

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 Spring Lake District Library	County Ottawa
Fiscal Year End December 31, 2007	Opinion Date April 9, 2008	Date Audit Report Submitted to State April 14, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

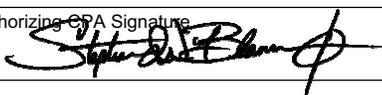
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 616.975.4100		
Street Address 2330 East Paris Ave., SE		City Grand Rapids	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

SPRING LAKE DISTRICT LIBRARY

SPRING LAKE, MICHIGAN

FINANCIAL STATEMENTS

For the Year Ended December 31, 2007

SPRING LAKE DISTRICT LIBRARY

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

April 9, 2008

To the Board of Trustees
Spring Lake District Library
Spring Lake, Michigan

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Spring Lake District Library, as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 9, 2008, on our consideration of the Spring Lake District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Spring Lake District Library (the "Library"), we offer readers of the Spring Lake District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

1. The Library continues to repay its installment purchase agreement debt and bond debt.
2. The Library funded the MERS plan to provide retiree health funding for eligible employees.
3. The Library received a PAC HUG grant from the Bill and Melinda Gates Foundation for five computers.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's financial statements. The Library's basic financial statements comprise three components:

1. government-wide statements
2. fund financial statement, and
3. notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves. The supplementary information includes this management discussion and analysis.

Government-wide Statements

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 a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library is accounted for in governmental funds including the general, debt service and capital projects funds.

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

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

The Library maintains three governmental funds. Information is presented in the governmental funds balance sheet and in the government funds statement of revenues, expenditures, and changes in fund balances for the Government. The general, debt service and capital projects funds are major funds for financial reporting purposes as defined by GASB Statement #34.

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

The basic governmental fund financial statements can be found on pages 12 through 16 of this report.

The Library does not maintain proprietary nor fiduciary funds.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the Library’s financial statements. The notes to the financial statements can be found on pages 17 through 26 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

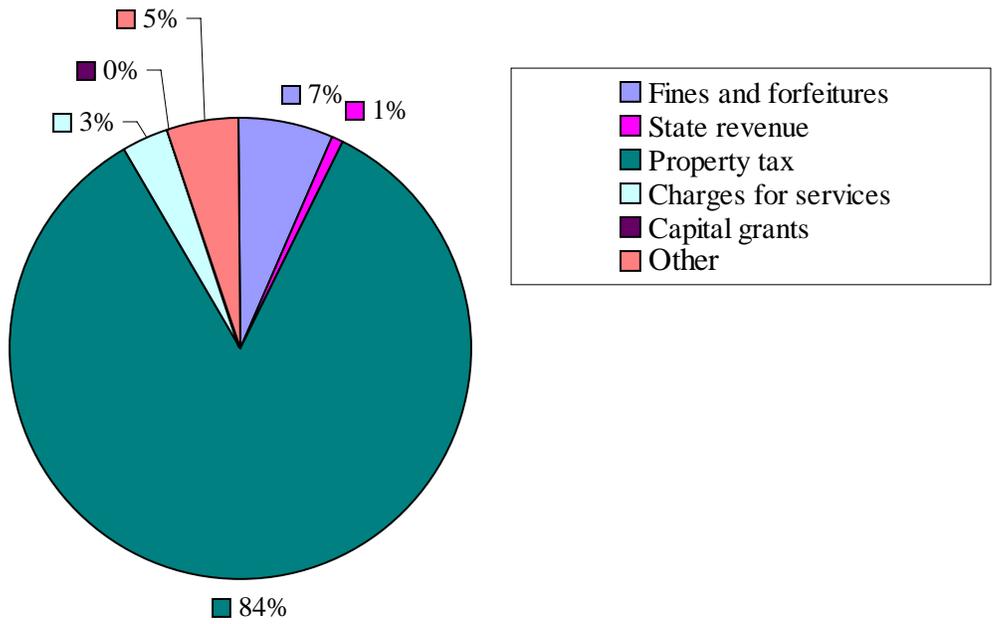
Spring Lake District Library Net Assets

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Current and other assets	\$2,570,607	\$2,691,695
Capital assets	<u>6,085,343</u>	<u>6,248,269</u>
Total assets	<u>8,655,950</u>	<u>8,939,964</u>
Long-term liabilities outstanding	3,754,334	3,936,846
Other liabilities	<u>1,756,000</u>	<u>1,630,497</u>
Total liabilities	<u>5,510,334</u>	<u>5,567,343</u>
Net assets:		
Invested in capital assets, net of related debt	2,170,355	2,133,997
Restricted	367,861	401,724
Unrestricted	<u>607,400</u>	<u>836,900</u>
Total net assets	<u>\$3,145,616</u>	<u>\$3,372,621</u>

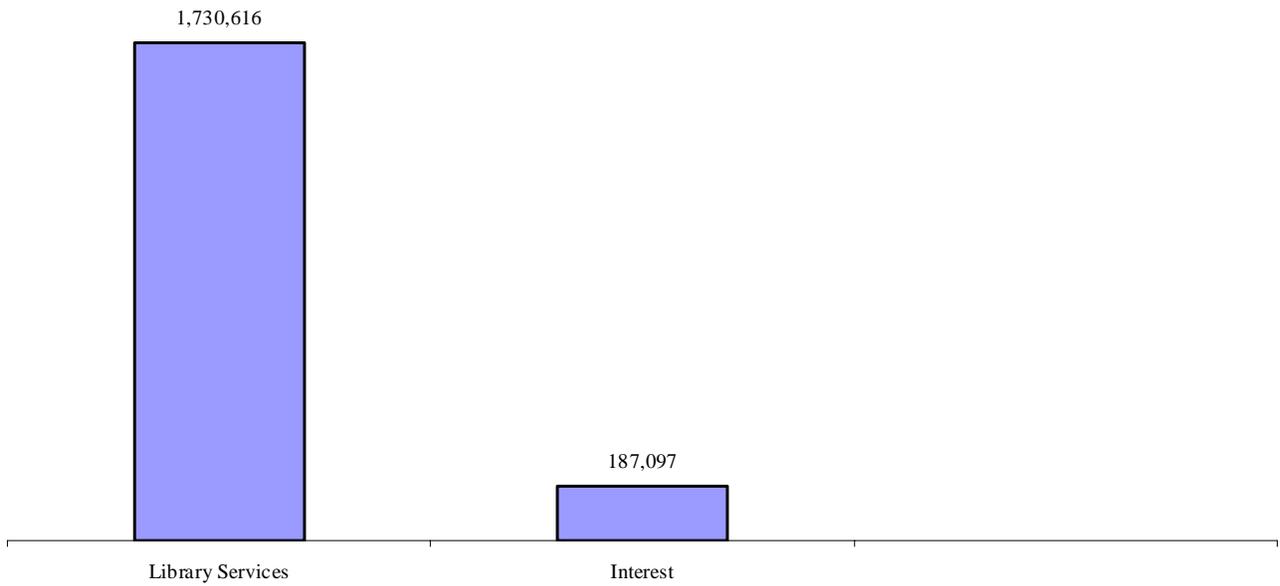
Spring Lake District Library Change in Net Assets

	Governmental Activities	
	2007	2006
Revenue		
Program revenue:		
Charges for services	\$ 55,268	\$ 47,269
Operating grants	29,435	19,833
Capital grants	10	53,032
Total program revenue	84,713	120,134
General revenue:		
Property taxes	1,424,788	1,306,040
Fines and forfeitures	112,358	100,503
State revenue	14,213	13,110
Interest income	54,636	57,780
Total general revenue	1,605,995	1,477,433
Expenses		
Library services	1,730,616	1,116,709
Interest expense	187,097	180,313
Total expenses	1,917,713	1,297,022
Increase (decrease) in net assets	(227,005)	300,545
Net assets – beginning of year	3,372,621	3,072,076
Net assets – end of year	\$3,145,616	\$3,372,621

Revenues by Source - Governmental Activities



Expenses - Governmental Activities



Financial Analysis of the Governmental Funds

As of the end of the current fiscal year the combined fund balance of \$1,060,331 reflects an decrease of \$219,058 from the previous year primarily because the Library funded the MERS retiree health plan.

Significant variances from the general fund final budget were as follows:

1. The Library expended less on employee benefits due to fewer employee hours worked and less insurance expense than anticipated.
2. The Library expended less on professional fees primarily due to less building and equipment maintenance expense than anticipated as well as less on technology services.

Capital Assets

There were no major capital asset purchased or disposed of in the current year.

Spring Lake District Library Capital Assets (net of depreciation)

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Land	\$ 599,210	\$ 599,210
Furniture and equipment	842,951	903,685
Building	<u>4,643,182</u>	<u>4,745,374</u>
Total	<u>\$6,085,343</u>	<u>\$6,248,269</u>

Additional information on the Library's capital assets can be found in Note 3 on page 22 of this report.

Long-term debt

Spring Lake District Library Outstanding Debt

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Compensated absences	\$ 53,631	\$ 21,858
Installment notes	169,988	194,272
General obligation bonds	<u>3,745,000</u>	<u>3,920,000</u>
Total	<u>\$3,968,619</u>	<u>\$4,136,130</u>

Additional information on the Library's long-term debt can be found in Note 5 on pages 23 and 24 of this report.

Economic Factors and Next Year's Budgets and Rates

The 2008 fiscal year budget considerations include state aid income anticipated to be at the same level and a slight increase in tax income based on growth in the area. The Library anticipates normal expenditures in all areas of the budget.

Requests for Information

This financial report is designed to provide a general overview of Library's finances for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Library Director, Spring Lake District Library, 123 East Exchange Street, Spring Lake, Michigan 49456.

BASIC FINANCIAL STATEMENTS

SPRING LAKE DISTRICT LIBRARY

Statement of Net Assets

December 31, 2007

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and investments	\$ 1,399,700
Accrued interest receivable	16,431
Taxes receivable	1,154,476
	<hr/>
Total current assets	2,570,607
	<hr/>
Noncurrent assets:	
Capital assets	
Land	599,210
Improvements, buildings and equipment, net	5,486,133
	<hr/>
Total noncurrent assets	6,085,343
	<hr/>
Total assets	8,655,950
	<hr/>
Liabilities	
Current liabilities:	
Accounts payable	10,870
Accrued liabilities	10,045
Interest payable	31,439
Unearned revenue	1,489,361
Bonds and notes payable within one year	214,285
	<hr/>
Total current liabilities	1,756,000
	<hr/>
Noncurrent liabilities	
Compensated absences	53,631
Bonds and notes payable in more than one year	3,700,703
	<hr/>
Total noncurrent liabilities	3,754,334
	<hr/>
Total liabilities	5,510,334
	<hr/>
Net assets	
Invested in capital assets, net of related debt	2,170,355
Restricted for:	
Debt service	1,935
Capital projects	365,926
Unrestricted	607,400
	<hr/>
Total net assets	\$ 3,145,616
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The accompanying notes are an integral part of these financial statements.

SPRING LAKE DISTRICT LIBRARY

Statement of Activities

For the Year Ended December 31, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Library services	\$1,730,616	\$ 55,268	\$ 29,435	\$ 10	\$(1,645,903)
Interest on long-term debt	187,097	-	-	-	(187,097)
Total governmental activities	\$1,917,713	\$ 55,268	\$ 29,435	\$ 10	(1,833,000)
General revenues:					
Property taxes					1,424,788
Fines and forfeitures					112,358
State revenue					14,213
Unrestricted investment earnings					54,636
Total general revenues					1,605,995
Change in net assets					(227,005)
Net assets, beginning of year					3,372,621
Net assets, end of year					\$ 3,145,616

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

SPRING LAKE DISTRICT LIBRARY

Balance Sheet - Governmental Funds

December 31, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets				
Cash and investments	\$ 1,003,106	\$ 33,374	\$ 363,220	\$ 1,399,700
Taxes receivable	887,661	266,815	-	1,154,476
Accrued interest receivable	13,725	-	2,706	16,431
Due from other funds	-	75,342	-	75,342
Total assets	<u>\$ 1,904,492</u>	<u>\$ 375,531</u>	<u>\$ 365,926</u>	<u>\$ 2,645,949</u>
Liabilities				
Accounts payable	\$ 10,870	\$ -	\$ -	\$ 10,870
Accrued liabilities	10,045	-	-	10,045
Due to other funds	75,342	-	-	75,342
Deferred revenue	1,147,204	342,157	-	1,489,361
Total liabilities	1,243,461	342,157	-	1,585,618
Fund balance				
Unreserved	<u>661,031</u>	<u>33,374</u>	<u>365,926</u>	<u>1,060,331</u>
Total liabilities and fund balance	<u>\$ 1,904,492</u>	<u>\$ 375,531</u>	<u>\$ 365,926</u>	<u>\$ 2,645,949</u>

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

SPRING LAKE DISTRICT LIBRARY

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

December 31, 2007

Fund balances - total governmental funds	\$ 1,060,331
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	6,796,562
Deduct - accumulated depreciation	(711,219)
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(53,631)
Deduct - bonds/notes payable	(3,914,988)
Deduct - accrued interest on bonds/notes payable	(31,439)
Net assets of governmental activities	<u><u>\$ 3,145,616</u></u>

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

SPRING LAKE DISTRICT LIBRARY

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended December 31, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues				
Property tax	\$ 1,093,496	\$ 331,292	\$ -	\$ 1,424,788
State revenue	14,213	-	-	14,213
Contributions	10,440	-	-	10,440
Fines and forfeitures	112,358	-	-	112,358
Other revenues	49,375	-	10	49,385
Interest income	54,636	5,585	19,303	79,524
Total revenues	<u>1,334,518</u>	<u>336,877</u>	<u>19,313</u>	<u>1,690,708</u>
Expenditures				
Current:				
Library services	1,522,299	-	-	1,522,299
Debt service:				
Principal	-	175,000	24,284	199,284
Interest and fiscal charges	-	167,518	7,047	174,565
Capital outlay	9,946	-	3,672	13,618
Total expenditures	<u>1,532,245</u>	<u>342,518</u>	<u>35,003</u>	<u>1,909,766</u>
Net change in fund balances	(197,727)	(5,641)	(15,690)	(219,058)
Fund balances, beginning of year	<u>858,758</u>	<u>39,015</u>	<u>381,616</u>	<u>1,279,389</u>
Fund balances, end of year	<u>\$ 661,031</u>	<u>\$ 33,374</u>	<u>\$ 365,926</u>	<u>\$ 1,060,331</u>

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

SPRING LAKE DISTRICT LIBRARY

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended December 31, 2007

Net change in fund balances - total governmental funds	\$ (219,058)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation	
Deduct - depreciation expense	(162,926)
Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but is reported as a decrease in long-term liabilities on the statement of net assets.	
Add - principal payments on bonds and notes payable	199,284
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.	
Deduct - increase in compensated absences payable	(31,773)
Deduct - increase in accrued interest payable on bonds	<u>(12,532)</u>
Change in net assets of governmental activities	<u><u>\$ (227,005)</u></u>

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

SPRING LAKE DISTRICT LIBRARY

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual General Fund

For the Year Ended December 31, 2007

	Budgeted Amount		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Property tax	\$ 1,070,000	\$ 1,101,870	\$ 1,093,496	\$ (8,374)
State revenue	14,043	14,213	14,213	-
Contributions	3,000	7,500	10,440	2,940
Fines and forfeitures	106,900	111,000	112,358	1,358
Other revenues	34,876	49,105	49,375	270
Interest income	50,000	50,000	54,636	4,636
Total revenues	<u>1,278,819</u>	<u>1,333,688</u>	<u>1,334,518</u>	<u>830</u>
Expenditures				
Current:				
Salaries and wages	500,000	500,000	494,938	5,062
Employee benefits	171,400	646,400	629,297	17,103
Publications	121,750	121,750	115,313	6,437
Supplies	72,800	63,500	58,970	4,530
Professional fees	170,800	150,000	137,461	12,539
Utilities	99,050	83,900	83,621	279
Miscellaneous	3,938	3,068	2,699	369
Capital outlay	15,000	11,000	9,946	1,054
Total expenditures	<u>1,154,738</u>	<u>1,579,618</u>	<u>1,532,245</u>	<u>47,373</u>
Net changes in fund balance	124,081	(245,930)	(197,727)	48,203
Fund balances, beginning of year	858,758	858,758	858,758	-
Fund balances, end of year	<u>\$ 982,839</u>	<u>\$ 612,828</u>	<u>\$ 661,031</u>	<u>\$ 48,203</u>

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

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Spring Lake District Library (the “Library”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Spring Lake District Library was established as the Warner Baird District Library on May 2, 1994 pursuant to Act No. 24 of the Public Acts of 1989 by participating municipalities of Spring Lake Township and the Village of Spring Lake. During 2003, the Library’s name was changed to the Spring Lake District Library. The Library provides library services to the public.

The Reporting Entity

The Library is governed by a Board, appointed in accordance with the Library bylaws. The Board has governance responsibilities over all activities related to the Spring Lake District Library. The Board receives funding from local and state government sources and must comply with concomitant requirements of these funding entities. However, the Board is not included in any other governmental “reporting entity” as defined by the Government Accounting Standards Board since the Board members, who are appointed, have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by charges for services and tax revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activities) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

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 government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State revenue, fees 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 government.

The government reports the following major governmental funds:

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

The *debt service fund* is utilized to account for the accumulation and disbursement of funds to provide for the debt service on Library construction debts.

The *capital projects fund* is utilized to account for the accumulation and disbursement of funds for the construction and equipping of the new Library facility.

Budgetary Data

The annual budget is prepared by the Library's management and adopted by the Library Board; subsequent amendments are approved by the Library Board. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenue, expenditures and changes in fund balances – budget and actual – general fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Board is included in the financial statements.

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

- a. In September of each year, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. At the September board meeting, the budget is legally enacted through passage of a resolution.
- d. The District Library Director is authorized to transfer budgeted amounts within any activities.
- e. Appropriations for the general fund lapse at the end of the fiscal year.

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Property Taxes Receivable

Property taxes are levied and attach as an enforceable lien of property on December 1. Property taxes are payable through February 14. The property taxes are billed and collected by Spring Lake Township, which then remits the District Library's designated portion on a semi-monthly basis. During March of each year, uncollected real property taxes are transferred to Ottawa County which pays the Library for those balances and accepts responsibility for collection. Responsibility for the collection of unpaid personal property taxes remains with the Spring Lake Township.

Although the Library's 2007 ad valorem tax is levied and collectible on December 1, 2007, it is the Library's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the Library's operations.

Compensated Absences

District Library employees earn vacation and sick leave in varying amounts based on length of service. Unused vacation pay and 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 District Library's policy to recognize the cost of sick leave at the time payments are made. Vacation leave 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 fund balance sheet as the balance has not yet matured from resignations or retirements.

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. Actual results could differ from those estimates.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted resources are utilized first when allowable costs are incurred where both restricted and unrestricted net assets are available.

Cash and Cash Equivalents

The District Library considers all cash, demand deposits and short-term investments with an original maturity of three months or less to be cash and cash equivalents.

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net assets). Capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date donated.

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of revenues, expenditures and changes in fund balances) and are subsequently capitalized on the government-wide statements.

Depreciation is recorded over the estimated useful lives of the assets, using the straight-line method for all capital assets, as follows:

	<u>Years</u>
Furniture, fixtures and equipment	5-20
Building	50

Deferred Compensation Plan

The Library offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Library employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Library's financial statements.

2. CASH DEPOSITS AND INVESTMENTS

Deposits

The caption on the financial statements of cash and investments consists of the following:

	<u>Governmental Activities</u>
Checking/savings accounts	\$ 438,648
Certificates of deposit (due within one year)	<u>961,052</u>
Total cash deposits and investments	<u>\$ 1,399,700</u>

These deposits are in three (3) financial institutions located in Michigan. State policy limits the Library's investing options to financial institutions located in Michigan. All accounts are in the name of the Library and a specific fund or common account. They are recorded in the Library's records at fair value.

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Deposit Risk

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

Credit risk. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The Library has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year-end, \$1,022,878 of the Library's bank balance of \$1,408,044 was exposed to credit risk because it was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Statutory Authority

State statutes authorize the Library to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2007	Additions	Disposals	Balance December 31, 2007
Capital assets not being depreciated				
Land	\$ 599,210	\$ -	\$ -	\$ 599,210
Capital assets being depreciated				
Building	5,098,149	-	-	5,098,149
Furniture and equipment	1,099,203	-	-	1,099,203
Total capital assets being depreciated	6,197,352	-	-	6,197,352
Less accumulated depreciation				
Building	352,775	102,192	-	454,967
Furniture and equipment	195,518	60,734	-	256,252
Total accumulated depreciation	548,293	162,926	-	711,219
Total capital assets being depreciated, net	5,649,059	(162,926)	-	5,486,133
Net capital assets	\$ 6,248,269	\$ (162,926)	\$ -	\$ 6,085,343

4. INTERFUND RECEIVABLES AND PAYABLES

	Due from Other Funds	Due to Other Funds
General Fund	\$ -	\$ 75,342
Debt Service Fund	75,342	-
	\$ 75,342	\$ 75,342

Interfund balances primarily reflect property taxes received into the General Fund before year-end and remitted to the Debt Service Fund shortly after year-end.

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT

Long-term debt of the Library consists of the following:

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2007</u>	<u>Due Within One Year</u>
2001 general obligation bonds at 3-4.5% interest with principal payments ranging from \$50,000 to \$365,000 through 2021	\$ 3,920,000	\$ -	\$ 175,000	\$ 3,745,000	\$ 190,000
Installment purchase re-financing (Whiting) at 3.625% interest with principal payments of \$10,378 to \$10,379 through 2014	83,029	-	10,379	72,650	10,379
Installment purchase re-financing (Sluis) at 3.625% interest with principal payments of \$6,862 to \$6,863 through 2014	54,903	-	6,863	48,040	6,863
Installment purchase re-financing (Evans) at 3.625% interest with principal payments of \$7,043 through 2014	<u>56,340</u>	<u>-</u>	<u>7,042</u>	<u>49,298</u>	<u>7,043</u>
Installment debt total	4,114,272	-	199,284	3,914,988	214,285
Compensated absences	<u>21,858</u>	<u>51,705</u>	<u>19,932</u>	<u>53,631</u>	<u>28,816</u>
Totals	<u>\$ 4,136,130</u>	<u>\$ 51,705</u>	<u>\$ 219,216</u>	<u>\$ 3,968,619</u>	<u>\$ 243,101</u>

General obligation bonds are paid from the debt service fund millage while installment purchases are paid from contributions recorded in the capital projects fund. Compensated absences are liquidated by the general fund.

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

The annual requirements to pay principal and interest on long-term debt outstanding at year-end are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 214,285	\$ 166,111
2008	224,283	156,944
2009	234,285	147,350
2010	244,283	137,332
2011	254,285	126,890
2012-2016	1,388,567	461,393
2017-2021	1,355,000	125,661
	<u>\$ 3,914,988</u>	<u>\$ 1,321,681</u>

6. RETIREMENT PLAN

Plan description

The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer, defined benefit pension plan. The System is administered by the MERS retirement board. MERS provides retirement and disability benefits, as well as death benefits to plan members and beneficiaries.

Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding policy

The Library is required to contribute at an actuarially determined rate; the current rate for the Library is 10.44% of annual covered payroll. Participating employees are required to contribute 3.0% of their annual salary. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library Board of Trustees.

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2007, the annual pension cost of \$426,214 was equal to the required and actual contributions of the Library. The required contributions were determined as part of the December 31, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year after retirement for certain retirees depending on the benefit option selected. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized over a period of 30 years as a level percentage of projected payroll on an open basis. The latest actuarial valuation was performed as of December 31, 2006.

Three-Year Trend Information (since inception)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 25,327	100%	\$ -
2007	426,214	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
02/01/2006	\$ 660,220	\$ 659,495	\$ (725)	100%	\$ 233,644	- %
12/31/2006	745,786	744,419	(1,367)	100	261,717	-

7. OTHER POST EMPLOYMENT BENEFITS

In addition to pension benefits, the Library extends medical insurance coverage to certain retirees. The employer-paid benefit is provided upon the employee attaining 60 years of age, with 20 years of service to the Library. Upon that attainment, the employee and eligible dependents, as applicable, are provided with medical insurance equivalent to that provided as of June 30, 2006. The benefits are financed with contributions by funds to MERS, based on retirees' claims and a provision for estimated claims incurred but not yet reported to the Library. At present, there are no retirees receiving benefits, and this benefit has since been closed to future eligible employees. The amount contributed to MERS in 2007 was \$475,000.

8. 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 claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage during the past year.

SPRING LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

9. COMMUNITY FOUNDATION

The Grand Haven Area Community Foundation maintains two separate funds (Endowment and Restricted funds) which have not been included on the financial statements. Resources of the restricted fund can be obtained and expended by the Library under provisions of the individual fund agreement and upon approval by the Foundation. Earnings on the endowment after specific annual additions to the endowment corpus can also be obtained and expended by the Library upon request by the Library Board and approval by the Foundation. At December 31, 2007, balances of the endowment and restricted funds held by the Grand Haven Area Community Foundation were \$718,667 and \$135,960, respectively.

* * * * *

**INTERNAL CONTROL
AND
COMPLIANCE**



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

April 9, 2008

To the Board of Trustees
Spring Lake District Library
Spring Lake, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Spring Lake District Library, as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements and have issued our report thereon dated April 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spring Lake District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Spring Lake District Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Spring Lake District Library's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP

- Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government’s management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
- Condition:** As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government’s ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government’s *internal* controls.
- Cause:** This condition was caused by the government’s decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
- Effect:** As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
- View of Responsible Officials:** The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spring Lake District Library’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Spring Lake District Library's responses to the findings identified in our audit are described above. We did not audit Spring Lake District Library's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the board members, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent 'L' and 'J'.



April 9, 2008

To the Board of Trustees
Spring Lake District Library
Spring Lake, Michigan

We have audited the financial statements of the governmental activities and each major fund of *Spring Lake District Library* (the "Library") for the year ended December 31, 2007, and have issued our report thereon dated April 9, 2008. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated February 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Library's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meeting about planning matters on February 18, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 9, 2008.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

This information is intended solely for the use of the governing body and management of the *Spring Lake District Library* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson".