

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Mount Clemens Public Library	County Macomb County
Fiscal Year End 6/30/07	Opinion Date January 11, 2008	Date Audit Report Submitted to State January 15, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

YES NO **Check each applicable box below.** (See instructions for further detail.)

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number 248.952.5000		
Street Address 5750 New King St. Suite 200		City Troy	State MI	Zip 48098
Authorizing CPA Signature Thomas Darling, CPA <small>Digitally signed by Thomas Darling, CPA DN: cn=Thomas Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2008.01.14 17:15:12 -0500</small>		Printed Name Thomas E. Darling, CPA		License Number A246550

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

ANNUAL
FINANCIAL REPORT

For the Year Ended June 30, 2007

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

ANNUAL
FINANCIAL REPORT

For the Year Ended June 30, 2007

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 10
Basic Financial Statements	
Statement of Net Assets and Governmental Funds Balance Sheet	11
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	12
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances	13
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund	15
Notes to Financial Statements	16 - 24

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

January 11, 2008

To the Board of Trustees
Mount Clemens Public Library
Mount Clemens, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Mount Clemens Public Library** (the "Library"), as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The Management's Discussion and Analysis listed in the table of contents on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Rehman Lohani

MANAGEMENT'S DISCUSSION AND ANALYSIS

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Mount Clemens Public Library (the "Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Total net assets increased by \$83,016 for a total ending balance of \$1,603,692 at the end of the fiscal year.
- General fund balance increased by \$114,231 for an ending total unreserved fund balance of \$500,444.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library financial statements. The Library basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements include only the Library itself (known as the *primary government*), and there are no legally separate component units for which the Library is financially accountable.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements can be found in the last column on pages 11 and 13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library's only fund, the General Fund, is considered a governmental fund.

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

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

The Library maintains only a general fund and as such it is considered a major fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for this fund.

The Library adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found in the beginning column on the Statement of Net Assets and Governmental Fund Balance Sheet, and the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balances as noted in the table of contents.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's economic position. In the case of the Library, assets exceeded liabilities by \$1,603,692 at the close of the fiscal year.

By far the largest portion of the Library's net assets reflects its investment in capital assets (e.g., buildings, equipment, furniture and books), less any related debt used to acquire those assets that is still outstanding. The Library uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the Library investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets		
	2007	2006
Current and other assets	\$ 500,783	\$ 409,360
Capital assets, net	1,239,274	1,296,457
Total assets	1,740,057	1,705,817
Long-term liabilities outstanding	135,342	161,264
Other liabilities	1,023	23,877
Total liabilities	136,365	185,141
Net assets:		
Invested in capital assets, net of related debt	1,144,274	1,191,457
Unrestricted	459,418	329,219
Total net assets	\$ 1,603,692	\$ 1,520,676

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Activities		
	2007	2006
Revenue:		
Property taxes	\$ 1,512,670	\$ 1,415,305
Other revenues	137,729	114,047
Total revenue	<u>1,650,399</u>	<u>1,529,352</u>
Expenses:		
Contracted wages and benefits	1,080,519	1,114,664
Other expenses	371,946	270,330
Depreciation	114,918	135,452
Total expenses	<u>1,567,383</u>	<u>1,520,446</u>
Increase in net assets	83,016	8,906
Net assets, beginning of year	<u>1,520,676</u>	<u>1,511,770</u>
Net assets, end of year	<u>\$ 1,603,692</u>	<u>\$ 1,520,676</u>

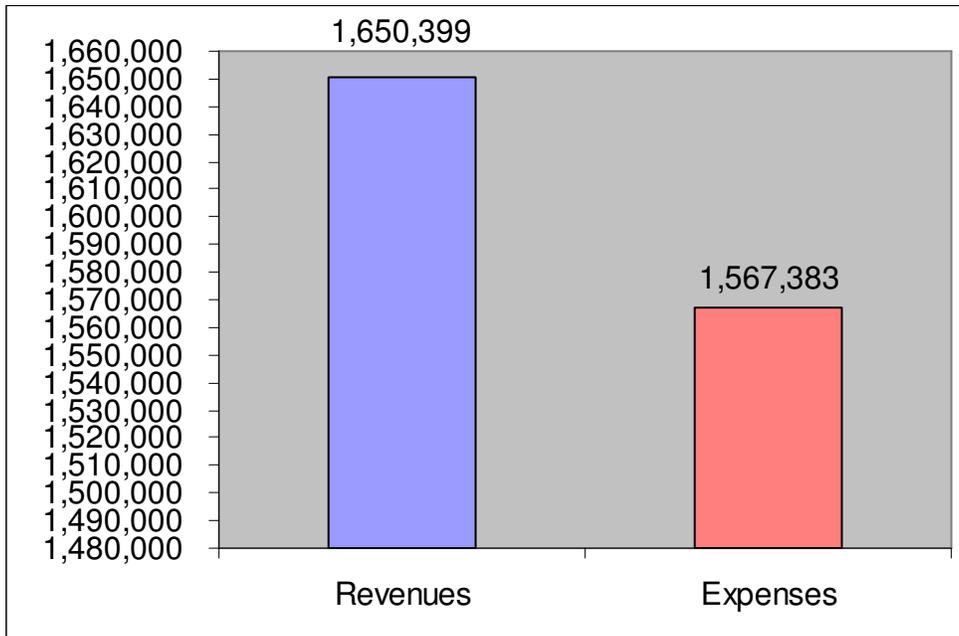
Governmental activities

The Library's net assets increased by \$83,016 or 5.5% from the previous year. This was largely due to an increase in property tax revenue while maintaining budgetary controls over expenses.

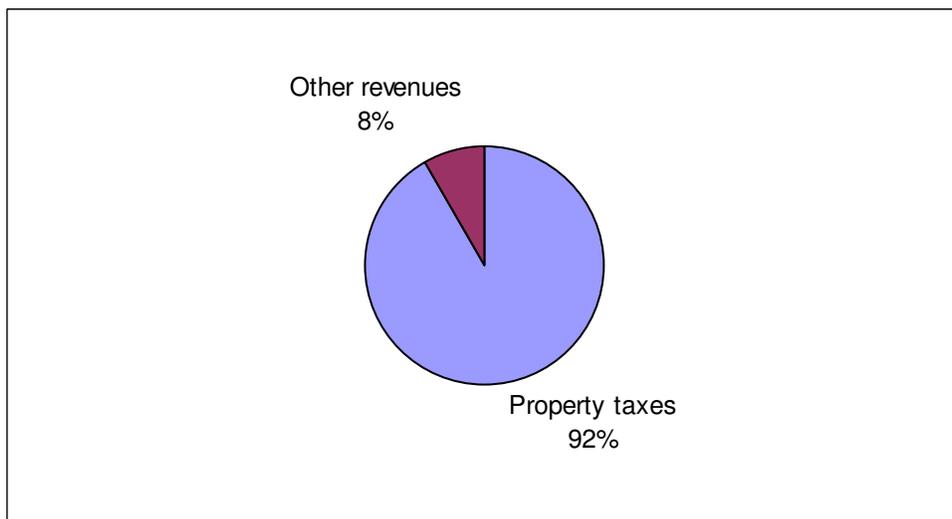
MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues and Expenses - Governmental Activities



Revenues by Source - Governmental Activities



MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Library *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Library financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental fund reported an ending fund balance of \$500,444, an increase of \$114,231 compared with prior year.

The general fund is the chief operating fund of the Library. The unreserved fund balance of the general fund was \$500,444 at the end of the fiscal year. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 32.6% of total general fund expenditures for the year.

As noted above the fund balance increased by \$114,231 during the fiscal year. This is largely due to employee turnover, as two high-salaried employees retired and were replaced by a lower-salaried employee and a part-time employee.

General Fund Budgetary Highlights

Differences between original budget and the final amended budget revenues did not change during the year.

Actual to budget variances were relatively minor for the year. Total revenue was over budget by approximately \$12,750 due primarily to an increase in local revenue. Total expenditures were under budget by approximately \$65,000 due primarily to decreases in expected salaries and contracted service expenditures.

Capital Asset and Debt Administration

Capital assets. The Library's investment in capital assets as of June 30, 2007, amounts to \$1,239,274 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, land improvements, furniture and equipment, and library materials. The total decrease in the Library's investment in capital assets for the current fiscal year was \$57,183 or 4.4%.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Major capital asset events during the current fiscal year included the following:

- Purchases of books and audio visual materials in the amount of \$57,700.
- Depreciation expense of \$114,000.

Library Capital Assets
(net of accumulated depreciation)

	<u>2007</u>	<u>2006</u>
Buildings and improvements	\$ 1,037,168	\$ 1,081,990
Land improvements	2,595	2,865
Furniture and equipment	32,704	41,404
Books and audio visual	166,807	170,198
Total capital assets (net)	<u>\$ 1,239,274</u>	<u>\$ 1,296,457</u>

Additional information on the Library capital assets can be found in the notes to the financial statements.

Long-term debt. The Library had total bonded debt outstanding of \$95,000 at the end of the fiscal year. The total of this amount is backed by the full faith and credit of the Library.

During the year the Library issued no new debt and paid approximately \$10,000 of principal on debt outstanding at July 1, 2006.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the State Equalized Value. The current debt limitation for the Library is approximately \$13,000,000.

Additional information on the Library long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The 2007-08 budget estimates total revenues at approximately \$1,638,000, an increase of approximately \$108,000 due primarily to anticipated increases in property tax revenues.
- 2007-08 budgeted expenditures total \$1,600,200, an increase of approximately \$124,000 due to a projected increase in contracted wages and benefits.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Requests for Information

This financial report is designed to provide a general overview of the Library finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, 150 Cass Avenue, Mount Clemens, Michigan 48043.

* * * * *

BASIC FINANCIAL STATEMENTS

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET**

June 30, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and cash equivalents	\$ 477,466	\$ -	\$ 477,466
Accounts receivable	23,317	-	23,317
Capital assets, net of accumulated depreciation	-	1,239,274	1,239,274
Total assets	<u>\$ 500,783</u>	<u>\$ 1,239,274</u>	<u>\$ 1,740,057</u>
LIABILITIES			
Accounts payable	\$ 339	\$ -	\$ 339
Accrued interest	-	684	684
Long-term debt:			
Due within one year	-	10,000	10,000
Due after one year	-	125,342	125,342
Total liabilities	<u>339</u>	<u>136,026</u>	<u>136,365</u>
FUND BALANCES/NET ASSETS			
Fund balances:			
Unreserved/undesignated	500,444	(500,444)	-
Total fund balances	<u>500,444</u>	<u>(500,444)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 500,783</u>		
Net assets:			
Invested in capital assets, net of related debt		1,144,274	1,144,274
Unrestricted		459,418	459,418
Total net assets		<u>\$ 1,603,692</u>	<u>\$ 1,603,692</u>

The accompanying notes are an integral part of these financial statements.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS**

June 30, 2007

Fund balances - general fund	\$ 500,444
------------------------------	------------

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

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

Add: capital assets	5,601,304
Deduct: accumulated depreciation	(4,362,030)

Certain liabilities, such as bonds payable, accrued interest on bonds payable and accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct:	
Bonds payable	(95,000)
Accrued interest on bonds payable	(684)
Accrued compensated absences	(40,342)

Net assets of governmental activities	<u><u>\$ 1,603,692</u></u>
--	-----------------------------------

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

For the Year Ended June 30, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property taxes	\$ 1,512,670	\$ -	\$ 1,512,670
State shared revenue	51,700	-	51,700
Local revenue	51,866	-	51,866
Investment earnings	11	-	11
Contributions and memorials	350	-	350
Other revenues	33,802	-	33,802
Total general revenues	<u>1,650,399</u>	<u>-</u>	<u>1,650,399</u>
EXPENDITURES/EXPENSES			
Wages and benefits	1,096,441	(15,922)	1,080,519
Operating supplies	103,544	-	103,544
Contracted services	313,956	(57,735)	256,221
Other expenditures	7,844	-	7,844
Depreciation	-	114,918	114,918
Debt service:			
Principal	10,000	(10,000)	-
Interest expense	4,383	(46)	4,337
Total expenditures/expenses	<u>1,536,168</u>	<u>31,215</u>	<u>1,567,383</u>
Revenues over (under) expenditures	114,231	(114,231)	-
Change in net assets	-	83,016	83,016
Fund balance/net assets, beginning of year	<u>386,213</u>	<u>1,134,463</u>	<u>1,520,676</u>
Fund balance/net assets, end of year	<u>\$ 500,444</u>	<u>\$ 1,103,248</u>	<u>\$ 1,603,692</u>

The accompanying notes are an integral part of these financial statements.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

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

For the Year Ended June 30, 2007

Net change in fund balances - general fund	\$ 114,231
<p>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.</p>	
Add: capital outlay	57,735
Deduct: depreciation expense	(114,918)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of activities</p>	
Add: bond principal payments	10,000
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Add: change in accrued interest payable	46
Add: change in accrual of compensated absences	15,922
	<hr/>
Change in net assets of governmental activities	<u><u>\$ 83,016</u></u>

The accompanying notes are an integral part of these financial statements.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Final Budget- Positive (Negative)
GENERAL REVENUES				
Property taxes	\$ 1,512,651	\$ 1,512,651	\$ 1,512,670	\$ 19
State shared revenue	58,000	58,000	51,700	(6,300)
Local revenue	41,000	41,000	51,866	10,866
Investment earnings	1,000	1,000	11	(989)
Contributions and memorials	3,000	3,000	350	(2,650)
Other revenues	22,000	22,000	33,802	11,802
Total general revenues	<u>1,637,651</u>	<u>1,637,651</u>	<u>1,650,399</u>	<u>12,748</u>
EXPENDITURES				
Wages and benefits	1,126,200	1,126,200	1,096,441	29,759
Operating supplies	100,000	100,000	103,544	(3,544)
Contracted services	354,000	354,000	313,956	40,044
Other expenditures	9,000	9,000	7,844	1,156
Debt service:				
Principal	12,000	12,000	10,000	2,000
Interest expense	-	-	4,383	(4,383)
Total expenditures	<u>1,601,200</u>	<u>1,601,200</u>	<u>1,536,168</u>	<u>65,032</u>
NET CHANGE IN FUND BALANCES	36,451	36,451	114,231	77,780
Fund balance beginning of year	<u>386,213</u>	<u>386,213</u>	<u>386,213</u>	<u>-</u>
Fund balance end of year	<u>\$ 422,664</u>	<u>\$ 422,664</u>	<u>\$ 500,444</u>	<u>\$ 77,780</u>

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Mount Clemens Public Library (the “Library”) was organized in 1994 and is considered a local governmental unit. It is governed by a seven member board of trustees.

The Library’s borders encompass the City of Mount Clemens and a portion of Clinton Township. Properties in each governmental unit are assessed as of December 31, and the related property taxes become a lien on July 1 of the following year. These taxes are considered delinquent on March 1 of the subsequent year, at which time penalties and interest are assessed.

The Library has determined that no entities should be consolidated into its basic financial statements as component units. The criteria for including a component unit include entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists only of the primary government.

B. Library-Wide and Fund Financial Statements

The Library-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements.

The general fund, which is a major individual governmental fund, is reported as a separate column in the fund financial statements.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

NOTES TO THE FINANCIAL STATEMENTS

as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Library reports the following major governmental fund:

The *General Fund* is the Library's only fund. It accounts for all financial resources of the general government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Library-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed. There is no exception to this policy.

D. Assets, Liabilities, and Net Assets

1. Deposits and investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Library to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury and agencies, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

NOTES TO THE FINANCIAL STATEMENTS

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding as of year end. All other outstanding balances between funds are reported as “due to/from other funds.

3. *Capital assets*

Capital assets, which include building and building improvements, land improvements, library books and AV materials, and furniture and equipment, are reported in the Statement of Net Assets column in the basic financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	7-50
Furniture and equipment	5-20
Library books and audiovisual materials	5-10

4. *Compensated absences*

The Library allows workers to accumulate earned but unused vacation pay benefits under an agreement with Mount Clemens Public Schools. All vacation pay is accrued when incurred in the library-wide financial statements. A liability for these amounts is reported in governmental funds only for eligible worker terminations as of year end.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

NOTES TO THE FINANCIAL STATEMENTS

5. *Long-term obligations*

In the Library-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. *Fund equity*

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. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The general fund is under formal budgetary control. Budgets are adopted on a basis consistent with GAAP, and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board. The budget for the General Fund is adopted on a categorical level.

B. Excess Expenditures Over Appropriations

During the year ended June 30, 2007, actual appropriations for operating supplies of \$103,544 exceed the budgeted amount of \$100,000 by \$3,544. Additionally, actual appropriations for interest expense of \$4,383 exceed the budgeted amount of \$0 by \$4,383.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Financial statement captions:			
Cash and cash equivalents	<u>\$ 469,362</u>	<u>\$ 8,104</u>	<u>\$ 477,466</u>

Statutory Authority

The Library is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Board of Trustees is authorized to designate depositories for the Authority's funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The Library's deposits are in accordance with statutory authority.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

NOTES TO THE FINANCIAL STATEMENTS

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Library's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk, that in the event of a bank failure, the Library's deposits may not be returned. State law does not require, and the Library does not have, a policy for deposit custodial credit risk. As of year-end, \$369,362 of the \$469,362 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk 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 or collateral securities that are in the possession of an outside party. State law does not require, and the Library does not have, a policy for investment custodial credit risk. The Library's total investment of \$8,104 in a short-term investment pool is registered with the Securities Exchange Commission (the "SEC"). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required to be classified according to custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of State law on concentration of credit risk. All investments held at year-end are reported above.

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

NOTES TO THE FINANCIAL STATEMENTS

B. Receivables

Receivables as of year end for are due from other governmental units and are considered 100% collectible and to be collected within one year. Accordingly, no allowance for uncollectible receivables has been established.

C. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated				
Buildings and improvements	\$1,870,545	\$ -	\$ -	\$ 1,870,545
Library books and AV materials	3,606,028	57,735	-	3,663,763
Land improvements	3,000	-	-	3,000
Furniture and equipment	<u>63,996</u>	<u>-</u>	<u>-</u>	<u>63,996</u>
Total capital assets being depreciated	<u>5,543,569</u>	<u>57,735</u>	<u>-</u>	<u>5,601,304</u>
Less accumulated depreciation				
Buildings and improvements	(788,555)	(44,822)	-	(833,377)
Library books and AV materials	(3,435,830)	(61,126)	-	(3,496,956)
Land improvements	(135)	(270)	-	(405)
Furniture and equipment	<u>(22,592)</u>	<u>(8,700)</u>	<u>-</u>	<u>(31,292)</u>
Total accumulated depreciation	<u>(4,247,112)</u>	<u>(114,918)</u>	<u>-</u>	<u>(4,362,030)</u>
Total capital assets being depreciated, net	<u>1,296,457</u>	<u>(114,918)</u>	<u>-</u>	<u>1,239,274</u>
Governmental activities				
Capital assets, net	<u>\$1,296,457</u>	<u>\$(57,183)</u>	<u>\$ -</u>	<u>\$ 1,239,274</u>

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

NOTES TO THE FINANCIAL STATEMENTS

D. Long-Term Debt

In 2004 the Library issued Limited Tax General Obligation Bonds to fund improvements to the Library's facility. General obligation bonds are direct obligations and pledge the full faith and credit of the Library. The refunding bonds were issued as a 12 year serial bond with varying amounts of principal due and interest ranging from 2.3% to 4.95% due each year.

Annual debt service requirements to maturity for the general obligation refunding bonds are as follows:

<u>June 30</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2008	\$ 10,000	\$ 4,103
2009	10,000	3,783
2010	10,000	3,433
2011	10,000	3,043
2012	10,000	2,623
2013-2016	<u>55,000</u>	<u>5,860</u>
Total	<u>\$ 95,000</u>	<u>\$ 22,845</u>

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2007, is as follows. Compensated absences are liquidated through sources from the general fund.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 105,000	\$ -	\$ (10,000)	\$ 95,000	\$ 10,000
Compensated absences	<u>56,264</u>	<u>40,342</u>	<u>(56,264)</u>	<u>40,342</u>	<u>-</u>
Long-term liabilities	<u>\$ 161,264</u>	<u>\$ 40,342</u>	<u>\$ (66,264)</u>	<u>\$ 135,342</u>	<u>\$ 10,000</u>

MOUNT CLEMENS PUBLIC LIBRARY
Mount Clemens, Michigan

NOTES TO THE FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for torts, errors, and omissions claims. The Library participates in the Middle Cities Risk Management Trust (risk pool) for claims relating to property and casualty, the Middle Cities Workers Compensation Fund for workers' compensation, and Blue Cross/Blue Shield for health care. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared risk pool program in which the Library participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Operating and Maintenance Agreement

The Library has entered into a contract with Mount Clemens Community Schools (the "District") under which the District will supply the Library with personnel, including benefits (other than accumulated vacation pay), and will act as the fiscal agent with respect to the operation and maintenance of the Library. The Library paid \$55,000 to the District for operation and maintenance services during the year ended June 30, 2007. The amount of future fees the Library will be required to pay to the District will be determined at appropriate junctures.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

January 11, 2008

To the Board of Trustees of the
Mount Clemens Public Library
Mount Clemens, Michigan

We have audited the financial statements of *Mount Clemens Public Library* (the "Library") for the year ended June 30, 2007, and have issued our report thereon dated January 11, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated August 10, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Library's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Library, either individually or in the aggregate, indicate matters that could have a significant effect on the Library's financial reporting process.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

This letter and the accompanying memorandum is intended for the use of the Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

Mount Clemens Public Library

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of *Mount Clemens Public Library* (the “Library”) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Library’s internal control over financial reporting (internal control) 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 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 first 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.

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 certain deficiencies, as described below, to be significant deficiencies in internal control.

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.

Significant Deficiencies

Finding 2007-1 – Proper recording of interest expense

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government’s management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: The Library recorded interest expense as a purchased services expense.

Mount Clemens Public Library

Comments and Recommendations

For the Year Ended June 30, 2007

Cause: This condition was caused by the Library's lack of internal controls over the timely review of journal entries.

Effect: As a result of this condition, the Library may potentially overstate or understate certain expense accounts.

View of Responsible Officials: The Library will review the details that make up account balances on a periodic basis to insure proper classification of transactions.

Finding 2007-2 – Determination of capital assets balance

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: Items that should have been recorded as capital asset additions were not recognized at the governmental-wide level.

Cause: The Library was exposed to the risk of misstating its financial statements due to a lack of proper training and management oversight of the accounting staff.

Effect: The pre-audit capital asset balance as of year end was materially misstated. Without modifications to controls, future capital asset balances are also subject to potential misstatement.

View of Responsible Officials: The Library will compile a list of capital asset additions annually to insure proper inclusion at the governmental-wide financial statement level.

Finding 2007-3 – Determination of accounts receivable balance

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2)

Mount Clemens Public Library

Comments and Recommendations

For the Year Ended June 30, 2007

reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: Penal fine revenue and receivables were recorded in the incorrect year.

Cause: The Library was exposed to the risk of misstating its financial statements due to a lack of proper training and management oversight of the accounting staff.

Effect: The pre-audit accounts receivable and revenue balances as of year end were materially misstated. Without modifications to controls, future accounts receivable and revenue balances are also subject to potential misstatement.

View of Responsible Officials: The Library will insure that penal fine revenue and the related receivable is recorded in the correct year in future periods

Finding 2007- 4 – Journal entry approval process

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government’s management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: The Library does not have a formal process for the approval of it’s manual journal entries.

Cause: The Library does not maintain a formal process whereby all journal entries are required to have proper authorization.

Effect: As a result of this condition, the Library’s financial statements could be misstated by an erroneous journal entry that is not detected by the Library’s management in a timely manner.

View of Responsible Officials: Prior administration did not have clear segregation of duties in this area. Journal entries were posted by the administrator instead of by a staff member in the business services area in many instances. Current administration has established a formal process for journal entry processing which shall remove any potential misstated entries in the future.

* * * * *