

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 HACKLEY PUBLIC LIBRARY	County MUSKEGON
Fiscal Year End 6/30/07	Opinion Date 8/29/07	Date Audit Report Submitted to State 9/06/07	

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) Brickley DeLong PLC		Telephone Number 231-726-5800		
Street Address 316 Morris Avenue		City Muskegon	State MI	Zip 49443
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i>		Printed Name Timothy Arter		License Number 10253

for Brickley DeLong, PLC

Hackley Public Library
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

June 30, 2007

Hackley Public Library

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Brief Discussion of the Basic Financial Statements

This 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 information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These financial statements focus on current resources and provide a detailed view about the Library's sources and uses of funds.
- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method.
- The third column provides both long-term and short-term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole and present a longer term view of the Library's finances.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Condensed Financial Information

Statement of Net Assets

Current assets increased by \$31,522 due primarily to an increase in net assets. Capital assets increased due to investments in technology and materials. Current liabilities decreased due lower purchasing activity at the end of the year. The funds restricted for collection expenses are funds donated by Edwin E. Valentine for "the acquisition of books and for the restoration, maintenance, and improvement of the collection". Unrestricted net assets are not restricted and are available for operating expenses.

Statement of Net Assets

	<u>2007</u>	<u>2006</u>
Current assets	\$ 1,693,848	\$ 1,662,326
Capital assets, net	<u>627,725</u>	<u>571,711</u>
Total assets	2,321,573	2,234,037
Current liabilities	<u>66,798</u>	<u>111,974</u>
Net assets		
Invested in capital assets	627,725	571,711
Restricted for collection expenses	342,587	326,475
Unrestricted	<u>1,284,463</u>	<u>1,223,877</u>
Total net assets	<u>\$ 2,254,775</u>	<u>\$ 2,122,063</u>

Hackley Public Library

Library Management's Discussion and Analysis

Statement of Activities

The table below shows key financial information under the full accrual method in a condensed format. Amounts and totals reported are for all Library activities, including general operations, improvements, and gift activity in order to give a complete picture.

	<u>2007</u>	<u>2006</u>
General revenues		
Property taxes	\$ 1,764,260	\$ 1,747,160
Grants and contributions	132,270	120,027
Fines and forfeitures	147,433	159,550
Other	<u>77,701</u>	<u>62,087</u>
Total revenues	2,121,664	2,088,824
Expenditures		
Salaries and wages	1,063,591	1,031,107
Fringe benefits	430,279	446,770
Contracted services	84,286	83,668
Depreciation	199,914	149,188
Other expenses	<u>210,882</u>	<u>160,644</u>
Total expenses	<u>1,988,952</u>	<u>1,871,377</u>
Change in net assets	132,712	217,447
Net assets at beginning of year	<u>2,122,063</u>	<u>1,904,616</u>
Net assets at end of year	<u>\$ 2,254,775</u>	<u>\$ 2,122,063</u>

The above condensed Statement of Activities is focused on the change in the Statement of Activities.

Revenues

- Penal fines continued a multi-year decline in revenues.

Expenditures

- Fringe benefits decreased due to a change in health care providers during the year.
- Depreciation increased due to continued additions to the collection.
- Other expenses increased due costs associated with the new tagging project.

Hackley Public Library

Library Management's Discussion and Analysis

The Library's Fund

The analysis of the Library's sole fund, the General Fund, is included on pages 2 and 3. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund increased during the current year by \$71,982. Salary and wages increased slightly from last year. As noted above, fringe benefits decreased due to a significant decrease in health insurance costs which were partially offset by an increase in retirement costs. Contracted services remained high due to continued activity by the building consultant. The result of all these expenditures changes was an overall increase in expenditures of \$57,072.

The Library's Budget Highlights

Over the course of the year, the Library Board amended the budget to address unplanned needs and events that occurred during the year. The amendments to revenues and expenditures are as follows:

Revenues

- Investment earnings budget was increased due to higher interest rates.

Expenditures

- Fringe benefits were amended lower due to a new health insurance carrier.
- Capital expenditures were amended higher to include the initial purchases for the start-up of a Radio Frequency Identification System (RFID).

Budget to Actual

- Investment income exceeded budget due to continued increase in interest rates.
- Contributions were lower than originally anticipated. Contributions are difficult to predict and fluctuate from year to year.
- Miscellaneous expenditures were under budget due to delays in the anticipated production of the newsletter.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$627,725 invested in leasehold improvements, furniture and equipment, and books and materials net of depreciation. The Library added \$255,928 in new collection items consisting of new books, various audio/visual materials, and planned upgrades to technology. Items in the materials collection that had become obsolete were donated to the Friends of Hackley Public Library for their annual used book sale, given to another library or institution, or disposed of. The original cost of fully depreciated materials removed from the collection amounted to \$330,879.

Hackley Public Library

Library Management's Discussion and Analysis

As part of the Library's strategic long range plan, an item-by-item review ("weeding") of all Library books and audiovisual materials is being conducted by the professional staff in order to provide the public with information and recreational reading sources that are up-to-date, contemporary, and in good condition. This major weeding project is estimated to be completed in June 2008, with routine withdrawal of obsolete, unused, worn or damaged materials continuing indefinitely as a component of recognized good library practice. Such routine collection evaluation had not taken place at the Hackley Public Library for many decades.

The Library's long-term debt activity consists of capped accumulated employee compensated absences (sick leave) to be paid to eligible employees upon retirement.

Next Year's Anticipated Budget Factors and Currently Known Facts

As we look into the future there are several positive signs that significant renewed economic development in the City of Muskegon has begun. Within a block of the Hackley Public Library five pieces of property on the old mall site will be developed in the next year. In addition, new lakefront condominiums have been built and are ready for occupancy and a new motorcycle dealership has opened and other businesses are opening a few blocks away. Since these projects have generally received tax abatements or are located in a state-defined renaissance zone, there will be no immediate significant increase in property tax revenue. The future looks brighter as this increase in economic activity will most likely lead to further economic activity which should boost the Library's property tax revenue.

On the other hand, a report issued to Michigan library directors by the Chief Deputy Treasurer of the State of Michigan in August 2007 indicates that the state's economy will not begin to rebound until 2009, and will not reach the level of the year 2000 until 2017. The closing of the pulp mill operation at Sappi paper plus rumors of further reductions or even closing of the mill may mean a possible downturn in Library property tax revenue because Sappi is the largest taxpayer in the City of Muskegon.

In 2004-2005 the Library completed a five year strategic long range plan. The Library Board, staff, community members, focus groups and comparative data were used in the development of the long range plan. Activities in the areas of collections, buildings, and technology addressed in the long range plan that will impact the Library's financial position in 2007-2008 include:

1. Continued evaluation of environmental, mechanical and space needs of the Library will be conducted by contracted professionals over the course of the next year. A library buildings consultant was retained in October 2006; his work will continue at least through December 2007. Expenditures for these contracted services as well as building repair and maintenance costs are expected to rise in 2007-2008.
2. In addition a book-by-book collection evaluation continues to be conducted. This project is removing unused, unsuitable and obsolete materials from the Library's collection, which is lowering the overall collection numbers which will continue to impact the Library's capital assets. The sale of some materials that do not meet the needs of Muskegon citizens will raise some funds.
3. With capital costs to be funded over three or four fiscal years, an RFID (radio frequency identification) project was begun in May 2006. When materials tagging is completed the RFID system will allow library customers to check out their own books. The tagging of library materials was 60% complete in August 2007, so significant purchases of equipment in order to implement the project are anticipated in 2007-2008 and 2008-2009.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those interested in the Library's finances. If you have any questions about this report or need additional information, contact Martha Ferriby, Director at Hackley Public Library, 316 W. Webster Avenue, Muskegon, Michigan 49440.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 29, 2007

Board of Directors
Hackley Public Library
Muskegon, Michigan

We have audited the accompanying financial statements of Hackley Public 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 Hackley Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 financial position of Hackley Public Library as of June 30, 2007 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - v and 14 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Hackley Public Library
BALANCE SHEET—STATEMENT OF NET ASSETS
June 30, 2007

	Balance Sheet - Modified accrual	Adjustments	Statement of Net Assets - Full accrual
ASSETS			
Cash and cash equivalents	\$ 1,170,192	\$ -	\$ 1,170,192
Due from other governmental units	157,780	-	157,780
Prepaid items	23,289	-	23,289
Restricted cash	342,587	-	342,587
Capital assets, net of depreciation			
Nondepreciable	-	6,000	6,000
Depreciable	-	621,725	621,725
Total assets	\$ 1,693,848	627,725	2,321,573
LIABILITIES			
Accounts payable	\$ 35,987	-	35,987
Accrued liabilities	19,886	10,925	30,811
Total liabilities	55,873	10,925	66,798
FUND BALANCE			
Reserved for:			
Collection expenses	342,587	(342,587)	-
Prepaid items	23,289	(23,289)	-
Unreserved	1,272,099	(1,272,099)	-
Total fund balance	1,637,975	(1,637,975)	-
Total liabilities and fund balance	\$ 1,693,848		
NET ASSETS			
Invested in capital assets		627,725	627,725
Restricted for collection expenses		342,587	342,587
Unrestricted		1,284,463	1,284,463
Total net assets		\$ 2,254,775	\$ 2,254,775

The accompanying notes are an integral part of this statement.

Hackley Public Library
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES**
 Year ended June 30, 2007

	Revenues and Expenditures - Modified accrual	Adjustments	Statement of Activities - Full accrual
Revenues			
Property taxes	\$ 1,764,260	\$ -	\$ 1,764,260
Intergovernmental revenues - State	34,734	-	34,734
Fines and forfeitures	147,433	-	147,433
Charges for services	30	-	30
Investment earnings	59,382	-	59,382
Contributions	6,704	90,832	97,536
Other	18,289	-	18,289
	<u>2,030,832</u>	<u>90,832</u>	<u>2,121,664</u>
Total revenues			
Expenditures			
Current			
Salaries and wages	1,068,307	(4,716)	1,063,591
Fringe benefits	430,279	-	430,279
Operating supplies	62,000	-	62,000
Programs	6,403	-	6,403
Repairs and maintenance	37,002	-	37,002
Insurance	13,258	-	13,258
Dues and fees	1,363	-	1,363
Contracted services	84,286	-	84,286
Training	3,361	-	3,361
Rent	14,026	-	14,026
Telephone	11,294	-	11,294
Miscellaneous	26,413	-	26,413
Capital outlay	200,858	(165,096)	35,762
Depreciation	-	199,914	199,914
	<u>1,958,850</u>	<u>30,102</u>	<u>1,988,952</u>
Total expenditures			
Change in fund balance—net assets	71,982	60,730	132,712
Fund balance—net assets at July 1, 2006	<u>1,565,993</u>	<u>556,070</u>	<u>2,122,063</u>
Fund balance—net assets at June 30, 2007	<u>\$ 1,637,975</u>	<u>\$ 616,800</u>	<u>\$ 2,254,775</u>

The accompanying notes are an integral part of this statement.

Hackley Public Library
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hackley Public Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

Reporting Entity

The Library was established on March 2001 by a district library agreement between the Public Schools of the City of Muskegon (School District) and the City of Muskegon (City) pursuant to the District Library Establishment Act. The boundaries include most of the City and a small portion of Muskegon Township and the City of Norton Shores all of which comprise the School District boundaries. The Library is governed by a seven member Library Board. The School District appoints four members and the City appoints three. The Library is administered by a director appointed by the Board. The Library is primarily funded through a tax levy on property within the Library district, fines, fees and state aid.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the Library's financial statements. Since no organizations met this criteria, none are included in the financial statements.

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. Separate financial statements columns are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Library only has one fund, no separate columns have been provided.

Measurement Focus and Basis of Accounting

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 as revenue in the year in 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 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, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, 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.

Hackley Public Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

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 Government 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.

Assets, Liabilities and Fund Equity or Net Assets

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.

The Library reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, 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 standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the Library intends to hold the investment until maturity.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Receivables and Payables

All property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied on December 1 and are due without penalty on or before February 14. The property taxes attach as an enforceable lien on property as of December 1. Property taxes are collected and forwarded to the Library by the participating municipalities. Uncollected real property taxes as of the following March 1 are turned over by the participating municipalities to the County for collection. The County advances the Library all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the Library. The Library recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 State taxable valuation for real/personal property of the Library total was approximately \$694,500,000. The ad valorem taxes levied consisted of 2.4 mills for operating purposes.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include library books, periodicals, etc. and equipment, 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 with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Hackley Public Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Fund Equity or Net Assets —Continued

Capital Assets—Continued

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.

Plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Leasehold improvements	20-30
Library books, periodicals, etc.	5
Equipment	3
Furniture and fixtures	5

Art and historical treasures are not depreciated as they generally appreciate in value over time.

Compensated Absences

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused vacation time does not accumulate from year to year. Sick leave is accumulated at different rates for various categories of employees. Sick leave is accumulated at proportional rates based upon the number of hours worked per month and accumulates from year to year. Unused accumulated sick leave is forfeited at the time of termination; however, upon retirement after 10 years of employment, employees may be paid up to \$3 per accumulated sick hour if varying conditions are met up to a cap of 520 hours.

Fund Balance and Net Assets

Reservations and restrictions represent amounts that are not appropriable or are legally segregated for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the year, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

Hackley Public Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

- c. Not later than June 30, the budget is legally enacted through passage of a resolution.

- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund and individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

Investment Type. The Library has one investment in an external investment pool (Pool) with a fair value of \$1,521,000. The fair value of the Library's investments is the same as the fair value of the Pool. The Pool is not regulated nor registered with the SEC.

Interest rate risk. The Library's formal investment policy limits its average investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates by structuring its portfolio so that securities mature to meet cash requirements and by investing in short-term securities.

Credit risk. The Library's investment policy limits investments in commercial paper and corporate bonds to the highest classifications issues by nationally recognized statistical rating organizations.

Concentration of credit risk. The Library's concentration of credit risk policy seeks to minimize loss by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. The Library's custodial credit risk policy for deposits seeks to minimize custodial credit risk by prequalifying financial institutions based upon various criteria. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2007, the entire deposit amount of \$27,100 was covered by federal depository insurance.

Custodial credit risk - investments. The Library's custodial credit risk policy for investments seeks to minimize custodial credit risk by limiting investments to those authorized by their investment policy and by prequalifying financial institutions, broker/dealers and intermediaries based upon various criteria. In an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Library's will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Library is not authorized to invest in investments which have this type of risk.

Hackley Public Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE D—CAPITAL ASSETS

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

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Art and historical treasures	\$ 6,000	\$ -	\$ -	\$ 6,000
Capital assets, being depreciated:				
Leasehold improvements	39,390	-	-	39,390
Library books, periodicals, etc.	3,635,816	248,452	330,879	3,553,389
Equipment	125,110	7,476	-	132,586
Furniture and fixtures	12,846	-	-	12,846
Total capital assets, being depreciated	3,813,162	255,928	330,879	3,738,211
Less accumulated depreciation:				
Leasehold improvements	6,041	1,771	-	7,812
Library books, periodicals, etc.	3,150,295	174,981	330,879	2,994,397
Equipment	81,821	21,349	-	103,170
Furniture and fixtures	9,294	1,813	-	11,107
Total accumulated depreciation	3,247,451	199,914	330,879	3,116,486
Total capital assets, being depreciated, net	565,711	56,014	-	621,725
Capital assets, net	\$ 571,711	\$ 56,014	\$ -	\$ 627,725

Hackley Public Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2007

NOTE E—COMMITMENTS

Public Improvement Fund

The Library, as part of the district library agreement, is required to participate in a Public Improvement Fund established for the maintenance of the Library's facilities. As part of this agreement, the Library must contribute \$25,000 annually to the Public Improvement Fund. This \$25,000 contribution is included in capital outlay on the financial statements. The contribution is matched by the landlord.

Leases

Facilities

The Library entered into a fifty-year lease agreement for the Library's operating facilities. The lease requires annual rentals of \$1, annual payment to Public Improvement Fund noted above, and payment of all occupancy expenses. The lease can be terminated by the landlord or the Library with 48 months written notice.

Equipment

The Library is involved in several lease agreements expiring at various dates through March 2010 requiring aggregate minimum monthly payments of approximately \$1,000. Expense for the year ended June 30, 2007 was approximately \$12,000.

The following is a schedule of future minimum rental payments required under operating leases for Library equipment.

Year ending June 30,	Amount
2008	\$ 12,000
2009	12,000
2010	5,200
	\$ 29,200

NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

Pension Plan – MPSERS

Plan description - The Library contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
 Michigan Public School Employees Retirement System
 P.O. Box 30171
 Lansing Michigan 48909
 1-800-381-5111

Hackley Public Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN—Continued

Pension Plan – MPSERS—Continued

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007, were 17.74 percent of payroll. The contribution requirements of plan members and the Library are established and may be amended by the MPSERS Board of Trustees. The Library contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were approximately \$146,000, \$139,000 and \$122,000, respectively, and were equal to the required contribution for those years.

The Library is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

Pension Plan – MERS

Effective July 2004, the Library started a new pension plan for employees hired after March 2002.

Plan description. The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Library. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Hackley Public Library
316 W. Webster Avenue
Muskegon, MI 49440

Hackley Public Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 June 30, 2007

NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN—Continued

Pension Plan – MERS—Continued

Funding policy. The Library is required to contribute at an actuarially-determined rate of 7.81 percent of covered wages.

Annual Pension Cost. For the year ended June 30, 2007, the Library's annual pension cost was approximately \$9,700 which the Library contributed. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

Year ended	Approximate Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	\$ 9,000	100 %	\$ -
6/30/06	9,400	100	-
6/30/07	9,700	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets	Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/04	\$ 5,499	\$ 4,013	\$ 1,486	137 %	\$ 122,282	- %
12/31/05	16,340	15,760	580	104	110,883	-
12/31/06	26,914	25,434	1,480	106	106,540	-

NOTE G—OTHER INFORMATION

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

Hackley Public Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance – governmental funds \$ 1,643,037

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

Capital assets used in governmental activities are not current financial resources and are not reported in the governmental fund.

Cost of capital assets	\$ 3,744,211	
Accumulated depreciation	<u>(3,116,486)</u>	627,725

Accrued liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

Compensated absences		<u>(10,925)</u>
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Net assets of governmental activities in the Statement of Net Assets		<u><u>\$ 2,259,837</u></u>
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Net change in fund balances – total governmental funds \$ 77,044

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

Contributions of capital assets are recorded as revenues in the Statement of Activities, but not in the governmental funds.		90,832
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Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (199,914)	
Capital outlay	<u>165,096</u>	(34,818)

Compensated absences are reported on the accrual method in the Statement of Activities and reported as an expenditure when financial resources are used in the governmental funds.

		<u>4,716</u>
Change in net assets in governmental activities	\$	<u><u>137,774</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Hackley Public Library
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 Year ended June 30, 2007

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues				
Property taxes	\$ 1,749,355	\$ 1,755,066	\$ 1,764,260	\$ 9,194
Intergovernmental revenues - State	30,638	30,638	34,734	4,096
Fines and forfeitures	155,450	157,975	147,433	(10,542)
Charges for services	280	280	30	(250)
Investment earnings	33,500	48,000	59,382	11,382
Contributions	10,950	17,474	6,704	(10,770)
Other	18,800	18,800	18,289	(511)
Total revenues	<u>1,998,973</u>	<u>2,028,233</u>	<u>2,030,832</u>	<u>2,599</u>
Expenditures				
Current				
Salaries and wages	1,072,241	1,072,241	1,068,307	3,934
Fringe benefits	457,455	457,660	430,279	27,381
Operating supplies	51,150	67,275	62,000	5,275
Programs	8,100	8,100	6,403	1,697
Repairs and maintenance	38,000	43,000	37,002	5,998
Insurance	14,355	13,258	13,258	-
Dues and fees	1,375	1,375	1,363	12
Contracted services	78,700	80,280	84,286	(4,006)
Training	4,000	4,000	3,361	639
Rent	14,700	16,120	14,026	2,094
Telephone	11,100	11,100	11,294	(194)
Miscellaneous	42,297	38,197	26,413	11,784
Capital outlay	205,400	215,527	200,858	14,669
Total expenditures	<u>1,998,873</u>	<u>2,028,133</u>	<u>1,958,850</u>	<u>69,283</u>
Net change in fund balance	<u>\$ 100</u>	<u>\$ 100</u>	71,982	<u>\$ 71,882</u>
Fund balance at July 1, 2006			<u>1,565,993</u>	
Fund balance at June 30, 2007			<u>\$ 1,637,975</u>	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 29, 2007

Board of Directors
Hackley Public Library
Muskegon, Michigan

In planning and performing our audit of the financial statements of the Hackley Public 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 Hackley Public 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 Hackley Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Public Library's internal control.

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

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

Our consideration of internal control 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached a deficiency in internal control that we consider to be a significant deficiency.

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



SIGNIFICANT DEFICIENCIES

General

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Library should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.