

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name CHARLEVOIX PUBLIC LIBRARY	County CHARLEVOIX
Fiscal Year End 6/30/07	Opinion Date 8/23/07	Date Audit Report Submitted to State 12/17/07	

We affirm that:

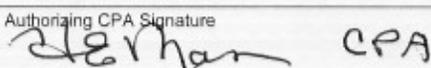
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|-----|----|--|
| YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|----|--|
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. The local unit has adopted a budget for all required funds.
 5. A public hearing on the budget was held in accordance with State statute.
 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. The local unit only holds deposits/investments that comply with statutory requirements.
 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. The local unit is free of repeated comments from previous years.
 12. The audit opinion is UNQUALIFIED.
 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. The board or council approves all invoices prior to payment as required by charter or statute.
 15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) MASON & KAMMERMANN, P.C.		Telephone Number (231) 547-4911	
Street Address 110 PARK AVENUE		City CHARLEVOIX	State Zip MI 49720
Authorizing CPA Signature  CPA		Printed Name HUGH E. MASON	License Number 1101008161

CHARLEVOIX PUBLIC LIBRARY

CHARLEVOIX, MICHIGAN

FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

for the year ended June 30, 2007

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHARLEVOIX, MICHIGAN

Charlevoix Public Library

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MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

August 23, 2007

Members of the Library Board
Charlevoix Public Library
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Charlevoix Public Library of Charlevoix, Michigan as of and for the year ended June 30, 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 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, each major fund and the aggregate remaining fund information of Charlevoix Public Library as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows 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 on pages 3 through 7 and 24 through 26, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charlevoix Public Library's basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mason & Kammermann, P.C.
Certified Public Accountants

Charlevoix Public Library

Management's Discussion and Analysis August 23, 2007

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to Charlevoix Public Library's basic financial statements for the fiscal year ended June 30, 2007. The Library's basic financial statements comprise three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Library's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Library's net assets changed during the most recent fiscal year, using the full accrual basis of accounting.

Both government-wide financial statements distinguish functions of the entity that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Library include a single program function, culture and recreation, and two major funds that are reported separately from the general library operations, the Debt Service Fund and Capital Projects Fund.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Charlevoix Public Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Library are classified as governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Charlevoix Public Library

Management's Discussion and Analysis August 23, 2007

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Summary of Net Assets

The following schedule summarizes the net assets at June 30, 2007 and 2006:

<u>Assets</u>	2007	2006
Current Assets	\$ 1,229,572	\$ 3,306,938
Noncurrent Assets:		
Capital assets, net of accumulated depreciation	8,837,416	6,651,963
Unamortized bond expenses	46,394	49,123
Total noncurrent assets	8,883,810	6,701,086
Total assets	10,113,382	10,008,024
<u>Liabilities and Net Assets</u>		
Current Liabilities	301,649	668,173
Noncurrent Liabilities		
Long-term debt	6,750,000	6,990,000
Compensated absences	14,120	14,317
Total noncurrent liabilities	6,764,120	7,004,317
Total liabilities	7,065,769	7,672,490
Net Assets		
Invested in capital assets, net of related debt	1,893,810	(498,914)
Restricted for debt service	108,701	102,137
Unrestricted	1,045,102	2,732,311
Total net assets	\$ 3,047,613	\$ 2,335,534

Charlevoix Public Library

Management's Discussion and Analysis August 23, 2007

Analysis of Financial Position

During the fiscal year ended June 30, 2007, the Library's net assets increased by \$712,079. A few of the more significant factors affecting net assets during the year are discussed below:

Depreciation Expense

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2007, \$203,318 was recorded for depreciation expense in the statement of activities.

Capital Outlay Acquisitions

For the fiscal year ended June 30, 2007, of expenditures totaling \$2,388,771 were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as described above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$2,185,453 for the fiscal year ended June 30, 2007.

Results of Operations

For the fiscal years ended June 30, 2007 and 2006, the changes in net assets were as follows:

	<u>2007</u>	<u>% of Total</u>	<u>2006</u>	<u>% of Total</u>
General Revenues				
Property Taxes	\$ 1,240,124	63.51%	\$ 1,174,391	67.03%
Investment Earnings	230,385	11.80%	65,158	3.72%
Penal Fines	58,812	3.01%	52,295	2.98%
Donations	357,728	18.32%	403,570	23.03%
State Aid	7,429	0.38%	7,777	0.44%
Other	23,554	1.21%	39,159	2.25%
Total General Revenues	<u>1,918,032</u>	<u>98.23%</u>	<u>1,742,350</u>	<u>99.45%</u>
Program Revenues				
Grants	<u>34,585</u>	<u>1.77%</u>	<u>9,714</u>	<u>0.55%</u>
Total Revenues	<u>1,952,617</u>	<u>100.00%</u>	<u>1,752,064</u>	<u>100.00%</u>

Charlevoix Public Library

Management's Discussion and Analysis August 23, 2007

Expenses

Recreation and Culture	<u>1,240,538</u>	<u>100.00%</u>	<u>712,354</u>	<u>100.00%</u>
Changes in Net Assets	<u>\$ 712,079</u>		<u>\$ 1,039,710</u>	

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The Library levies mills of property taxes for operations and for debt repayment related to the renovations of the building.

For 2006-2007, the District levied \$748,010 in operating property taxes and \$492,114 in debt property taxes.

2. Donations

The Library received donations during the year, many of which were allocated for the building project. For the fiscal year ended June 30, 2007, donations accounted for \$357,728.

Comparative Expenses

A comparison of program expenses reported in the Statement of Activities is shown below:

Program Expenses	2006-2007 Fiscal Year	2005-2006 Fiscal Year	Increase (Decrease)
Recreation & Culture:			
Salaries and wages	\$ 345,662	\$ 207,474	\$ 138,188
Benefits	87,707	48,684	39,023
Professional services	66,264	23,076	43,188
Occupancy	146,457	20,209	126,248
Materials	51,752	23,370	28,382
Depreciation	203,318	47,962	155,356
Amortization	2,729	2,729	-
Interest & fees	281,124	287,992	(6,868)
Other	<u>55,525</u>	<u>50,858</u>	<u>4,667</u>
Total program expenses	<u>\$ 1,240,538</u>	<u>\$ 712,354</u>	<u>\$ 528,184</u>

Charlevoix Public Library

Management's Discussion and Analysis August 23, 2007

Financial Analysis of the Library's Funds

At June 30, 2007, the Library's governmental funds reported a combined cash and cash equivalents balance of \$1,227,294, which is a decrease of \$2,068,426 from last year. This is due to renovation expenditures paid during the current year.

Revenues in the General Fund exceeded expenditures by \$121,489, which was primarily due to increases in property taxes and investment revenue.

The Debt Service Fund had a \$5,488 increase in its fund balance this year. This was due to collecting more tax and investment revenue than debt service costs.

The Capital Projects Fund decreased by \$1,808,895 due to capital outlay expenditures for the new building project.

General Fund Budgetary Highlights

The Library's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The General Fund budget was amended during the year. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various Library programs.

Capital Assets

At June 30, 2007 the Library had \$9,729,074 in capital assets, including buildings and improvements, equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$203,318 bringing the accumulated depreciation to \$891,658.

Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

- As with other employers, the Library continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.

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 Library's finances. If you have questions about this report, please contact Charlevoix Public Library, 220 W. Clinton Street, Charlevoix, MI 49720.

Charlevoix Public Library

Statement of Net Assets June 30, 2007

<u>Assets</u>	<u>Governmental Activities</u>
Current Assets	
Cash and cash equivalents	\$ 1,227,294
Taxes receivable	2,278
Total current assets	<u>1,229,572</u>
Noncurrent Assets	
Capital assets, net of accumulated depreciation	8,837,416
Unamortized bond expenses	46,394
Total noncurrent assets	<u>8,883,810</u>
Total assets	10,113,382
 <u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	4,610
Accrued wages	10,853
Accrued interest	46,186
Current portion of long-term debt	240,000
Total current liabilities	<u>301,649</u>
Noncurrent Liabilities	
Long-term debt, net of current portion	6,750,000
Compensated absences	14,120
Total noncurrent liabilities	<u>6,764,120</u>
Total liabilities	7,065,769
Net Assets	
Invested in capital assets, net of related debt	1,893,810
Restricted for debt service	108,701
Unrestricted	1,045,102
Total net assets	<u><u>\$ 3,047,613</u></u>

The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Statement of Activities For The Year Ended June 30, 2007

	<u>Expenses</u>
Recreation and Culture	
Salaries	\$ 345,662
Professional services	66,264
Benefits	87,707
Materials	51,752
Occupancy	146,457
Depreciation	203,318
Amortization	2,729
Interest and fees	281,124
Other	<u>55,525</u>
Total program expenses	1,240,538
Program Revenues	
Grants	<u>34,585</u>
Net program expenses	1,205,953
General Revenues	
Property taxes - general operating	748,010
Property taxes - debt	492,114
Investment earnings	230,385
Penal fines	58,812
State aid	7,429
Donations	357,728
Other	<u>23,554</u>
Total general revenues	<u>1,918,032</u>
Change in Net Assets	712,079
Net Assets - Beginning of Year	<u>2,335,534</u>
Net Assets - End of Year	<u><u>\$ 3,047,613</u></u>

The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Governmental Funds Balance Sheet June 30, 2007

<u>Assets</u>	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 979,875	\$ 154,887	\$ 92,532	\$ 1,227,294
Taxes receivable	2,278	-	-	2,278
 Total assets	 <u>\$ 982,153</u>	 <u>\$ 154,887</u>	 <u>\$ 92,532</u>	 <u>\$ 1,229,572</u>
 <u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	\$ 4,610	\$ -	\$ -	\$ 4,610
Accrued wages	10,853	-	-	10,853
 Total liabilities	 <u>15,463</u>	 <u>-</u>	 <u>-</u>	 <u>15,463</u>
Fund Equity				
Reserved	-	138,573	-	138,573
Unreserved				
Designated	-	16,314	92,532	108,846
Undesignated	966,690	-	-	966,690
 Total fund equity	 <u>966,690</u>	 <u>154,887</u>	 <u>92,532</u>	 <u>1,214,109</u>
 Total liabilities & fund equity	 <u>\$ 982,153</u>	 <u>\$ 154,887</u>	 <u>\$ 92,532</u>	 <u>\$ 1,229,572</u>

The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2007

Total Governmental Fund Balances \$ 1,214,109

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets and unamortized expenses used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet

Cost of capital assets	\$ 9,729,074	
Accumulated depreciation	<u>(891,658)</u>	
		8,837,416

Unamortized bond expenses		46,394
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Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable	(6,750,000)
Current maturities of debt, due in one year	(240,000)

Compensated absences are included as a liability

Compensated absences	(14,120)
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Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds

Accrued interest	<u>(46,186)</u>
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Net Assets of Governmental Activities	<u><u>\$ 3,047,613</u></u>
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The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

For The Year Ended June 30, 2007

	General Fund	Debt Service	Capital Projects	Total Governmental Funds
Revenues:				
Local Sources				
Property tax levy	\$ 748,010	\$ 492,114	\$ -	\$ 1,240,124
Earnings on investments and deposits	26,303	5,968	198,114	230,385
Grants	34,585	-	-	34,585
Donations	59,518	-	298,210	357,728
Other	19,957	-	3,597	23,554
Intermediate Sources				
Penal fines	58,812	-	-	58,812
State Sources				
State aid	7,429	-	-	7,429
Total Revenues	954,614	498,082	499,921	1,952,617
Expenditures:				
Salaries	345,465	-	-	345,465
Employee fringe benefits	87,707	-	-	87,707
Professional services	66,264	-	-	66,264
Occupancy	146,457	-	-	146,457
Supplies and materials	51,752	-	-	51,752
Capital outlay	79,955	-	2,308,816	2,388,771
Debt Service:				
Principal	-	210,000	-	210,000
Interest and fees	-	282,594	-	282,594
Other	55,525	-	-	55,525
Total expenditures	833,125	492,594	2,308,816	3,634,535
Excess of revenues over (under) expenditures	121,489	5,488	(1,808,895)	(1,681,918)
Fund Balances - Beginning of Year	845,201	149,399	1,901,427	2,896,027
Fund Balances - End of Year	\$ 966,690	\$ 154,887	\$ 92,532	\$ 1,214,109

The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Governmental Funds Reconciliation of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For The Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ (1,681,918)

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

Governmental funds report capital outlays and intangible assets as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation or amortization.

Depreciation expense	(203,318)
Capital outlay	2,388,771
Amortization expense	(2,729)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

Bond payable payment	210,000
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid

Accrued interest	1,076
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Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Compensated absences	<u>197</u>
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Changes in Net Assets - Governmental Activities	<u><u>\$ 712,079</u></u>
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The accompanying notes are a part of the financial statements.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Charlevoix Public Library was created as a District Library on January 1, 1997, by agreement between Charlevoix Public School, City of Charlevoix, and Townships of Charlevoix, Eveline, Hayes, Marion and Norwood pursuant to the District Library Establishment Act. The Library Board consists of seven members, appointed one each by the governmental entities creating the District. Prior to July 1, 1997, the Library was operated as a fund of the Charlevoix Public School District.

The Library's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No.14.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to financial statements presented in the previous financial reporting model,

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library has governmental funds called the General Fund, Debt Service Fund and Capital Projects Fund.

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

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the Library receives cash.

The Library reports the following major governmental funds:

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

The Capital Projects Fund accounts for the acquisition of fixed assets or construction of major capital projects.

The Debt Service Fund is used to account for the annual payments of principal, interest and expenses in connection with the Library facility renovation and addition.

D. Assets, Liabilities and Equity

1. Cash and Investments

- (l) The investment policy of the Library allows it to invest in instruments allowed by State of Michigan statutes. State statutes authorize the Library to invest funds as follows:
 - (a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States
 - (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II)
 - (c) In commercial paper rated at the time of purchase with the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase
 - (d) In repurchase agreements consisting of instruments listed in subdivision (a).
 - (e) In banker's acceptances of United States banks.
 - (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

- (g) In 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 to 80a-74, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - a. The purchase of securities on a when-issued or delayed delivery basis.
 - b. The ability to lend portfolio securities as long as the mutual fund received collateral at all times equal to at least 100% of the value of the securities loaned.
 - c. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA7, MCL 124.501 to 124.512.
- (i) In investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129141 to 129.150.
- (II) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (III) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

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

Books	7 years
Furniture and Fixtures	10 years
Equipment	5 years
Leasehold Improvements	20 years
Buildings	50 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$500 and all books.

The Library purchased the former public middle school building to be remodeled to a new facility for Charlevoix Public Library. As of June 30, 2007, the project was completed.

3. Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

4. Fund Equity

Reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Use of Estimates

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

6. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

An operating budget is prepared annually. The operating budget includes proposed expenditures and the means of financing them.

Prior to the start of the fiscal year that it covers, the Library Board approves the budget.

The Library Board must approve all transfers of budget amounts between accounts within the General Fund.

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board. The budget was amended twice during the year.

Budget appropriations lapse at the end of the fiscal year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

DETAILED NOTES ON GENERAL FUND AND ACCOUNT GROUP

A. Deposits and Investments

The Library's deposits and investments are all on deposit with Charlevoix State Bank, Citizens Bank of Charlevoix and Comerica Bank.

Following is a breakdown of the deposits and investments:

Deposits – At year-end, the Library's bank balance of cash and cash equivalents was \$1,227,294, of which \$330,850 was covered by federal depository insurance and \$896,444 was uninsured and uncollateralized.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

B. Capital Assets

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

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>
Capital Assets				
Building – 220 Clinton Street	\$ 6,469,960	\$ 1,980,388	\$ -	\$ 8,450,348
Building – 109 Clinton Street	153,658	-	-	153,658
Leasehold Improvements	9,659	-	-	9,659
Equipment	51,172	188,559	-	239,731
Furniture and Fixtures	89,293	6,669	-	95,992
Book Collection	566,561	213,125	-	779,686
Total Capital Assets	870,343	2,388,771	-	9,729,074
Less: Accumulated Depreciation	<u>(688,340)</u>	<u>(203,318)</u>	-	<u>(891,658)</u>
Total Capital Assets	<u>\$ 6,651,963</u>	<u>\$ 2,185,453</u>	<u>\$ -</u>	<u>\$ 8,837,416</u>

For the fiscal year ended June 30, 2007, depreciation totaled \$203,318.

C. Other Assets

Bond issue expenses are being amortized under the straight-line method over the term of the bonds. The Statement of Activities reflects \$2,729 for the amortization of the bond issue expense during the year.

D. Property Taxes

Property taxes levied by the various municipalities are periodically remitted to the Library. Property taxes are assessed as of January 1st and billed and due December 1st. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

For the year ended June 30, 2007, the Municipalities levied the following amount per \$1,000 of taxable valuation.

<u>PURPOSE</u>	<u>MILLS</u>
General Operating	.4466
General Operating	.6376
Debt	.6450

The county in which the Library is located has a tax revolving fund which allows the county to pay off the various taxing units for their share of the current year real property taxes returned delinquent. As of June 30, 2007, the Library had taxes receivable for personal property taxes in the amount of \$2,278.

E. Grants

The City of Charlevoix Downtown Development Authority has approved an annual grant of \$30,000 through the year 2024 to assist the Library. In addition, grant revenues of \$4,585 were received from the Charlevoix County Community Foundation.

F. Long-Term Debt

A summary of the long-term transactions for the Library for the year ended June 30, 2007, is as follows:

	<u>Bonds Payable</u>
Long-term debt payable at July 1, 2006	\$7,200,000
Additions	-
Repayment	<u>(210,000)</u>
Long-term debt payable at June 30, 2007	<u>\$6,990,000</u>

Bonds payable at June 30, 2007 are comprised of the following:

General Obligation Bonds

Building and site bonds of \$7,450,000 issued September 2004, due in annual installments of \$70,000 to \$590,000 through May, 2024; interest at 3 to 4.5 percent

\$ 6,990,000

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

Debt Service Requirements

Annual debt service requirements to retire all debt outstanding (excluding compensated absences) including both principal and interest, as of June 30, 2007 are as follows:

Year Ending 6/30	Principal Due	Interest Due	Repayments Remaining
2008	\$ 240,000	\$ 277,145	\$ 517,145
2009	270,000	269,945	539,945
2010	300,000	261,845	561,845
2011	315,000	252,095	567,095
2012	330,000	241,070	571,070
2013-2017	1,930,000	1,008,984	2,938,984
2018-2022	2,450,000	583,338	3,033,338
2023-2024	1,155,000	78,242	1,233,242
	<u>\$ 6,990,000</u>	<u>\$ 2,972,664</u>	<u>\$ 9,962,664</u>

Interest

Interest paid on the bonds totaled \$282,594 for the year.

F. Compensated Absences Liability

Employees of the Library are entitled to paid sick days depending on job classification, length of service and other factors. At June 30, 2007, the accrued liability for compensated absences totaled \$14,120. This liability is recorded only in the government-wide financial statements as a noncurrent liability.

	<u>COMPENSATED ABSENCES</u>
Compensated Absences at July 1, 2006	\$ 14,317
Net Increase/(Decrease)	<u>(197)</u>
Compensated Absences at June 30, 2007	<u>\$ 14,120</u>

G. Short-Term Debt

The Library incurred no short-term debt activity for the year.

Charlevoix Public Library

Notes to the Financial Statements For the Year Ended June 30, 2007

IV. OTHER INFORMATION

A. Employee Retirement System

Charlevoix Public Library has adopted a retirement plan for eligible employees hired after July 1, 1997. The plan is administered by ICMA Retirement Corporation and is a defined contribution money purchase plan. Currently under this plan, the Library contributes 7 to 11 percent of the employee's regular wages (not including overtime and bonuses), on behalf of full-time contracted employees. The amount contributed for the year was \$18,931. All employees are eligible to participate in this plan, but the Library is not obligated to make contributions on their behalf.

B. 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 participates in two pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Library has not been informed of any special assessments being required in the past 2 years.

The Library continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

Charlevoix Public Library

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Local Sources				
Property tax levy	\$ 772,500	\$ 772,500	\$ 748,010	\$ (24,490)
Earnings on investments and deposits	2,000	2,000	26,303	24,303
Grants	-	-	34,585	34,585
Donations	6,700	6,700	59,518	52,818
Other:				
Copy machine receipts	3,500	3,500	2,438	(1,062)
Book fines	5,500	5,500	8,535	3,035
Refunds and reimbursements	3,000	3,000	8,470	5,470
Miscellaneous	400	400	514	114
Total other	12,400	12,400	19,957	7,557
Intermediate Sources				
Penal fines	45,000	45,000	58,812	13,812
State Sources				
State of Michigan	7,500	7,500	7,429	(71)
Total revenues	846,100	846,100	954,614	108,514
Expenditures:				
Salaries				
Director	58,000	58,000	59,049	1,049
Other	295,000	295,000	286,416	(8,584)
Total salaries	353,000	353,000	345,465	(7,535)
Employee Fringe Benefits				
Employee insurance	40,850	40,850	41,359	509
Retirement	21,000	21,000	18,931	(2,069)
Social security	26,400	26,400	26,355	(45)
Worker's compensation	2,000	2,000	1,062	(938)
Total employee fringe benefits	90,250	90,250	87,707	(2,543)
Professional Services	65,000	65,000	66,264	1,264

Charlevoix Public Library

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Occupancy				
Utilities	104,000	104,000	75,730	(28,270)
Insurance - property and liability	13,000	13,000	10,008	(2,992)
Landscaping	-	-	40,338	40,338
Repairs and maintenance	18,000	18,000	20,381	2,381
Total occupancy	135,000	135,000	146,457	11,457
Supplies and Materials				
Periodicals	7,500	7,500	12,325	4,825
Postage	7,000	7,000	4,993	(2,007)
Electronic subscriptions	12,000	12,000	11,581	(419)
Other supplies	20,000	20,000	22,853	2,853
Total supplies and materials	46,500	46,500	51,752	5,252
Other Operating Expenses				
Travel	10,000	10,000	5,230	(4,770)
Printing and publishing	14,000	14,000	13,453	(547)
Dues and fees	18,000	18,000	18,592	592
Refund of prior year property taxes	2,000	2,000	792	(1,208)
Programming	5,200	5,200	2,406	(2,794)
Reimbursable	6,000	6,000	2,354	(3,646)
Grants	-	-	5,964	5,964
Miscellaneous	6,500	6,500	6,734	234
Total other operating expenses	61,700	61,700	55,525	(6,175)
Capital outlay	29,500	29,500	79,955	50,455
Total expenditures	780,950	780,950	833,125	52,175
Excess of revenues over expenditures	65,150	65,150	121,489	56,339
Fund Balance - Beginning of Year	845,201	845,201	845,201	-
Fund Balance - End of Year	\$ 910,351	\$ 910,351	\$ 966,690	\$ 56,339

Charlevoix Public Library

Statement of Revenues, Expenditures and Changes in Fund Balances Budget Comparison - Capital Projects Fund For The Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Earnings on investments and deposits	\$ -	\$ -	\$ 198,114	\$ 198,114
Donations	170,000	170,000	298,210	128,210
Reimbursements	-	-	3,597	3,597
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	170,000	170,000	499,921	329,921
Expenditures:				
Capital outlay	-	-	2,308,816	2,308,816
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of revenues over (under) expenditures	170,000	170,000	(1,808,895)	(1,978,895)
Fund Balance - Beginning of Year	<u>1,901,427</u>	<u>1,901,427</u>	<u>1,901,427</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 1,901,427</u>	<u>\$ 2,071,427</u>	<u>\$ 92,532</u>	<u>\$ (1,978,895)</u>

MASON & KAMMERMANN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

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Telephone (231) 547-4911
Facsimile (231) 547-5911

October 19, 2007

To the Library Board
Charlevoix Public Library
Charlevoix, Michigan

In planning and performing our audit of the financial statements of Charlevoix Public Library as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Charlevoix Public 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. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Segregation of Duties

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

Preparation of Financial Statements

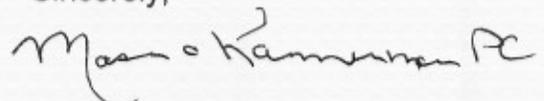
During the course of our audit, it was noted employees and/or management have limited technical expertise to prepare the Library's financial statements and notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of the Library's financial statements and notes in accordance with accounting principles generally accepted in the United States of America is the responsibility of management. Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to the financial statements, in conforming with accounting principles generally accepted in the United States of America.

The Library, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Library's ability to prepare financial statements in accordance with accounting principles generally accepted in the United States of America is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

The result of this condition is that the Library lacks internal controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and instead relies, in part, on its external auditors for assistance with this task.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Library's financial statements and this communication of these matters does not affect our report on the Library's financial statements, dated June 30, 2007.

Sincerely,



Mason & Kammermann, P.C.
Certified Public Accountants