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# Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name Ruth Hughes Memorial District Library	County LAPEER	Type LIBRARY	MuniCode 44-8-001
Opinion Date-Use Calendar Jun 18, 2008	Audit Submitted -Use Calendar Jun 25, 2008	Fiscal Year-Use Drop List	2007

If a local unit of government (authorities & 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, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 400,104.00
General Fund Expenditure:	\$ 324,417.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 520,189.00
Governmental Activities Long-Term Debt (see instructions):	\$ 310,394.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name) Mari	Last Name McKenzie	Ten Digit License Number 1101010725		
CPA Street Address 3149 Main Street	City Marlette	State MI	Zip Code 48453	Telephone +1 (989) 635-7518
CPA Firm Name Yeo & Yeo, pC	Unit's Street Address 211 North Almost Ave	City Imlay City		LU Zip 48444

**Ruth Hughes Memorial District Library**

**Annual Financial Statements**

**and**

**Auditors' Report**

**December 31, 2007**

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**Ruth Hughes Memorial District Library  
Imlay City, Michigan  
List of Elected and Appointed Officials  
December 31, 2007**

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LIBRARY BOARD

DONALD DAVENPORT

PRESIDENT

NANCY MARSHALL

VICE PRESIDENT

LAURIE DODGE

SECRETARY

LINDA PRENDERGAST

TREASURER

MARY LOU BISSETT

TRUSTEE

SHIRLEY EDWARDS

TRUSTEE

KAREN HIBBLER

TRUSTEE

ADMINISTRATION

B. KRISTEN VALYI-HAX

LIBRARY DIRECTOR



3149 Main Street, Suite Plaza #4  
Marlette, MI 48453  
Phone (989) 635-7518  
Fax (989) 635-3226

## Independent Auditors' Report

To the Board  
Ruth Hughes Memorial District Library  
Imlay City, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund of Ruth Hughes Memorial District Library, as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Ruth Hughes Memorial District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Ruth Hughes Memorial District Library, at December 31, 2007 and its operations 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 identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Yeo & Yeo, P.C.*

Marlette, Michigan  
June 18, 2008

**Ruth Hughes Memorial District Library**  
**Imlay City, Michigan**  
**Management's Discussion and Analysis**  
**December 31, 2007**

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This section of the financial report provides discussion and analysis of the Ruth Hughes Memorial District Library's financial performance during the year ended December 31, 2007. The intent of this discussion and analysis is to provide a comprehensive review of the Library's financial activities and provide a look at its past and current financial position. Readers should also review the Library's financial statements, immediately following this section, to enhance their understanding of the Library's overall fiscal year 2007 performance.

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, issued in June of 2000.

**Using This Annual Report**

This annual report consists of the following three parts: management's discussion and analysis (this section), basic financial statements and the required supplemental information.

These statements are organized to help the reader understand the financial position of the Ruth Hughes Memorial District Library as a whole. The government-wide financial statements provide information about the overall activities of the Library. The fund financial statements provide more detailed information about the Library's general fund. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The last section of this audit includes required supplemental information that supports and provides further clarity of the financial statements with a budgetary comparison schedule of fiscal year 2007 budget.

**Government-Wide Financial Statements**

The Government-wide statements provide financial information of the Library as a whole. They report on the governmental activities of the Library, which includes most of the Library's basic services, including programming, technology and building improvements. These activities

are primarily funded by property taxes, penal fines and state shared revenue. These statements use the full accrual basis of accounting, similar to private sector companies. There are two Government-wide statements: the Statement of Net Assets and the Statement of Activities.

The **Statement of Net Assets** includes all the assets and liabilities of the Library, whether short-term or long-term, and regardless of whether or not they are currently available. As a result, capital assets and long-term obligations of the Library are included in this statement.

The **Statement of Activities** accounts for current year revenues regardless of when cash is received or paid, consistent with the full accrual basis method of accounting. The intent of this statement is to summarize and simplify the user's analysis of the costs of various Library services.

When analyzed together, these two statements help the reader determine whether the Library is financially stronger or weaker as a result of the year's activities. Both statements report the Library's net assets, which is the difference between the library's assets and liabilities. The change in net assets is one way to measure the Library's financial health or position. Over time, increases and decreases in the Library's net assets are an indicator of the stability of the Library's financial health. However, as a public services oriented governmental entity, the Library's goal is to provide a service to our community, not generate profits, as would a private corporation. As a result, other non-financial factors should be considered in assessing the overall health of the Library. Such factors would include the condition of the District Library's facilities and the property tax base within the District.

**Fund Financial Statements**

The Fund Financial Statements focus on providing more detailed information about the major funds of the Library and not on the Library as a whole, as reported in the Government-wide statements. The fund

**Ruth Hughes Memorial District Library**  
**Imlay City, Michigan**  
**Management's Discussion and Analysis**  
**December 31, 2007**

level statements are reported on a *modified accrual basis*. Only those assets that are “*measurable*” and “*currently available*” are reported. Liabilities are identified and the terms are paid with yearly revenue, and/or funds allocated from the Library’s ‘fund balance’ as approved by the executive board. The fund statements provide a detailed short-term view of the Library’s operations and help in determining whether there are more or less financial resources available in the near future to finance the Library’s programs and services provided.

**Summary of Net Assets**

<b>Government activities</b>	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current assets	\$ 910,126	\$ 738,580
Capital assets	<u>757,514</u>	<u>797,000</u>
Total assets	<u>1,667,640</u>	<u>1,535,580</u>
<b>Liabilities</b>		
Current liabilities	27,755	38,440
Noncurrent liabilities	<u>310,394</u>	<u>310,394</u>
Total liabilities	<u>338,149</u>	<u>348,834</u>
<b>Net Assets</b>		
Invested in capital assets	447,120	459,508
Unrestricted	<u>882,371</u>	<u>727,238</u>
Total net assets	<u>\$ 1,329,491</u>	<u>\$ 1,186,746</u>

A portion of the Library’s net assets reflect investments in capital assets (land, buildings and improvements, equipment and furniture), less any related outstanding debt used to acquire those assets. The Library uses these capital assets to provide services to patrons; consequently, these assets are not available for future spending. Although, the library’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided

from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Statement of Net Assets Operating Results**

**Governmental Activities**

<b>Revenues</b>	<u>2007</u>	<u>2006</u>
Program Revenue		
Charges for services	\$ 4,612	\$ 5,074
Operating grants and contributions	4,095	10,247
General revenue		
Property tax	361,891	283,085
Fines and forfeits	70,372	66,029
State aid - unrestricted	8,900	8,133
Interest and investment earnings	25,004	21,832
Other	<u>4,676</u>	<u>3,019</u>
Total revenues	<u>479,550</u>	<u>397,419</u>
<b>Expenses</b>		
Recreational and culture	<u>336,805</u>	<u>324,311</u>
Change in net assets	142,745	73,108
Net assets - beginning of year	<u>1,186,746</u>	<u>1,113,638</u>
Net assets - end of year	<u>\$ 1,329,491</u>	<u>\$ 1,186,746</u>

The net assets of the library increased \$ 142,745 during 2007. The breakdown of this change is shown above.

The *Statement of Activities* presented later in the Government-wide financial statements provides greater detail on the Library’s annual activity. As reported in the Statement of Activities, the cost of all government activities this year was \$ 336,805. However, the amount that was ultimately financed by our taxpayers through property taxes was \$ 361,891, \$ 8,900 in state aid and \$ 70,372 in penal fine revenue.

The Library levied 1.0 mills in property taxes on properties within the District. The District Library’s current tax levy was renewed by voters in

**Ruth Hughes Memorial District Library  
Imlay City, Michigan  
Management's Discussion and Analysis  
December 31, 2007**

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May 2007.

**Local Property Tax History**

Fiscal Year Revenue	% of Revenue	Local Property Tax
2007	75%	\$ 361,891
2006	70%	\$ 283,083
2005	75%	\$ 269,923
2004	72%	\$ 236,865
2003	73%	\$ 226,254

**Budgetary Highlights**

Taxpayers approved a millage in May 2007 of 1.0 mill. This enabled the Library to restore all operating hours, resume ordering new books and other materials, and to cease its personnel wage freeze. Bryan Cloutier, Director for four years, resigned in the spring of 2007 to take another Library Director position. Carol Kirchoff acted as Interim Director for the summer until the Library Board hired Kristen Valyi-Hax, who began in September 2007. The Library had to budget a small additional amount of money to get help from their payroll firm to correct small errors made during the tenure of the Interim Director and to help the new director until she grew comfortable with the accounting software.

**Budget Adjustments**

The Library's operational budget was amended at year-end to reflect a more accurate account of fiscal operations for 2007. The budget was increased in the amount of \$ 86,965 which reflected the total amount collected in 2007. However, \$ 94,720 was due to an error in tax collection by Imlay Township, which collected the library's tax revenue in the summer rather than the winter. Therefore, this amount is reported in deferred revenue on the General fund balance sheet. This was a one time error and Imlay Township will levy the tax for the Library on the winter tax bill in the future. The total actual expenditures were reported

to be \$ 34,285 less than budgeted. These amounts should be viewed as acceptable operational variances, given the library's changing leadership in 2007.

**Revenue Threats**

The library's request to the voters for an operation millage in the amount of 1.0 mills for six years was approved in May 2007. The library restored its operating hours and ended a wage freeze. Management will continue to budget carefully to increase the library's fund balance in anticipation of future need. Last year's threats to State Aid (funding to public libraries from the State of Michigan) seemed to have decreased, but in these challenging economic times, there is still the possibility that there will be a decrease in State Aid for the library.

**Requests for Information**

This financial report is designed to provide a general overview for anyone interested in the District Library's finances and to demonstrate the Library's accountability for the revenues it received. Questions concerning this report or requests for additional information should be addressed to:

Ruth Hughes Memorial District Library  
Attention: B. Kristen Valyi-Hax, Director  
211 N. Almont Ave.  
Imlay City, MI 48444-1004  
Telephone: (810) 724-8043  
Facsimile: (810) 724-2602

**Ruth Hughes Memorial District Library**  
**Statement of Net Assets**  
**December 31, 2007**

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	<u>Primary Government</u>
<b>Assets</b>	
Current assets	
Cash	\$ 659,827
Taxes receivable	235,782
Penal fines and other receivables	<u>14,517</u>
Total current assets	<u>910,126</u>
Capital assets, net	
Non-depreciated	24,399
Depreciated	<u>733,115</u>
Total capital assets	<u>757,514</u>
Total assets	<u>1,667,640</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	13,821
Accrued payroll and related liabilities	13,934
Noncurrent liabilities	
Building note - due within one year	28,199
Building note - due more than one year	<u>282,195</u>
Total liabilities	<u>338,149</u>
<b>Net Assets</b>	
Invested in capital assets	447,120
Unrestricted	<u>882,371</u>
Total net assets	<u>\$ 1,329,491</u>

See Accompanying Notes to Financial Statements

**Ruth Hughes Memorial District Library**  
**Statement of Activities**  
**Year Ended December 31, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Primary government		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
Education and culture	\$ 336,805	\$ 4,612	\$ 4,095	\$ (328,098)
General revenues				
Property taxes				361,891
Fines and forfeits				70,372
State aid - unrestricted				8,900
Interest and investment earnings				25,004
Other				4,676
Total general revenues				470,843
Change in net assets				142,745
Net assets - beginning				1,186,746
Net assets - ending				\$ 1,329,491

See Accompanying Notes to Financial Statements

**Ruth Hughes Memorial District Library**  
**Balance Sheet**  
**General Fund**  
**December 31, 2007**

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**Assets**

Cash	\$ 659,827
Taxes receivable	235,782
Penal fines and other receivables	<u>14,517</u>
 Total assets	 <u>\$ 910,126</u>

**Liabilities**

Accounts payable	\$ 13,821
Accrued payroll and related liabilities	13,934
Deferred revenue	<u>362,182</u>
 Total liabilities	 <u>389,937</u>

**Fund balance**

Unreserved	<u>520,189</u>
 Total liabilities and fund balance	 <u>\$ 910,126</u>

See Accompanying Notes to Financial Statements

**Ruth Hughes Memorial District Library**  
**Reconciliation of the Balance Sheet of General Fund to the Statement of Net Assets**  
**December 31, 2007**

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<b>Total general fund balance</b>		\$ 520,189
Total net assets reported for governmental activities in the statement of net assets is different because:		
Deferred property taxes		362,182
Capital assets used in governmental activities are not financial resources are therefore are not reported in the funds. Those assets consist of:		
Buildings and improvements	\$ 939,096	
Land and improvements	65,944	
Computers and equipment	56,091	
Furniture and fixtures	152,264	
Accumulated depreciation	<u>(455,881)</u>	757,514
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances as of December 31, 2007 are as follows:		
Building loan payable		<u>(310,394)</u>
<b>Net assets of governmental activities</b>		<b><u>\$ 1,329,491</u></b>

**Ruth Hughes Memorial District Library**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Year Ended December 31, 2007**

**Revenues**

Taxes	\$	282,445
Grants		9,792
Charges for services		4,612
Fines and forfeits		70,372
Interest		25,004
Other revenue		4,676
Contributions and gifts		3,203
		400,104
Total revenues		400,104

**Expenditures**

Education and culture		291,680
Capital outlay		5,639
Debt payments		27,098
		324,417
Total expenditures		324,417
Excess of revenues over expenditures		75,687
Fund balance, beginning of year		444,502
Fund balance, end of year	\$	520,189

See Accompanying Notes to Financial Statements

**Ruth Hughes Memorial District Library**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of**  
**General Fund to the Statement of Activities**  
**Year Ended December 31, 2007**

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<b>Net change in fund balances - general fund</b>	<b>\$ 75,687</b>
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(39,486)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	79,446
Debt repayments are reported as financing uses in the general fund and thus contribute to the change in fund balance. In the statement of net assets, however, repayment of debt decreases long-term liabilities and does not affect the statement of activities.	
Repayments of long-term debt	<u>27,098</u>
<b>Change in net assets of governmental activities</b>	<b><u>\$ 142,745</u></b>

**Ruth Hughes Memorial District Library**  
**Notes to Financial Statements**  
**December 31, 2007**

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**Note 1 – Significant Accounting Policies**

The financial statements of the Ruth Hughes Memorial District Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to the Library. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies are described below.

**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 nonfiduciary activities of the primary government and its component units. Governmental activities, normally supported by taxes and inter-governmental revenue, 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 accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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 properly excluded from program revenue are reported as general revenue.

**Reporting Entity**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include

those of the Ruth Hughes Memorial District Library. The District Library is the primary government and there are no other component units that should be reported.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

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 sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Library reports only one fund as follows:

- The General Fund is used to record the operations of the Library which pertain to maintaining and operating the Ruth Hughes Memorial District Library. Included are all transactions related to the approved current operating budget.

**Ruth Hughes Memorial District Library**  
**Notes to Financial Statements**  
**December 31, 2007**

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**Assets, Liabilities and Equity**

Cash – The Library has defined cash to include cash on hand, demand deposits, and short-term investments with a maturity of three (3) months or less when acquired.

Receivables – Property taxes are assessed as of December 31 and the related taxes become a lien on March 1 of the following year. The Libraries' taxes are due in July with the final collection date on February 28 before they are added to the County tax rolls. The delinquent real property taxes of the taxing entities are purchased by Lapeer County. These taxes have been recorded as revenue in the current year. Receivables are considered fully collectible and therefore no allowance for doubtful accounts has been made.

Capital assets – Purchased or constructed capital assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$ 500. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Library does not have infrastructure assets. Buildings, furniture and equipment, and leasehold improvements are depreciated using the straight-line method over the following useful lives:

Land improvements	10 to 20 years
Building and building improvements	20 to 40 years
Furniture and fixtures	5 to 10 years
Computers and equipment	5 to 10 years

Fund balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Note 2 – Budgetary Policies and Data**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for the Special Revenue Fund.

The Board adopts appropriations utilizing the modified-accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. A library is not considered to be in violation of the Act if reasonable procedures are in use by the library to detect violations.

The Ruth Hughes Memorial District Library uses these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the Board a proposed budget by January 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The Library Director is authorized to transfer budgeted amounts between functions; however, any revisions that alter the total expenditures of any fund must be approved by the Board.
4. The budget for the Special Revenue Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year.

**Ruth Hughes Memorial District Library**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 3 – Cash and Investments**

Interest rate risk – The Library does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorizes the Library to make deposits into accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the Library is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed or authorized investment vehicles. The Library has no investment policy that would further limit its investments choices.

Concentrations of credit risk – The Library has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2007, \$ 100,000 of the bank balance was covered by federal depository insurance and \$ 571,041 was uninsured and uncollateralized.

**Note 4 – Capital Assets**

Capital assets for the current year was as follows:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
Capital assets not being depreciated				
Land	\$ 24,399	\$ -	\$ -	\$ 24,399
Capital assets being depreciated				
Land improvements	41,545	-	-	41,545
Building and building improvements	939,096	-	-	939,096
Furniture and fixtures	152,264	-	-	152,264
Computers and equipment	56,091	-	-	56,091
Total capital assets being depreciated	<u>1,188,996</u>	<u>-</u>	<u>-</u>	<u>1,188,996</u>
Less: Accumulated depreciation				
Land improvement	22,771	2,450	-	25,221
Buildings and building improvements	230,067	23,477	-	253,544
Furniture and fixtures	122,490	7,446	-	129,936
Computers and equipment	41,067	6,113	-	47,180
Total accumulated depreciation	<u>416,395</u>	<u>39,486</u>	<u>-</u>	<u>455,881</u>
Net capital assets being depreciated	<u>772,601</u>	<u>(39,486)</u>	<u>-</u>	<u>733,115</u>
Governmental activities capital assets, net	<u>\$ 797,000</u>	<u>\$ (39,486)</u>	<u>\$ -</u>	<u>\$ 757,514</u>

Depreciation for the fiscal year ended December 31, 2007, amounted to \$ 39,486.

**Note 5 – Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue consist \$ 362,182 of unavailable property taxes.

**Ruth Hughes Memorial District Library**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 6 – Deferred Compensation Plan**

The Library offers its employees a Savings Incentive Match Plan for Employees (SIMPLE plan) IRA in accordance with IRS Section 408(p). The plan, available to Library employees earning at least \$ 5,000 in annual compensation, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or an unforeseeable emergency. The employer matches employee contributions at 3% of the employees elected salary contribution up to a maximum of \$ 1,000 annually. Employer costs for the year ended December 31, 2007 were \$ 3,473. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with accounting principles generally accepted in the United States of America, plan balances and activities are not reflected in the Library's financial statements.

**Note 7 – Long-Term Debt**

Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Building note payable	\$ 337,492	\$ -	\$ 27,098	\$ 310,394	\$ 28,199

Future principal and interest (3.99%) requirements for the building note, with final payment due March 2017, to be paid out of the General Fund is as follows:

December 31,	Principal	Interest	Total
2008	28,199	11,873	40,072
2009	29,345	10,727	40,072
2010	30,538	9,534	40,072
2011	31,779	8,293	40,072
2012	33,071	7,002	40,073
2013-2017	<u>157,462</u>	<u>14,087</u>	<u>171,549</u>
	<u>\$ 310,394</u>	<u>\$ 61,516</u>	<u>\$ 371,910</u>

Interest expense for the fiscal year ended December 31, 2007, amounted to \$ 12,974.

**Note 8 – Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The District Library has purchased commercial insurance which covers general liability, auto liability, property damage, boiler and machinery, inland marine and injuries to employees. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 9 – Operating Leases**

On January 1, 2006, the Library signed a lease agreement with Attica Township for library space. The lease agreement is for a three-year period with an annual expense of \$ 1,000. The lease expires on December 31, 2008. Future minimum lease payments under the operating lease as of December 31, 2007 are as follows:

Year Ending December 31,	
2008	<u>\$ 1,000</u>

Rental expense for the year ended December 31, 2007 was \$ 1,000.

**Ruth Hughes Memorial District Library**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended December 31, 2007**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Current local taxes	\$ 251,000	\$ 355,423	\$ 281,555	\$ (73,868)
Delinquent taxes	1,000	890	890	-
State Aid	8,150	8,900	8,900	-
Grants	-	-	892	892
Audio books	204	113	156	43
Copies	1,865	1,033	2,184	1,151
Fax	1,000	900	1,323	423
Patron cards	710	579	949	370
Miscellaneous	100	217	212	(5)
Library fines	5,625	5,325	7,195	1,870
Penal fines	41,000	43,102	63,177	20,075
Interest earned	10,000	23,539	25,004	1,465
Friends of the library	500	2,308	2,471	163
Other contribution from private sources	300	2,592	732	(1,860)
Refunds and rebates	1,000	31	4,464	4,433
Other	30	-	-	-
Total revenues	<u>322,484</u>	<u>444,952</u>	<u>400,104</u>	<u>(44,848)</u>
<b>Expenditures</b>				
Wages and salaries	142,000	162,000	149,508	(12,492)
Payroll taxes	11,000	12,400	11,132	(1,268)
Retirement fund contribution	4,000	4,000	3,473	(527)
Health insurance	11,500	11,500	9,220	(2,280)
Books	13,000	29,500	29,289	(211)
Audio books	20	-	-	-
Compact discs	600	2,700	1,816	(884)

**Ruth Hughes Memorial District Library**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended December 31, 2007**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Actual Over (Under) Final Budget
Videos	\$ 250	\$ 2,500	\$ 2,918	\$ 418
Periodicals and reference	1,500	3,900	3,869	(31)
Supplies	2,700	4,514	5,025	511
Professional and contractual services	23,174	25,517	21,264	(4,253)
Postage	150	700	-	(700)
Insurance	9,000	8,000	7,359	(641)
Library programs	400	481	1,763	1,282
Continuing education	-	778	1,252	474
Building maintenance and repair	1,770	3,500	2,825	(675)
Travel	500	1,050	796	(254)
Library promotion	-	295	735	440
Rent	1,000	1,000	1,000	-
Utilities	18,464	18,660	18,749	89
Membership dues	-	400	340	(60)
Miscellaneous	40,084	21,542	6,259	(15,283)
Refunds and rebates	100	150	114	(36)
Capital outlay	1,200	3,543	5,639	2,096
Debt principal	27,098	27,098	27,098	-
Debt interest	12,974	12,974	12,974	-
<b>Total expenditures</b>	<b>322,484</b>	<b>358,702</b>	<b>324,417</b>	<b>(34,285)</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>-</b>	<b>86,250</b>	<b>75,687</b>	<b>(10,563)</b>
<b>Fund balance - beginning of year</b>	<b>444,502</b>	<b>444,502</b>	<b>444,502</b>	<b>-</b>
<b>Fund balance - end of year</b>	<b>\$ 444,502</b>	<b>\$ 530,752</b>	<b>\$ 520,189</b>	<b>\$ (10,563)</b>



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June 18, 2008

Management and the Library Board  
Ruth Hughes Memorial District Library  
211 North Almont Avenue  
Imlay City, MI 48444

Dear Management and Library Board:

We have completed our audit of the financial statements of Ruth Hughes Memorial District Library as of and for the year ended December 31, 2007 and have issued our report dated June 18, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Communication of Internal Control Matters Identified During the Audit

II Auditors' Communication of Significant Matters with Those Charged with Governance

III Management Comments

We discussed these matters with various personnel in the organization during the audit. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Library Board, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

*Yeo & Yeo, P.C.*

Marlette, Michigan

## Appendix I

### Communication of Internal Control Matters Identified During an Audit

In planning and performing our audit of the financial statements of Ruth Hughes Memorial District Library as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Ruth Hughes Memorial District Library 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. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

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

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

#### **QuickBooks Accounting Software**

We noted that the Library uses QuickBooks for its accounting software. In many cases QuickBooks is the best option for a Library's accounting software and there are very good business reasons to use QuickBooks. It is however important that Management and those charged with governance understand the inherent limitations of the QuickBooks accounting software package. QuickBooks, unlike most other accounting software packages, does not provide for an irreversible closing of fiscal years. Instead, QuickBooks provides an option to password protect the accounting records up through a specific date. We encourage all users of QuickBooks to implement this option and password protect those years which have been audited, after ensuring that QuickBooks records match the audited financial statements. This password protection however does still allow changes to prior periods once the password is entered. The importance of not making changes to password protected periods needs to be instilled in all who know the password. In addition, QuickBooks does not void checks per se. When the void check option is chosen in QuickBooks it is in effect deleting the check as of the date the check was written rather than voiding the check as of the date you choose to void it. This poses problems when the check issue date and the void date are in different fiscal years.

There are broad categories of permissions which should be reviewed and set for each particular user, based on their needs. One of these categories is the ability to change or delete transactions and the ability to change or delete transactions before the closing date. Remember that the Admin user automatically has rights to all broad categories, and therefore may not be the correct user set-up for some users. These categories however are very broad. Anyone given access to input accounts receivable invoices has access to record the receipt of accounts

receivable monies and create write-offs of accounts receivables. Therefore QuickBooks cannot be relied upon to enforce segregation of duties.

We recommend that you seriously consider the costs and benefits of QuickBooks software as compared to the Library's needs. We also recommend that this consideration be done on an annual basis as facts and circumstances change throughout the year. The accounting software which is appropriate for a start-up entity may not continue to be appropriate for that same entity as it grows. We are neither recommending for nor against continuing to use QuickBooks as the Library's accounting software, we are simply recommending that the decision made by Management and those charged with governance be a fully informed decision.

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 entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

Appendix II  
Communication to Those Charged with Governance

**Responsibilities under generally accepted auditing standards**

As stated in our engagement letter dated December 31, 2007, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

**Planned Scope and Timing of the Audit**

We performed the audit as outlined in our discussion with you related to planning matters on May 8, 2008.

**Significant Audit Findings**

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear unless otherwise noted. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

**Difficulties Encountered During the Audit**

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

**Corrected and Uncorrected Misstatements**

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments. Management has determined that the effects of the uncorrected misstatement noted below are immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

<u>Uncorrected Misstatement</u>	<u>Debit</u>	<u>Credit</u>
Contracted services	\$ 2,830	
Fund balance		\$ 2,830

### **Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated June 18, 2008.

### **Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

### **Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

### Appendix 3 Management Comments

In planning and performing our audit of the financial statements of Ruth Hughes Memorial District Library as of and for the year ended December 31, 2007, we considered Ruth Hughes Memorial District Library internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated June 18, 2008, on the financial statements of Ruth Hughes Memorial District Library. Our comments and recommendations regarding those matters are:

#### **Reconciliations**

As part of the internal control process, accounts should be reconciled and analyzed on a timely basis. We recommend that monthly or quarterly reconciliations of pertinent accounts be completed prior to the end of the following month or quarter. The reconciliation process helps to detect any errors or frauds that may have occurred within an account. For example, reconciling payroll tax returns to amounts recorded in the general ledger may detect mispostings of transactions to the wrong general ledger account; reconciling the property tax settlement for the year to the general ledger may detect overpayments or underpayments by the taxing units; analyzing your accounts payable list on a regular basis may prevent late payments or detect duplicate postings in the general ledger.