

# 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 <i>Ernest W. Audin</i>	Printed Name		License Number	

# **Canton Public Library**

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**Financial Report**  
**December 31, 2007**

# **Canton Public Library**

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## Independent Auditor's Report

To the Canton Public Library Board  
Canton Township, Michigan

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Canton Public Library as of December 31, 2007 and the respective changes in financial position thereof, and the respective budgetary comparisons for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

April 3, 2008

# Canton Public Library

## Management's Discussion and Analysis

The following discussion and analysis of the financial performance of Canton Public Library (the "Library") provides an overview of the Library's financial activities for the fiscal year ended December 31, 2007. This discussion and analysis should be read in conjunction with the Library's financial statements.

### Using This Annual Report

This annual report consists of a series of financial statements. 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. This longer-term view uses the economic resources measurement focus and the accrual basis of accounting to demonstrate the cost of providing services during the current year and the degree to which the taxpayers have funded the full cost of providing library services.

The fund financial statements for the General Fund and the Endowment Fund present a short-term view, and demonstrate how the taxpayers' resources were spent during the year, as well as how much is available for future spending, on a modified accrual basis. The fund financial statements report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

### Statement of Net Assets/Statement of Activities

The following tables show, in a condensed format, the current year's net assets and changes in net assets as of December 31, 2007 and 2006 (in thousands of dollars):

	2007	2006	Changes from Prior Year	
			Dollars	Percent
<b>Assets</b>				
Current assets	\$ 8,283	\$ 7,673	\$ 610	8.0
Capital assets	10,389	10,463	(74)	(0.7)
Total assets	18,672	18,136	536	3.0
<b>Liabilities</b>				
Current liabilities	6,267	5,972	295	4.9
Noncurrent liabilities	5,014	5,293	(279)	(5.3)
Total liabilities	11,281	11,265	16	0.1
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	5,445	5,245	200	3.8
Restricted - Debt service	151	134	17	12.7
Unrestricted	1,795	1,492	303	20.3
Total net assets	<u>\$ 7,391</u>	<u>\$ 6,871</u>	<u>\$ 520</u>	7.6

# Canton Public Library

## Management's Discussion and Analysis (Continued)

	2007	2006	Changes from Prior Year	
			Dollars	Percent
<b>Revenue</b>				
Property taxes	\$ 5,819	\$ 5,375	\$ 444	8.3
State aid	60	55	5	9.1
Other income	555	559	(4)	(0.7)
Total revenue	6,434	5,989	445	7.4
<b>Expenditures</b>				
Salaries and fringe benefits	2,886	2,668	218	8.2
Transfer to MERS for pension	682	-	682	-
Depreciation	801	1,016	(215)	(21.2)
Debt service	224	238	(14)	(5.9)
Other	1,321	1,316	5	0.4
Total expenditures	5,914	5,238	676	12.9
<b>Excess of Revenue Over Expenditures</b>	<b>\$ 520</b>	<b>\$ 751</b>	<b>\$ (231)</b>	<b>(30.8)</b>

### Financial Highlights

The Library's General Fund accounts for all programming, materials, maintenance, capital investments, and administrative functions of the Library. The budget is monitored closely and amended quarterly, if needed. General Fund activities are financed by revenue from local property taxes, penal fines, state aid, and other sources.

The Library's Endowment Fund accounts for gifts and donations given to the Library that have been designated by the donors for deposit into the Endowment Fund, as well as undesignated gifts and donations.

In addition to the Library's annual required contribution of \$81,667 to the employee defined benefit pension plan through the Municipal Employees' Retirement System (the "System"), in 2007 the Library also contributed \$682,319 to the System, an amount equal to the unfunded actuarial accrued liability as of December 31, 2005. The additional contribution was funded via a transfer from the Library's existing fund balance.

The Library provides healthcare benefits to certain full-time employees upon retirement, based upon age and years of service. While the Library is not currently required to make contributions in advance of when insurance premiums are due for payment, new Governmental Accounting Standards will go into effect for the fiscal year ending December 31, 2009, which will require the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the premiums are paid. In 2007, the Library contributed \$150,000 into a prefunded retiree healthcare fund to reach a cumulative funding amount of approximately \$400,000.

# **Canton Public Library**

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## **Management's Discussion and Analysis (Continued)**

Revenues in the General Fund for the year totaled \$6,409,134 and the Library's actual revenues over expenditures in the General Fund were \$288,069, resulting in a positive cumulative General Fund balance of \$1,879,512.

### **Capital Asset and Debt Administration**

During the year, the Library purchased office equipment, computer equipment (including new servers), a new telephone system, materials, and furniture. A new tween space in the children's area was designed and constructed during the year.

Several years ago, the Canton Township Building Authority issued general obligation bonds payable through 2020 on behalf of the Library to fund capital improvements of the building. During the current year, the Library made debt service payments in the amount of \$501,563.

### **Economic Factors and Next Year's Budgets and Rates**

Approximately 91 percent of the Library's revenues in the General Fund come from local property taxes, another 3 percent come from interest on investments, and the remainder comes from other sources, such as fines, fees, state aid, and donations.

Growth within Canton has slowed due to a combination of factors. With the rise of mortgage defaults and foreclosures in southeastern Michigan, including the Canton community, the township anticipates taxable values of property within Canton to decline in the coming year to the extent that new development may no longer offset these losses. The Library's property tax revenue in 2007 increased 8 percent compared to 2006; in 2008, management expects to see little to no growth, possibly a decline, in property tax revenue.

While 2007 saw interest on investments increase 26 percent over 2006, management anticipates the drastic reductions of interest rates beginning in late 2007 will result in reduced interest income for the coming fiscal year.

Management will continue to monitor and evaluate capital improvements and major maintenance projects in light of these economic factors as the Library building approaches 20 years of age.

### **Contacting the Library's Management**

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Canton Public Library director at 1200 S. Canton Center Rd., Canton, MI 48188, or via the Library's website at [www.cantonpl.org](http://www.cantonpl.org).

# Canton Public Library

## Balance Sheet/Statement of Net Assets December 31, 2007

	General Fund	Endowment Fund - Permanent Fund	Total Governmental Funds Balance Sheet - Modified Accrual	Adjustments (Note 2)	Statement of Net Assets - Full Accrual
<b>Assets</b>					
Cash (Note 3)	\$ 2,425,422	\$ 187,483	\$ 2,612,905	\$ -	\$ 2,612,905
Receivables:					
Property taxes	5,654,213	-	5,654,213	-	5,654,213
Other	-	2,300	2,300	-	2,300
Other assets	13,932	-	13,932	-	13,932
Depreciable capital assets (Note 4)	-	-	-	10,321,662	10,321,662
Nondepreciable capital assets (Note 4)	-	-	-	67,500	67,500
<b>Total assets</b>	<b>\$ 8,093,567</b>	<b>\$ 189,783</b>	<b>\$ 8,283,350</b>	10,389,162	18,672,512
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 131,140	\$ -	\$ 131,140	-	131,140
Accrued interest payable	-	-	-	53,137	53,137
Deferred revenue	6,082,915	2,300	6,085,215	(2,300)	6,082,915
Noncurrent liabilities:					
Due within one year:					
Leases	-	-	-	274,048	274,048
Compensated absences	-	-	-	70,409	70,409
Due in more than one year - Leases	-	-	-	4,670,141	4,670,141
<b>Total liabilities</b>	<b>6,214,055</b>	<b>2,300</b>	<b>6,216,355</b>	<b>5,065,435</b>	<b>11,281,790</b>
<b>Fund Balances</b>					
Reserved for endowment	-	150,677	150,677	(150,677)	-
Unreserved	1,879,512	36,806	1,916,318	(1,916,318)	-
<b>Total fund balances</b>	<b>1,879,512</b>	<b>187,483</b>	<b>2,066,995</b>	<b>(2,066,995)</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,093,567</b>	<b>\$ 189,783</b>	<b>\$ 8,283,350</b>		
<b>Net Assets</b>					
Investment in capital assets - Net of related debt				5,444,973	5,444,973
Restricted for endowment				150,677	150,677
Unrestricted				1,795,072	1,795,072
<b>Total net assets</b>				<b>\$ 7,390,722</b>	<b>\$ 7,390,722</b>

# Canton Public Library

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

	General Fund	Endowment Fund - Permanent Fund	Total Governmental Funds Revenues and Expenditures - Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual
<b>Revenue</b>					
Property tax	\$ 5,818,609	\$ -	\$ 5,818,609	\$ -	\$ 5,818,609
State aid	60,364	-	60,364	-	60,364
Fines	215,722	-	215,722	-	215,722
Fees	58,085	-	58,085	-	58,085
Interest on investments	202,525	8,562	211,087	-	211,087
Contributions and donations	47,285	16,482	63,767	(700)	63,067
Rentals	6,544	-	6,544	-	6,544
<b>Total revenue</b>	<b>6,409,134</b>	<b>25,044</b>	<b>6,434,178</b>	<b>(700)</b>	<b>6,433,478</b>
<b>Expenditures</b>					
Salaries	2,347,566	-	2,347,566	(3,532)	2,344,034
Fringe benefits	541,967	-	541,967	-	541,967
Transfer to MERS for pension	682,319	-	682,319	-	682,319
Supplies	184,979	-	184,979	(2,615)	182,364
Library books and materials	749,303	-	749,303	(512,516)	236,787
Professional and contractual services	286,435	-	286,435	(1,215)	285,220
Communications	84,391	-	84,391	-	84,391
Conferences, workshops, and travel	36,468	-	36,468	-	36,468
Community relations	10,807	-	10,807	-	10,807
Printing and publishing	71,821	-	71,821	-	71,821
Insurance and bonds	69,900	-	69,900	-	69,900
Utilities	154,824	-	154,824	-	154,824
Building repair and maintenance	117,986	-	117,986	(3,863)	114,123
Rentals	16,967	-	16,967	-	16,967
Building improvements	18,984	-	18,984	(7,609)	11,375
Capital outlay	239,699	-	239,699	(203,550)	36,149
Property tax refund	5,086	-	5,086	-	5,086
Debt service/interest on long-term debt	501,563	-	501,563	(277,517)	224,046
Loss on sale of assets	-	-	-	4,390	4,390
Depreciation	-	-	-	800,702	800,702
<b>Total expenditures</b>	<b>6,121,065</b>	<b>-</b>	<b>6,121,065</b>	<b>(207,325)</b>	<b>5,913,740</b>
<b>Excess of Revenue Over Expenditures</b>	<b>288,069</b>	<b>25,044</b>	<b>313,113</b>	<b>206,625</b>	<b>519,738</b>
<b>Fund Balance/Net Assets - Beginning of year</b>	<b>1,591,443</b>	<b>162,439</b>	<b>1,753,882</b>	<b>5,117,102</b>	<b>6,870,984</b>
<b>Fund Balance/Net Assets - End of year</b>	<b>\$ 1,879,512</b>	<b>\$ 187,483</b>	<b>\$ 2,066,995</b>	<b>\$ 5,323,727</b>	<b>\$ 7,390,722</b>

# Canton Public Library

## Budgetary Comparison Schedule - General Fund Year Ended December 31, 2007

	Modified Accrual			
	Originally			
	Adopted Budget	Amended Budget	Actual	Variance
<b>Revenue</b>				
Property tax	\$ 5,823,135	\$ 5,818,609	\$ 5,818,609	\$ -
State aid	55,000	60,363	60,364	1
Fines	193,000	210,657	215,722	5,065
Fees	50,000	56,724	58,085	1,361
Interest on investments	95,000	195,000	202,525	7,525
Contributions and donations	20,000	46,200	47,285	1,085
Revenue sharing	3,513	-	-	-
Rentals	10,000	5,443	6,544	1,101
<b>Total revenue</b>	<b>6,249,648</b>	<b>6,392,996</b>	<b>6,409,134</b>	<b>16,138</b>
<b>Expenditures</b>				
Salaries	2,443,779	2,440,000	2,347,566	92,434
Fringe benefits	678,030	569,468	541,967	27,501
Transfer to MERS for pension	-	682,319	682,319	-
Supplies	210,785	236,630	184,979	51,651
Library books and materials	814,700	814,700	749,303	65,397
Professional and contractual services	314,939	324,369	286,435	37,934
Communications	87,500	92,500	84,391	8,109
Conferences, workshops, and travel	33,800	40,450	36,468	3,982
Community relations	5,000	12,000	10,807	1,193
Printing and publishing	83,600	83,600	71,821	11,779
Insurance and bonds	83,500	69,900	69,900	-
Utilities	232,800	175,000	154,824	20,176
Building repair and maintenance	114,900	135,000	117,986	17,014
Rentals	17,500	19,500	16,967	2,533
Building improvements	10,000	22,000	18,984	3,016
Capital outlay	184,177	241,964	239,699	2,265
Property tax refund	20,000	20,000	5,086	14,914
Debt service	502,000	501,563	501,563	-
<b>Total expenditures</b>	<b>5,837,010</b>	<b>6,480,963</b>	<b>6,121,065</b>	<b>359,898</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>412,638</b>	<b>(87,967)</b>	<b>288,069</b>	<b>376,036</b>
<b>Fund Balance - Beginning of year</b>	<b>1,591,443</b>	<b>1,591,443</b>	<b>1,591,443</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 2,004,081</b>	<b>\$ 1,503,476</b>	<b>\$ 1,879,512</b>	<b>\$ 376,036</b>

### **Note 1 - Summary of Significant Accounting Policies**

Canton Public Library (the "Library") is governed by a six-member board of trustees.

The accounting policies of Canton Public Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

#### **Reporting Entity**

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Library reports the following governmental funds:

**General Fund** - The General Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. General Fund activities are financed by revenue from the general property taxes, penal fines, state-shared revenue, and other sources.

**Endowment Fund** - The Endowment Fund accounts for gifts and donations given to the Library. Some of these items are restricted for specific purposes by the donor. It is also the board's policy to not spend investment income earned on the endowment contributions.

The Funds are 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, expenditures relating to compensated absences and debt service expenditures are recorded only when payment is due.

# Canton Public Library

## Notes to Financial Statements December 31, 2007

### Note 1 - Summary of Significant Accounting Policies (Continued)

In addition to presenting information for the General Fund on the modified accrual basis (as budgeted), the financial statements present information for the Library using the economic resources measurement focus and the accrual basis of accounting. This information is intended to demonstrate the degree to which taxpayers have funded the full cost of services received. 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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Library's policy is to first apply restricted resources.

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.

#### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits** - The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Capital Assets** - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Building improvements, furniture and fixtures, equipment, and library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

Building, fixtures, and improvements	50 years
Furniture and equipment	3-10 years
Library books, periodicals, etc.	7 years

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Compensated Absences (Vacation Leave)** - It is the Library's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Property Taxes** - Properties are assessed as of December 31. The taxes are billed and become a lien on December 1 of the following year; they are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes billed during December are included in deferred revenue.

The property taxes for the Library are assessed to the residents of Canton Township. The 2006 taxable valuation of the Library totaled approximately \$3,850 million, on which taxes levied consisted of 1.5437 mills for Library operating purposes. This resulted in approximately \$5.8 million for operating, which is recorded in the General Fund.

**Pledges** - Contributions to the Endowment Fund are recorded when received in the fund statements. A receivable and revenue are recorded in the government-wide statements when pledges of future contributions are received.

# Canton Public Library

## Notes to Financial Statements December 31, 2007

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements

As discussed in Note 1, the governmental funds are presented on the modified accrual basis of accounting, and the Library as a whole is also presented on the full accrual basis. The following is a reconciliation of fund balance on the modified accrual basis of accounting to net assets presented on the full accrual basis:

<b>Total Fund Balances for Governmental Funds</b>	<b>\$ 2,066,995</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(4,944,189)
Capital assets used in governmental activities are not financial resources and are not reported in the funds	10,389,162
Interest amounts on long-term liabilities are not payable until due in the funds	(53,137)
Pledges receivable are expected to be collected over several years and are not available to pay for current year expenditures	2,300
Compensated absences are not due and payable in the current period and are not reported in the funds	<u>(70,409)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 7,390,722</u></b>

# Canton Public Library

## Notes to Financial Statements December 31, 2007

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

The following is a reconciliation of the changes in fund balance on the modified accrual basis to the change in net assets on the full accrual basis:

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 313,113</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(69,334)
Pledges are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned	(700)
Accumulated employee sick and vacation pay is recorded when earned in the statement of activities	3,532
Repayment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	274,048
The change in accrued interest expense is reported as an expenditure on the statement of activities, but not in the governmental funds	3,469
Governmental funds report proceeds from fixed asset disposals; in the statement of activities, losses on disposals are reported	<u>(4,390)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 519,738</u></b>

### Note 3 - Cash

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

The Library has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's cash and investments are subject to two types of risk, which are examined in more detail below:

#### **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 \$1,146,728 of bank deposits (checking, savings, and certificates of deposits) 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 deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Canton Public Library

## Notes to Financial Statements December 31, 2007

### Note 3 - Cash (Continued)

#### Credit Risk

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

Investment Type	Fair Value	Rating	Rating Organization
Sweep account	\$ 1,329,938	Aaa	Moody's

### Note 4 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Capital assets not being depreciated - Land	\$ 67,500	\$ -	\$ -	\$ 67,500
Capital assets being depreciated:				
Building, fixtures, and improvements	9,654,303	3,690	-	9,657,993
Furniture and equipment	2,797,672	215,162	(36,587)	2,976,247
Books, periodicals, etc.	6,335,854	512,516	-	6,848,370
Subtotal	18,787,829	731,368	(36,587)	19,482,610
Accumulated depreciation:				
Building, fixtures, and improvements	2,078,764	196,740	-	2,275,504
Furniture and equipment	1,737,562	249,848	(32,197)	1,955,213
Books, periodicals, etc.	4,576,117	354,114	-	4,930,231
Subtotal	8,392,443	800,702	(32,197)	9,160,948
Net capital assets being depreciated	10,395,386	(69,334)	(4,390)	10,321,662
Net capital assets	\$ 10,462,886	\$ (69,334)	\$ (4,390)	\$ 10,389,162

Capital assets, including library books, are recorded at cost. Depreciation expense was \$800,702 for the year ended December 31, 2007.

# Canton Public Library

## Notes to Financial Statements December 31, 2007

### Note 5 - Long-term Debt

A summary of the debt outstanding of the Library at December 31, 2007 is as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital lease obligations	3.500%- 5.200%	\$274,048- \$466,533	\$ 5,218,237	\$ -	\$ (274,048)	\$ 4,944,189	\$ 274,048
Other long-term obligations - Accumulated employee benefits			73,941	-	(3,532)	70,409	70,409
Total long-term obligations			<u>\$ 5,292,178</u>	<u>\$ -</u>	<u>\$ (277,580)</u>	<u>\$ 5,014,598</u>	<u>\$ 344,457</u>

**Capital Leases** - The Library has a capital lease relating to its building at December 31, 2007. General obligation bonds were issued by the Canton Township Building Authority and are payable through 2020 for capital improvements of the building. Canton Township and the Library have entered into an agreement that calls for annual payments from the Library equal to the debt service requirements on the bonds. The future minimum lease obligations and the net present value are as follows:

Years Ending December 31	Amount
2008	\$ 487,550
2009	523,675
2010	507,300
2011	546,100
2012	526,300
2013-2017	2,624,575
2018-2020	<u>1,513,400</u>
Total minimum lease payments	6,728,900
Less amount representing interest	<u>(1,784,711)</u>
Present value at December 31, 2007	<u>\$ 4,944,189</u>

**Interest** - Interest expense of the Library for the year ended December 31, 2007 approximated \$228,000.

### **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 general liability, property, workers' compensation, health, and disability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **Note 7 - Defined Benefit Pension Plan**

**Plan Description** - Canton Public Library participates in the Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the Library. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The 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 full-time employees was established by Canton Public Library's board and requires a contribution from the employees of 7 percent of gross wages.

**Annual Pension Cost and Three-year Trend Information** - For the year ended December 31, 2007, Canton Public Library's annual pension cost of \$81,667 for the plan was equal to the Library's required and actual contribution. In addition to the annual required contribution, during the current year, the Library also contributed \$682,319 which was equal to the unfunded accrued liability as of December 31, 2005. The 2007 annual required contribution was determined as part of the actuarial valuation as of December 31, 2005 using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit longevity and promotional salary increases, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component 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. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.

# Canton Public Library

## Notes to Financial Statements December 31, 2007

### Note 7 - Defined Benefit Pension Plan (Continued)

The following trend information includes only pension-related activity (assets, liabilities, and contributions related to health care have been excluded):

	Year Ended December 31		
	2007	2006	2005
Annual pension costs (APC)	\$ 81,667	\$ 82,459	\$ 86,003
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	Actuarial	Actuarial	Actuarial
	Valuation as of	Valuation as of	Valuation as of
	December 31,	December 31,	December 31,
	2006	2005	2004
Actuarial value of assets	\$ 2,021,108	\$ 1,779,454	\$ 1,542,116
Actuarial accrued liability (AAL)	\$ 2,675,915	\$ 2,461,773	\$ 2,157,809
Underfunded AAL (UAAL)	\$ 654,807	\$ 682,319	\$ 615,693
Funded ratio (percentage)	76%	72%	71%
Covered payroll	\$ 826,644	\$ 817,136	\$ 746,841
UAAL as a percentage of covered payroll	79%	84%	82%

### Note 8 - Postemployment Benefits

**Plan Description** - The Library provides healthcare benefits to certain full-time employees, based on age and years of service, upon retirement in accordance with the Canton Public Library Retiree Medical Plan. There are two retirees currently eligible for benefits, for which approximately \$10,000 in benefit premiums was incurred and paid from operations in the current year. The Library includes pre-Medicare retirees and their spouses in its insured healthcare plan, with no contributions required by the participants. The Library will reimburse a minimum of 50 percent of the cost of medical coverage to its retirees depending upon eligibility requirements. The Library purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due.

During the year ended December 31, 2005, the Library transferred net assets of the Fiduciary Fund to MERS Health Care Savings Program (HCSP). The HCSP is acting in a trust capacity to administer, invest, and manage the funds in order to provide for the funding of health benefit retirees.

### Note 8 - Postemployment Benefits (Continued)

During the years ended December 31, 2007 and 2006, the Library transferred \$150,000 and \$50,000, respectively, to the HCSP.

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

During the year, an initial valuation of this benefit was prepared in accordance with GASB No. 45 as of December 31, 2006.

The funding progress of the plan is as follows:

Actuarial value of assets	\$ 289,732
Actuarial accrued liability (AAL)	658,235
Underfunded AAL (UAAL)	368,503
Funded ratio (percentage)	44%

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

### **Note 9 - Postemployment Benefits (Continued)**

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2006 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0 percent investment rate of return (net of administrative expenses). The rate included a 4.5 percent inflation assumption. The actuarial value of assets is set equal to the reported market value of the assets. The UAAL is being amortized as a level percentage of projected payroll if the divisions are open to new hires and as a level of dollar if the divisions are closed to new hires. The remaining amortization period at December 31, 2006 was 30 years.

### **Note 10 - Budget Information**

The annual budget is prepared by the Library management and adopted by the Library board; subsequent amendments are approved by the Library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2007 has not been calculated. 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 budget statement (budgetary comparison schedule - General Fund) is presented on the same basis of accounting and level of detail as the adopted budget.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. There were no unfavorable expenditure budget variances.

# **Canton Public Library**

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**Report to the Canton Public Library Board  
December 31, 2007**



**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

To the Canton Public Library Board  
Canton Public Library

We have recently completed our audit of the basic financial statements of Canton Public Library (the "Library") for the year ended December 31, 2007. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Library.

	<u>Page</u>
<b>Report on Internal Control</b> - Required as of December 31, 2006	1-2
<b>Results of the Audit</b> - Required as of December 31, 2007	3-5
<b>Summary of Unrecorded Possible Adjustments</b>	6
<b>Other Comments and Recommendations</b>	7-9

We are grateful for the opportunity to be of service to Canton Public Library. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

April 3, 2008



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## Report on Internal Control

To the Canton Public Library Board  
Canton Public Library

Dear Board Members:

Beginning with the audit of Canton Public Library's (the "Library") year ended December 31, 2006, national auditing standards require auditors to communicate matters to the governing body that may be useful in its oversight of the Library's financial management. Specifically, we are required to report internal control issues to the governing body that may be relatively minor, in order to allow you to evaluate their significance, and make any changes it may deem appropriate. In general, some of these items may have been discussed orally with management in the past.

In planning and performing our audit of the financial statements of the Library as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

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

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

- During inquiries made of Library personnel while performing required audit procedures, Plante & Moran, PLLC learned of various capital asset purchases that the Library failed to identify and record as capital asset additions in the current year. Although these assets were not considered significant to the government-wide financial statements, under auditing standards, the potential that the failure to identify and record such assets could be more than inconsequential exists.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

- While performing the required audit procedures, Plante & Moran, PLLC proposed journal entries related to property taxes that were necessary in order for the financial statements to be materially correct.

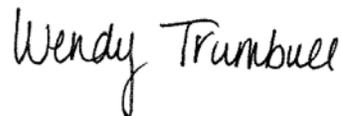
This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Frank W. Audia



Wendy N. Trumbull

## Results of the Audit

To the Canton Public Library Board  
Canton Public Library

We have audited the financial statements of Canton Public Library (the "Library") for the year ended December 31, 2007 and have issued our report thereon dated April 3, 2008. Professional standards now require (beginning with the audit of the year ended December 31, 2007) that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 4, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Canton Public Library. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 29, 2008.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Canton Public Library are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2007.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

#### **Difficulties Encountered in Performing the Audit**

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

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule (Attachment I) summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Material misstatements detected as a result of audit procedures were corrected by management related to the appropriate recording of property taxes receivable and the related deferred revenue.

#### **Disagreements with Management**

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

#### **Management's Representations**

We have requested certain representations from management that are included in the management representation letter dated April 3, 2008.

### **Management's Consultations with Other Independent Accountants**

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

### **Other Audit Findings or Issues**

In the normal course of our professional association with the organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the organization's auditors.

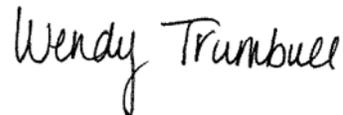
This information is intended solely for the use of the Canton Public Library board of trustees and management of Canton Public Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Frank W. Audia



Wendy N. Trumbull

To the Canton Public Library Board  
 Canton Public Library

Attachment I  
 April 3, 2008

**Client: Canton Public Library**  
**Opinion Unit: Governmental Activities**  
**Y/E: 12/31/2007**

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

Increases (decreases)

Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
<b>Known Misstatements:</b>						
A1	To record desk and CD table purchases as capital asset additions	\$ 24,255				\$ (24,255)
A2						
<b>Estimate Adjustments:</b>						
B1						
B2						
<b>Implied Adjustments:</b>						
C1						
C2						
		-	\$ -	\$ -	\$ -	-
	Combined effect	<u>\$ 24,255</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (24,255)</u>

## **Other Comments and Recommendations**

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# Canton Public Library

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## Other Comments and Recommendations

In addition, we offer the following matters as a result of our audit for your consideration:

### **Safeguarding Cash/Blank Checks**

As a result of testing performed in accordance with new auditing standards, we observed the Library's processes and controls in place over safeguarding of cash and blank checks on hand. We noted that the safe is kept unlocked during the day and that access to the area in which the safe is contained is not limited to only personnel authorized to access the safe. We also noted the director's signature stamp and blank checks were also both maintained in this same unsecured area. Although we understand the Library does keep the safe locked when the administrative staff is offsite, we encourage the Library to consider additional controls over the safe access during the day when administrative staff is onsite. We also understand that subsequent to the audit, the administrative department has locked the signature stamp in a location separate from the blank checks, and we recommend that this be a continued practice at the Library.

### **Retiree Healthcare Benefits and GASB No. 45**

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for governmental entities in recognizing the cost of retiree health care and other nonpension postemployment benefits. The rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of an employee, rather than at the time the healthcare premiums are paid.

The new pronouncement is effective for the Library's year ending December 31, 2009; however, an initial valuation was prepared in accordance with GASB No. 45 as of December 31, 2006 by the Library. The actuary calculated the Library's unfunded liability for retiree health care to be approximately \$370,000 as of December 31, 2006. Based on those facts, the actuary annual required contributions are approximately \$22,000 and \$28,000 for the fiscal years ending December 31, 2008 and 2009, respectively.

In 2007, the Library contributed \$150,000 to the retiree healthcare savings plan. If the Library continues to prefund the plan in excess of the required contribution, the Library will reduce the unfunded liability more quickly than the actuary computation. The Library should continue to discuss its funding policy when determining how much to contribute to the retiree healthcare savings plan. We compliment the Library for proactively addressing this new reporting requirement.

# Canton Public Library

## Other Comments and Recommendations (Continued)

### Property Taxes and Taxable Value Changes

Challenges with property values in the current Michigan economy have been very well publicized. A number of factors are impacting the market value of properties including foreclosures, properties on the market for extended periods of time, properties selling below market value, etc. Property tax assessments are being completed currently for the 2008 tax year and tax rolls will not be finalized until May 2008. However, early indications are that declines in state equalized value may threaten the inflationary growth in taxable value that communities had been experiencing following the passage of Proposal A and tax base growth in Canton may be slowing. We caution the Library to keep this in mind as it reviews the expected financial results for 2008 and its budget for 2009 and the next few years thereafter.

As a response to the situation with the real estate market, legislation is being discussed in Lansing to adjust the mechanics of the general property tax act. The nature of the legislation has ranged from the suspension of the pop-up or increase in taxable value that occurs when a property sells or a super cap on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the Library's main revenue source.

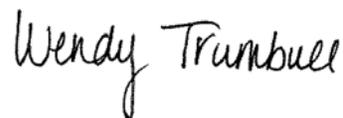
We would like to thank you and your staff again this year for their preparedness, cooperation, and assistance that they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Frank W. Audia



Wendy N. Trumbull