

# 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 Houghton Lake Public Library	County Roscommon
Fiscal Year End 6/30/07	Opinion Date 10/16/07	Date Audit Report Submitted to State 12/20/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

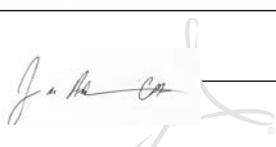
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) James M. Anderson, P.C.		Telephone Number (989) 563-2450		
Street Address P.O. Box 255		City Roscommon	State MI	Zip 48653
Authorizing CPA Sig 	Printed Name James M. Anderson, CPA		License Number 1101017419	

**HOUGHTON LAKE PUBLIC LIBRARY**  
**HOUGHTON LAKE, MICHIGAN**  
**BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**HOUGHTON LAKE PUBLIC LIBRARY**

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## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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### INDEPENDENT AUDITOR'S REPORT

October 16, 2007

Board of Directors  
Houghton Lake Public Library  
4431 W. Houghton Lake Drive  
Houghton Lake, MI 48629

I have audited the accompanying financial statements of the governmental activities and major fund of the Houghton Lake Public Library as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Houghton Lake Public Library's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of Houghton Lake Public 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 3 through 5 and page 22 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. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

MEMBER MACPA and AICPA

Board of Directors  
Houghton Lake Public Library  
October 16, 2007  
Page 2

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houghton Lake Public Library's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Houghton Lake Public Library and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

A handwritten signature in cursive script, appearing to read "J M Anderson".

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

HOUGHTON LAKE PUBLIC LIBRARY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2007

This discussion and analysis required by GASB Statement No.34 provides an overview of the Houghton Lake Public Library's financial performance for the fiscal year, July 2006 - June 2007, and should be read in conjunction with the Library's financial statements.

General Fund Budgetary Highlights

The Library Board of Trustees and Director established a budget based on past budget experiences and current economic and financial conditions. The three main sources of library revenue were property tax, penal fines and state aid.

Financial statements reflect the Houghton Lake Public Library Board of Trustees' commitment to "increase the convenience and efficiency of assessing library services, programming and resources" as outlined in the Library's Strategic Plan 2005-07. The library implemented Millenium, a new integrated library system (ILS) software in May of 2006, to greatly expand and improve the library's automated catalog, establish a Web presence, and to allow patrons to look at their own library records, renew their own books, and place their own holds on materials. The final payment of \$13,999 for the ILS was paid in July 2006. The first annual maintenance fee on the ILS (\$9,480.00) was paid in January of 2007. The final cost for CatExpress, the online cataloging tool, was \$7,069.00. This cost for next year will decrease significantly now that most of the library collection has been cataloged into the ILS and only new titles will be added.

Millenium was chosen to provide a more intuitive system, an efficient workflow, and streamlined processes involved in participating in MeLCat, the statewide resource sharing initiative. The Library Board and staff were committed to joining MeLCat to greatly expand access to materials and to improve the interlibrary loan system. Wait time on borrowed materials has been reduced from 3-7 weeks to less than two weeks for most items. MeLCat had no fees. Participation costs were only those involved in meeting MeLCat standards and processes and staff time for training or attendance at meetings. The library went live in MeLCat on January 16, 2007.

In April 2007, the library increased MeL Delivery, an interlibrary delivery system that delivers to libraries all over the state, from 2 days per week (yearly fee of \$900.00) to 3 days per week for the balance of 2006-07 for an additional \$121.15. This will ensure quicker delivery of borrowed materials. The library will continue 3 days per week delivery next year, too.

Electronic resources have had a significant impact on the library's collection and budget. Many traditional print resources were replaced with quality, cost-effective online resources, which include the advantage of the constant updating of information, access from within the library, and 24x7 remote access from home, work, school, and college. State and federal funding provided free public access to MeL Databases so the library incurred no costs for these valuable resources. The library purchased three online subscriptions to World Book Reference Center, Tumblebooks, and the EBSCO Reference Center at a total cost of \$2,400.00.

HOUGHTON LAKE PUBLIC LIBRARY  
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)  
JUNE 30, 2007

The Government Operating Account (GOF) was moved to a high yield savings account in November 2006 to maximize earned interest.

Internet access was greatly expanded at the library in March of 2007 with the installation of a firewall that provides network security, content filtering and wireless access at a cost of \$2,589.00 (included the set-up and installation fees, equipment, and a three year content filtering subscription). 50% of this cost (\$1302.02) was provided by a grant from Chase Bank. Now library patrons can use their own wireless-enabled laptop computer to access the Internet in the library.

The library avoided expenditures for five new public access computers by taking advantage of the Public Access Computer Hardware Upgrade Grant (HUG) Program from the Bill & Melinda Gates Foundation. HUG provided the library with \$5,300.00 for computers.

Increased costs in employee benefits resulted mainly from the increases in salary and hourly rates and pension costs, which are based on payroll.

The budget was amended once on June 20<sup>th</sup> to increase the line item for Miscellaneous to \$3,500.00 to accommodate an unexpected expenditure of \$2,542.00 to the Houghton Lake Public Library Excellence Fund in Roscommon County Community Foundation. The fund was created last year with \$2,545.00 from donations and book sale proceeds. The library received an award of \$2,542.00 from the Ernie and Tram Go to Bat for Libraries Grant, which according to the grant guidelines was to help libraries create or add existing endowment funds. The balance of the Excellence Fund for 2006-07 was \$6,276.39. The purpose of this fund is to eventually use the accrued earnings to enhance library services and programming not generally supported through the operating budget or possible grant opportunities.

The library ended the year with a net gain of \$165,472. Adding the net revenue to the beginning fund balance, created an ending fund balance of \$685,576 for FY 2006-07.

Capital Assets and Debt Administration

The library has no long-term debt or long-term liabilities. The library facility is leased from the Houghton Lake Community School District for \$1 per year and has a hundred year lease agreement through March 2097. The library does not engage in any business type activities only in the "governmental activities" of a district library entity.

HOUGHTON LAKE PUBLIC LIBRARY  
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)  
JUNE 30, 2007

Economic Factors and Next Year's Budget

Established in 1964 as part of the school system, the library moved into a new facility built with Federal funds in 1969. The library separated from the school to establish a district library in order to seek a millage, which would provide a stable source of funding for library operations. The district-wide tax on property was approved in 1996 at 1 mill into perpetuity. The Board of Trustees assessed only .5 of that 1 mil and then increased the assessed amount in July of 2000 to .6 of a mil. The Board maintained the current assessed millage at .6 for next fiscal year, 2007-08. Penal fine amounts are estimated and based on the total amounts received in past years.

The Board tabled the idea of creating a teen space at the library either by renovating current space or adding additional space due to the installation and implementation of the new ILS and joining MeLCat. The Board wanted to monitor costs and needs for a year before making any decision.

Contacting the Library's Management

This financial report is intended to provide the general public with an overview of the Library's finances and accountability for the money received. For any questions about this report or for additional information, please contact:

**Donna J. Alward, Director**  
**Houghton Lake Public Library**  
**4431 W. Houghton Lake Dr.**  
**Houghton Lake, MI 48629**  
**Phone: (989)366-9230**  
**Fax: (989)366-0063**  
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HOUGHTON LAKE PUBLIC LIBRARY  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

ASSETS

Cash and equivalents	\$ 691,670
Due from state	6,182
Prepaid Insurance	4,745
Capital Assets - Net	<u>809,759</u>
Total Assets	<u>1,512,356</u>

LIABILITIES

Liabilities	
Accrued payroll	9,369
Accounts payable	<u>7,652</u>
Total Liabilities	<u>17,021</u>

NET ASSETS

Investment in Capital Assets	809,759
Restricted for Capital outlay	25,000
Unrestricted	<u>660,576</u>
Total Net Assets	<u>\$ 1,495,335</u>

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

HOUGHTON LAKE PUBLIC LIBRARY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

Program Expenses	
Salaries and wages	\$ 225,230
Benefits	107,686
Professional services	14,755
Insurance and bonds	9,114
Office supplies	36,046
Books and periodicals	43,584
Mid-Michigan Library League	6,228
Dues and subscriptions	2,248
Utilities	26,025
Repairs and maintenance	19,536
Travel and seminars	4,335
Contracted services	7,514
Advertising	249
Richfield Township Library	10,877
Depreciation Expense	39,303
Miscellaneous	<u>3,855</u>
Total Program Expenses	<u>556,585</u>
Program Revenues	
Charges for Services	<u>2,121</u>
Total Program Revenues	<u>2,121</u>
Net Program Revenues	<u>(554,464)</u>
General Revenues	
Property taxes	436,632
State aid	12,414
Penal fines	181,562
Investment earnings	36,503
Public donations	2,392
Miscellaneous	<u>14,242</u>
Total General Revenues	<u>683,745</u>
Change in Net Assets	129,281
Net Assets	
Beginning of year	<u>1,366,054</u>
End of year	<u>\$ 1,495,335</u>

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

HOUGHTON LAKE PUBLIC LIBRARY  
BALANCE SHEET  
JUNE 30, 2007

ASSETS

Cash demand and investments	\$ 691,670
Due from State	6,182
Prepaid Insurance	<u>4,745</u>
Total Assets	<u>\$ 702,597</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accrued payroll	\$ 9,369
Accounts payable	<u>7,652</u>
Total Liabilities	<u>17,021</u>
Fund Equity	
Fund balance - Reserved	25,000
Fund balance - Undesignated	<u>660,576</u>
Total Fund Equity	<u>685,576</u>
Total Liabilities and Fund Equity	<u>\$ 702,597</u>

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

HOUGHTON LAKE PUBLIC LIBRARY  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2007

Total governmental fund balance	\$ 685,576
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets (net) used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>809,759</u>
Net assets of governmental activities	<u>\$ 1,495,335</u>

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

HOUGHTON LAKE PUBLIC LIBRARY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
JUNE 30, 2007

REVENUES

Property taxes	\$ 436,632
State aid	12,414
Penal fines	181,562
Interest	36,503
Other	<u>18,755</u>
Total Revenues	<u>685,866</u>

EXPENDITURES

Salaries and wages	225,230
Benefits	107,686
Professional services	14,755
Insurance and bonds	9,114
Office supplies	36,046
Books and periodicals	43,584
Mid-Michigan Library League	6,228
Dues and subscriptions	2,248
Utilities	26,025
Repairs and maintenance	19,536
Travel and seminars	4,335
Contracted services	7,514
Advertising	249
Richfield Township	10,877
Capital outlay	3,112
Miscellaneous	<u>3,855</u>
Total Expenditures	<u>520,394</u>

EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	165,472
FUND BALANCE, beginning of year	<u>520,104</u>
FUND BALANCE, end of year	<u>\$ 685,576</u>

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

HOUGHTON LAKE PUBLIC LIBRARY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2007

Net Change in fund balance - total governmental funds \$ 165,472

Amounts reported for governmental activities  
 in the statement 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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the expense in the statement of activities.

Add - capital outlay	3,112
Deduct - depreciation expense	<u>(39,303)</u>
Change in net assets of governmental activities.	<u>\$ 129,281</u>

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

HOUGHTON LAKE PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE A - ENTITY

The public library was organized in 1964, and construction for a new building, financed with federal funds, began in 1969. The library receives 6/10 of 1 mil property taxes in perpetuity for operations which was approved by the electorate of the Houghton Lake Community School District. In addition, the Library receives penal fines collected through the Counties of Roscommon and Missaukee for public library operations. Until April 1, 1996 the public library was operated by Houghton Lake Community Schools (District) as a community service. As of April 1, 1996, a separate entity was formed to operate the public library as a district library. All operating assets, with the exception of the library building, which is being leased for \$1 annually from the District, were transferred to the new entity which also assumed all liabilities as of April 1, 1996. The School District is no longer fiscally responsible for the library. These statements reflect results of operations for the twelve month period ended June 30, 2007.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Houghton Lake Public Library conform to generally accepted accounting principles as applicable to governmental. The following is a summary of the significant policies:

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

*Management's Discussion and Analysis* - GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the Library's financial activities in the form of management's discussion and analysis (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

*Government-Wide Financial Statements* - The reporting model includes financial statements prepared using full accrual accounting for all the Library's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Government-wide financial statements include the following:

*Statement of Net Assets* - The statement of net assets is designed to display the financial position of the Primary Government (governmental and business-type activities) and the total of its discretely presented component parts. The Library reports capital assets in the government-wide statement of net assets and reports depreciation expense - the cost of "using up" capital assets - in the statement of activities. The net assets of the Library are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

HOUGHTON LAKE PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

*Statement of Activities* - The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the Library's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, the Library has recorded capital assets and certain other long-term assets and liabilities in the statement of net assets and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

DEFINING THE REPORTING ENTITY

In evaluating how to define the Library, for financial reporting purposes, management has considered all potential component units. The decision to include potential component units in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*. Based upon the application of these criteria, the general purpose financial statements of the Houghton Lake Public Library contain all the funds and account groups controlled by the Library's Board as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the Library nor is the Library a component unit of another entity.

BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information on the Houghton Lake Public Library as a whole. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Library's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

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. Taxes and other items not properly included among program revenues are reported instead as general revenue.

HOUGHTON LAKE PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING – GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Miscellaneous amounts reported as program revenue include: charges to customers for copies or services. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes property taxes, state shared revenues, penal fines and book fines, along with public donations and interest income.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING – FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

HOUGHTON LAKE PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 date of acquisition.

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

PROPERTY TAXES

Property taxes levied by the Library are collected by various municipalities and periodically remitted to the Library. The taxes are levied as of July 1 for all Roscommon County townships, and December 1 for the townships in Missaukee County, and are due upon receipt of the billing by the taxpayer. The actual due date is September 14 for all Roscommon County townships and two townships in Missaukee County, and February 14 for the three remaining townships in Missaukee County, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. Property tax revenues are recognized when levied. For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation for Library operations:

	<u>Mils</u>
Public Library	.6

HOUGHTON LAKE PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

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

BUDGETS AND BUDGETARY ACCOUNTING

- 1) Prior to June 1, the Board proposed an operating budget for the fiscal year commencing the following July 1.
- 2) Prior to July 1, the budget was adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates.

Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statements of revenues, expenditures, and changes in fund balances - budget and actual.

- 3) Any revisions that alter the total expenditures of any function must be approved by the Board.

CAPITAL ASSETS AND DEPRECIATION

The Library's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Library generally capitalizes assets with historical cost of \$1,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

HOUGHTON LAKE PUBLIC LIBRARY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

Estimated useful lives, in years, for depreciable assets are as follows:

Computers and peripherals	1-3 years
Office furniture	5-20 years
Buildings and improvements	25-40 years
Land improvements	10-20 years
Machinery and equipment	5-10 years

Land and construction in progress are not depreciated.

NOTE C - CASH AND INVESTMENTS

At June 30, 2007 the book value of the Library's deposits, consisting primarily of interest bearing savings and checking accounts, was \$691,670 and the bank balances was \$713,067. Of the bank balances, 21% was covered by Federal Depository Insurance.

Checking and Savings	<u>\$ 691,670</u>
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The Government Accounting Standards Board Statement No. 3 risk disclosures for the Library's cash deposits are as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 131,414	\$ 152,811
Uninsured and Uncollateralized	560,256	560,256
Total Deposits	\$ 691,670	\$ 713,067

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Library's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

HOUGHTON LAKE PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE C - CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

The Library has not adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The Library has not adopted a policy that indicates how the Library will minimize concentration of credit risk, which 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.

NOTE D - EMPLOYEE RETIREMENT SYSTEM

The Library employees were considered employees of the Houghton Lake Community Schools (District) through June 30, 1996. As a result, these employees were covered under the School District's retirement system. Beginning February 1, 1998, all other employees are covered under the Library's Municipal Employee Retirement System of Michigan (MERS).

Under the School District's retirement plan, substantially all of the Library employees were eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990, were automatically included in MIP. Currently, there is only one employee participating in this plan.

Under the Library's MERS retirement plan, employees hired after July of 1996 are eligible to participate in the Michigan Municipal Employees Retirement System, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipalities in the State of Michigan. The Library's payroll for the 5 members covered by the system for the year ended June 30, 2007 was approximately \$167,648.

HOUGHTON LAKE PUBLIC LIBRARY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2007

NOTE D - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

All full time Library employees are eligible to participate in the MERS system. Benefits vest after six years of service. Library employees who retire at or after age 60 with 10 years credited service or 50 with 25 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of the member's 5-year final average compensation.

The Library is required to contribute amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by statute.

GASB 25 INFORMATION (as of 12/31/06)

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$	-0-
Terminated employees not yet receiving benefits		-0-
Current Employees; Accumulated employee contributions including Allocated investment income		-0-
Employer financed		<u>242,686</u>
Total actuarial accrued liability		242,686
Net assets available for benefits, at actuarial value (Market value is \$272,026)		<u>268,273</u>
Unfunded (over funded) actuarial accrued liability	\$	<u>(25,587)</u>

GASB 27 INFORMATION (as of 12/31/06)

Fiscal year beginning	July 1, 2008
Annual required contribution (ARC)	\$17,724
Amortization factor used - Underfunded Liabilities (30 years)	.054719
Amortization factor used - Overfunded Liabilities (10 years)	.119963

HOUGHTON LAKE PUBLIC LIBRARY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2007

NOTE D - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2006 were determined using the entry age normal actuarial funding method. The following table provides a schedule of contribution amounts and percentages from the start of the plan.

<u>Annual Pension Cost</u> Year Ended December 31	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 17,836	133%	-0-
2005	19,749	114%	-0-
2006	17,724	118%	-0-

The Library contributed \$23,596 for the year ended June 30, 2007.

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date</u> December 31	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % Of Covered Payroll</u>
2004	\$190,923	\$170,838	\$(20,085)	112%	\$172,833	0%
2005	227,557	204,223	(23,334)	111%	179,212	0%
2006	268,273	242,686	(25,587)	111%	167,648	0%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

NOTE E - RISK MANAGEMENT

Through June 30, 2007, the Library was insured for risk of loss, employee health and accident coverage. Under most circumstances, the Library's maximum coverage is limited as follows:

<u>Type</u>	<u>Limit</u>	<u>Deductible</u>
Property Liability	\$ 3,081,750	\$ 250
Errors and Omission	1,000,000	-0-
Crime	1,000,000	-0-
Workmen's Compensation	10,000	-0-
Inland Marine	STATUTORY	-0-
EDP	5,000	100
	186,500	100

HOUGHTON LAKE PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE F - INEXHAUSTIBLE COLLECTIONS AND BOOKS

Because the values of the existing inexhaustible collections, including research books, are not readily determinable, the Library has not capitalized them. Books used in the circulating library have not been capitalized because their estimated useful lives are less than one year.

NOTE G - RESTRICTED NET ASSETS:

On January 15, 2003 the Board established a capital replacement reserved fund balance in the amount of \$25,000. This reserve was created to fund major unforeseen expenditures. The balance of this reserve on June 30, 2007 was \$25,000.

NOTE H - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 7/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/07</u>
Capital Assets Being Depreciated:				
Buildings Improvements	\$ 838,333	\$ -0-	\$ -0-	\$ 838,333
Office Equipment	76,627	-0-	-0-	76,627
Technology Equipment	<u>135,763</u>	<u>3,112</u>	<u>-0-</u>	<u>138,875</u>
Total	<u>1,050,723</u>	<u>3,112</u>	<u>-0-</u>	<u>1,053,835</u>
Less Accumulated Depreciation:				
Buildings Improvements	106,782	21,470	-0-	128,252
Office Equipment	36,978	7,663	-0-	44,641
Technology Equipment	<u>61,013</u>	<u>10,170</u>	<u>-0-</u>	<u>71,183</u>
Total	<u>204,773</u>	<u>39,303</u>	<u>-0-</u>	<u>244,076</u>
Total Net Capital Assets	<u>\$ 845,950</u>	<u>\$ (36,191)</u>	<u>\$ -0-</u>	<u>\$ 809,759</u>

**REQUIRED SUPPLEMENTAL INFORMATION**

HOUGHTON LAKE PUBLIC LIBRARY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ 410,000	\$ 410,000	\$ 436,632	\$ 26,632
State aid	11,000	11,000	12,414	1,414
Penal fines	175,000	175,000	181,562	6,562
Interest	25,000	25,000	36,503	11,503
Other	<u>17,000</u>	<u>17,000</u>	<u>18,755</u>	<u>1,755</u>
Total Revenues	<u>638,000</u>	<u>638,000</u>	<u>685,866</u>	<u>47,866</u>
<b>EXPENDITURES</b>				
Salaries and wages	245,000	245,000	225,230	19,770
Benefits	139,000	139,000	107,686	31,314
Professional services	10,000	14,700	14,755	(55)
Insurance and bonds	11,500	11,500	9,114	2,386
Office supplies	54,500	54,500	36,046	18,454
Books and periodicals	78,500	78,500	43,584	34,916
Mid-Michigan Library League	9,000	9,000	6,228	2,772
Dues and subscriptions	1,600	2,300	2,248	52
Utilities	33,910	33,910	26,025	7,885
Repairs and maintenance	20,000	20,000	19,536	464
Travel and seminars	7,000	7,000	4,335	2,665
Contracted services	21,000	21,000	7,514	13,486
Advertising	500	500	249	251
Richfield Township Library	12,000	12,000	10,877	1,123
Capital outlay	35,000	35,000	3,112	31,888
Miscellaneous	<u>500</u>	<u>4,000</u>	<u>3,855</u>	<u>145</u>
Total Expenditures	<u>679,010</u>	<u>687,910</u>	<u>520,394</u>	<u>167,516</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(41,010)	(49,910)	165,472	215,382
FUND BALANCE, beginning of year	<u>520,104</u>	<u>520,104</u>	<u>520,104</u>	<u>-0-</u>
FUND BALANCE, end of year	<u>\$ 479,094</u>	<u>\$ 470,194</u>	<u>\$ 685,576</u>	<u>\$ 215,382</u>



## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

October 16, 2007

Board of Directors  
Houghton Lake Public Library  
4431 W. Houghton Lake Drive  
Houghton Lake, MI 48629

I have audited the financial statements of the major fund of the Houghton Lake Public Library for the year ended June 30, 2007, and have issued my report thereon dated October 16, 2007. Professional standards require that I provide you with the following information related to my audit.

### My Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in my engagement letter dated October 14, 2007, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Houghton Lake Public Library. Such considerations were solely for the purpose of determining my 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, I performed tests of Houghton Lake Public Library's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Houghton Lake Public Library are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the Houghton Lake Public Library during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

MEMBER MACPA and AICPA

#### Accounting Estimates

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.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Houghton Lake Library's financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Houghton Lake Public Library, either individually or in the aggregate, indicate matters that could have a significant effect on the Library's financial reporting process.

#### Disagreements with Management

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

#### 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 applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Houghton Lake Public Library's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Board of Directors  
Houghton Lake Public Library  
October 16, 2007  
Page 3

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of management, Library Board of Directors and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

James M. Anderson, P.C.  
Certified Public Accountant