Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

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

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Lapeer District Library	Lapeer

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
December 31, 2006	May 15, 2007	June 6, 2007

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☒	Report on Internal Control

Certified Public Accountant (Firm Name)	Telephone Number		
Stewart, Beauvais & Whipple PC	(810) 984-3829		
Street Address	**City**	**State**	**Zip**
1979 Holland Avenue	Port Huron	MI	48060
Authorizing CPA Signature	**Printed Name**	**License Number**	
Larry J. Allen	Larry J. Allen	1101008117	

LAPEER DISTRICT LIBRARY

ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
DECEMBER 31, 2006

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS

LAPEER DISTRICT LIBRARY

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Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lapeer District Library

We have audited the accompanying financial statements of the governmental activities of the Lapeer District Library as of and for the year ended December 31, 2006 as listed in the Table of Contents. These financial statements are the responsibility of the Lapeer District 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lapeer District Library's internal control over financial reporting. Accordingly, we express no such opinion. 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 Lapeer District Library as of December 31, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with ***Government Auditing Standards***, we have also issued our report, dated May 15, 2007, on our consideration of the Lapeer District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

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 required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Beauvais & Whipple

Certified Public Accountants

May 15, 2007

1979 Holland Avenue, Port Huron, Michigan 48060 (810) 984-3829 Fax (810) 984-8943

As management of the Lapeer District Library, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the year ended December 31, 2006.

USING THIS ANNUAL REPORT:

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 government-wide financial statements reported on the accrual basis, fund financial statements reported on the modified accrual basis, and notes to the financial statements.

CONDENSED FINANCIAL INFORMATION:

The following table below shows key financial information in a condensed format for the years ended December 31, 2006 and 2005:

STATEMENT OF NET ASSETS

	2006	2005
Assets		
Current Assets	$ 2,374,595	$ 2,193,027
Capital Assets, net of depreciation	610,002	589,977
Total Assets	$ 2,984,597	$ 2,783,004
Liabilities		
Current Liabilities	$ 1,761,167	$ 1,647,868
Non-Current Liabilities	63,812	49,540
Total Liabilities	1,824,979	1,697,408
Net Assets		
Invested in Capital Assets – Net of Related Debt	598,710	589,977
Restricted	53,171	51,235
Unrestricted	507,737	444,384
Total Net Assets	1,159,618	1,085,596
Total Liabilities and Net Assets	$ 2,984,597	$ 2,783,004

STATEMENT OF ACTIVITIES

Revenue		
Property Taxes	$ 1,575,281	$ 1,501,674
Other	477,781	505,099
Total Revenue	2,053,062	2,006,773
Total Expenses	1,979,040	1,953,980
Changes in Net Assets	$ 74,022	$ 52,793

THE LIBRARY AS A WHOLE:

- The Library is reporting financial statements this year that meet the requirements of GASB 34.
- The Library's primary source of revenue is from property taxes. For 2006, total tax collections were $1,575,281. This represents approximately 77% of total revenue.
- Personnel costs represent the largest overall expense of the Library. For 2006, this expense was $1,327,596, representing 66% of the Library's total expenses.
- Library services of $349,158 are the second largest overall expense of the Library, representing 26% of the Library's total expenses.

FINANCIAL HIGHLIGHTS:

- The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by $1,159,618 (net assets). Of this amount, $507,737 (unrestricted net assets) may be used to meet the Library's ongoing obligations.
- The Library's total net assets increased by $74,022 during the year. This is due to slightly increased revenues in 2006.
- At the end of 2006, unreserved fund balance for the general fund was $417,286, or 21% of total governmental fund expenditures.

BUDGET & ACTUAL REVENUES & EXPENDITURES:

	Final Budget	Actual	Variance Budget and Actual
Revenues	$ 1,942,953	$ 2,053,062	5.66 %
Expenditures	2,026,988	1,966,436	1.51
Revenues over (under) expenditures	$(84,035)	$ 56,626	

The Library approved one set of budget amendments during the year. The most significant amendment was an increase in the cost of health insurance.

REVENUES

- Penal fines in Lapeer County exceeded estimates, as we budgeted for $300,000 and realized $323,087 collected.
- Property tax revenues and interest also exceeded budgeted amounts.

EXPENDITURES

- Even with a 4.15% cost-of-living adjustment in salaries, personnel expenditures (salaries and benefits) were less than anticipated.
- Books and related library materials (library services) were reduced by the unavailability of ordered items, as well as the significant reduction in the use of the US Postal Service to move materials between library facilities.

CAPITAL ASSETS AND DEBT ADMINISTRATION:

As a result of GASB 34 implementation, the library adopted a capitalization policy of $1000 and an estimated useful life in excess of two years.

The Library continued to add new literary materials at all branches, including books, DVDs, and audio books, bringing the capital assets value to $610,002.

In accordance with the Library's personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. As of December 31, 2006, the vested benefits amounted to $42,569.

The Library also financed two copiers through a capital lease in 2006. The balance at December 31, 2006 was $11,292.

MILLAGE RATES:

In August 1996, the voters in Lapeer County approved a millage of .9 mills. Due to the Headlee Rollback, the Library levied .8131 mills in 2006. This millage expired on December 31, 2006.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET:

2007 will see the Library attempt again to pass an operational millage. In the interim, the Library Board and Administration implemented a series of changes in order to preserve Library funds. These temporary changes included the layoff of 33 of 48 staff members, and the closure of five of eight library branch locations. Additionally, nearly every collection line item was reduced, and the remaining fifteen staff members were subjected to a 5 hours per week (10 hours/pay period) pay reduction. These temporary changes may save the Library nearly $600,000, which will help to keep the Library going and to fund the operational millage election, which is scheduled for August 7, 2007.

Additional funding issues are coming from the State of Michigan, as a moratorium has been placed on State Aid payments for the second half of 2007, and a potential reduction in State Aid in 2008 is looming.

Without securing the passage of an operational millage in 2007, the Library's future is not bright.

CONTACTING THE DISTRICT LIBRARY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances. If you have questions about this report or need additional information, contact the Library Director at Lapeer District Library, 201 Village West Drive S., Lapeer, MI 48446.

BASIC FINANCIAL STATEMENTS

LAPEER DISTRICT LIBRARY

BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Fund	Adjustments Note 2	Statement of Net Assets
ASSETS			
Cash and cash equivalents	$ 534,084	$ -	$ 534,084
Endowments with community foundation	94,431	-	94,431
Accounts receivable	1,000		1,000
Taxes receivable	1,660,670	-	1,660,670
Due from other governmental units	35,870	-	35,870
Prepaid items	48,540	-	48,540
Capital Assets, net of depreciation			
Assets not being depreciated	-	17,000	17,000
Assets being depreciated	-	593,002	593,002
Total Assets	$ 2,374,595	610,002	2,984,597
LIABILITIES			
Accounts Payable	$ 32,985	-	32,985
Accrued payroll and related liabilities	42,760	-	42,760
Deferred revenue	1,685,422	-	1,685,422
Noncurrent liabilities			
Due within one year	-	44,731	44,731
Due in more than one year	-	19,081	19,081
Total Liabilities	1,761,167	63,812	1,824,979
FUND BALANCE			
Reserved			
Community foundation	94,431	(94,431)	-
Prepaid items	48,540	(48,540)	-
External restrictions	53,171	(53,171)	-
Unreserved			
Undesignated	417,286	(417,286)	-
Total Fund Balance	613,428	(613,428)	-
Total Liabilities and Fund Balance	$ 2,374,595		
NET ASSETS			
Invested in capital assets		598,710	598,710
Restricted		53,171	53,171
Unrestricted		507,737	507,737
Total Net Assets		$ 1,159,618	$ 1,159,618

See Notes to
Financial Statements

LAPEER DISTRICT LIBRARY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

	Governmental Fund	Adjustments Note 2	Statement of Activities
Revenues:			
Property taxes - operating	$ 1,575,281	$ -	$ 1,575,281
MMLC grants	14,798	-	14,798
State aid - books	45,058	-	45,058
Penal fines	323,087	-	323,087
Fines and fees	3,320	-	3,320
Donations	18,164	-	18,164
Library services	10,924	-	10,924
Interest earned	38,061	-	38,061
Investment earnings - endowment	9,292	-	9,292
Miscellaneous	15,077	-	15,077
	2,053,062	-	2,053,062
Expenditures/Expenses:			
Personnel	1,324,354	3,242	1,327,596
Library services	525,528	(176,370)	349,158
Facilities and equipment	113,333	(1,260)	112,073
Other expenditures	33,221	-	33,221
Depreciation	-	156,992	156,992
	1,996,436	(17,396)	1,979,040
Revenues over expenditures/expenses	56,626	17,396	74,022
Other financing sources:			
Lease Proceeds	11,643	(11,643)	-
Net Change in Fund Balance/Net Assets	68,269	5,753	74,022
Fund Balance/Net Assets at beginning of year	545,159	540,437	1,085,596
Fund Balance/Net Assets at end of year	$ 613,428	$ 546,190	$ 1,159,618

See Notes to
Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Lapeer District Library (the "Library") conform in all material respects to U.S. generally accepted accounting principles as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Library's financial statements.

A. Reporting Entity –

The Library is governed by an eight member Board of Trustees. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Accordingly, there are no component units to be included in the Library's financial report.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statements (i.e. the Statement of Net Assets and Statement of Activities) 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 revenues in the year for which they are levied. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when 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 Library considers revenues to be available if they are collected within 60 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, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Net Assets or Equity –

Cash and Cash Equivalents – The Library's cash and cash equivalents are cash on hand, demand deposits, pooled funds and certificates of deposits with original maturities of three months or less from the date of acquisition.

Receivables – All receivables are shown net of allowances for uncollectible amounts.

Prepaid Items – Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expenditures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital Assets – Are reported in the government-wide statements. Capital assets are defined by the Library as assets with an initial individual cost of $1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Building	50
Improvements	5-15
Equipment and vehicles	5
Library books, periodicals and videos	3

Accrued Vacation and Sick Pay – In accordance with the Lapeer District Library personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

Deferred Revenues – In both the government-wide statements and in the fund (modified accrual) financial statements revenues received or recorded before it is earned is recorded as a deferred revenue.

Fund Equity – The fund (modified accrual) statements 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. Designation of fund balance represents tentative management plans that are subject to change.

Estimates – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required 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 expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

A. Explanation of differences between the fund (modified accrual) balance sheet and the government-wide statement of net assets (Page 5).

Fund Balance	$ 613,428
Capital assets used in the modified accrual activities which are not financial resources and therefore are not reported in the fund statements	
Add – capital assets	$ 3,369,265
Deduct – accumulated depreciation	(2,759,263)

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont'd):

Long-term accrued vacation and sick time that are not due in the current period, therefore, not reported in the fund (modified accrual) activities	(42,569)
Long-term liabilities not due in the current period, therefore, not reported in the fund (modified accrual) activities	
Special assessment	(9,951)
Capital lease	(11,292)
Net Assets	$ 1,159,618

B. Explanation of differences between the fund (modified accrual) statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 6).

Net changes in fund balance – modified accrual	$ 68,269
The fund (modified accrual) statements report capital outlay as expenditures; however, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay	177,017
Deduct – depreciation	(156,992)
Accrued vacation and sick time expenses reported in the fund (modified accrual) statement because they are reported when paid, not when earned	(3,242)
The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal consumes the current financial resources. Neither transaction, however, has any effect on net assets.	
Capital lease proceeds	(11,643)
Special assessment	262
Capital lease	351
Change in Net Assets	$ 74,022

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

The Library's budget is prepared on the accrual basis of accounting and approved by the Board prior to the start of the year. After the budget is adopted, all amendments must be approved by the Library Board.

The Library's approved budget was adopted at the account level and control was exercised at that level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act and the level requiring amendment approval by the District Library Board.

Expenditures at this legally adopted level in excess of the amount budgeted are a violation of the Budgeting Act. Expenditures in excess of the amount appropriated are as follows:

Activity/Amount	Total Appropriation	Amount Expended	Budget Variance
Personnel -			
Training	$ 5,660	$ 6,069	$ 409
Library Services -			
Contracted Services	159,389	165,020	5,631
Computer Automation	19,900	39,799	19,899
Transfer to other districts	163,369	164,705	1,336
Facilities and Equipment -			
Maintenance - vehicles and equipment	1,700	2,462	762
Utilities	36,022	36,799	777
Telephone	38,055	38,368	313

NOTE 4 – DEPOSITS AND INVESTMENTS:

As of December 31, 2006, the carrying amount of the cash and investments is as follows:

Petty Cash	$ 456
Deposits with Financial Institutions –	
Checking Account	61,513
Total	61,969
Investment Trust Fund	472,115
Total cash and cash equivalents	$ 534,084

NOTE 4 – DEPOSITS AND INVESTMENTS – (cont'd):

Deposits -

The Library's investment policy and Act 217 PA 1982, as amended, authorize the Library to deposit in certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of $100,000 for deposits in an insured bank for savings deposits and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of $100,000.

Custodial Credit Risk - Deposits – is the risk that in the event of a bank failure, the Library's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the Library, as of December 31, 2006, the bank balance of the Library's deposits was $71,221, which is covered by FDIC insurance. The Library's investment policy does not address custodial credit risk.

Investments –

Act 20 PA 1994, as amended, authorizes the Library to invest its surplus funds in bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States; in commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase; in the United States government or federal agency obligations repurchase agreements; in bankers acceptances of United States banks; in obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; in obligations described in subdivision (a) through (f), as named above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967 PA 7, MCL 124.501 to 124.512; in Investment pools organized under the Surplus Funds Investment Act, 1982 PA 367, 129.111 to 129.118; in mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

Custodial Credit Risk – Investments – is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments that are in possession of another party.

The Library at December 31, 2006 held $472,115 in an investment trust fund that is not evidenced by securities that exist in physical or book entry form. The investment trust fund has been reported in the financial statements as cash equivalents because it has the general characteristics of demand deposit accounts in that the Library may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The investment trust fund is reported at cost, which approximates fair value. The investment trust fund received a rating of F1 by Fitch and a rating of A1 by Moody's with an average days to maturity of 20 as of December 31, 2006. The investment trust fund invests primarily in repurchase agreements, commercial paper and U.S. Treasury securities.

NOTE 4 – DEPOSITS AND INVESTMENTS – (cont'd):

Interest Rate Risk – is the risk that the market value of securities of the Library's portfolio will fall due to changes in the market interest rates. The Library's investment policy does not address interest rate risk.

Credit Risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws limit the types of investment and "grades" of investments that the Library can purchase. The Library's investment policy does not further limit these types.

Concentration of Credit Risk – is the risk of loss attributed to the magnitude of the Library's investment in a single issuer. The only restriction in the Library's investment policy is that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

NOTE 5 – ENDOWMENTS WITH COMMUNITY FOUNDATION:

The Library has two separate endowment funds that are administered by the Community Foundation of Greater Flint. One endowment fund was established for the benefit of the District Library and the other for the benefit of the Marguerite de Angeli Branch. Both endowment funds had original contributions from the District Library with additional contributions from individuals. Both Endowment funds are subject to variance power of the Foundation, which charges an administrative fee and operates under a spending policy agreed to by the Library.

The contributions to the endowment funds by the Library are considered funds of the Library and recorded on its balance sheet. The contributions to the Endowment Funds from individuals are a component fund of the Foundation.

The following are the balances at December 31, 2006:

	Library Gifts	Designated Gifts
District Library	$ 73,136	$ 2,356
Marguerite de Angeli Branch	21,295	9,764
	$ 94,431	$ 12,120

NOTE 6 – PROPERTY TAXES AND TAXES RECEIVABLE:

The Lapeer District Library's border's encompass all of the municipalities of the City of Lapeer and townships of Arcadia, Burlington, Burnside, Deerfield, Elba, Goodland, Hadley, Lapeer, Marathon, Mayfield, Metamora, Oregon and Rich. Properties in each government unit are levied each December 1, on the taxable valuation of property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and becomes delinquent after February 14th.

Although the County's 2006 ad valorem tax is levied and collectible on December 1, it is the Library's policy to recognize in governmental fund types revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of Library operations. The property taxes levied at December 1, are accrued as current taxes receivable with the appropriated deferral and are budgeted as revenue in the subsequent year. Taxes receivable at December 31, 2006 is $1,660,670.

NOTE 6 – PROPERTY TAXES AND TAXES RECEIVABLE – (cont'd):

Assessed values are established annually by the County and are equalized by the State at an estimated percentage of the current market value. A taxable value is established on which taxes are calculated. Real and personal property in the Cities and Townships for the 2006 and 2005 levies have a taxable value of $2,064,743,574 and $1,937,603,467, respectively. The millage rate was .8131 and .8191, respectively.

NOTE 7 – CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Jan. 1, 2006 Balance	Additions	Deletions	Dec. 31, 2006 Balance
Capital assets not being depreciated –				
Land	$ 17,000	$ -	$ -	$ 17,000
Capital assets being depreciated –				
Buildings and building improvements	385,561	-	-	385,561
Land improvements	21,255	1,260	-	22,515
Equipment	262,458	33,201	-	295,659
Vehicles	17,486	-	-	17,486
Books, periodicals and videos	2,771,800	142,556	(283,312)	2,631,044
	3,458,560	177,017	(283,312)	3,352,265
Less accumulated depreciation for –				
Buildings and building improvements	126,463	7,143	-	133,606
Land improvements	21,255	84	-	21,339
Equipment	198,620	29,808	-	228,428
Vehicles	12,240	3,497	-	15,737
Books, periodicals and videos	2,527,005	116,460	(283,312)	2,360,153
	2,885,583	156,992	(283,312)	2,759,263
Net capital assets being depreciated	572,977	20,025	-	593,002
Total capital assets net of depreciated	$ 589,977	$ 20,025	$ -	$ 610,002

NOTE 8 – LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Library for the year ended December 31, 2006:

	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	Due Within One Year
Special assessment debt	$ 10,213	$ -	$ 262	$ 9,951	$ 262
Accrued vacation	39,327	3,242	-	42,569	42,569
Capital Lease	-	11,643	351	11,292	1,900
	$ 49,540	$ 14,885	$ 613	$ 63,812	$ 44,731

Interest expense for the year was $706.

NOTE 8 – LONG-TERM LIABILITIES – (cont'd):

In accordance with the Library's personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. As of December 31, 2006, the vested benefits amounted to $42,569.

During 2005, the Library received notification of a special assessment district established for sewer improvements in the Village of Otter Lake. The assessment requires 40 annual payments at 5.5% beginning July 1, 2005. The Library's Otter Lake branch has been assessed a total amount due of $10,475. The remaining balance as of December 31, 2006 is $9,951.

During 2006, the Library leased two new copy machines that meet the requirements of a capital lease. The minimum annual payments for the capital lease are summarized in Note 9.

Annual requirements to pay principal and interest on the outstanding debt are as follows:

Year Ending December 31,	Special Assessment Principal	Special Assessment Interest
2007	$ 262	$ 547
2008	262	533
2009	262	518
2010	262	504
2011	262	490
2012-2044	8,641	8,080
	$ 9,951	$ 10,672

NOTE 9 – CAPITAL LEASE:

The Library has entered into a lease purchase agreement to finance the acquisition of two copy machines. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

Commitment under the lease agreement provides for minimum annual payments as follows:

Year Ending December 31,	
2007	$ 2,976
2008	2,976
2009	2,976
2010	2,976
2011	2,481
Total minimum lease payments	14,385
Less – amounts representing interest	(3,093)
Present value of minimum lease payments	$ 11,292

Capital assets purchased through capital leases have an initial cost of $11,643 and an accumulated depreciation at December 31, 2006 of $1,164.

NOTE 10 – OPERATING LEASES:

The Library leases certain equipment under non-cancelable operating leases expiring in various years. Future minimum lease payments under the non-cancelable operating leases are as follows:

Year Ending December 31,	Copiers
2007	$ 1,584
2008	264
	$ 1,848

NOTE 11 – EMPLOYEE PENSION PLAN:

Plan Description -

The Lapeer District Library participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The Library is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2006 was 11.27%. The contribution requirements of plan members and the Library are established and may be amended by the Library Board, depending on the MERS contribution program adopted by the Library.

Annual Pension Costs -

For the year ended December 31, 2006 the Library's annual pension cost of $92,447 for MERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from .3% to 8.4%, depending on age, attributable to seniority/merit, (d) the assumption that withdrawal rules will decrease with the increase in the years of service, and (3) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

NOTE 11 – EMPLOYEE PENSION PLAN – (cont'd):

Year Ending December 31,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2004	$ 124,614	100 %	-
2005	121,479	100	-
2006	92,447	100	-

Schedule of Funding Progress

Valuation Date	Actuarial Value of of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
2003	$ 1,281,061	$ 2,110,507	$ 829,446	61 %	$ 771,422	108 %
2004	1,823,390	2,655,184	831,794	69	821,326	101
2005	2,086,401	3,026,941	940,540	69	776,270	121

NOTE 12 – RISK MANAGEMENT:

The Library is a voluntary member of the Michigan Municipal Risk Management Authority established pursuant to PA 35 of 1951 of the State of Michigan which authorize local units of government to exercise jointly any power, privilege or authority which each might exercise separately. The Authority administers a risk management fund providing the Library with loss protection for liability, vehicle physical damage, and property and crime coverage.

The Library is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expense for each occurrence that is within the Member's Self Insurance Retention. The Library's Self Insurance Retention and deductible are as follows:

Coverage	Deductible	Self Insured
Liability	None	State Pool Member
Vehicle physical damage	250/Vehicle	State Pool Member
Property and crime	250/Occurrence	State Pool Member

The Library has limits to coverage on an occurrence basis and must be paid first from the Library's Self Insured Retention. The most the MMRMA will pay is its Self Insured Retention obligation.

The Library continues to carry commercial insurance for employee health and accident insurance and workers compensation insurance. The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

REQUIRED SUPPLEMENTARY INFORMATION

LAPEER DISTRICT LIBRARY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual General Operations	Actual External Restrictions
Revenues:				
Property taxes - operating	$ 1,548,257	$ 1,548,257	$ 1,575,281	$ -
MMLC grants	-	-	14,798	-
State aid - books	44,788	44,788	45,058	-
Penal fines	300,000	300,000	323,087	-
Fines and fees	3,000	3,000	3,320	-
Donations	21,508	21,508	84	18,080
Library services	11,000	11,000	10,924	-
Interest earned	5,500	5,500	38,061	-
Investment earnings - endowment	-	-	9,292	-
Miscellaneous	8,900	8,900	15,077	-
	1,942,953	1,942,953	2,034,982	18,080
Expenditures:				
Personnel -				
Salaries and wages	965,847	965,847	965,748	-
Fringe benefits	343,701	359,456	346,947	-
Mileage reimbursement	11,110	11,110	5,590	-
Training	5,660	5,660	6,069	-
Health Service	210	210	-	-
Total Personnel	1,326,528	1,342,283	1,324,354	-
Library Services -				
Contractual services	169,390	159,389	161,637	3,383
Books	133,610	133,610	107,810	5,761
Periodicals and AV materials	25,537	25,537	17,203	1,906
Memberships	23,454	23,454	23,324	-
Computer automation	19,900	19,900	39,799	-
Transfer to other districts	163,369	163,369	164,705	-
Total Library Services	535,260	525,259	514,478	11,050
Facilities and Equipment -				
Rent	4,100	4,476	4,476	-
Maintenance - building and grounds	3,300	7,700	7,548	-
Maintenance - vehicles and equipment	1,500	1,700	2,462	-
Supplies building and grounds	9,080	10,781	9,134	-
Utilities	36,022	36,022	36,799	-
Insurance	15,887	15,887	14,546	-
Telephone	29,955	38,055	38,368	-
Total Facilities and Equipment	99,844	114,621	113,333	-

Total	Variance with Final Budget Positive (Negative)
$ 1,575,281	$ 27,024
14,798	14,798
45,058	270
323,087	23,087
3,320	320
18,164	(3,344)
10,924	(76)
38,061	32,561
9,292	9,292
15,077	6,177
2,053,062	110,109
965,748	99
346,947	12,509
5,590	5,520
6,069	(409)
-	210
1,324,354	17,929
165,020	(5,631)
113,571	20,039
19,109	6,428
23,324	130
39,799	(19,899)
164,705	(1,336)
525,528	(269)
4,476	-
7,548	152
2,462	(762)
9,134	1,647
36,799	(777)
14,546	1,341
38,368	(313)
113,333	1,288

Continued

LAPEER DISTRICT LIBRARY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual General Operations	Actual External Restrictions
Expenditures, cont.				
Other Expenditures -				
Postage	$ 6,005	$ 6,005	$ 5,301	$ -
Office supplies	13,000	13,000	12,105	-
Board per diem	3,840	3,840	2,220	-
Community promotion	3,546	3,546	2,374	-
Printing and publishing	839	839	590	-
Miscellaneous	12,319	17,595	5,537	5,094
Total Other Expenditures	39,549	44,825	28,127	5,094
Total Expenditures	2,001,181	2,026,988	1,980,292	16,144
Revenues over (under) expenditures	(58,228)	(84,035)	54,690	1,936
Other Financing Sources:				
Capital lease proceeds	-	-	11,643	-
Net Change in Fund Balance	(58,228)	(84,035)	66,333	1,936
Fund Balance beginning of year	545,159	545,159	493,924	51,235
Fund Balance end of year	$ 486,931	$ 461,124	$ 560,257	$ 53,171

Total	Variance with Final Budget Positive (Negative)
$ 5,301	$ 704
12,105	895
2,220	1,620
2,374	1,172
590	249
10,631	6,964
33,221	11,604
1,996,436	30,552
56,626	140,661
11,643	11,643
68,269	152,304
545,159	-
$ 613,428	$ 152,304

Concluded

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Lapeer District Library

We have audited the financial statements of the governmental activities of the Lapeer District Library as of and for the year ended December 31, 2006, and have issued our report thereon dated May 15, 2007. 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 Lapeer District Library's internal control over financial reporting as a basis for designing our auditing 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 organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization'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 a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

The following deficiency in internal control is considered to be a material weakness:

Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.

Management routinely prepares internal financial information to assess operations and the financial position of the Library on an ongoing basis. Although the internal financial information is sufficient to operate the Library, it is not presented in accordance with generally accepted accounting principles. The Library contracts with us, the auditors, to propose journal entries for conversion to the modified accrual basis of accounting and for the GASB 34 presentation, along with drafting the financial statements, including all necessary notes, in accordance with generally accepted accounting principles.

1979 Holland Avenue, Port Huron, Michigan 48060 (810) 984-3829 Fax (810) 984-8943

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lapeer District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, non compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards.***

We noted certain matters that we reported to management of the Lapeer District Library in a separate letter dated May 15, 2007.

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

Stewart, Beauvais & Whipple

Certified Public Accountants,

May 15, 2007

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

MANAGEMENT LETTER

To the Board of Directors
Lapeer District Library

We have recently completed our audit of the records of Lapeer District Library for the year ended December 31, 2006. In connection with the examination, we believe that a certain change in your accounting procedures would be helpful in improving management's control and/or the operational efficiency of the record keeping system. This suggestion is a result of our evaluation of internal accounting controls and procedures, and our discussions with management. As noted in the **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***, dated May 15, 2007, this weakness was not considered to be a material weakness, but an area we would like to bring to your attention.

Improved controls over the payroll function.

Currently, the accounting manager summarizes the approved timesheets, submits the information to the payroll processing service, receives the checks from the processing service and reconciles the bank account.

One individual should not be performing all functions relating to one accounting area.

To improve control in the payroll area, we suggest that someone other than the payroll clerk should receive the checks from the payroll processing service and compare the checks to the reports generated by the service. After this independent review of checks and the reports, someone other than the accounting manager can distribute the checks.

This condition was considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2006 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

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

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss this condition with you and to provide assistance in the implementation of improvements.

Sincerely,

Stewart, Beauvais & Whipple

May 15, 2007

1979 Holland Avenue, Port Huron, Michigan 48060 (810) 984-3829 Fax (810) 984-8943