

Auburn Hills Library

**Financial Report
with Supplemental Information
December 31, 2007**

Auburn Hills Library

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Independent Auditor's Report

To the Auburn Hills Library Board
Auburn Hills Library

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

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Auburn Hills Library as of December 31, 2007 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison statement, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 19, 2008

Auburn Hills Library

Management's Discussion and Analysis

Our discussion and analysis of Auburn Hills Library's (the "Library") financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Library's financial statements.

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. 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 supplemental information that further explains and supports the information in the financial statements.

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 fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustments column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The third column presents the Library's operations on a full accrual basis, which provides both long- 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.

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Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table below shows key financial information in a condensed format for the government-wide statement of net assets and the statement of activities:

	December 31	
	2007	2006
Assets		
Current assets	\$ 2,404,501	\$ 2,183,760
Capital assets - Net	317,365	251,674
Total assets	2,721,866	2,435,434
Liabilities		
Accounts payable	65,356	18,208
Accrued payroll	13,497	13,378
Deferred revenue	1,455,995	1,422,319
Long-term debt	274,013	297,254
Total liabilities	1,808,861	1,751,159
Net Assets		
Invested in capital assets	317,365	251,674
Unrestricted	595,640	432,601
Total net assets	\$ 913,005	\$ 684,275
Revenue		
Property taxes	\$ 1,383,734	\$ 1,418,376
Other	163,804	109,879
Total revenue	1,547,538	1,528,255
Expenses - Library services	1,318,808	1,484,645
Change in Net Assets	\$ 228,730	\$ 43,610

Auburn Hills Library

Management's Discussion and Analysis (Continued)

The Library as a Whole

- The Library reports net assets of \$913,005 this year on a full accrual basis, as compared to fund balance of \$869,653 on the modified accrual basis of accounting.
- The Library's primary source of revenue is from property taxes. For 2007, total tax collections were \$1,383,734. This represents approximately 91 percent of total revenue.
- Salaries and fringe benefits are the largest overall expenditure of the Library. For 2007, this expenditure was \$742,820, representing approximately 54 percent of the Library's total expenditures.
- Total expenditures for the entire year under the modified accrual basis of accounting were approximately \$1,382,000.
- The Library's conversion to meet GASB 34 standards, which includes capitalization of Library-owned assets and associated depreciation expense, is reflected in the statement of activities on page 7 of this financial report.

The Library's Fund

Our analysis of the Library's General Fund is included on pages 6 and 7 in the first column of the respective statements. The fund column provides detailed information about the General Fund on a modified accrual method, which is a short-term perspective measuring the flow of financial resources, not the Library's operations on a full accrual basis of accounting, which provides a longer-term measurement of total economic resources. The Library's only fund is the General Fund. The fund balance of the General Fund increased by approximately \$140,000 for the year.

Library Budgetary Highlights

No amendments were made to the budget over the course of the year. The following is a summary of budgetary highlights:

- Interest on investments continued to increase due to higher interest rates, more aggressive investing, and quicker tax settlements.
- While \$36,000 in furniture and building improvements was budgeted in 2007, the monies were not actually spent until 2008, which accounts for a significant difference in budget versus actual year-end figures.
- Technology continues to be a significant budget item; the Library purchased new computers for use by the public and by library staff this year. In addition, it was necessary to change the scheduling software for the public computers due to our previous software being discontinued.

Auburn Hills Library

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of the year, the Library had approximately \$317,000 invested in land, furniture, equipment, books, and materials. In 2007, the Library added approximately \$202,000 in new collection items consisting mainly of books, video materials, audio books, and music CDs.

It should be noted that the Library building itself is an asset of the City of Auburn Hills and, therefore, does not appear as an asset of the Library.

The Library had approximately \$274,000 of long-term debt. This represents an estimate of the Library's liability for compensated absences, as well as its potential exposure for pending property tax appeals. The Library accrues vested or accumulated sick, vacation, and paid time-off (PTO) leave when earned by the employees.

Economic Factors and Next Year's Budget and Rates

The Library's budget for the 2008 fiscal year will see a significant increase in projected MTT refunds from 2007, which will account for a general tightening up of several expense accounts and the use of some of the Library's healthy fund balance. The library board has determined that the \$36,000 originally slated for 2007 furniture and building improvements also will be taken from the Library's fund balance in 2008. Property taxes were budgeted for a slight increase, penal fines continue to be budgeted by the best judgment of the Library, and state aid revenue could be less than budgeted due to the State's financial constraints.

Contacting the Library's Management

If you have questions about this report or need additional information, we welcome you to contact the director, Karrie Waarala, at 248-364-6705 or via email at kwaarala@auburn-hills.lib.mi.us.

Auburn Hills Library

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2007

	General Fund - Modified Accrual Basis	Adjustments (Note 2)	Statement of Net Assets - Full Accrual Basis
Assets			
Investments (Note 3)	\$ 917,625	\$ -	\$ 917,625
Property taxes receivable (Note 1)	1,455,995	-	1,455,995
Due from other governments	30,881		30,881
Capital assets - Net (Note 4)	-	317,365	317,365
Total assets	<u>\$ 2,404,501</u>	317,365	2,721,866
Liabilities			
Accounts payable	\$ 65,356	-	65,356
Accrued payroll	13,497	-	13,497
Deferred revenue (Note 1)	1,455,995	-	1,455,995
Long-term debt (Note 5)	-	274,013	274,013
Total liabilities	1,534,848	274,013	1,808,861
Fund Balance - Unreserved			
Designated for contributions	7,710	(7,710)	-
Undesignated	861,943	(861,943)	-
Total fund balance	<u>869,653</u>	<u>(869,653)</u>	-
Total liabilities and fund balance	<u>\$ 2,404,501</u>		
Net Assets			
Invested in capital assets		317,365	317,365
Unrestricted		595,640	595,640
Total net assets		<u>\$ 913,005</u>	<u>\$ 913,005</u>

Auburn Hills Library

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2007

	General Fund - Modified Accrual Basis	Adjustments (Note 2)	Statement of Net Assets - Full Accrual Basis
Revenue			
Property taxes - City of Auburn Hills	\$ 1,383,734	\$ -	\$ 1,383,734
Contributions and donations	728	-	728
State penal fines	29,892	-	29,892
State aid	15,680	-	15,680
Interest and other	91,872	-	91,872
Tax refunds	-	25,632	25,632
	<u>1,521,906</u>	<u>25,632</u>	<u>1,547,538</u>
Total revenue	1,521,906	25,632	1,547,538
Expenditures			
Salaries	552,761	2,391	555,152
Fringe benefits	190,059	-	190,059
Supplies	36,783	-	36,783
Administrative	211,784	-	211,784
Computer charges	28,815	-	28,815
Communications	7,919	-	7,919
Rent	27,000	-	27,000
Memberships and dues	14,803	-	14,803
Capital outlay	244,379	(202,122)	42,257
Depreciation	-	136,431	136,431
Maintenance	9,339	-	9,339
Insurance	11,789	-	11,789
Other	46,677	-	46,677
	<u>1,382,108</u>	<u>(63,300)</u>	<u>1,318,808</u>
Total expenditures	1,382,108	(63,300)	1,318,808
Excess of Revenue Over Expenditures/Change in Net Assets			
	139,798	88,932	228,730
Fund Balance/Net Assets - Beginning of year	<u>729,855</u>	<u>(45,580)</u>	<u>684,275</u>
Fund Balance/Net Assets - End of year	<u>\$ 869,653</u>	<u>\$ 43,352</u>	<u>\$ 913,005</u>

Note I - Nature of Organization and Summary of Significant Accounting Policies

Auburn Hills Library (the "Library") is located in the City of Auburn Hills, Michigan. The Library is funded primarily through a tax levy, fines, and fees. Revenue is used to operate and staff the Library. The Library facility is owned by the City of Auburn Hills. The Library pays rent on a month-to-month basis.

The accounting policies of Auburn Hills Library conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Library is governed by a six-member elected board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on these criteria, there are no component units of the Library that are to be included in the reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. The Library has only one fund, the General Fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The General Fund fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and state penal fines and state aid meet the availability criterion.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Property Taxes - The Library follows the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Fines, contributions, and certain miscellaneous revenue are recorded when received.

Properties are assessed as of December 31 and the related property taxes become a lien on the following December 1. These taxes are billed on December 1 with the final collection date of February 28 before they are added to the county tax rolls.

Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue at December 31. The 2006 taxable valuation for the City of Auburn Hills totaled approximately \$2,505,000,000 (a portion of which is abated and a portion of which is captured by the TIFA districts and Brownfield).

- b. There are .7041 mills levied for Library operating purposes, resulting in property tax revenue of approximately \$1,384,000.
- c. Payments for types of supplies that can be inventoried are recorded as expenditures at the time of purchase.
- d. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Receivables and Payables - All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the General Fund only for employee terminations as of year end.

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

Investments - Investments are recorded at fair value.

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture, fixtures, and equipment	5 years
Library books and audiovisual materials	5 years

Budget Information - The annual budget is prepared by the library director during May or June for the next fiscal year. The budget is presented to the library board in June or July for adoption. Subsequent amendments are approved by the library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2007 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted for the Library's activity in total; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as prepared by the library board is included in the subtotals for total revenue and total expenditures in the required supplemental information section. The remaining budget-to-actual detail is used to provide additional analysis for management purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Auburn Hills Library

Notes to Financial Statements December 31, 2007

Note 2 - Reconciliation of Modified Accrual Financial Statements to the Full Accrual Financial Statements

Total fund balance and the net change in fund balance of the Library's General Fund differ from the net assets and change in net assets of the Library's activities reported in the governmental fund balance sheet/statement of net assets and the statement of governmental revenue, expenditures, and changes in fund balance/statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current focus of the governmental fund balance sheet and the statement of governmental revenue, expenditures, and changes in fund balance.

The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Fund Balance - General Fund - Modified Accrual Basis	\$ 869,653
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	317,365
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(274,013)</u>
Net Assets - Full Accrual Basis	<u>\$ 913,005</u>
Excess of Revenue Over Expenditures - Modified Accrual Basis	\$ 139,798
Amounts reported in the statement of activities are different because:	
Depreciation is recorded as an expense in the statement of net assets	(136,431)
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance	202,122
General liability claims, as well as accumulated sick and vacation pay, are recorded when earned in the statement of activities	(2,391)
The change in the general liability related to tax tribunal claims is recorded when earned in the statement of activities	<u>25,632</u>
Change in Net Assets - Full Accrual Basis	<u><u>\$ 228,730</u></u>

Auburn Hills Library

Notes to Financial Statements December 31, 2007

Note 3 - Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated one bank for the deposit of its funds. The Library's investment policy as adopted by the City of Auburn Hills, in accordance with Public Act 196 of 1997, has authorized investment in all investments permissible under Michigan Compiled Laws 129.91 (Public Act 20 of 1943, as amended), as listed above. The Library's investment policies are in accordance with statutory authority.

The Library's investments are subject to risk, which is examined in more detail below:

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 917,625	Aaa	Moody's

Auburn Hills Library

Notes to Financial Statements December 31, 2007

Note 4 - Capital Assets

A summary of changes in general fixed assets is as follows:

	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Capital assets being depreciated:				
Furniture, fixtures, and equipment	\$ 181,550	\$ 33,600	\$ -	\$ 215,150
Library books and audiovisual materials	<u>559,272</u>	<u>168,522</u>	<u>59,260</u>	<u>668,534</u>
Total	740,822	202,122	59,260	883,684
Accumulated depreciation:				
Furniture, fixtures, and equipment	91,890	24,815	-	116,705
Library books and audiovisual materials	<u>397,258</u>	<u>111,616</u>	<u>59,260</u>	<u>449,614</u>
Total	<u>489,148</u>	<u>136,431</u>	<u>59,260</u>	<u>566,319</u>
Net capital assets	<u>\$ 251,674</u>	<u>\$ 65,691</u>	<u>\$ -</u>	<u>\$ 317,365</u>

Note 5 - Long-term Debt

The long-term debt reported represents an estimate of the Library's potential exposure for pending property tax appeals and compensated absences. Long-term obligation activity can be summarized as follows:

	Balance January 1, 2007	Additions and (Reductions)	Balance December 31, 2007
Property tax appeals	\$ 263,714	\$ (25,632)	\$ 238,082
Compensated absences	<u>33,540</u>	<u>2,391</u>	<u>35,931</u>
Total	<u>\$ 297,254</u>	<u>\$ (23,241)</u>	<u>\$ 274,013</u>

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for these potential risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Required Supplemental Information

Auburn Hills Library

Budgetary Comparison Statement General Fund Year Ended December 31, 2007

	Original Budget	Ammended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Property taxes - City of Auburn Hills	\$ 1,376,368	\$ 1,376,368	\$ 1,383,734	\$ 7,366
Contributions and donations	-	-	728	728
State penal fines	25,000	25,000	29,892	4,892
State aid	10,000	10,000	15,680	5,680
Interest and other	59,200	59,200	91,872	32,672
Total revenue	1,470,568	1,470,568	1,521,906	51,338
Expenditures				
Salaries	583,199	583,199	552,761	30,438
Fringe benefits	192,282	192,282	190,059	2,223
Supplies	39,995	39,995	36,783	3,212
Administrative	211,784	211,784	211,784	-
Computer charges	33,000	33,000	28,815	4,185
Communications	5,000	5,000	7,919	(2,919)
Rent	27,000	27,000	27,000	-
Memberships and dues	16,000	16,000	14,803	1,197
Capital outlay	291,500	291,500	244,379	47,121
Maintenance	11,000	11,000	9,339	1,661
Insurance	12,240	12,240	11,789	451
Other	47,568	47,568	46,677	891
Total expenditures	1,470,568	1,470,568	1,382,108	88,460
Change in Fund Balance	-	-	139,798	139,798
Fund Balance - Beginning of year	729,855	729,855	729,855	-
Fund Balance - End of year	<u>\$ 729,855</u>	<u>\$ 729,855</u>	<u>\$ 869,653</u>	<u>\$ 139,798</u>