

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 type="checkbox"/> Other | | Local Unit Name | County |
| Fiscal Year End | Opinion Date | Date Audit Report Submitted to State | |

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 type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) | | Telephone Number | | |
| Street Address | | City | State | Zip |
| Authorizing CPA Signature  | Printed Name | | License Number | |

Shiawassee District Library

**Financial Report
with Supplemental Information
November 30, 2007**

Shiawassee District Library

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Independent Auditor's Report

To the Shiawassee District Library Board

We have audited the accompanying financial statements of the governmental activities and each major fund of Shiawassee District Library as of and for the year ended November 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 Shiawassee District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the governmental activities and each major fund of Shiawassee District Library at November 30, 2007 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Plante & Moran, PLLC

March 11, 2008

Shiawassee District Library

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include information that presents two different views of Shiawassee District Library (the "Library").

- The first two columns of the financial statements includes information on the Library's General Fund and Special Revenue Fund under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the Library as a whole financial statements under the full accrual method of accounting.
- The Library as a whole financial statement column provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

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

Shiawassee District Library

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table below shows key financial information in a condensed format:

| | 2007 | 2006 |
|--|----------------------------|----------------------------|
| Assets | | |
| Current assets | \$ 1,771,951 | \$ 747,232 |
| Capital assets | <u>382,562</u> | <u>355,495</u> |
| Total assets | 2,154,513 | 1,102,727 |
| Liabilities | | |
| Long-term liabilities | 33,011 | 31,490 |
| Other liabilities | <u>63,912</u> | <u>29,316</u> |
| Total liabilities | <u>96,923</u> | <u>60,806</u> |
| Net Assets | | |
| Invested in capital assets - Net of debt | 382,562 | 355,495 |
| Restricted for donor restricted purpose | 893,295 | - |
| Unrestricted | <u>781,733</u> | <u>686,426</u> |
| Total net assets | <u>\$ 2,057,590</u> | <u>\$ 1,041,921</u> |
| Revenue | | |
| Property taxes | \$ 702,241 | \$ 666,364 |
| Donations | 864,770 | 2,693 |
| Other | <u>240,224</u> | <u>200,107</u> |
| Total revenue | 1,807,235 | 869,164 |
| Expenses - Library services | <u>791,566</u> | <u>779,752</u> |
| Change in Net Assets | <u>\$ 1,015,669</u> | <u>\$ 89,412</u> |

Shiawassee District Library

Management's Discussion and Analysis (Continued)

The Library as a Whole

- The Library is reporting financial statements that meet the requirements of GASB 34. These statements include an analysis of government-wide data for 2007.
- The Library's net assets were \$2,057,590 on a full-accrual basis. This represents an increase of \$1,015,669 compared to the prior year.
- The Library's primary source of revenue is from property taxes. For 2007, total tax collections were \$702,241, which represents 39 percent of total revenue. Property taxes represented 77 percent of total revenue last year. This change is due to the Library's receipt of \$860,876 in donations from the Helen Thome Trust.
- Salaries and fringe benefits continue to be a significant expense of the Library, representing 61 percent of the Library's total expenses.
- Library materials, at \$116,864, are the second largest expenditure of the Library, representing 15 percent of the Library's total expenditures under the modified-accrual basis.
- Total expenditures under the modified accrual method were \$799,197, an increase of 1 percent over the prior year.

The Library's Fund

Our analysis of the Library's General Fund and Special Revenue Fund is included on pages 6 and 7 in the first two columns of the respective statements. The fund columns provide detailed information about these funds.

- The fund balance of the General Fund increased by \$114,743 for the year. This represents unspent revenue greater than expenses.
- The Library board has designated funds to help manage money for specific purposes, such as building (furnishings) expansion, technology upgrades, and capital improvements.
- The Special Revenue Fund - Helen Thome Trust was a new fund in 2007 and was created from the donation of \$860,876 from the Helen Thome Trust. These funds are restricted to be used for the purchase of library materials, furnishings, and equipment.

Shiawassee District Library

Management's Discussion and Analysis (Continued)

Library Budgetary Highlights

Over the course of the year, the Library board amended the budget to take into account events that occurred during the year. Most amendments were minor except those related to capital outlay mentioned below.

New shelving was installed in the Owosso branch and was budgeted for 50 percent from the 2007 budget, and 50 percent from the 2008 budget. Funds were also budgeted to replace eight of the public access computers (six adults and two children). It was decided to pay the full cost of the shelving out of this year's budget, and to apply for a grant from the Bill and Melinda Gates Foundation to cover the costs of the replacement computers, or use the amount budgeted for the shelving if the grant was not approved.

The Library received very good interest rates on its certificates of deposit, which resulted in interest revenue above what was expected.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$382,652 (net of depreciation) invested in furniture, equipment, and books and materials. In 2007, the Library added \$116,864 in new collection items consisting mainly of books, video materials, audio books, and music CDs.

The Library carries no long-term debt other than compensated absences.

Next Year's Millage Rates

On August 22, 2007, the Library board approved an operating millage rate of 1.2031 mills per thousand dollars of taxable value. This will generate an estimated \$750,000 in property tax revenue, based on the current taxable value of property in the Library district.

Shiawassee District Library

Governmental Fund Balance Sheet/Statement of Net Assets November 30, 2007

| | General Fund | Special Revenue Fund - Helen Thome Trust | Total | Adjustments (Note 8) | Statement of Net Assets - Full Accrual Basis |
|--|-------------------|---|---------------------|-------------------------|---|
| Assets | | | | | |
| Cash (Note 2) | \$ 254,677 | \$ 893,295 | \$ 1,147,972 | \$ - | \$ 1,147,972 |
| Investments (Note 2) | 600,300 | - | 600,300 | - | 600,300 |
| Other receivables | 23,679 | - | 23,679 | - | 23,679 |
| Capital assets (Note 3) | - | - | - | 382,562 | 382,562 |
| Total assets | <u>\$ 878,656</u> | <u>\$ 893,295</u> | <u>\$ 1,771,951</u> | 382,562 | 2,154,513 |
| Liabilities | | | | | |
| Accounts payable and accrued liabilities | \$ 45,997 | \$ - | \$ 45,997 | - | 45,997 |
| Accumulated employee benefits < 1 year (Note 4) | | | | 17,915 | 17,915 |
| Accumulated employee benefits > 1 year (Note 4) | - | - | - | 33,011 | 33,011 |
| Total liabilities | 45,997 | - | 45,997 | 50,926 | 96,923 |
| Fund Balances | | | | | |
| Reserved for Library materials and equipment | - | 893,295 | 893,295 | (893,295) | - |
| Unreserved: | | | | | |
| Designated for: | | | | | |
| Retirement reserve | 12,000 | - | 12,000 | (12,000) | - |
| Building expansion | 115,000 | - | 115,000 | (115,000) | - |
| Durand lease | 2,500 | - | 2,500 | (2,500) | - |
| Penal fines stablization fund | 138,352 | - | 138,352 | (138,352) | - |
| Digitalization projects | 3,450 | - | 3,450 | (3,450) | - |
| Literacy support | 923 | - | 923 | (923) | - |
| Equipment replacement | 20,000 | - | 20,000 | (20,000) | - |
| Budgeted working capital | 150,000 | - | 150,000 | (150,000) | - |
| Undesignated | 390,434 | - | 390,434 | (390,434) | - |
| Total fund balance | <u>832,659</u> | <u>893,295</u> | <u>1,725,954</u> | <u>(1,725,954)</u> | - |
| Total liabilities and fund balance | <u>\$ 878,656</u> | <u>\$ 893,295</u> | <u>\$ 1,771,951</u> | <u>(1,675,028)</u> | 96,923 |
| Net Assets | | | | | |
| Investment in capital assets | | | | 382,562 | 382,562 |
| Restricted for donor-restricted purposes | | | | 893,295 | 893,295 |
| Unrestricted | | | | 781,733 | 781,733 |
| Total net assets | | | | <u>\$ 2,057,590</u> | <u>\$ 2,057,590</u> |

Shiawassee District Library

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended November 30, 2007

| | Special Revenue Fund - | | | Adjustments (Note 8) | Statement of |
|--|---------------------------|----------------------|--------------------|-------------------------|-----------------------|
| | General Fund | Helen Thome Trust | Total | | Full Accrual Basis |
| Revenue | | | | | |
| Property tax revenue | \$ 702,241 | \$ - | \$ 702,241 | \$ - | \$ 702,241 |
| Penal fines | 102,597 | - | 102,597 | - | 102,597 |
| State aid | 22,719 | - | 22,719 | - | 22,719 |
| Single business tax | 10,985 | - | 10,985 | - | 10,985 |
| Fines and fees | 14,162 | - | 14,162 | - | 14,162 |
| Rental revenue | 7,408 | - | 7,408 | - | 7,408 |
| Interest income | 49,934 | 32,419 | 82,353 | - | 82,353 |
| Donation income | 3,894 | 860,876 | 864,770 | - | 864,770 |
| | | | | | |
| Total revenue | 913,940 | 893,295 | 1,807,235 | - | 1,807,235 |
| Expenditures | | | | | |
| Salaries and wages | 418,930 | - | 418,930 | 19,436 | 438,366 |
| Compensated absences | 3,668 | - | 3,668 | - | 3,668 |
| Payroll taxes | 32,197 | - | 32,197 | - | 32,197 |
| Employee benefits | 70,291 | - | 70,291 | - | 70,291 |
| Pension | 965 | - | 965 | - | 965 |
| Supplies | 21,263 | - | 21,263 | - | 21,263 |
| Professional services | 16,913 | - | 16,913 | - | 16,913 |
| Membership and dues | 2,399 | - | 2,399 | - | 2,399 |
| Education and training | 6,973 | - | 6,973 | - | 6,973 |
| Capital outlay - Equipment | 24,511 | - | 24,511 | (20,351) | 4,160 |
| Utilities | 21,065 | - | 21,065 | - | 21,065 |
| Maintenance and repairs | 18,473 | - | 18,473 | - | 18,473 |
| Library materials | 116,864 | - | 116,864 | (85,208) | 31,656 |
| Postage | 7,514 | - | 7,514 | - | 7,514 |
| State aid | 21,964 | - | 21,964 | (19,547) | 2,417 |
| Insurance | 15,207 | - | 15,207 | - | 15,207 |
| Depreciation | - | - | - | 98,039 | 98,039 |
| | | | | | |
| Total expenditures | 799,197 | - | 799,197 | (7,631) | 791,566 |
| Excess of Revenue Over Expenditures/ Change in Net Assets | | | | | |
| | 114,743 | 893,295 | 1,008,038 | 7,631 | 1,015,669 |
| Fund Balance/Net Assets - Beginning of year | | | | | |
| | 717,916 | - | 717,916 | 324,005 | 1,041,921 |
| Fund Balance/Net Assets - End of year | | | | | |
| | <u>\$ 832,659</u> | <u>\$ 893,295</u> | <u>\$1,725,954</u> | <u>\$ 331,636</u> | <u>\$2,057,590</u> |

Shiawassee District Library

Notes to Financial Statements November 30, 2007

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of Shiawassee District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant account policies:

Reporting Entity

Effective July 1, 1994, the City of Owosso, the City of Durand, and Bennington, Owosso, and Rush Townships signed a district library agreement, creating the Shiawassee District Library. The Library is comprised of all the territory that is currently located in the jurisdictional limits of the Township of Bennington, the Township of Owosso, the Township of Rush, the City of Durand, and the City of Owosso. The Library is funded through property taxes, fines, fees, grants, state aid, and donations. The voters of the district approved a 1.25 mill tax for a 10-year period, which began with a tax levy effective December 31, 2002. This millage provides for funding of Library operations through December 1, 2011.

The Library is governed by an eight-member board. The board consists of three members appointed by the City of Owosso, two members appointed by the City of Durand, and one member appointed by each of the townships. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's operations are accounted for in a General Fund. The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses.

Shiawassee District Library

Notes to Financial Statements November 30, 2007

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

The Special Revenue Fund - Helen Thome Trust is used to account for the activity related to the donation from the Helen Thome Trust to be used for the purchase of library materials, furnishings, and equipment. The donor specified that both principal and interest can be used for these specific purposes.

In addition to presenting information for the General Fund and Special Revenue Funds on a modified accrual basis, the financial statements present information for the Library 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Financial Statement Amounts

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1 based on the taxable valuation of the property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Capital Assets - Generally, capital assets are defined by the Library as having initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Library books which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$5,000 capitalization threshold.

Shiawassee District Library

Notes to Financial Statements November 30, 2007

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

| | |
|-----------------------------|------------|
| Furniture and equipment | 3-10 years |
| Library books and materials | 7 years |

Compensated Absences - It is the Library's policy to permit employees to accumulate earned but unused sick pay benefits. There is no liability for unused accumulated vacation and personal days since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

Property Taxes - Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2006 tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended November 30, 2007, when the proceeds of the levy are budgeted and available for the financing operations. The 2006 taxable value of the district totaled \$595,971,560 (a portion of which is not captured from all jurisdictions), on which taxes levied consisted of 1.2031 mills for operating purposes. This resulted in \$702,241 recognized as property tax revenue.

Fund Equity - In the General Fund financial statements, the Library reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

Shiawassee District Library

Notes to Financial Statements November 30, 2007

Note 2 - Deposits

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

The Library has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed by authority as listed above. The Library's deposits and investments policy is in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$948,272 of bank deposits (certificates of deposit and checking account) that were 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 Library funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Shiawassee District Library

Notes to Financial Statements November 30, 2007

Note 3 - Capital Assets

A summary of the changes in capital assets is as follows:

| Capital Assets Being Depreciated | Balance December 1, 2006 | Additions | Deletions | Balance November 30, 2007 |
|-------------------------------------|--------------------------------|------------------|-------------|---------------------------------|
| Furniture and equipment | \$ 280,319 | \$ 39,898 | \$ - | \$ 320,217 |
| Library books and materials | <u>1,144,428</u> | <u>85,208</u> | <u>-</u> | <u>1,229,636</u> |
| Total | 1,424,747 | 125,106 | - | 1,549,853 |
| Accumulated depreciation: | | | | |
| Furniture and equipment | 199,514 | 21,005 | - | 220,519 |
| Library books and material | <u>869,738</u> | <u>77,034</u> | <u>-</u> | <u>946,772</u> |
| Total | <u>1,069,252</u> | <u>98,039</u> | <u>-</u> | <u>1,167,291</u> |
| Net book value | <u>\$ 355,495</u> | <u>\$ 27,067</u> | <u>\$ -</u> | <u>\$ 382,562</u> |

Shiawassee District Library leases buildings from the City of Owosso and the City of Durand at a nominal amount.

Note 4 - Long-term Debt

A summary of the debt outstanding of the Library is as follows:

| | Balance December 1, 2006 | Additions | Deletions | Balance November 30, 2007 |
|-----------------------|--------------------------------|------------------|-------------|---------------------------------|
| Compensated absences: | | | | |
| Due < 1 year | \$ - | \$ 17,915 | \$ - | \$ 17,915 |
| Due > 1 year | <u>31,490</u> | <u>1,521</u> | <u>-</u> | <u>33,011</u> |
| Total | <u>\$ 31,490</u> | <u>\$ 19,436</u> | <u>\$ -</u> | <u>\$ 50,926</u> |

Compensated absences represent the estimated liability to be paid to employees under the Library's sick pay policy.

Shiawassee District Library

Notes to Financial Statements November 30, 2007

Note 5 - Budget Information

The annual budget is prepared by Library management and adopted by the Library board of trustees; subsequent amendments are approved by the board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The General Fund budget has been approved on an activity basis. A comparison of actual results of operations to the General Fund budget as adopted by the Library board is included in the required supplemental information.

A budget for the Special Revenue Fund has not been prepared or approved, as no expenditures were expected in 2007. All provisions related to the donation of the funds have been followed.

Note 6 - Risk Management

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

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Shiawassee District Library

Notes to Financial Statements November 30, 2007

Note 7 - Pension Plan

Plan Description

The Library participates in the Michigan Municipal Employees' Retirement System, an agent, multiple-employer defined benefit pension plan that covers all full-time employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by board approval and requires a contribution from employees of 6.00 percent of gross wages.

Annual Pension Cost

For the year ended November 30, 2007, the Library's annual pension cost was \$965, which was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial calculation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, and (c) additional projected salary increases ranging from 0 percent to 8.4 percent per year, depending on age, attributable to seniority/merit. Both (a) and (b) include an inflation assumption of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

Trend Information

| | 2005 | 2006 | 2007 |
|--|--------|--------|--------|
| Annual pension cost | \$ 904 | \$ 938 | \$ 965 |
| Percentage of annual pension cost contributed | 100% | 100% | 100% |
| Net pension obligation | - | - | - |

Shiawassee District Library

Notes to Financial Statements November 30, 2007

Note 7 - Pension Plan (Continued)

| Actuarial valuation as of December 31: | 2004 | 2005 | 2006 |
|---|--------------|--------------|--------------|
| Actuarial value of assets | \$ 1,227,985 | \$ 1,304,732 | \$ 1,400,342 |
| Actuarial accrued liability (entry age) | \$ 1,169,096 | \$ 1,237,517 | \$ 1,290,167 |
| Overfunded AAL | \$ (58,889) | \$ (67,215) | \$ (110,175) |
| Funded ratio | 105.0% | 105.4% | 108.5% |
| Covered payroll | \$ 296,429 | \$ 306,642 | \$ 281,340 |

Note 8 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

The total governmental funds' fund balance and the net change in fund balance differs from net assets and change in net assets reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental funds' balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

| | |
|---|-----------------------------------|
| Total Governmental Funds - Modified-accrual basis | \$ 1,725,954 |
| Amounts reported in the statement of net assets are different because: | |
| Capital assets are not financial resources and are not reported in the General Fund | 382,562 |
| Compensated absences are included as a liability | <u>(50,926)</u> |
| Net Assets of the Library - Full accrual basis | <u><u>\$ 2,057,590</u></u> |

Shiawassee District Library

Notes to Financial Statements November 30, 2007

Note 8 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Changes in Fund Balances - Total governmental funds -
Modified accrual basis \$ 1,008,038

Amounts reported in the statement of activities are different
because:

Capital outlays are reported as expenditures in the
statement of revenue, expenditures, and changes in fund
balance; in the statement of activities, these costs are
allocated over their estimated useful lives as depreciation:

| | |
|--|----------|
| Furniture and equipment capital outlay | 39,898 |
| Library books and materials capital outlay | 85,208 |
| Depreciation | (98,039) |

| | |
|--|-----------------|
| Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the General Fund statements | <u>(19,436)</u> |
|--|-----------------|

Changes in Net Assets of the Library - Full accrual basis \$ 1,015,669

Note 9 - Subsequent Event

Subsequent to year end, the Library set up the Kenneth and Suzanne Uptigrove Scholarship Fund. The Fund was set up to provide scholarships to the Library's staff and families. All contributions made to the Fund are permanently restricted, and only the interest may be used for scholarships. Also, no scholarships may be awarded until total contributions to the fund exceed \$10,000. As of our testing date, total contributions received did not exceed \$10,000.

Required Supplemental Information

Shiawassee District Library

Required Supplementary Information Budgetary Comparison Schedule - General Fund Year Ended November 30, 2007

| | Originally Adopted Budget | Final Amended Budget | Actual Balances | Variance Favorable (Unfavorable) |
|--|---------------------------------|----------------------------|--------------------|--|
| Revenue | | | | |
| Property tax revenue | \$ 701,900 | \$ 701,250 | \$ 702,241 | \$ 991 |
| Penal fines | 97,200 | 102,400 | 102,597 | 197 |
| State aid | 22,680 | 22,700 | 22,719 | 19 |
| Single business tax | 10,975 | 10,975 | 10,985 | 10 |
| Fines and fees | 14,700 | 14,200 | 14,162 | (38) |
| Rental revenue | 6,500 | 5,500 | 7,408 | 1,908 |
| Interest income | 18,000 | 36,550 | 49,934 | 13,384 |
| Donation income | 3,500 | 3,750 | 3,894 | 144 |
| Miscellaneous revenue | - | 2,000 | - | (2,000) |
| Total revenue | 875,455 | 899,325 | 913,940 | 14,615 |
| Expenditures | | | | |
| Salaries and wages | 443,975 | 430,350 | 418,930 | 11,420 |
| Compensated absences | 3,800 | 3,800 | 3,668 | 132 |
| Payroll taxes | 34,250 | 33,300 | 32,197 | 1,103 |
| Employee benefits | 91,375 | 73,650 | 70,291 | 3,359 |
| Pension | 1,100 | 1,100 | 965 | 135 |
| Supplies | 27,000 | 27,000 | 21,263 | 5,737 |
| Professional services | 36,200 | 27,700 | 16,913 | 10,787 |
| Membership and dues | 2,350 | 2,650 | 2,399 | 251 |
| Education and training | 7,500 | 7,100 | 6,973 | 127 |
| Capital outlay - Equipment | 7,000 | 25,150 | 24,511 | 639 |
| Utilities | 27,125 | 25,050 | 21,065 | 3,985 |
| Maintenance and repairs | 25,050 | 25,050 | 18,473 | 6,577 |
| Library materials | 122,050 | 120,100 | 116,864 | 3,236 |
| Postage | 8,200 | 8,000 | 7,514 | 486 |
| State aid | 22,680 | 22,700 | 21,964 | 736 |
| Insurance | 15,800 | 15,350 | 15,207 | 143 |
| Total expenditures | 875,455 | 848,050 | 799,197 | 48,853 |
| Excess of Revenue Over Expenditures | - | 51,275 | 114,743 | 63,468 |
| Fund Balance - Beginning of year | 717,916 | 717,916 | 717,916 | - |
| Fund Balance - End of year | <u>\$ 717,916</u> | <u>\$ 769,191</u> | <u>\$ 832,659</u> | <u>\$ 63,468</u> |

March 11, 2008

To the Board of Directors
Shiawassee District Library

We recently completed our audit of the financial statements of Shiawassee District Library (the "Library") for the year ended November 30, 2007. In addition to our audit report, we are providing the following informational comments for your consideration:

Accounting for Funds Related to the Helen Thome Trust

We noted that the funds received from the Helen Thome Trust were not recorded in the accounting system of the Library. Activity related to these funds was being tracked throughout the year, but was completed in a separate electronic spreadsheet from the accounting system. This was done in order to mitigate duplicating work performed in conjunction with a future accounting system conversion.

Although the activity was being documented and reported to the board, we would recommend that all Library activity is properly recorded in the accounting system. This would provide consistency in the method for recording financial transactions, and help ensure no transactions or activities are missed.

Bank Account Access

During our testing of cash and investments, we noted that the former executive director is still named on the Library's various bank accounts. We would recommend that all bank accounts be switched into the new executive director's name, in order to complete the management transition.

Statement on Auditing Standards Nos. 104 to 111 - The Risk Assessment Standards

The AICPA issued Statements on Auditing Standards (SAS 104 to SAS 111), which will substantially affect the auditing process. The effective date for the Library will be for audits of financial statements for and after the year ending November 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of (1) the Library and its internal control, for the purpose of identifying the risks of material misstatement in the financial statements, and (2) what the Library is doing to mitigate those risks

- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks
- We have invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, which is tailored to the unique environment for governmental entities. As a result, our 2008 audit process will have many new features and elements built in. We will work with the Library to understand the elements, involve it in the information gathering process, and perform audit tests focused on the risks embedded in the Library's financial statements. To provide the Library with as much lead time as possible in the data gathering process, we will review the information needs and provide the Library with the necessary tools in the near future.

Statement on Auditing Standards No. 114 - *The Auditor's Communication with Those Charged with Governance*

Accompanying the substantial audit changes required by SAS 104-111 for November 30, 2008 are new communication standards required by SAS 114. In the wake of well-publicized audit failures and emerging best practices in corporate governance, expectations have increased for auditors to communicate openly and candidly with those charged with governance regarding significant findings and issues related to the audit.

At the end of the November 30, 2008 audit, the board will receive a very structured letter that will contain discussion and comments on the following topics:

- The auditor's responsibility under generally accepted auditing standards
- An overview of the planned scope and timing of the audit
- Significant findings from the audit, including:
 - The auditor's views about the qualitative aspects of the entity's accounting practices
 - Major difficulties encountered in performing the audit
 - Uncorrected misstatements
 - Disagreements with management
 - Material, corrected misstatements that were brought to the attention of management
 - Representations the auditor is requesting from management
 - Significant issues and findings

We are grateful for the opportunity to be of service to the Library. The cooperation extended to us by the Library's staff throughout the audit was greatly appreciated. Should you wish to discuss any of the items in this report, we would be happy to do so.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Jean Young".

Jean M. Young, CPA
Partner