

**Albion District Library
Albion, Michigan**

FINANCIAL STATEMENTS

December 31, 2007

Albion District Library
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Albion District Library
Albion, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Albion District Library as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Albion 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Albion District Library as of December 31, 2007, and the respective changes in financial position, thereof 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 information, as identified in the table of contents, are not required parts 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 30, 2008

Albion District Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

The Albion District Library was formed on April 1, 2007 to provide quality library service to Albion area residents. The accompanying financial statements are for the year ended December 31, 2007. The management's discussion and analysis of Albion District Library's (the Library) financial report provides an overview of the Library's financial activities for the period ended December 31, 2007. Please read it in conjunction with the Library's financial statements which follow this section.

Using this Annual Report

This annual report consists of a series of financial statements. 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. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's General Fund.

Statement of Net Assets/Statement of Activities

The following table shows, in a condensed format, the Library's net assets. Comparative information will be provided in future years when that information is available:

	<u>December 31, 2007</u>
Assets	
Current assets	\$ 1,708,306
Liabilities	
Current liabilities	489,983
Noncurrent liabilities	<u>29,081</u>
Total liabilities	<u>519,064</u>
Net Assets	<u>\$ 1,189,242</u>

The following table shows the changes of the net assets:

	<u>Fiscal Period Ended December 31, 2007</u>
Revenue	
Charges for services	\$ 16,752
Grants and contributions	1,409,680
Property taxes	7,762
State Aid	7,707
Penal fines	38,246
Investment earnings	74,999
Other	<u>3,232</u>
Total revenue	1,558,378
Expenses	
Recreation and cultural	<u>369,136</u>
Change in Net Assets	<u>\$ 1,189,242</u>

Albion District Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

The Library's revenues were \$1,558,378 in the current year. The most significant revenue was grants and contributions (91%), which include allocations from the City of Albion for Library operations. The Library's expenses were \$369,136 in the current year. The ending net assets were \$1,189,242

The Library's Funds

The Library has 2 funds: the General Fund and the Trust fund. Included in the assets of the General Fund is the cash which is a part of the pooled cash being held at the City of Albion. Also included in the assets of the General Fund are the taxes receivable. These are the taxes owed to the Library by the different governmental entities that have collected taxes on the behalf of the Library. The Library Trust fund holds various investments. The earnings of those investments are to be used to assist in financing Library operations.

Budgetary Highlights

The Library budgeted for \$293,869 in revenues and other financing sources and ended the period with \$499,240, which is \$205,371 more than originally planned. The most significant variation was for allocations from the City of Albion. The Library budgeted for \$355,719 in expenditures and only spent \$332,785, which is \$22,934 less than originally planned.

Capital Asset and Debt Administration

The Library does not have a policy related to capital assets. In the current year, there are no capital assets reported for the Library.

The Library has an obligation to pay accrued sick and vacation pay in accordance with personnel policies. As of December 31, 2007, the dollar value of this liability was \$36,351, of which \$7,270 is considered a current liability.

Economic Factors and Next Year's Budget

State funding for libraries is slowly disappearing; state aid has been cut and may not be part of the next state budget. Michigan's bleak economic climate has had a negative impact on the financial support the library traditionally enjoys from local civic groups. Their ability to raise funds is lessened as the unemployment rate rises. The 2008 budget reflects these factors.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director's Office.

BASIC FINANCIAL STATEMENTS

Albion District Library

STATEMENT OF NET ASSETS

December 31, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 269,670
Investments	1,042,904
Receivables	394,663
Prepays	<u>1,069</u>
TOTAL ASSETS	1,708,306
LIABILITIES	
Current liabilities	
Accounts payable	10,418
Due to other governmental units	5
Deferred revenue	472,290
Current portion of compensated absences	<u>7,270</u>
Total current liabilities	489,983
Noncurrent liabilities	
Noncurrent portion of compensated absences	<u>29,081</u>
TOTAL LIABILITIES	<u>519,064</u>
NET ASSETS	
Unrestricted	<u><u>\$ 1,189,242</u></u>

See accompanying notes to financial statements.

Albion District Library

STATEMENT OF ACTIVITIES

Period Ended December 31, 2007

Function/Program	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Assets
				Governmental Activities
Governmental activities:				
Recreation and cultural	\$ 369,136	\$ 16,752	\$ 1,409,680	\$ 1,057,296
		General revenues:		
			Property taxes	7,762
			State aid	7,707
			Penal fines	38,246
			Investment earnings	74,999
			Miscellaneous	3,232
			Total general revenues	131,946
			Change in net assets	1,189,242
			Net assets, beginning of period	-
			Net assets, end of period	\$ 1,189,242

See accompanying notes to financial statements.

Albion District Library

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2007

	General Fund	Permanent Library Trust Fund	Total Governmental Funds
ASSETS			
Cash	\$ 253,439	\$ 16,231	\$ 269,670
Investments	-	1,042,904	1,042,904
Receivables			
Accounts	11,464	-	11,464
Taxes	383,199	-	383,199
Prepays	1,069	-	1,069
TOTAL ASSETS	\$ 649,171	\$ 1,059,135	\$ 1,708,306
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 10,418	\$ -	\$ 10,418
Due to other governmental units	5	-	5
Deferred revenue	472,290	-	472,290
TOTAL LIABILITIES	482,713	-0-	482,713
FUND BALANCES			
Reserved for:			
Prepays	1,069	-	1,069
Trust activities	-	1,059,135	1,059,135
Unreserved, undesignated, reported in:			
General fund	165,389	-	165,389
TOTAL FUND BALANCES	166,458	1,059,135	1,225,593
TOTAL LIABILITIES AND FUND BALANCES	\$ 649,171	\$ 1,059,135	\$ 1,708,306

See accompanying notes to financial statements.

Albion District Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2007

Total fund balance - governmental funds \$ 1,225,593

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

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet.

Long-term liabilities at period-end consist of:

Compensated absences (36,351)

Net assets of governmental activities \$ 1,189,242

See accompanying notes to financial statements.

Albion District Library

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Period Ended December 31, 2007

	General Fund	Permanent Library Trust Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 7,762	\$ -	\$ 7,762
Intergovernmental			
State	7,707	-	7,707
Local	379,198	1,018,491	1,397,689
Charges for services	13,597	-	13,597
Penal fines	38,246	-	38,246
Fines and forfeits	3,155	-	3,155
Interest and rents	6,986	68,013	74,999
Contributions	11,991	-	11,991
Other	3,232	-	3,232
TOTAL REVENUES	471,874	1,086,504	1,558,378
EXPENDITURES			
Recreation and cultural			
Salaries and wages	157,371	-	157,371
Fringe benefits	46,485	-	46,485
Utilities	12,323	-	12,323
Supplies	3,214	-	3,214
Repairs and maintenance	6,720	-	6,720
Insurance	1,069	-	1,069
Advertising	5,177	-	5,177
Contracted Services	37,027	-	37,027
Conferences, meetings and travel	1,206	-	1,206
Telephone	6,944	-	6,944
Postage	1,065	-	1,065
Printing and publishing	572	-	572
Equipment	17,524	-	17,524
Rentals	390	-	390
Books and periodicals	28,486	-	28,486
Miscellaneous	7,212	-	7,212
TOTAL EXPENDITURES	332,785	-0-	332,785
EXCESS OF REVENUES OVER EXPENDITURES	139,089	1,086,504	1,225,593
OTHER FINANCING SOURCES (USES)			
Transfer in	27,369	-	27,369
Transfer out	-	(27,369)	(27,369)
TOTAL OTHER FINANCING SOURCES (USES)	27,369	(27,369)	-0-
NET CHANGE IN FUND BALANCES	166,458	1,059,135	1,225,593
Fund balances, beginning of period	-	-	-0-
Fund balances, end of period	<u>\$ 166,458</u>	<u>\$ 1,059,135</u>	<u>\$ 1,225,593</u>

See accompanying notes to financial statements.

Albion District Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Period Ended December 31, 2007

Net change in fund balances - total governmental funds \$ 1,225,593

Amounts reported for the governmental activities in the statement of activities are different because:

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:

(Increase) in accrued compensated absences (36,351)

Change in net assets of governmental activities \$ 1,189,242

See accompanying notes to financial statements.

Albion District Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Library was created on April 1, 2007, through a District Library Agreement entered into by the Albion School District, the City of Albion, and Albion Township. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The Library's governmental participants collect and distribute property taxes that are levied by the Library. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

Under the District Library Establishment Act (MCL 397.171 *et seq.*), the governing body of the Library is a board which is comprised of seven (7) members; three (3) appointed by the City of Albion, two (2) appointed by the Township Board of Albion Township, and two (2) appointed by the Board of Education for the Albion Public Schools for a term of four (4) years with staggered term expiration.

The Albion District Library's goal is to provide quality library service to Albion area residents by improving library service, encouraging educational advancement and personal welfare of Library personnel, and supporting the bill of rights as stated by the American Library Association.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Albion District Library (primary government). The Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Library as a whole.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements for these funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

The major funds of the Library are:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, penal fines, state aid, and other sources.
- b. Library Trust Fund - The Library Trust Fund is a permanent fund used to account for the financial resources of the Albion District Library to endow its future for the citizens of Albion.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

Budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the basis used to reflect actual results. The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

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

- a. The Library prepares the proposed operating budget for the fiscal year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the total expenditure level; however, it is maintained at the account level for control purposes.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

Albion District Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash and Investments

Cash consists of checking accounts held at the City of Albion. Investments consist of certificates of deposit with an original maturity of greater than 90 days.

7. Receivables

Receivables consist of property taxes due from other governmental units and amounts due from various individuals and agencies related to charges for services.

8. Property Taxes

The municipalities within the Library's jurisdictional territory levy and collect property taxes for the Library. As the Library tax is collected, it is remitted by the Township and City Treasurers. At March 1 each year the townships settle their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Calhoun County. Delinquent personal property taxes are retained by the Township and City Treasurers for subsequent collection. The Library is permitted to levy up to \$2.25 per \$1,000 of assessed valuation on property within the District. For the year ended December 31, 2007, the Library levied 2.25 mills.

9. Deferred Revenue

Deferred revenue consists of the amount of the taxes levied on December 1, 2007 for the 2008 fiscal year.

10. Prepays

Prepays consist of expenditures representing costs applicable to future periods. These prepaids recorded in the General Fund do not reflect current expendable resources and therefore, an equal portion of fund balance is reserved.

11. Capital Assets

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the Government-wide financial statements. Purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

The Library has no assets that would be classified as capital assets.

12. Compensated Absences

The Department employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount has been recorded as a current and noncurrent liability in the government-wide financial statements.

13. Comparative Data

Comparative data for the prior period is not available as this is the Library's first period of operations.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Albion District Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is custodial credit risk as it relates to 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.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Albion District Library or the City of Albion. As of December 31, 2007, the carrying amount of the deposits held in the Library's name was \$1,059,135 and the bank balance was \$1,059,135, of which \$116,231 was covered by Federal depository insurance. The balance of \$942,904 was uninsured and uncollateralized. The balance sheet also includes \$253,439 in cash on deposit with the City of Albion. The cash on deposit with the City of Albion is part of the City's pooled cash account. As a result, the insured and uninsured amounts related to this amount cannot be determined.

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at the end of the period.

Albion District Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH AND INVESTMENTS - CONTINUED

Interest rate risk

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 designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

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 by security type to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments of collateral securities that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers have been eliminated.

Transfers to General Fund from:	
Library Trust Fund	<u>\$ 27,369</u>

NOTE D: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the Library for the period ended December 31, 2007.

	<u>Balance</u> <u>April 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2007</u>	<u>Due Within</u> <u>One Year</u>
PRIMARY GOVERNMENT					
Compensated absences	<u>\$ -</u>	<u>\$ 50,097</u>	<u>\$ 13,746</u>	<u>\$ 36,351</u>	<u>\$ 7,270</u>

Significant details regarding outstanding long-term obligations are presented below:

Compensated absences

Individual employees have vested rights upon termination of employment to receive payments for sick leave. The dollar amounts of these vested rights including related payroll taxes, which have been recorded as a liability in the governmental-wide financial statements, amounted to approximately \$36,351 at December 31, 2007.

NOTE E: RISK MANAGEMENT

The Library is exposed to various risks of loss for liability, property, employee dishonesty, workers' compensation, and employer's liability. For the period ended December 31, 2007, the Library was included with the City of Albion's commercial insurance policies.

Albion District Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: FUND EQUITY RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are fund balance reserves as of December 31, 2007:

General Fund	
Reserved for prepaids	<u>\$ 1,069</u>
Library Trust Fund	
Reserved for trust activities	<u>\$ 1,059,134</u>

REQUIRED SUPPLEMENTARY INFORMATION

Albion District Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Period Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
Taxes	\$ 75,441	\$ 8,100	\$ 7,762	\$ (338)
Intergovernmental				
State	9,880	5,720	7,707	1,987
Local	268,609	200,730	379,198	178,468
Charges for services	10,538	12,000	13,597	1,597
Penal fines	33,825	21,000	38,246	17,246
Fines and forfeits	3,300	3,000	3,155	155
Interest and rents	4,635	4,200	6,986	2,786
Contributions	5,248	11,250	11,991	741
Miscellaneous	7,000	500	3,232	2,732
TOTAL REVENUES	418,476	266,500	471,874	205,374
EXPENDITURES				
Recreation and cultural				
Salaries and wages	205,694	156,000	157,371	(1,371)
Fringe benefits	71,427	50,083	46,485	3,598
Utilities	20,025	15,100	12,323	2,777
Supplies	12,125	4,800	3,214	1,586
Repairs and maintenance	10,000	9,500	6,720	2,780
Insurance	2,288	1,138	1,069	69
Advertising	7,175	5,500	5,177	323
Contracted services	29,688	33,250	37,027	(3,777)
Conferences, meetings and travel	2,307	1,450	1,206	244
Telephone	23,400	7,900	6,944	956
Postage	1,384	1,000	1,065	(65)
Printing and publishing	353	600	572	28
Equipment and furniture	27,250	24,200	17,524	6,676
Rentals	1,500	730	390	340
Books and periodicals	44,281	37,245	28,486	8,759
Miscellaneous	9,579	7,223	7,212	11
TOTAL EXPENDITURES	468,476	355,719	332,785	22,934
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(50,000)	(89,219)	139,089	228,308
OTHER FINANCING SOURCES				
Transfer in	50,000	27,369	27,369	-0-
NET CHANGE IN FUND BALANCE	-0-	(61,850)	166,458	228,308
Fund balance, beginning of period	-	-	-	-0-
Fund balance, end of period	\$ -0-	\$ (61,850)	\$ 166,458	\$ 228,308

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Board of Trustees
Albion District Library
Albion, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Albion District Library as of and for the period ended December 31, 2007, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated May 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America 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 deficiencies to be significant deficiencies in internal control over financial reporting:

WRITTEN PROCEDURES AND POLICIES

Based on our discussions with management, we noted that the Library has not formally adopted written procedures and policies for areas of operation that directly or indirectly affect financial reporting. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater oversight over those areas over which they are responsible.

Specifically, we recommend that the Library develop, formally adopt, and implement written procedures and policies affecting the financial reporting process in the following areas:

- a. Fraud risk management program - We recommend the Library adopt a formal fraud risk management program. The program should include policies and procedures on ways for management to prevent, detect and deter fraudulent activities.

WRITTEN PROCEDURES AND POLICIES - CONTINUED

- b. Business Continuity Plan - A business continuity plan would clarify Library's position if an interruption of critical business processes were to occur. We recommend the Library develop and implement a policy addressing business continuity and include it in the policy manual.

CAPITAL ASSET POLICY

The Library's financial statements are presented in accordance with Governmental Accounting Standards Board Statement 34 (GASB 34), which requires (among other things) that capital assets be recorded and depreciated in the full-accrual basis "government-wide" financial statements. During the course of our audit, we noted that the Library does not have a policy in place to specify a dollar threshold to define long-lived assets that would be capitalized and depreciated in the financial statements.

GASB 34 requires the Library to present its more significant assets as capital assets. GASB 34 allows each government to decide how to define which assets are significant enough to be capitalized and depreciated for the financial statements in order to reduce the administrative burden of the requirement.

We recommend the Library develop and adopt a capitalization threshold policy that would define assets that are to be included in the financial statements as capital assets. At the Library's option, this policy may be applied retroactively or it may be applied for future purchases only.

PREPARATION OF FINANCIAL STATEMENTS

Effective for all audits of fiscal years ended December 31, 2006 and thereafter, Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the City prepares monthly financial reporting at the fund level for the Library and the annual audited financial statements for the year ended December 31, 2007 for the Albion District Library required relatively few audit adjustments. The staff at the Albion District Library with assistance from the City of Albion does understand substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process. We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk, we noted that at the present time, the Library does not have sufficient segregation of duties in the area of cash receipts. During the course of our audit, the following specific conditions were noted:

- a. All employees have a key to the cash drawer.
- b. All employees can open the mail. A log of mail payments is not kept.
- c. Checks are not stamped "For Deposit Only" until they are deposited with the City Treasurer's office.

Duties and responsibilities for handling receipts should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.

While this is a common occurrence in many smaller governments due to the limited number of employees, the Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the Library's management must provide a greater review and supervision of employee functions and procedures.

SEGREGATION OF DUTIES - CONTINUED

We recommend that the Board review various areas of operation and consider additional segregation duties to provide better internal controls. When the Board is adopting new or modifying existing financial policies, they should consider the potential impact that fraud or misappropriation may have on the Library and assure that the policies address ways to prevent, deter, and detect fraud.

A material weakness is a significant deficiency, or a 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 Albion District Library's internal control. We believe that the following deficiency constitutes a material weakness:

MATERIAL JOURNAL ENTRIES

During the course of our audit, we performed a search for unrecorded receivable and payable amounts, as well as deferred revenue. As a result of that search, journal entries were suggested to the Library's management for entry into the general ledger. The suggested receivable, payable, and deferred revenue amounts would be considered material to the Library's financial statements.

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. Part of that external financial reporting process is determining the amounts due to the entity as of year-end (i.e., accounts receivable) and amounts due from the entity as of year-end (i.e., accounts payable). As a result, a government's ability to prepare financial statements in accordance with generally accepted accounting principles has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

Responsibility for the fair presentation of the Library's financial statements, including the amounts and disclosure within the financial statements, rests with the Library's management. The Library should establish sufficient internal controls to assure that the financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles.

We recommend the Library make determinations of accounts receivable and accounts payable amounts by fund as part of their year-end closing procedures. Documentation supporting the receivable and payable amounts recorded in the general ledger should be retained for audit purposes.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the following instances of noncompliance:

BOARD OVERSIGHT

During the course of our audit, we noted that the City of Albion performs accounting functions for the Albion District Library. The reason for this is that it is simply more cost effective to outsource this function than to train employees to perform accounting functions. In addition, the Library's cash is included with the City's general pooled checking account.

During our discussions with management, we noted that the Board periodically reviews a check register and an income statement, but does not review a balance sheet, monthly bank statement or reconciliation from the City. This oversight is necessary to keep the Board informed of the financial position of the Library throughout the year, so that the Board can make informed decisions about operations.

BOARD OVERSIGHT - CONTINUED

We recommend that the Board continue to review a check register and income statement on a monthly basis and in addition request a bank statement and reconciliation, balance sheet, and budgetary report on a monthly basis from the City Treasurer. The Board should review and approve these items during the monthly meetings. This review and approval should be documented in the board minutes.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 30, 2008