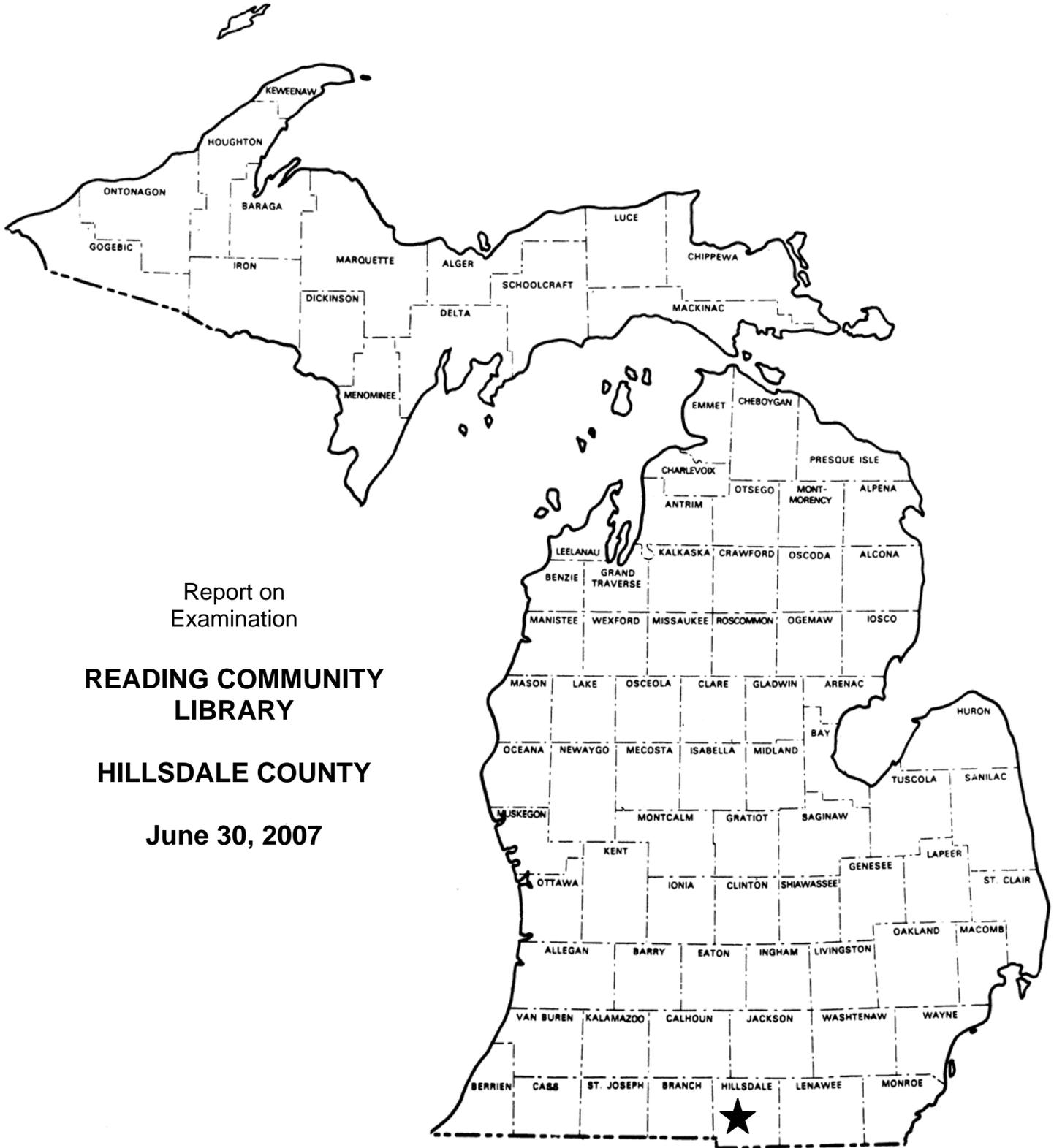


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**READING COMMUNITY
LIBRARY**

HILLSDALE COUNTY

June 30, 2007

READING COMMUNITY LIBRARY

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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

February 4, 2009

Library Board
Reading Community Library
104 Main Street
P.O. Box 184
Reading, Michigan 49274-0184

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities of the Reading Community Library, Hillsdale County, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Library, as of June 30, 2007, and the changes in financial position and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 4, 2009, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the basic financial statements but is 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 an opinion on the financial statements that collectively comprise the Library's basic financial statements. The accompanying supplementary and related information presented as Exhibits D and E 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.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

READING COMMUNITY LIBRARY

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READING COMMUNITY LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Reading Community Library's (Library) management discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Library's financial activity; c) identify changes in the Library's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

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

- The government-wide financial statements are included in Exhibits A and B and provide both long-term and short-term information about the Library's overall financial status. These statements report information about the Library, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Library's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on the general operating fund, reporting the operation in more detail than the government-wide statements.

Reporting the Library as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Library, as a whole, and about its activities in a way that helps answer the question of whether the Library, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Library's net assets and the changes in them. The reader can think of the Library's net assets (the difference between assets and liabilities) as one way to measure the Library's financial health or financial position. Over time, increases and decreases in the Library's net assets are one indicator of whether its financial health is improving or deteriorating.

READING COMMUNITY LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting the Library's Major Fund

The financial statements begin on page five and provide detailed information about the major fund. The Library has only one fund, the General Operations Fund, in which all of the Library's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Library's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Library as a Whole

Because this is the first year of implementation of Governmental Accounting Standards Board, Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

The Library's financial position has improved during the 2007 fiscal year. The change can be attributed to additional contributions and penal fines. The Library's net assets for the governmental funds decreased \$39,417 from a year ago for the governmental activities which was primarily due to depreciation expense. In a condensed format, the table below shows the net assets as of June 30, 2007 and the changes in net assets.

	<u>Governmental Activities</u> <u>2007</u>
Other Assets	\$ 49,640
Capital Assets	<u>271,297</u>
Total Assets	<u>320,937</u>
Other Liabilities	<u>571</u>
Total Liabilities	<u>571</u>
Net Assets	
Investment in Capital Assets	271,297
Unrestricted (Deficit)	<u>49,069</u>
Total Net Assets	<u><u>\$ 320,366</u></u>

All of the Library's operations are considered one fund.

READING COMMUNITY LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

Revenue was affected by changes in funding level and donation activity.

A summary of changes in net assets for the year ended June 30, 2007, follows:

	Governmental Activities <u>2007</u>
Program Revenues	
Charges for Services	\$ 41,400
Operating Grants and Contributions	2,675
General Revenues	
Unrestricted Investment Earnings	<u>846</u>
Total Revenues	<u>44,921</u>
Program Expenses	
Recreation and Cultural	30,715
Depreciation Expense	<u>53,623</u>
Total Expenses	<u>84,338</u>
Change in Net Assets	<u><u>\$ (39,417)</u></u>

The Library's Fund

The Library's General Operations Fund is used to control the expenditures of grants, penal fines and donation monies which are for library operations.

For the year ended June 30, 2007, the fund balance of the General Operations Fund increased by \$1,153. Total operating revenues were \$44,921 which was primarily the result of a decrease in operating grants and contributions.

Total expenditures were \$43,768. The change in expenditures was primarily the result of a change in wages for the transition in the prior and current director. It was also caused by the fees charged for participating in the Woodland Library Cooperative.

Budgetary Highlights

Prior to the beginning of any year, the Library's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Library's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews all expenditures throughout the year.

READING COMMUNITY LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Library's original expenditures were projected at \$41,200, while actual expenditures were \$43,678. Actual expenditures were over the final budget by \$1,768. This was primarily due to capital outlay expenditures for the gates computer grant.

Capital Assets and Debt Administration

The Library's capital asset consists of the building, equipment and the library collection. Depreciation expense amounted to \$53,623 in fiscal year 2007. The net capital asset of \$271,297 is shown on the government-wide financial statements. The Library capital asset threshold adopted by the board for capitalization of capital assets is \$200. There were no commitments for capital expenditures during fiscal year 2007. There are also no known changes to credit rating or debt limitations.

Economic Factors and Next Year's Budget

The Library's financial position is tied to the State's economy. Most of the Library's funding is received through the Library of Michigan and penal fines. Much of this is dependent on the State's financial condition. In addition, county donations are also affected by the economy. All of these revenue sources are at risk until the economy rebounds. The Library is well-positioned to obtain future State aid and penal fines.

The board realizes, and the reader should understand that there are not sufficient funds available to provide additional library hours and services; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the citizens of the library district.

Contacting the Library's Financial Management

This financial report is designed to provide citizens and other interested parties a general overview of the Library's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Reading Community Library administrative offices at: 104 Main Street, P.O. Box 184, Reading, Michigan 49274-0184. Phone: (517) 283-3916.

**READING COMMUNITY LIBRARY
GOVERNMENTAL FUNDS BALANCE SHEET/
STATEMENT OF NET ASSETS
June 30, 2007**

EXHIBIT A

	GOVERNMENTAL FUND TYPE		
	Modified Accrual Basis	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Cash	\$ 49,640		\$ 49,640
Capital Assets		\$ 271,297	271,297
Total Assets	<u>\$ 49,640</u>	<u>\$ 271,297</u>	<u>\$ 320,937</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Accounts Payable	\$ 437		\$ 437
Accrued Liabilities	134		134
Total Liabilities	<u>571</u>	<u>\$ -</u>	<u>571</u>
Fund Equities			
Fund Balance			
Unreserved and Undesignated	49,069	(49,069)	-
Total Fund Equities	<u>49,069</u>	<u>(49,069)</u>	<u>-</u>
Total Liabilities and Fund Equities	<u>\$ 49,640</u>	<u>(49,069)</u>	<u>571</u>
Net Assets			
Invested in Capital Assets		271,297	271,297
Unrestricted		49,069	49,069
Total Net Assets		<u>\$ 320,366</u>	<u>\$ 320,366</u>
Fund Balances--Total Governmental Funds			\$ 49,069

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add--Capital Assets	404,405
Deduct--Accumulated Depreciation	<u>(133,108)</u>
Net Capital Asset Addition	<u>271,297</u>
Net Assets of Governmental Activities	<u>\$ 320,366</u>

The Notes to the Financial Statements are an integral part of this statement.

**READING COMMUNITY LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007**

EXHIBIT B

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenues			
Taxes	\$ 5,350		\$ 5,350
State Grants	2,675		2,675
Contributions From Local Units of Government	11,572		11,572
Charges for Services	1,129		1,129
Fines and Forfeits	15,967		15,967
Interest	846		846
Other Revenue	7,382		7,382
Total Revenue	44,921	\$ -	44,921
Expenditures			
Current			
Recreation and Cultural	30,715		30,715
Capital Outlay	13,053	(13,053)	-
Depreciation Expense		53,623	53,623
Total Expenditures	43,768	40,570	84,338
Excess of Revenues Over (Under) Expenditures	1,153		
Change in Net Assets		(40,570)	(39,417)
Fund Balance/Net Assets--Beginning of Year	47,916	311,867	359,783
Fund Balance/Net Assets--End of Year	\$ 49,069	\$ 271,297	\$ 320,366
Net Change in Fund Balances--Total Governmental Funds			\$ 1,153

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	13,053
Deduct--Depreciation Expense	(53,623)
Change in Net Assets of Governmental Activities	<u>\$ (39,417)</u>

The Notes to the Financial Statements are an integral part of this statement.

READING COMMUNITY LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE A--DESCRIPTION OF LIBRARY OPERATIONS AND FUND TYPES

The accounting policies of the Reading Community Library (Library) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Reading Community Library:

Reporting Entity

Reading Community Library is located in the City of Reading, Hillsdale County, Michigan and provides services to county residents in many cultural areas. Reading Community Library is governed by a six member board. Three members are appointed by the City of Reading and three are appointed by Reading Township. The Library board consists of the chair, vice-chair, secretary, treasurer and two directors whom reside in the community.

The library is connected with Woodlands Library Cooperative and in return for a portion of state aid, books may be borrowed through an inter-loan system. The financial support is provided primarily through Hillsdale County penal fines with additional support from the State of Michigan, Reading City, and the townships of Reading and Cambria, as well as charitable donations and memorials. Revenue is used to operate and staff the library.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the records of the library. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Accordingly, there are no other governmental units that are required to be included in the financial statements.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) include all of the activities of Reading Community Library. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the library's assets and liabilities with the difference being reported as: invested in capital assets-net of related debt, restricted, and/or unrestricted net assets.

READING COMMUNITY LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements--General Operating Fund

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating 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. This fund is used to account for all financial transactions of the library. Revenues are primarily derived from Hillsdale County penal fines, state grants, municipal contributions, memorials and donations. The fund includes the general operating expenditures of the library.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) State aid and other grants; 3) charges for services; and 4) municipal contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

READING COMMUNITY LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Aid, other State and Federal grants, charges for services, contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the library.

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

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value, when obtained.

Capital Assets

Capital assets, which include property, plant and equipment (there are no infrastructure assets), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by the library as assets with an individual cost of \$200 that have a useful life of more than one year. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings and Improvements	39 years
Furniture and Fixtures	7 years
Library Books, Periodicals, etc.	10 years
Computer Hardware	5 years

In determining the useful life, the library takes into consideration: quality, application or use, and environmental conditions.

READING COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Vacation and Sick Leave)

It is the library's policy to permit the library director to accumulate unused paid time off (PTO) benefits during the year at varying amounts depending on the length of service. PTO may not be carried forward from one year to another. PTO may be used for sickness, vacation or other reasons.

Budgets, Budgetary Accounting and Budget Basis of Accounting

Budgets are adopted for all governmental fund types, as required by law. Budgets for the general fund are adopted at the line-item level and reported in the budgetary comparison schedule at this level. The library uses the same basis of accounting for budgeting purposes as for financial statement presentation.

Use of Estimates

The preparation 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended (MCL 141.421), which requires the board to approve a budget for the library. Pursuant to the Act, the director's chief administrative officer prepares and submits a proposed operating budget to the board for its review and consideration. The board of directors conducts a public budget hearing and subsequently adopts an operating budget. The budget is adopted at the line item level and control is exercised at that level. The library's board monitors and amends the budgets as necessary. The budgetary basis of accounting does not differ significantly from the modified accrual basis used to reflect revenues and expenditures for the fund. Encumbrance accounting is not used, and all annual appropriations lapse at fiscal year end.

The budget revenues and expenditures for the General Operating Fund, as presented in Exhibit C, include any authorized amendments to the original budget as adopted.

READING COMMUNITY LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budget Violation

Public Act 2 of 1968, as amended, requires the legislative body to adopt a general appropriations act for the budget of the General Fund. The act also requires that amendments be approved as needed to prevent actual expenditures from exceeding those provided for in the General Appropriations Act.

The following expenditure line items exceeded the final amended budget:

<u>Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Supplies	\$ 350	\$ 1,105	\$ (755)
Travel	200	216	(16)
Memberships		1,161	(1,161)
Miscellaneous	100	613	(513)
Equipment	350	5,200	(4,850)
Books--Print	7,000	7,288	(288)
Periodicals		565	(565)

Adoption of Automated Clearing House Policy (ACH)

According to Michigan Compiled Laws (MCL) 124.303: "A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body."

Reading Community Library electronically transfers funds for payroll without legal authority.

NOTE D--CASH AND INVESTMENTS

MCL 129.91 authorizes the library to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

READING COMMUNITY LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

The library has adopted a written investment policy in accordance with the requirements of Public Act 20 of 1943, as amended. However, the policy is not compliant with GASB Statement No. 40. The library's deposits are in accordance with statutory authority. The library board has designated two banks for the deposit of library funds.

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

	<u>Governmental Activities</u>
Cash and Cash Equivalents	<u>\$ 49,641</u>
Total	<u>\$ 49,641</u>

The bank balance of the primary government's deposits is \$51,536, of which \$51,536 is covered by Federal depository insurance.

Investments Authorized by the Township's Investment Policy

The library's investment policy only authorizes investment in all those that are authorized by law. The library has limited their investments to certificates of deposit that may extend beyond one year. The library has a written formal investment policy. However, it does not conform to GASB Statement No. 40. Therefore, management has not addressed their exposure to custodial credit risk as required by GASB Statement No. 40.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a) Uncollateralized;
- b) Collateralized with securities held by the pledging financial institution; or
- c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

Michigan law and the library's formal investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The library has not addressed custodial credit risk. However, all deposits are FDIC insured.

READING COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 26,734	_____	_____	\$ 26,734
Total Capital Assets Not Being Depreciated	<u>26,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>26,734</u>
Capital Assets Being Depreciated				
Buildings and Improvements	105,438			105,438
Furniture and Fixtures	34,305	5,200		39,505
Books, Audios, Videos	<u>344,138</u>	<u>7,853</u>	<u>(119,263)</u>	<u>232,728</u>
Total Capital Assets Being Depreciated	<u>483,881</u>	<u>13,053</u>	<u>(119,263)</u>	<u>377,671</u>
Less Accumulated Depreciation for				
Buildings and Improvements	26,855	2,703		29,558
Furniture and Fixtures	29,554	1,643		31,197
Books, Audios, Videos	<u>142,339</u>	<u>49,277</u>	<u>(119,263)</u>	<u>72,353</u>
Total Accumulated Depreciation	<u>198,748</u>	<u>53,623</u>	<u>(119,263)</u>	<u>133,108</u>
Total Capital Assets Being Depreciated--Net	<u>285,133</u>	<u>40,570</u>	<u>-</u>	<u>244,563</u>
Capital Assets--Net	<u>\$ 311,867</u>	<u>\$ 40,570</u>	<u>\$ -</u>	<u>\$271,297</u>

NOTE F--VESTED EMPLOYEE BENEFITS

The Reading Community Library Bylaws and Policies provide that the library director may earn paid leave time (vested employee benefits) in varying amounts depending on the number of years of service. The library director may earn two weeks paid leave time per year as determined by the hours open per week during the first and second years of employment. It provides that the library director may earn up to three weeks paid leave time the third and fourth years of employment. After five years of employment, the library director shall receive four weeks paid leave time and one personal day. Leave days may be used for sickness, vacation, and/or other reasons. Leave time does not carry over from one year to another.

READING COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE G--RISK MANAGEMENT

The library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The library continues to carry commercial insurance for property, liability, wrongful acts, crime, inland marine, and other risks of loss including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three (3) fiscal years.

**READING COMMUNITY LIBRARY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--BUDGET AND ACTUAL
GENERAL OPERATING FUND
For the Year Ended June 30, 2007**

EXHIBIT C

	GENERAL OPERATING FUND			
	Orginal Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 5,500	\$ 5,500	\$ 5,350	\$ (150)
State Grants	1,600	1,600	2,675	1,075
Contributions From Local Units of Government	8,500	8,500	11,572	3,072
Charges for Services	750	750	1,129	379
Fines and Forfeits	16,000	16,000	15,967	(33)
Interest and Rents	350	350	846	496
Other	1,850	2,650	7,382	4,732
Total Revenue	34,550	35,350	44,921	9,571
Expenditures				
Recreation and Cultural	34,650	34,650	30,715	3,935
Capital Outlay	6,550	7,350	13,053	(5,703)
Total Expenditures	41,200	42,000	43,768	(1,768)
Excess of Revenues Over (Under) Expenditures	(6,650)	(6,650)	1,153	7,803
Fund Balance--July 1, 2006	47,916	47,916	47,916	-
Fund Balance--June 30, 2007	\$ 41,266	\$ 41,266	\$ 49,069	\$ 7,803

The Notes to Financial Statements are an integral part of the statement.

**READING COMMUNITY LIBRARY
SCHEDULE OF REVENUES
BUDGET AND ACTUAL
GENERAL OPERATING FUND
For the Year Ended June 30, 2007**

EXHIBIT D

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Current	\$ 5,500	\$ 5,500	\$ 5,350	\$ (150)
State Grants				
State Aid	1,600	1,600	2,675	1,075
Contributions From				
Local Units of Government	8,500	8,500	11,572	3,072
Charges for Services	750	750	1,129	379
Fines and Forfeits				
Penal Fines	16,000	16,000	15,967	(33)
Interest and Rentals				
Interest Earned	350	350	846	496
Other Revenue	-	-	-	
Memorials	-	-	607	
Refunds	300	300	57	(243)
Miscellaneous	-	-	615	615
Donations	150	150	1,251	
Gates Grant	1,400	2,200	4,852	2,652
Total Revenue	<u>\$ 34,550</u>	<u>\$ 35,350</u>	<u>\$ 44,921</u>	<u>\$ 7,863</u>

**READING COMMUNITY LIBRARY
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL
GENERAL OPERATING FUND
For the Year Ended June 30, 2007**

EXHIBIT E

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures				
Current				
Recreation and Cultural				
Salaries and Fringes	\$ 21,900	\$ 21,560	\$ 19,350	\$ 2,210
Supplies	350	350	1,105	(755)
Utilities	3,500	3,650	3,645	5
Insurance	900	950	941	9
Building Maintenance and Repair	1,700	1,700	-	1,700
Travel	200	200	216	(16)
Memberships	-	-	1,161	(1,161)
Technology Assistance	5,000	5,140	2,949	2,191
Childrens Programs	1,000	1,000	735	265
Miscellaneous	100	100	613	(513)
Capital Outlay				
Equipment	350	350	5,200	(4,850)
Books--Print	6,200	7,000	7,288	(288)
Periodicals	-	-	565	(565)
Total Expenditures	<u>\$ 41,200</u>	<u>\$ 42,000</u>	<u>\$ 43,768</u>	<u>\$ (1,768)</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

February 4, 2009

Library Board
Reading Community Library
104 Main Street
P.O. Box 184
Reading, Michigan 49274-0184

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Reading Community Library (Library), Hillsdale County, Michigan, as of and for the year ended June 30, 2007, and have issued our report thereon dated February 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting and are documented as Findings 2007-1 through 2007-7.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2007-1 through 2007-3 to be 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings as Findings 2007-4 through 2007-7.

This report is intended solely for the information of the Reading Community Library Board, management and others within the Library, State and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

February 4, 2009

Library Board
Reading Community Library
104 Main Street
P.O. Box 184
Reading, Michigan 48274-0814

RE: Report to Those Charged With Governance

Dear Board Members:

We have audited the financial statements of the governmental activities, and the major fund information of Reading Community Library for the year ended June 30, 2007, and have issued our report thereon dated February 4, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in the entrance conference, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 14, 2008.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Library are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending June 30, 2007. We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 4, 2009.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the remaining recommendations feel free to contact us.

This information is intended solely for the use of Reading Community Library Board of Trustees and management of the Library and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

READING COMMUNITY LIBRARY

SCHEDULE OF FINDINGS

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Reading Community Library's (library) 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 library's financial statements that is more than inconsequential will not be prevented or detected by the library's internal control. Listed below are significant deficiencies in the internal control.

Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

MATERIAL WEAKNESS

General Ledger

Finding 2007-1

Condition: The library does not maintain a complete general ledger. We found the following weaknesses with the current accounting system:

1. Journal entries are not used by the library to record accruals, adjustment for errors, and other entries as deemed proper.
2. No balance sheet accounts, other than cash, were included in the records of the library. No trial balances were prepared or available.
3. Amounts due from local units of government were not recorded.

Criteria: The Uniform Accounting Procedures Manual issued by the Local Audit and Finance Division, Michigan Department of Treasury requires libraries to maintain a general ledger. Our examination indicates that the library only maintains a record of receipts, disbursements, and cash balances. The library does not have a complete general ledger. The general ledger is the gathering place for the library's financial data. Properly maintained, it is a valuable tool of management. Entries in the general ledger are made from: 1) the receipts journal; 2) the disbursements journal; and 3) the journal entry form.

Failure to post the complete accounting records on a timely basis may result in the following:

1. The financial condition of the library may not be readily determined.
2. The board may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The board may obligate more funds than are available, which is a violation of the Uniform Budgeting and Accounting Act.

Recommendation: We recommend that the library maintain a complete general ledger.

READING COMMUNITY LIBRARY

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES (Continued)

Lack of Segregation of Duties

Finding 2007-2

Condition: The treasurer makes bank deposits, records the revenues, reconciles the bank accounts and is the custodian of the library's funds. However, the treasurer gives a full accounting to the board at their regularly scheduled board meetings.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the library's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the library's unique circumstances.

As is the case with many organizations of similar size, the library lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Recommendation: We recommend the board consider additional control procedures over receipts, revenues, and disbursements.

Capital Assets

Finding 2007-3

Condition: A capital asset listing was not updated by library personnel. The list had to be obtained from the previous auditor which only included capital assets as on June 30, 2004. Equipment received through a grant program was not posted to the records of the library.

Criteria: The Michigan Department of Treasury and generally accepted accounting principles requires that each governmental unit maintain a record of capital assets. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be presented on the Statement of Net Assets, net of depreciation and related debt. It is the responsibility of the library to update the capital assets listing for additions and deletions. For governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. Disposals should equal the reductions to the capital asset records. Depreciation is also to be calculated on the capital assets and included in the listing.

READING COMMUNITY LIBRARY

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the library develop a property management system that includes all of the following steps:

- An inventory of all capital assets owned by the library should be taken and included in the permanent records of the library on at least an annual basis.
- All assets owned by the library should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the library to be removed or used by unauthorized personnel.
- As part of the property management system, the library should keep records on all of the assets owned by the library, which includes the following information:
 - Date of Acquisition
 - Tag Number
 - Description of Property
 - Original Cost of Asset
 - Location of Asset
 - Date of Disposal (when sold or scrapped)
 - Salvage Value (if any)

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets; it will also provide an excellent record for insurance and replacement purposes as well.

The library must maintain its capital asset listing throughout the year and periodically review it to ensure that the capital outlay is properly posted, disposals are updated, and the related depreciation is calculated.

READING COMMUNITY LIBRARY

SCHEDULE OF FINDINGS

OTHER MATTERS

Although the following are not considered significant deficiencies in internal control, we wish to point out certain other matters for consideration by the management of the library.

Investment Policy

Finding 2007-4

Condition: The board of directors has adopted a formal investment policy that complies with Public Act 20 of 1943, as amended. However, the policy has not been updated to take into consideration GASB Statement No. 40 reporting requirements.

Criteria: According to Public Act 20 of 1943, as amended, a formal investment policy is to be adopted by the board no later than August 31, 1998. GASB Statement No. 40 added additional requirements related to deposit and investment risk which should be incorporated into the policy. GASB Statement No. 40 became effective for financial periods beginning after June 15, 2004.

Recommendation: We recommend that the investment policy be updated in accordance with State statute and include reporting requirements as recommended by GASB Statement No. 40.

Library Board--Fraud Risk Management Program

Finding 2007-5

Condition: The management of the library has not developed a fraud risk management program that is appropriate for the size and complexity of the township, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Criteria: American Institute of Certified Public Accountants (AICPA), Statement on Auditing Standards (SAS), Section AU 110.03 states in part: "Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements."

Management, along with those who have responsibility for oversight of the financial reporting process (such as the audit committee, board of trustees, board of directors, or the owner in owner-managed entities), should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.

Recommendation: We are providing the above information to the library board for informational purposes for adopting and developing a fraud risk management program.

READING COMMUNITY LIBRARY

SCHEDULE OF FINDINGS

NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

Electronic Transactions of Public Funds

Finding 2007-6

Condition: The library electronically transfers funds for payroll withholdings and receives direct deposits without legal authority.

Criteria: According to MCL 124.303: “A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

Recommendation: We recommend that the library board adopt a resolution to authorize electronic transactions that includes the above mentioned items, as required by the statute.

READING COMMUNITY LIBRARY

SCHEDULE OF FINDINGS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Budgetary Procedures

Finding 2007-7

Condition: The budget did not include the beginning and ending fund balances. Transfers between cash and checking accounts were included in the budget. The library exceeded budget in several line-items as follows:

<u>Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Supplies	\$ 350	\$ 1,105	\$ (755)
Travel	200	216	(16)
Memberships		1,161	(1,161)
Miscellaneous	100	613	(513)
Equipment	350	5,200	(4,850)
Books--Print	7,000	7,288	(288)
Periodicals		565	(565)

Criteria: Public Act 2 of 1968, the Uniform Budgeting Act, Section 19 states: "A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. Expenditures shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit. The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body."

Recommendation: The board should receive, or be able to view, a copy of their revenue and expenditure reports on a monthly basis. Line-item transfers and/or increases/decreases in the budget should be done as soon as a deviation is detected.