Operating Grants and Contributions*. Operating expenses totaled \$52,355 for these same activities.

Financial Analysis of Library Funds

As noted earlier in this report, the Library uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The Library operates under one fund which is considered a major governmental fund.

Budgetary Highlights

General Fund Budgetary Highlights

The Library's budget is prepared according to Michigan Law. During the fiscal year ended December 31, 2007, the Library amended its budget a few times, none significantly.

The General Fund actual revenue was \$42,833. That amount is above the original budget estimate of \$39,950 and final budget estimate of \$42,530. The variance between the actual revenue and the final budget was the result of increased revenues from various sources.

The General Fund actual expenditures were \$44,656. That amount is above the original budget estimate of \$41,274 and final budget estimate of \$44,479. The variance between the actual expenditures and the final budget was the result of increased expenditures in various areas.

Fiscal year 2008 saw the Library's General Fund fund balance decrease from \$9,705 to \$7,882.

Capital Assets

Capital Assets

The Library defines capital assets as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of five years. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

Capital Assets – Governmental Activities beginning balance was \$360,122, with an ending balance of \$362,762. Governmental Activities Total Capital Assets – Net of Depreciation was \$160,626.

Economic Factors

The Library Board continues to work hard to keep expenditures down and to maintain revenue levels that are within their control. The Library property tax revenues account for approximately 61% of the Library General Fund Revenues.

The major expenditures for the Library General Fund are for salaries and wages, followed by operating supplies.

The Library Board monitors the revenue and expenditures throughout the year and takes appropriate action when the economic factors dictate a change.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Curtis Township Library, 4884 Bamfield Rd., Glennie, Michigan, 48737.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

STATEMENT OF NET ASSETS
December 31, 2007

| | <u>Governmental Activities</u> |
|------------------------------------|------------------------------------|
| <u>Assets</u> | |
| Cash and cash equivalents (Note 3) | \$ 5,175 |
| Investments (Note 3) | 2,707 |
| Capital assets, net (Note 4) | <u>160,626</u> |
| Total Assets | <u>168,508</u> |
| <u>Liabilities</u> | |
| Accounts payable | <u>0</u> |
| <u>Net Assets</u> | |
| Invested in capital assets | 160,626 |
| Unrestricted | <u>7,882</u> |
| Total Net Assets | <u>\$ 168,508</u> |

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

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

| <u>Function/Program</u> | <u>Expenses</u> | <u>Program Revenues</u> Operating Grants and Contributions | <u>Net (Expense) Revenue and Changes in Net Assets</u> Governmental Activities |
|--------------------------------|-----------------|---|--|
| Governmental activities: | | | |
| Recreation and cultural | \$ 52,355 | \$ 5,458 | \$ (46,897) |
| General Revenue: | | | |
| Property taxes levied for: | | | |
| Library operating | | | 26,226 |
| State revenue sharing | | | 545 |
| Penal fines | | | 8,830 |
| Investment earnings | | | 348 |
| Other | | | 1,426 |
| Total general revenue | | | <u>37,375</u> |
| Change in net assets | | | (9,522) |
| Net assets - beginning of year | | | <u>178,030</u> |
| Net assets - end of year | | | <u>\$ 168,508</u> |

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

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUND
December 31, 2007

| | <u>General Fund</u> |
|--|---------------------|
| <u>ASSETS</u> | |
| Cash and cash equivalents (Note 3) | \$ 5,175 |
| Investments (Note 3) | <u>2,707</u> |
| Total Assets | <u>\$ 7,882</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | |
| <u>Liabilities</u> | |
| Accounts payable | \$ 0 |
| <u>Fund Equity</u> | |
| Fund balance: | |
| Unreserved: | |
| Undesignated, reported in: | |
| General fund | <u>7,882</u> |
| Total Liabilities and Fund Equity | <u>\$ 7,882</u> |

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

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
December 31, 2007

| | | |
|--|------------------|-------------------|
| Total governmental fund balance: | | \$ 7,882 |
| 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, therefore, are not reported as assets in the governmental fund. Capital assets at year end consist of: | | |
| Capital assets cost | \$ 362,762 | |
| Accumulated depreciation | <u>(202,136)</u> | |
| | | <u>160,626</u> |
| Total net assets - governmental activities | | <u>\$ 168,508</u> |

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

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCE
 GOVERNMENTAL FUND
For the Year Ended December 31, 2007

| | <u>General Fund</u> |
|---|---------------------|
| <u>Revenue</u> | |
| Property taxes | \$ 26,226 |
| State revenue | 545 |
| Penal fines | 8,830 |
| Interest earned | 348 |
| Contributions | 5,458 |
| Other revenue | 1,426 |
| Total revenue | 42,833 |
| <u>Expenditures</u> | |
| Current: | |
| Recreation and cultural: | |
| Salary and wages | 17,280 |
| Payroll taxes | 1,322 |
| Advertising | 367 |
| Office supplies | 3,375 |
| Operating supplies | 7,747 |
| Dues and subscriptions | 105 |
| Insurance and bonds | 1,949 |
| Utilities | 4,056 |
| Repairs and maintenance | 1,140 |
| Travel | 690 |
| Telephone | 2,229 |
| Licensing fees | 295 |
| Special programs | 1,341 |
| Other | 120 |
| Capital outlay: | |
| Library materials | 2,640 |
| Total expenditures | 44,656 |
| Excess of revenue over (under) expenditures | (1,823) |
| Fund balance - beginning of year | 9,705 |
| Fund balance - end of year | \$ 7,882 |

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

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

| | | | |
|--|--|----|-----------------|
| Total net change in fund balance - governmental fund | | \$ | (1,823) |
| Amounts reported for governmental activities in the statement of activities are different because: | | | |
| The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | | | |
| Capital assets reported as capital outlays in the governmental fund | | \$ | 2,640 |
| Current year depreciation expense | | | <u>(10,339)</u> |
| Net difference | | | <u>(7,699)</u> |
| Change in net assets of governmental activities | | \$ | <u>(9,522)</u> |

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

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Curtis Township Library (Library) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of Library's Operations

The Curtis Township Library operates under the supervision and control of a six member Board of Trustees. The Library was established to maintain and operate a public library for the Township.

The Library's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Library exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

These financial statements have been combined with the Township of Curtis' financial statements and are presented as a discrete component unit to the Township.

B. Basis of Presentation

The Library's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Library that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support. The Library does not currently have any business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Fund

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the governmental fund according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Library's general fund is considered a governmental fund.

D. Measurement Focus

Government -Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Library are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Library, available means expected to be received within 60 days after year end.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

Nonexchange transactions, in which the Library receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Library must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Library on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the Library's revenue sources are considered both measurable and available at year end.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures :

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, is not recognized in governmental funds.

F. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Library are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental fund. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are defined by the government as assets with an initial cost of more than \$2,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets (Continued)

The Library does not possess any infrastructure. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

| <u>Description s</u> | <u>Estimated Lives</u> |
|-------------------------|------------------------|
| Buildings | 40 years |
| Machinery and equipment | 5 – 10 years |
| Library materials | 7 years |

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Library's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended December 31, 2007.

J. Budgets and Budgetary Accounting

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

1. The Library director submits to the Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain comments.
3. Prior to January 1, the budget is legally enacted through Board approval.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Library Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Library Board.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Use of Estimates

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

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change in Accounting Principles

For 2008, the Library has implemented Governmental Accounting Standards Board (GASB) Statement Number 34, "Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" in their entirety as required by the Local Audit and Finance Division of the Treasury Department of the State of Michigan.

GASB Statement No. 34 creates new basic financial statements for reporting on the Library's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting. The government-wide financial statements split the Library's programs between governmental activities and business type activities. The Library does not currently have any business-type activities.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Library's deposits and investments were reported in the basic financial statements in the following categories:

| | |
|---------------------------|-----------------|
| Cash and Cash Equivalents | \$ 5,175 |
| Investments | <u>2,707</u> |
| Total | <u>\$ 7,882</u> |

The breakdown between deposits and investments is as follows:

| | |
|---|-----------------|
| Bank Deposits (checking and savings accounts and certificates of deposit) | <u>\$ 7,882</u> |
|---|-----------------|

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

In accordance with its investment policy, the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Library's known cash requirements.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of December 31, 2007, \$0 of the Library's bank balance of \$8,137 was exposed to custodial credit risk.

Concentration of Credit Risk

The Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk

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

Investments:

The Library has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Library to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Library's deposits are in accordance with statutory authority.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended December 31, 2007 was as follows:

| <u>Governmental Activities</u> | <u>Balance 01/01/07</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/07</u> |
|---------------------------------------|-----------------------------|------------------|------------------|-----------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 17,500 | \$ 0 | \$ 0 | \$ 17,500 |
| Capital Assets Being Depreciated: | | | | |
| Buildings | 182,600 | 0 | 0 | 182,600 |
| Machinery and Equipment | 11,500 | 0 | 0 | 11,500 |
| Library Materials | 148,522 | 2,640 | 0 | 151,162 |
| Subtotal | 342,622 | 2,640 | 0 | 345,262 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | (50,215) | (4,565) | 0 | (54,780) |
| Machinery and Equipment | (7,514) | (1,186) | 0 | (8,700) |
| Library Materials | (134,068) | (4,588) | 0 | (138,656) |
| Subtotal | (191,797) | (10,339) | 0 | (202,136) |
| Capital Assets Being Depreciated | 150,825 | (7,699) | 0 | 143,126 |
| Governmental Activities Total | | | | |
| Capital Assets - Net of Depreciation | \$ 168,325 | \$ (7,699) | \$ 0 | \$ 160,626 |

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

| | |
|--------------------------------|-----------|
| <u>Governmental Activities</u> | |
| Recreation and Cultural | \$ 10,339 |

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the Township. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the Township was \$55,252,256. The tax rate was .4846 mills for Library services.

NOTE 6 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Library for these budgetary funds were adopted at the activity level.

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 6 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS (CONTINUED)

During the year ended December 31, 2007, the Library incurred expenditures which were in excess of the amounts appropriated as follows:

| <u>Fund/Activity</u> | <u>Total Appropriations</u> | <u>Amount of Expenditures</u> | <u>Budget Variance</u> |
|----------------------|-----------------------------|-------------------------------|------------------------|
| General Fund: | | | |
| Payroll taxes | \$ 1,267 | \$ 1,322 | \$ 55 |
| Office supplies | \$ 2,956 | \$ 3,375 | \$ 419 |

NOTE 7 - UNEMPLOYMENT COMPENSATION

The Library is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Library must reimburse the Employment Agency for all benefits charged against the Library. Accrued unemployment compensation was \$0 as of December 31, 2007.

NOTE 8 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

CURTIS TOWNSHIP LIBRARY
Alcona County, Michigan

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

For the Year Ended December 31, 2007

| | Original Budget | Final Amended Budget | Actual | Variance - Favorable (Unfavorable) |
|---|--------------------|----------------------------|-----------------|--|
| <u>Revenue</u> | | | | |
| Property taxes | \$ 21,000 | \$ 26,226 | \$ 26,226 | \$ 0 |
| State revenue | 475 | 545 | 545 | 0 |
| Penal fines | 8,900 | 8,830 | 8,830 | 0 |
| Interest earned | 350 | 386 | 348 | (38) |
| Contributions | 7,800 | 5,518 | 5,458 | (60) |
| Other | <u>1,425</u> | <u>1,025</u> | <u>1,426</u> | <u>401</u> |
| Total revenue | <u>39,950</u> | <u>42,530</u> | <u>42,833</u> | <u>303</u> |
| <u>Expenditures</u> | | | | |
| Salary and wages | 17,280 | 17,280 | 17,280 | 0 |
| Payroll taxes | 1,500 | 1,267 | 1,322 | (55) |
| Advertising | 0 | 367 | 367 | 0 |
| Office supplies | 3,407 | 2,956 | 3,375 | (419) |
| Operating supplies | 4,390 | 7,747 | 7,747 | 0 |
| Dues and subscriptions | 125 | 105 | 105 | 0 |
| Insurance and bonds | 2,000 | 1,949 | 1,949 | 0 |
| Utilities | 3,200 | 4,056 | 4,056 | 0 |
| Repairs and maintenance | 600 | 1,140 | 1,140 | 0 |
| Travel | 800 | 968 | 690 | 278 |
| Telephone | 2,400 | 2,229 | 2,229 | 0 |
| Licensing fees | 172 | 295 | 295 | 0 |
| Special programs | 0 | 1,341 | 1,341 | 0 |
| Other | 0 | 120 | 120 | 0 |
| Capital outlay: | | | | |
| Furniture, fixtures and equipment | 2,250 | 0 | 0 | 0 |
| Library materials | <u>3,150</u> | <u>2,659</u> | <u>2,640</u> | <u>19</u> |
| Total expenditures | <u>41,274</u> | <u>44,479</u> | <u>44,656</u> | <u>(177)</u> |
| Excess of revenue over (under) expenditures | (1,324) | (1,949) | (1,823) | 126 |
| Fund balances - beginning of year | <u>9,705</u> | <u>9,705</u> | <u>9,705</u> | <u>0</u> |
| Fund balances - end of year | <u>\$ 8,381</u> | <u>\$ 7,756</u> | <u>\$ 7,882</u> | <u>\$ 126</u> |



September 29, 2008

REPORT 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

Members of the Library Board
Curtis Township Library
Alcona County, Michigan

We have audited the financial statements of the governmental activities and major fund of the Curtis Township Library, Alcona County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 29, 2008. 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 Curtis Township Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Curtis Township Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Curtis Township Library's internal control over financial reporting.

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

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 Curtis Township Library'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 Curtis Township Library's financial statements that is more than inconsequential will not be prevented or detected by the Curtis Township Library's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Financial Statement Preparation

The Curtis Township Library prepares various financial information throughout the year to assess operations and the financial condition of the Library. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Library relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Curtis Township Library has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Library is considered to

Members of the Township Board
Curtis Township Library
September 29, 2008
Page Two

have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Library would not be in a position to detect the errors or omissions.

Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. To minimize the above deficiency, the Township Treasurer prepares bank reconciliations and all checks require dual signatures by a board member or other designated person.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Curtis Township Library's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Curtis Township 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted one other matter that we reported to management of the Curtis Township Library in a separate letter dated September 29, 2008.

View of Responsible Officials and Planned Corrective Actions:

Financial Statement Preparation

The Library has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Library to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Separation of Duties in the Performance of Functions

The Library Director will review the current duties and analyze possible areas for changes in functions performed by specific individuals in order to strengthen internal control.

The Curtis Township Library's responses to the findings identified in our audit are described above. We did not audit the Curtis Township Library's responses and, accordingly, we express no opinion on them.

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

Stephenson, Gracik & Co., P.C.



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brahma, CPA
Kyle E. Troyer, CPA

Herman A. Bertulci

September 29, 2008

Members of the Township Board
Curtis Township Library
Alcona County, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities and the major fund of the Curtis Township Library for the year ended December 31, 2007, and have issued our report thereon dated September 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 10, 2008, our responsibility, as described by professional standards, is to express opinions 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.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Curtis Township Library's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated March 10, 2008 and in our meeting about planning matters on June 18, 2008.

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 the Curtis Township Library are described in Note 1 to the financial statements. As described in Note 2, the Curtis Township Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of December 31, 2007. We noted no transactions entered into by the Curtis Township Library during the year that 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.

Difficulties Encountered in Performing the Audit

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

Stephenson, Gracik & Co., P.C.

Members of the Township Board
Curtis Township Library
September 29, 2008
Page Two

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. The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by management.

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 September 29, 2008.

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 auditors' 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.

In planning and performing our audit of the financial statements of the Township of Curtis for the year ended March 31, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. As a result of our consideration of the internal controls and tests of compliance as described in the third and fourth paragraphs, we offer the following recommendations for consideration.

Financial Statement Preparation

The Curtis Township Library prepares various financial information throughout the year to assess operations and the financial condition of the Library. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Library relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Curtis Township Library has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Library is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Library would not be in a position to detect the errors or omissions.

Stephenson, Gracik & Co., P.C.

Members of the Township Board
Curtis Township Library
September 29, 2008
Page Three

Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. To minimize the above deficiency, the Township Treasurer prepares bank reconciliations and all checks require dual signatures by a board member or other designated person.

Budget Control

The Curtis Township Library's general fund included expenditures in two line items that exceeded appropriated amounts. We recommend that the Library Board continue to amend the budget as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Library.

This information is intended solely for the use of management, Library Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.