

### 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 Northeast Ottawa District Library	County Muskegon
Fiscal Year End 6/30/07	Opinion Date 8/13/07	Date Audit Report Submitted to State 8/17/07	

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 |                                                                                |
|     |    | <b>Check each applicable box below.</b> (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> for Brickley DeLong, PLLC		Printed Name TIMOTHY D. ARTER	License Number 10253

Northeast Ottawa District Library  
Ottawa County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

June 30, 2007

Northeast Ottawa District 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 four columns of the financial statements includes information on the Library's General Fund, Capital Projects Fund, the Permanent Fund and the totals of the three funds under the modified accrual method of accounting. 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 of accounting.
- The last 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

#### A. Statement of Net Assets

The Statement of Net Assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Library is improving or deteriorating. As of June 30, 2007, current assets totaled \$302,208 and consisted of cash, receivables and prepaid expenses. Current assets increased by \$57,565 due primarily to an increase in net assets. Capital assets of \$484,586 include the Library's collection of materials, land, building and furniture, fixtures and equipment less accumulated depreciation. Current liabilities increased due to an increase in accounts payable at year end. As of June 30, 2007, the Library's net assets totaled \$767,340.

#### Condensed Statement of Net Assets

	2007	2006
Current assets	\$ 302,508	\$ 244,943
Capital assets, net	484,586	484,704
Total assets	787,094	729,647
Current liabilities	19,754	10,749
Net assets		
Invested in capital assets	484,586	484,704
Restricted	10,023	9,500
Unrestricted	272,731	224,694
Total net assets	\$ 767,340	\$ 718,898

# Northeast Ottawa District Library

## Management's Discussion and Analysis

### B. Statement of Activities

The information that follows reports key financial information. Amounts and totals reported are for all Library activities, including general operations, gifts received, and net assets, in order to give a complete picture.

#### Condensed Statement of Activities

	<u>2007</u>	<u>2006</u>
General revenues		
Property taxes	\$ 212,584	\$ 203,319
Intergovernmental revenues		
Federal	608	579
State	14,862	13,527
Local	15,421	17,823
Fines and forfeitures	46,741	76,867
Charges for services	16,687	18,757
Investment earnings	7,409	4,498
Contributions	18,589	24,602
Other	25	228
Total revenues	<u>332,926</u>	<u>360,200</u>
Expenditures		
Salaries and wages	147,565	183,301
Fringe benefits	24,786	29,840
Operating supplies	4,413	6,340
Repairs and maintenance	9,918	10,406
Professional services	5,866	11,837
Insurance	7,466	7,345
Dues and fees	18,285	21,424
Utilities	8,783	8,598
Telephone	2,025	2,124
Millage elections	-	7,631
Other	7,863	7,307
Capital outlay	2,319	6,296
Depreciation	45,195	42,212
Total expenses	<u>284,484</u>	<u>344,661</u>
Change in net assets	48,442	15,539
Net assets at beginning of year	<u>718,898</u>	<u>703,359</u>
Net assets at end of year	<u>\$ 767,340</u>	<u>\$ 718,898</u>

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

### 1. Revenues

- Property taxes increased due to the increase in taxable value of the governmental units.
- Fines and forfeitures decreased due to the end of the penal fine contract with Tallmadge Township.
- Contributions decreased due to receiving higher contributions in the prior year from the Friends of the Northeast Ottawa District Library. The contributions were higher in the prior year to help pay for additional election costs associated with the millage.

### 2. Expenditures

- Salaries and wages decreased due to a reduction in one position from full time to part time along with other reductions in staffing.
- Fringe benefits decreased due to employees now being required to contribute to the pension plan. Payroll taxes decreased due to lower wages and health insurance decreased due to a reduction in benefits for one employee.
- Professional services were higher in the previous year due to legal costs associated with the election.
- The prior year millage expense related to the cost associated with requesting a millage election.

### Analysis of Financial Statements

The Library operates three separate funds, each of which serves a different function. The General Fund is the Library's primary operating fund in which all transactions for day to day operations are recorded. The Capital Project Fund is used to account for the accumulation and disbursement of funds for the construction and equipping of the Library facility. The Permanent Fund, Murray Memorial Trust, is utilized to account for the trust assets and related earnings which are restricted for Library book purchases.

The fund balance of the General Fund increased during the current year by \$46,729. This increase is primarily the result of a decrease in wages and associated benefits as discussed above.

### Library Budgetary 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 more significant adjustments are as follows:

#### Revenues

- Property taxes were adjusted lower due to the capture of property taxes by the Downtown Development Authority.
- Fines and forfeitures were decreased to align the budget with actual amounts being received. The original budget for penal fines was completed on a cash basis and the amended budget reflects the accrual basis of accounting.
- Contribution revenue in the original budget was budgeted low due to the poor visibility on contributions.

### Expenditures

- Salaries and wages were reduced due to lower than anticipated substitute wages.
- The professional services budget was reduced due to not completing anticipated revisions to Library policies.

The Library's significant budget-to-actual variance is discussed below:

### Budget to Actual

- Intergovernmental revenues – State were over budget due to anticipated State of Michigan budget cuts that did not happen.

### Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$484,586 invested in the collection, land, buildings, furniture, fixtures and equipment, net of depreciation. The Library added \$45,077 in new collection items consisting of new books and various audio/visual materials. The Library also purchased new shelving, four new computers and a color copier.

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

### Next Year's Anticipated Budget Factors and Currently Known Facts

The Library's fiscal year 2008 budget shows a small increase in fund balance. This budget includes additional costs related to an increase in Library hours. Property tax revenues are expected to remain flat for the year. State of Michigan revenues are expected to decrease 25% to 50%. Penal fines are expected to decrease by approximately \$10,000.

The Library is anticipating the following changes in expenses. Salaries and wages are anticipated to increase slightly. Pension expenses are expected to increase due to the addition of one more full time employee. Dues and fees are expected to increase significantly due to higher delivery fees and other anticipated Lakeland Cooperative fees. The Library is also having a community survey completed and starting a newsletter.

### Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in them. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Library Director, Christine Kuperus at Northeast Ottawa District Library, 333 Ottawa Street, Coopersville, Michigan 49404.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

August 13, 2007

Board of Directors  
Northeast Ottawa District Library  
Coopersville, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Northeast Ottawa District 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 Northeast Ottawa District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Northeast Ottawa District Library as of June 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.

The management's discussion and analysis and budgetary comparison information on pages i - iv and 13 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.



Northeast Ottawa District Library  
**BALANCE SHEET—STATEMENT OF NET ASSETS**  
June 30, 2007

	Balance Sheet - Modified accrual				Adjustments	Statement of Net Assets - Full accrual
	General	Capital Projects	Permanent Murray Trust	Total		
<b>ASSETS</b>						
Cash and investments	\$ 184,041	\$ 48,214	\$ 9,500	\$ 241,755	\$ -	\$ 241,755
Accounts receivable	66	-	-	66	-	66
Due from other governmental units	54,172	-	-	54,172	-	54,172
Due from other funds	-	-	523	523	(523)	-
Prepaid items	6,515	-	-	6,515	-	6,515
Capital assets, net						
Nondepreciable	-	-	-	-	20,000	20,000
Depreciable	-	-	-	-	464,586	464,586
Total assets	<u>\$ 244,794</u>	<u>\$ 48,214</u>	<u>\$ 10,023</u>	<u>\$ 303,031</u>	484,063	787,094
<b>LIABILITIES</b>						
Accounts payable	\$ 7,642	\$ -	\$ -	\$ 7,642	-	7,642
Accrued liabilities	5,832	-	-	5,832	-	5,832
Due to other funds	523	-	-	523	(523)	-
Deferred revenue	1,000	-	-	1,000	-	1,000
Compensated absences	-	-	-	-	5,280	5,280
Total liabilities	14,997	-	-	14,997	4,757	19,754
<b>FUND BALANCES</b>						
Reserved for:						
Collection expenditures - nonexpendable	-	-	10,023	10,023	(10,023)	-
Prepaid items	6,515	-	-	6,515	(6,515)	-
Unreserved						
Designated for feasibility study	-	5,000	-	5,000	(5,000)	-
Designated for state unemployment	8,147	-	-	8,147	(8,147)	-
Undesignated	215,135	43,214	-	258,349	(258,349)	-
Total fund balances	<u>229,797</u>	<u>48,214</u>	<u>10,023</u>	<u>288,034</u>	<u>(288,034)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 244,794</u>	<u>\$ 48,214</u>	<u>\$ 10,023</u>	<u>\$ 303,031</u>		
<b>NET ASSETS</b>						
Invested in capital assets					484,586	484,586
Restricted - nonexpendable permanent trust					10,023	10,023
Unrestricted					272,731	272,731
Total net assets					<u>\$ 767,340</u>	<u>\$ 767,340</u>

The accompanying notes are an integral part of this statement.

Northeast Ottawa District Library  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES—STATEMENT OF ACTIVITIES**  
 For the year ended June 30, 2007

	Revenues and Expenditures - Modified accrual					Adjustments	Statement of Activities - Full accrual
	General	Capital Projects	Permanent Murray Trust	Total			
<b>Revenues</b>							
Property taxes	\$ 212,584	\$ -	\$ -	\$ 212,584	\$ -	\$ 212,584	
Intergovernmental revenues							
Federal	608	-	-	608	-	608	
State	14,862	-	-	14,862	-	14,862	
Local	15,421	-	-	15,421	-	15,421	
Fines and forfeitures	46,741	-	-	46,741	-	46,741	
Charges for services	16,687	-	-	16,687	-	16,687	
Investment earnings	6,003	989	417	7,409	-	7,409	
Contributions	8,620	-	500	9,120	9,469	18,589	
Other	25	-	-	25	-	25	
<b>Total revenues</b>	<b>321,551</b>	<b>989</b>	<b>917</b>	<b>323,457</b>	<b>9,469</b>	<b>332,926</b>	
<b>Expenditures</b>							
Current							
Salaries and wages	147,884	-	-	147,884	(319)	147,565	
Fringe benefits	24,786	-	-	24,786	-	24,786	
Operating supplies	4,413	-	-	4,413	-	4,413	
Repairs and maintenance	9,918	-	-	9,918	-	9,918	
Professional services	5,866	-	-	5,866	-	5,866	
Insurance	7,466	-	-	7,466	-	7,466	
Dues and fees	18,285	-	-	18,285	-	18,285	
Utilities	8,783	-	-	8,783	-	8,783	
Telephone	2,025	-	-	2,025	-	2,025	
Other	7,863	-	-	7,863	-	7,863	
Capital outlay	37,533	-	394	37,927	(35,608)	2,319	
Depreciation	-	-	-	-	45,195	45,195	
<b>Total expenditures</b>	<b>274,822</b>	<b>-</b>	<b>394</b>	<b>275,216</b>	<b>9,268</b>	<b>284,484</b>	
Change in fund balances—net assets	46,729	989	523	48,241	201	48,442	
Fund balances—net assets at July 1, 2006	183,068	47,225	9,500	239,793	479,105	718,898	
Fund balances—net assets at June 30, 2007	<u>\$ 229,797</u>	<u>\$ 48,214</u>	<u>\$ 10,023</u>	<u>\$ 288,034</u>	<u>\$ 479,306</u>	<u>\$ 767,340</u>	

The accompanying notes are an integral part of this statement.

Northeast Ottawa District Library  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Northeast Ottawa District 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 in June 1976 as a district library through an agreement between the City of Coopersville and Polkton Charter Township pursuant to the District Library Establishment Act of the State of Michigan. In 1994, the library district was expanded to include Chester Township and Wright Township. The Library is governed by an eight member Library Board. Each governmental unit appoints two members. 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 are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All three of the Library's funds are considered to be major funds.

***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 they 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.

Northeast Ottawa District Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Measurement Focus and Basis of Accounting—Continued*

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for financial resources of the Library which are not required to be reported in another fund.

The *Capital Projects Fund* is utilized to account for the accumulation and disbursement of funds for the construction and equipping of the Library facility.

The *Permanent Trust Fund - Murray Memorial Trust fund* is utilized to account for the trust assets and related earnings which are restricted for Library book purchases.

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.

Northeast Ottawa District Library  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**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 15. 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. These amounts are recognized in the General Fund.

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 day). The 2006 state taxable valuation for real/personal property of the Library was approximately \$346,500,000. The ad valorem taxes levied consisted of .5881 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, equipment, etc. are defined by the Library as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years 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.

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.

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

<u>Assets</u>	<u>Years</u>
Library books, periodicals, etc.	5
Building and improvements	50
Furniture, fixtures and equipment	5 - 30

Northeast Ottawa District Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Compensated Absences**

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused sick pay leave may accumulate and be carried over to a subsequent year, subject to restrictions. No portion of unused sick leave is paid to employees at the time of termination or retirement. It is the Library's policy to recognize the cost of sick leave at the time payments are made. Vacation pay accrued at year-end which is subject to payment upon termination has been included as a liability on the statement of net assets and not on the balance sheet as the balance is not expected to be liquidated with expendable available financial resources.

**Fund Equity**

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 for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. 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 fiscal year, the Finance Committee 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.
- 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 one supplemental budgetary appropriation during the year.

Northeast Ottawa District Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE C—DEPOSITS AND INVESTMENTS**

**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 law limits investments in commercial paper and corporate bonds to the two highest classifications issues by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The Library does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** The Library does not have a custodial credit risk policy for deposits. 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, \$87,923 of the Library's bank balance of \$245,637 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The Library does not have a custodial credit risk policy for investments. In an investment, this 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.

**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
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
<b>Capital assets, being depreciated:</b>				
Library books, periodicals, etc.	357,284	31,988	34,592	354,680
Building and improvements	435,352	-	-	435,352
Furniture, fixtures and equipment	139,167	13,089	-	152,256
Total capital assets, being depreciated	931,803	45,077	34,592	942,288

Northeast Ottawa District Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE D—CAPITAL ASSETS—Continued**

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b>Governmental activities:—Continued</b>				
<b>Less accumulated depreciation:</b>				
Library books, periodicals, etc.	\$ 288,549	\$ 26,244	\$ 34,592	\$ 280,201
Building and improvements	100,131	8,707	-	108,838
Furniture, fixtures and equipment	78,419	10,244	-	88,663
Total accumulated depreciation	467,099	45,195	34,592	477,702
Total capital assets, being depreciated, net	464,704	(118)	-	464,586
Capital assets, net	\$ 484,704	\$ (118)	\$ -	\$ 484,586

**NOTE E—INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2007, the General Fund owes the Murray Trust Fund \$523 for capital donations and investment earnings received by the General Fund.

**NOTE F—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.

**NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**Pension Plan**

*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 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:

Northeast Ottawa District Library  
333 Ottawa  
Coopersville, MI 49404

Northeast Ottawa District Library  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2007

**NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**Pension Plan—Continued**

*Funding Policy.* Plan members are required to contribute to the plan. The Library is required to contribute at an actuarially-determined rate depending upon position from 7.77 to 10.69 percent of covered wages.

*Annual Pension Cost.* For the year ended June 30, 2007, the Library's annual pension cost was approximately \$4,800 which the Library contributed. The employees contributed approximately \$5,550. 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 4.5 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**

<u>Year ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$ 16,600	100 %	\$ -
6/30/06	16,900	100	-
6/30/07	10,350	100	-

**REQUIRED SUPPLEMENTARY INFORMATION**

*Schedule of Funding Progress*

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/04	\$ 131,025	\$ 186,719	\$ (55,694)	70 %	\$ 140,938	40 %
12/31/05	157,453	210,360	(52,907)	75	144,983	36
12/31/06	177,729	236,254	(58,525)	75	105,297	56

Northeast Ottawa District 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 \$ 288,034

Amounts reported for government activities in the Statement of Net Assets is different because:

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

Cost of capital assets	\$ 962,288	
Accumulated depreciation	<u>(477,702)</u>	484,586

Compensated absences in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

(5,280)

Net assets of governmental activities in the Statement of Net Assets

\$ 767,340

**Net change in fund balances** – total governmental funds \$ 48,241

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

Contribution of capital assets are recorded as revenues in the Statement of Activities, but not in the governmental funds.

9,469

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	\$ (45,195)	
Capital outlay	<u>35,608</u>	(9,587)

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

319

Change in net assets in governmental activities

\$ 48,442

**REQUIRED SUPPLEMENTARY INFORMATION**

Northeast Ottawa District Library  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
 General Fund  
 For the year ended June 30, 2007

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues				
Property taxes	\$ 226,207	\$ 212,671	\$ 212,584	\$ (87)
Intergovernmental revenues				
Federal	870	750	608	(142)
State	6,738	7,431	14,862	7,431
Local	820	16,424	15,421	(1,003)
Fines and forfeitures	70,000	44,186	46,741	2,555
Charges for services	16,673	16,234	16,687	453
Investment earnings	-	5,674	6,003	329
Contributions	900	8,498	8,620	122
Other	245	-	25	25
Total revenues	<u>322,453</u>	<u>311,868</u>	<u>321,551</u>	<u>9,683</u>
Expenditures				
Current				
Salaries and wages	155,500	150,000	147,884	2,116
Fringe benefits	25,600	25,900	24,786	1,114
Operating supplies	5,713	4,750	4,413	337
Repairs and maintenance	11,428	10,300	9,918	382
Professional services	11,245	6,270	5,866	404
Insurance	7,605	7,700	7,466	234
Dues and fees	17,250	18,300	18,285	15
Utilities	9,030	9,100	8,783	317
Telephone	2,820	2,100	2,025	75
Other	9,632	8,375	7,863	512
Capital outlay	<u>36,750</u>	<u>36,450</u>	<u>37,533</u>	<u>(1,083)</u>
Total expenditures	<u>292,573</u>	<u>279,245</u>	<u>274,822</u>	<u>4,423</u>
Net change in fund balance	<u>\$ 29,880</u>	<u>\$ 32,623</u>	46,729	<u>\$ 14,106</u>
Fund balance at July 1, 2006			<u>183,068</u>	
Fund balance at June 30, 2007			<u>\$ 229,797</u>	

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 13, 2007

Board of Directors  
Northeast Ottawa District Library  
Coopersville, Michigan

In planning and performing our audit of the governmental activities and each major fund of the Northeast Ottawa District 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 Northeast Ottawa District 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 Northeast Ottawa District Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Northeast Ottawa District 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 deficiencies in internal control that we consider to be significant deficiencies.

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.

Recommendation 2: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Library should seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions by the Board of Directors and the assignment of a Board member to open and scan monthly bank statements.

Recommendation 3: Journal entries should be properly supported and have documented approval.

During our audit, we noted that journal entries did not have supporting documentation attached to the entry and the entry had no documented approval of the journal entry.

Although the Library does not utilize a significant number of journal entries, the attachment of supporting documentation, and the review and approval of journal entries would increase the reliability of interim financial statements since inaccurate and/or inappropriate journal entries would be identified and eliminated before being recorded in the general ledger.

Recommendation 4: Internal controls should be strengthened by use of program passwords and program restrictions.

During our testing, we noted that a single password was required in order to gain access to computer software programs. In addition, the individual responsible for the accounting was the administrative user which has full program authority. Open access to computer software could enable unauthorized use/manipulation of the computer system.

The internal controls surrounding the computer program could be improved by establishing a separate user name and password for the individual responsible for maintenance of the accounting records. In addition a separate administrative user should be established for full program authority and the programs audit trail should be utilized. This would enhance the internal controls and help ensure that software security settings are effective.