

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 Manistee County Library	County Manistee
Fiscal Year End 9/30/07	Opinion Date 12/12/07	Date Audit Report Submitted to State 12/13/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Harris Group, CPAs		Telephone Number 231-946-8930		
Street Address 731 South Garfield Ave		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature		Printed Name Ronald G Harris, CPA		License Number 1101024798

MANISTEE COUNTY LIBRARY
REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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INDEPENDENT AUDITORS' REPORT

December 12, 2007

Board of Trustees
Manistee County Library
Manistee, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Manistee County Library as of and for the year ended September 30, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Manistee County Library as of September 30, 2007, 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 a report dated December 12, 2007 on our consideration of Manistee County Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The managements discussion and analysis and required budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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.

Certified Public Accountants

731 S. Garfield Ave., Traverse City, MI 49686 tel. 231-946-8930 fax. 231-946-1377
www.harrisgroupcpa.com

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2007**

This section of Manistee County Library's annual financial report presents its discussion and analysis of the Library's financial performance during the fiscal year ending September 30, 2007.

Financial Highlights

The Library had higher than originally budgeted revenues in property taxes, interest income and penal fine revenue. Total revenues increased over last year by \$ 113,804 with the largest part of the increase of \$ 94,866 in property tax revenue. Total expenditures for the year were down \$ 114,836 from the previous year. The largest decline was in salaries and fringe benefits which was the results of staff reorganization in the amount of \$ 85,368. There was a major improvement in the current change in fund balance which had an increase of \$ 256,105 while the prior year was an increase of \$ 35,398.

Overview of the Financial Statements

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

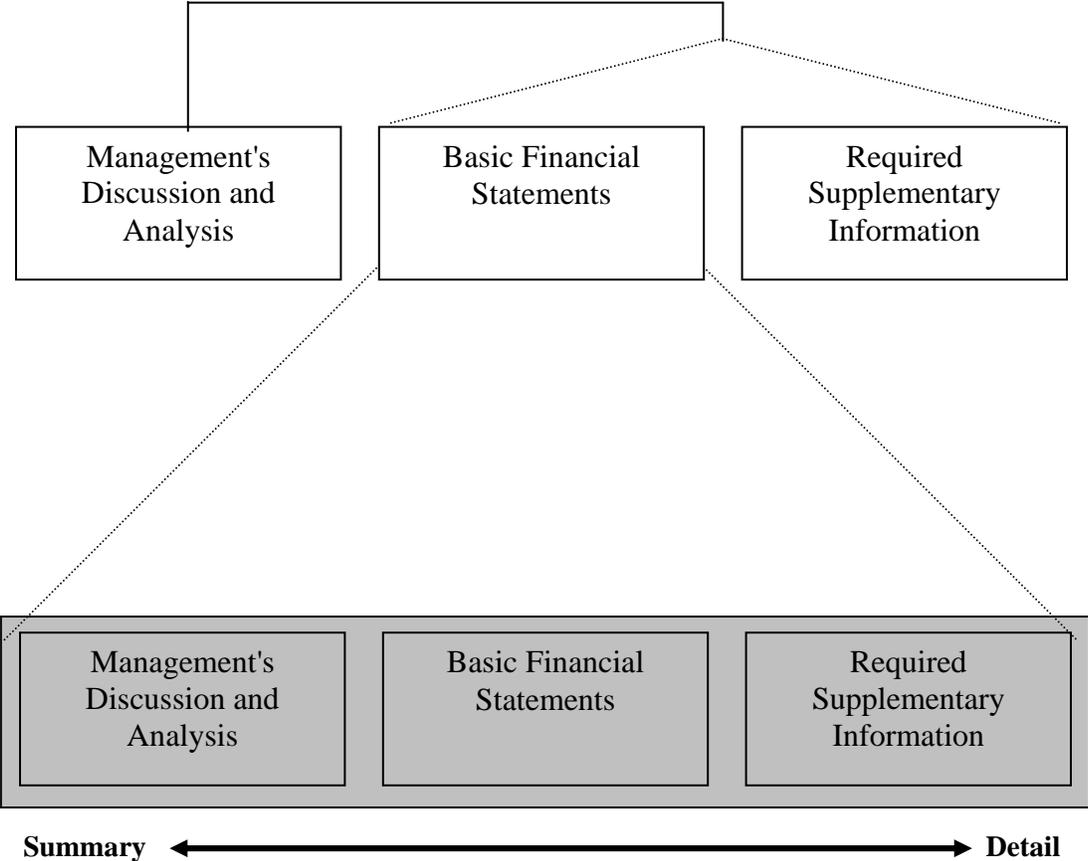
- The first two statements are *Library-wide financial statements* that provide both *short-term* and *long-term* information about the Library's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Library, reporting the Library's operations in more detail than the Library-wide statements.
- The *governmental funds statements* tell how basic services were financed in the short term as well as what remains for future spending.
- Capital Projects Funds statements provide information about capital projects during the year.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Library's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2007**

Figure A-1

Organization of Manistee County Library Annual Financial Report



**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2007**

Library-wide Statements

The Library-wide statements report information about the Library as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Library-wide statements report the Library's *net assets* and how they have changed. Net assets - the difference between the Library's assets and liabilities - is one way to measure the Library's financial health or *position*.

- Over time, increases or decreases in the Library's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Library's overall health, you need to consider additional non-financial factors such as changes in the Library's property tax base and the condition of buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Library's funds, focusing on its most significant or "major" funds: not the Library as a whole. Funds are accounting devices the Library uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law.
- The Library establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The Library has one kind of fund:

- *Governmental funds*: Most of the Library's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. Because this information does not encompass the additional long-term focus of the Library-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the Library-wide Statements and the Fund Financial Statements.

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2007**

Financial Analysis of the Library as a Whole

Net assets. The Library's combined net assets were \$1,383,877 on September 30, 2007, an increase of 19.39% from the prior year. Figure A-2 illustrates the valuation of net assets on September 30, 2007 and 2006.

Figure A-2

Condensed Statement of Net Assets

	9/30/07	9/30/06
Assets		
Current	\$ 650,549	\$ 384,541
Non-Current	966,069	997,662
	\$ 1,616,618	\$ 1,382,203
Liabilities		
Current	\$ 132,741	\$ 110,557
Non-Current	100,000	112,500
	232,741	223,057
Net Assets		
Invested in capital assets, net of assets, net of related debt	853,568	885,162
Unrestricted	530,308	273,984
	1,383,877	1,159,146
Liabilities and Net Assets	\$ 1,616,618	\$ 1,382,203

The Library's improved financial position is the product of many factors. The increased property tax, interest income and penal fine revenue along with a reduction in Wages and Fringe Benefits are the main contributing factors.

Changes in net assets. The Library's total revenue of approximately \$1,413,000 exceeded expenditures, increasing net assets by \$224,731(see Figure A-3).

The Library's approximately \$1,189,000 of expenses are predominantly related to personnel (61.3 percent).

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2007**

Figure A-3

Changes in Net Assets from Operating Results

	2006-07	2005-06
REVENUES:		
Property taxes	\$ 995,949	\$ 901,083
Penal fines	289,462	287,870
State aid	22,075	21,701
Contributions	57,838	50,854
Interest income	27,787	13,518
Fines	10,832	9,188
Book sales	387	5,991
Other services	8,950	10,443
Total revenues	1,413,280	1,300,648
EXPENDITURES:		
Salaries and fringe benefits	728,783	812,029
Materials	50,791	23,895
Supplies	9,686	9,931
Professional and contractual services	73,929	68,916
Branch expenses	57,002	40,591
Conferences, workshops and travel	2,713	3,741
Utilities	34,161	41,206
Building repairs and maintenance	29,810	32,345
Depreciation	191,157	183,413
Other expenditures	10,517	8,202
Total expenditures	1,188,549	1,224,269
INCREASE (DECREASE) IN NET ASSETS	\$ 224,731	\$ 76,379

Financial Analysis of the Library's Funds

The strong financial performance of the Library as a whole is reflected in its governmental funds. As the Library completed the year, its governmental fund reported a fund balance of \$429,787.

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2007**

General Fund Budgetary Highlights

Over the course of the year, the Library revised the annual operating budget twice. The significant items causing budget adjustments are enumerated below.

- Higher than expected revenue from property taxes, interest income and penal fines
- Lower Salaries and Fringe Benefit cost

Although the Library's final budget for the general fund anticipated the revenues would exceed expenditures by \$85,030, the actual results for the year shows a \$256,105 excess. The chart presented in Figure A-4 compares the general fund budgets and actual expenditures, primarily by object.

Figure A-4

General Fund Expenditures - Budget versus Actual

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries and Benefits	\$ 757,015	\$ 729,002	\$ 28,013
Supplies	12,200	9,686	2,514
Library books and materials	163,109	151,394	11,715
Professional and Contractual Services	82,873	73,929	8,944
Branch Expenses	71,343	57,002	14,341
Conferences, Workshops, and Travel	4,500	2,713	1,787
Utilities	36,650	34,161	2,489
Building Repairs and Grounds	34,741	29,810	4,931
Capital Outlay	61,305	58,961	2,344
Other Expenditures	10,850	10,517	333
	<u>\$ 1,234,586</u>	<u>\$ 1,157,175</u>	<u>\$ 77,411</u>

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2007**

Capital Asset and Debt Administration

Capital Assets

By the end of 2007, the Library had invested \$2.61 million in a broad range of capital assets, including buildings improvements, books, computer and audio-visual equipment. Total depreciation expense for the year exceeded \$191,000. Figure A-5 details the historical costs, accumulated depreciation, and book value of the Library's capital assets.

Figure A-5

Statement of Capital Assets

	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>End of year</u>
Leasehold improvements	\$ 315,188	\$	\$	\$ 315,188
Furniture and fixtures	126,478	16,403		142,881
Computer and related equipment	164,078			164,078
Library Books	1,847,683	143,161		1,990,844
	<u>2,453,427</u>	<u>159,564</u>		<u>2,612,991</u>
Accumulated Depreciation	<u>1,455,765</u>	<u>191,157</u>		<u>1,646,922</u>
Net capital assets	<u>\$ 997,662</u>	<u>\$ (31,593)</u>	<u>\$</u>	<u>\$ 966,069</u>

Debt administration

The following is a summary of the changes in long-term liabilities for the year ended September 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities:					
Notes payable:					
Promissory note	\$ 112,500	\$	\$	\$ 112,500	\$ 12,500
Other liabilities:					
Termination benefits	<u>17,198</u>		<u>219</u>	<u>16,979</u>	<u>5,000</u>
Total long-term liabilities	<u>\$ 129,698</u>	<u>\$</u>	<u>\$ 219</u>	<u>\$ 129,479</u>	<u>\$ 17,500</u>

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2007**

Factors Bearing on the Library's Future

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

- Property Tax Millage will come up for renewal in 2008.
- The current facilities will need major capital improvements and maintenance.
- Current litigation.

Contacting the Library's Financial Management

This financial report is designed to provide the Library's citizens, taxpayers, customers with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Manistee County Library Business Office, 95 Maple Street, Manistee, Michigan.

Basic Financial Statements

**MANISTEE COUNTY LIBRARY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 501,176
Restricted cash	29,795
Receivables:	
Accounts	7,970
Penal fines	75,001
Interest	3,320
Taxes	33,287
	650,549
Noncurrent assets:	
Capital assets, net of accumulated depreciation	966,069
	\$ 1,616,618

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 30,232
Current portion of promissory note payable	12,500
Accrued expenses	90,009
	132,741
Total current liabilities	132,741
Long-term debt, less current portion	100,000
	232,741
Net assets:	
Invested in capital assets, net of related debt	853,569
Unrestricted	530,308
	1,383,877
Total fund balances	\$ 1,616,618

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net (expenses) And changes in Net assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental activities:	\$ 1,188,549	\$ 19,782	\$ 79,913	\$ (1,088,854)
 General revenues:				
				995,949
				289,462
				27,787
				387
				1,313,585
 CHANGES IN NET ASSETS				
				224,731
				1,159,146
				\$ 1,383,877

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 501,176
Restricted cash	29,795
Receivables:	
Accounts	7,970
Penal fines	75,001
Interest	3,320
Taxes	<u>33,287</u>
	<u>\$ 650,549</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 30,232
Accrued expenses	<u>190,530</u>
Total liabilities	<u>220,762</u>
Fund balances:	
Unreserved:	
Designated:	
TES litigation	5,000
Short term disability	5,000
Sick leave	16,979
Emergency Fund	50,000
Undesignated	<u>352,808</u>
Total fund balances	<u>429,787</u>
	<u>\$ 650,549</u>

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

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

Total Fund Balance - Governmental Funds	\$ 429,787
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:	
Cost of capital assets	2,612,991
Accumulated depreciation	(1,646,922)
Compensated absences not currently due are included as a liability	(11,979)
Total net assets - governmental activities	<u>\$ 1,383,877</u>

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>General Fund</u>
REVENUES:	
Property taxes	\$ 995,949
Penal fines	289,462
State aid	22,075
Contributions and grants	57,838
Interest income	27,787
Fines	10,832
Book sales	387
Other services	<u>8,950</u>
Total revenues	<u>1,413,280</u>
EXPENDITURES:	
Salaries and fringe benefits	729,002
Supplies	9,686
Library books and materials	151,394
Professional and contractual services	73,929
Branch expenses	57,002
Conferences, workshops and travel	2,713
Utilities	34,161
Building repairs and maintenance	29,810
Capital outlay	58,961
Other expenditures	<u>10,517</u>
Total expenditures	<u>1,157,175</u>
NET CHANGES IN FUND BALANCES	256,105
FUND BALANCES:	
Beginning of year	<u>173,682</u>
End of year	<u>\$ 429,787</u>

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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

Total net change in fund balances – governmental funds **\$ 256,105**

Decrease in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements 219

Capital outlays to purchase capital assets and books are recorded in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and depreciated over their estimated useful lives as annual depreciation in the statement of activities.

This amount by which depreciation exceeded capital outlays in the period.

	Capital outlays	159,564		
	Depreciation expense	<u>(191,157)</u>		(31,593)

Change in net assets of governmental activities **\$ 224,731**

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Manistee County Library (the Library) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

A. Reporting Entity

Manistee County Library is operated as a Special Revenue Fund and Capital Projects Fund of the County of Manistee. Manistee County Library is located in Manistee, Michigan, with branch libraries on Onekama, Arcadia, Bear Lake, Kaleva and Wellston, Michigan.

In evaluating how to define the Library, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

Based on the application of these criteria, the financial statements of Manistee County Library contain all the funds controlled by the Library's Board as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Library has no business-type activities.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The library has no responsibility for any fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

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

The government-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 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 provided 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 as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the library considers revenues to be available if they are collected within 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 are recorded only when a payment is due.

The Library reports the following major governmental funds:

The *general fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, penal fines, interest and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Library and are recognized as revenue at that time.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity

1. Cash and investments

Cash includes amounts in demand deposits and certificates of deposit.

The Library reports its investments in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the Library intends to hold the investment until maturity.

State statutes authorize the Library to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Library is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet in the governmental fund financial statements.

3. Property Taxes

Property taxes levied by the Library are collected by Manistee County and periodically remitted to the Library. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. Library property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to November 14 are recognized as revenue when collected.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity (continued)

For the year ended September 30, 2007, the Library levied the following amounts per \$1,000 of taxable valuation:

Fund	Mills
General Fund	.9643

4. Capital Assets

The furnishings and equipment purchased by the municipalities in which the branch libraries are located are the property of these municipalities unless indicated in the agreements with the municipalities. All other purchases of equipment made and all other assets currently being used by the Manistee County Library are the property of Manistee County. The library has the right to use this equipment as long as the library is in operations.

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$500 and an estimated useful life of more than 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 market value at the date of donations.

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.

Property and equipment of the Library is depreciated using the straight line method over the following estimated useful lives:

Leasehold improvements	20 yrs
Books	7 yrs
Furniture and fixtures	20 yrs
Computer equipment	10 yrs

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity (continued)

5. Compensated Absences

Prior Library policy permitted employees to accumulate earned unused sick pay benefits. All sick pay is accrued in the government-wide financial statement. A liability for these amounts is reported in governmental funds only if they are expected to be liquidated with expendable available resources (generally sixty days). Current policy does not allow employees to carryover unused sick pay.

6. Long-term Obligations

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

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

7. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute “available spendable resources.” The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

8. Use of Estimates

The process of preparing general purpose financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

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

1. The Library Administrator submits to the Board of Trustees a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally adopted by the Board of Trustees resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
4. The Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to September 30th.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK

Cash and cash equivalents are held separately in the name of the Library by each of the Library's funds.

Deposits

At year-end, the carrying amount of the Library's deposits, including certificates of deposits of \$302,236, were \$530,421 and the bank balance was \$572,877 of which \$229,795 was covered by federal depository insurance and \$343,081 was uninsured and uncollateralized. The Library has \$550 in petty cash on hand.

The library has no investments as of September 30, 2007. The library has the following risk disclosures:

Interest Rate Risk – The library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State statutes authorize the library to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The library is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The library has no investment policy that would further limit its investment choices. As of September 30, 2007, the library has no investments that meet the above criteria.

Concentration of Credit Risk – The library places no limit on the amount the district may invest in any one issuer.

NOTE 4 – BRANCH CONTRACTS

Manistee County Library has entered into contracts with five local governments to provide locations for branch libraries. Manistee County Library operates the branch libraries within facilities owned and maintained by the governmental unit. All contracts specify reimbursements, renewal and termination procedures. Total expenditures under branch contracts for the fiscal year ended September 30, 2007, were \$57,002. As of September 30, 2007, only four of the five branches have signed contracts.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – RECEIVABLES

Receivables at September 30 consist of the following:

	<u>General fund</u>
Accounts	\$ 7,970
Penal fines	75,001
Taxes	33,287
Interest	3,320
	\$ 119,578

Because of the Library’s favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 6 – LONG-TERM DEBT

At September 30, 2007, long-term debt and other long-term obligations currently outstanding are as follows:

Promissory note, payable in annual installments of \$12,500 through March 1, 2016, interest at 2.75%, fully issued at September 30, 2007	\$ 112,500
Termination benefits	16,979
	\$ 129,479

The annual requirements to amortize long-term obligations outstanding as of September 30, 2007 including interest of \$15,469 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 12,500	\$ 3,094	\$ 15,594
2009	12,500	2,750	15,250
2010	12,500	2,406	14,906
2011	12,500	2,063	14,563
2012	12,500	1,719	14,219
2013 – 2016	50,000	3,437	53,437
	112,500	15,469	127,969
Termination benefits	16,979		16,979
	\$ 129,479	\$ 15,469	\$ 144,948

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – LONG-TERM DEBT - continued

The following is a summary of the changes in long-term liabilities for the year ended September 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities:					
Notes payable:					
Promissory note	\$ 112,500	\$	\$	\$ 112,500	\$ 12,500
Other liabilities:					
Termination benefits	<u>17,198</u>		<u>219</u>	<u>16,979</u>	<u>5,000</u>
Total long-term liabilities	<u>\$ 129,698</u>	<u>\$</u>	<u>\$ 219</u>	<u>\$ 129,479</u>	<u>\$ 17,500</u>

NOTE 7 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS

Capital asset balances and activity for the year ended September 30, 2007 were as follows:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>End of year</u>
Leasehold improvements	\$ 315,188	\$	\$	\$ 315,188
Furniture and fixtures	126,478	16,403		142,881
Computer and related equipment	164,078			164,078
Library Books	<u>1,847,683</u>	<u>143,161</u>		<u>1,990,844</u>
	2,453,427	159,564		2,612,991
Accumulated Depreciation	<u>1,455,765</u>	<u>191,157</u>		<u>1,646,922</u>
Net capital assets	<u>\$ 997,662</u>	<u>\$ (31,593)</u>	<u>\$</u>	<u>\$ 966,069</u>

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

Manistee County Library employees are covered under the Manistee County retirement program.

Plan Description – Manistee County participates in the Municipal Employees Retirement System of Michigan (MERS), a public employer and employee retirement system. MERS operates as an independent public nonprofit organization. The county retirement system also includes employees of the Sheriff Department and the Medical Care Facility. A separate account is maintained by MERS for these departments. Substantially all employees are covered by the MERS retirement system.

The benefits and conditions outlined below are for general information only.

Mandatory retirement: None

Deferred Retirement: Termination of membership before age 60, other than by retirement or death, after 8 years of credited service. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Right to an allowance is forfeited if a member's accumulated contributions are withdrawn.

Benefits are computed based on a five year average of final compensation multiplied by a factor of 2.5%, multiplied by the number of years of service. Death and disability benefits are also provided. Total contributions made to MERS for the year ended September 30, 2007 was \$53,592.

The funded status of the library's portion of the retirement plan is unavailable.

NOTE 9 – TRUST FUND BENEFICIARY

Manistee County Library was designated as an income beneficiary upon the death of a patron on August 31, 1996. As stated in the patron's trust agreement, the first 20 years of income, which will be distributed at least annually, is to be used for capital improvements to any branch library located in Manistee County other than the main branch located in the City of Manistee. Although the monies may be administered through the main branch of the Manistee County Library, the funds should be directed so that the money distributed is segregated from the general funds, being earmarked specifically for branch funding. After the first 20 years from the date of the patron's death, the trust income shall be used for capital improvements of any Manistee County Library branches, including the main branch in Manistee, Michigan. These distributions will continue for the next 68 years, ending August 31, 2086.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 – CAFETERIA PLAN

On March 18, 1997, Manistee County adopted a Section 125 Cafeteria Plan effective June 1, 1997. The purpose of the plan is to provide the employees with a choice between cash and benefit coverages under various plans which are maintained by Manistee County. The plan year runs from January 1 to December 31.

NOTE 11 – CONTINGENT LIABILITY

TES Filer City Station (Tondu) a Manistee County taxpayer, filed a petition with the Michigan Tax Tribunal contesting the 1997 – 2007 assessed value, State equalized value and taxable value of its industrial location in Filer Township, Manistee County, Michigan. If this appeal is successful, all of the taxing jurisdictions which benefit from tax dollars generated by Tondu will be required to pay back these funds and incur a loss of future revenue.

In the current fiscal year, the original petition file for the years 1993 – 1996 was settled which resulted in the library recording a receivable for taxes and interest of \$ 24,067 as of September 30, 2007 for their share of the settlement.

REQUIRED SUPPLEMENTARY INFORMATION

**MANISTEE COUNTY LIBRARY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS
YEAR ENDED SEPTEMBER 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 957,132	\$ 963,825	\$ 995,949	\$ 32,124
Penal fines	278,500	242,500	289,462	46,962
State aid	22,000	21,610	22,075	465
Contributions	41,050	49,000	57,838	8,838
Interest income	8,825	22,590	27,787	5,197
Fines	7,800	10,759	10,832	73
Book sales	250	534	387	(147)
Other services	8,010	8,798	8,950	152
	<u>1,323,567</u>	<u>1,319,616</u>	<u>1,413,280</u>	<u>93,664</u>
EXPENDITURES:				
Salaries and fringe benefits	738,018	757,015	729,002	28,013
Supplies	10,000	12,200	9,686	2,514
Library books and materials	150,080	163,109	151,394	11,715
Professional and contractual services	78,600	82,873	73,929	8,944
Branch expenses	65,150	71,343	57,002	14,341
Conferences, workshops and travel	2,500	4,500	2,713	1,787
Utilities	40,050	36,650	34,161	2,489
Building repairs and maintenance	27,400	34,741	29,810	4,931
Capital outlay	43,210	61,305	58,961	2,344
Other expenditures	7,820	10,850	10,517	333
	<u>1,162,828</u>	<u>1,234,586</u>	<u>1,157,175</u>	<u>77,411</u>
NET CHANGES IN FUND BALANCES	<u>\$ 160,739</u>	<u>\$ 85,030</u>	256,105	<u>\$ 171,075</u>
FUND BALANCES:				
Beginning of year			<u>173,682</u>	
End of year			<u>\$ 429,787</u>	

* The Board of Trustees intended to use unrestricted fund balance to make up for the budgeted revenue shortfall.



HARRIS GROUP

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

December 12, 2007

To the Board of Trustees
Manistee County Library
Manistee, Michigan

We have audited the financial statements of the governmental activities of Manistee County Library as of and for the year ended September 30, 2007, which collectively comprise Manistee County Library basic financial statements and have issued our report thereon dated December 12, 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 Manistee County Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Manistee County Library internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Manistee County Library internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether Manistee County 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, noncompliance with which would 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*.

In addition, we noted other matters involving the internal control and its operation that we have reported to management of Manistee County Library in a separate letter dated December 12, 2007.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants



December 12, 2007

Board of Trustees
Manistee County Library
Manistee, MI

In planning and performing our audit of the financial statements of Manistee County Library for the fiscal year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Manistee County Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions in 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 controls 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.

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.

During our audit, we noted the following control deficiencies:

Capitalization of Books

The current system the library uses to capitalize books does not allow for the tracking of book disposals. It is our understanding that the Library is considering a new system for the tracking of books. We recommend that system be able to track disposition of books as well as the purchases. The unavailability of tracking the disposition has led to the overstatement of the amount capitalized as books capital asset.

Additionally, we noted that magazines are included in the annual capitalization. We do not feel that magazines should be a part of the capitalization because they are more of a period item and not one with an historical value.

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

Certified Public Accountants