

**Detroit Public Library
Detroit, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

Detroit Public Library

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INDEPENDENT AUDITOR'S REPORT

To the Detroit Library Commission
Detroit Public Library
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Detroit Public Library as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Detroit Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Detroit Public Library as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Detroit Public Library has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Detroit Public Library's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 29, 2008

BASIC FINANCIAL STATEMENTS

Detroit Public Library

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 8,682,384
Investments	13,041,756
Receivables	2,832,557
Due from other governmental units	15,227,452
Prepaid expenses	14,927
Current portion of deferred issuance costs, net	<u>50,773</u>
Total current assets	39,849,849
Noncurrent assets	
Noncurrent portion of deferred issuance costs, net	1,243,746
Capital assets not being depreciated	1,371,996
Capital assets being depreciated, net	19,406,574
Net pension asset	<u>23,278,573</u>
Total noncurrent assets	<u>45,300,889</u>
TOTAL ASSETS	85,150,738
LIABILITIES	
Current liabilities	
Accounts payable	527,128
Accrued wages	346,347
Accrued liabilities	410,236
Due to other governmental units	1,978,000
Deferred revenue	12,500
Current portion of deferred swap termination fees	27,875
Current portion of compensated absences	238,086
Current portion of accrued workers' compensation payable	<u>7,061</u>
Total current liabilities	3,547,233
Noncurrent liabilities	
Advance payable to other governmental units, net	24,068,781
Noncurrent portion of deferred swap termination fees	752,614
Noncurrent portion of compensated absences	4,277,105
Noncurrent portion of accrued workers' compensation payable	<u>133,967</u>
Total noncurrent liabilities	<u>29,232,467</u>
TOTAL LIABILITIES	<u>32,779,700</u>
NET ASSETS	
Invested in capital assets	20,778,570
Restricted for endowment purposes:	
Expendable	3,076,206
Nonexpendable	185,000
Unrestricted	<u>28,331,262</u>
TOTAL NET ASSETS	<u>\$ 52,371,038</u>

See accompanying notes to financial statements.

Detroit Public Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Recreation and cultural	<u>\$ 41,454,214</u>	<u>\$ 568,977</u>	<u>\$ 2,173,213</u>	\$ (38,712,024)
General revenues:				
Property taxes				39,644,729
Interest and penalties on taxes				461,728
Other taxes				2,816,106
State shared revenue				1,599,404
Investment earnings				1,699,845
Insurance recovery				380,587
Miscellaneous				<u>529,405</u>
				<u>47,131,804</u>
				8,419,780
				<u>43,951,258</u>
				<u>\$ 52,371,038</u>

See accompanying notes to financial statements.

Detroit Public Library

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 6,425,270	\$ 2,257,114	\$ 8,682,384
Investments	6,032,848	7,008,908	13,041,756
Receivables			
Accounts	159,761	-	159,761
Taxes, net	2,575,105	-	2,575,105
Interest	97,691	-	97,691
Due from other governmental units	13,787,451	6,666	13,794,117
Due from other funds	30,000	461,270	491,270
Prepaid expenditures	14,927	-	14,927
	<u>\$ 29,123,053</u>	<u>\$ 9,733,958</u>	<u>\$ 38,857,011</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 527,128	\$ -	\$ 527,128
Accrued wages	346,347	-	346,347
Accrued liabilities	410,236	-	410,236
Due to other governmental units	1,978,000	-	1,978,000
Due to other funds	16,350	474,920	491,270
Deferred revenue	-	12,500	12,500
	<u>3,278,061</u>	<u>487,420</u>	<u>3,765,481</u>
TOTAL LIABILITIES			
FUND BALANCES			
Reserved for endowment purposes	-	185,000	185,000
Unreserved			
Designated for:			
Burton Historical Collection	-	3,051,994	3,051,994
Poland and Polish-American society material	-	24,212	24,212
Undesignated, reported in:			
General Fund	25,844,992	-	25,844,992
Special Revenue Funds	-	5,985,332	5,985,332
	<u>25,844,992</u>	<u>9,246,538</u>	<u>35,091,530</u>
TOTAL FUND BALANCES			
TOTAL LIABILITIES AND FUND BALANCES			
	<u>\$ 29,123,053</u>	<u>\$ 9,733,958</u>	<u>\$ 38,857,011</u>

See accompanying notes to financial statements.

Detroit Public Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental funds **\$ 35,091,530**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds:

The cost of capital assets is	\$ 176,261,125	
Accumulated depreciation is	<u>(155,482,555)</u>	
Capital assets, net		20,778,570

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:

Pension obligation certificate issuance costs	1,345,292	
Accumulated amortization	<u>(50,773)</u>	
Net pension obligation certificate issuance costs		1,294,519

Receivables applicable to governmental activities are not due and collectible in the current period and therefore are not recognized in the governmental funds	1,433,335
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Issuance of pension obligation certificates created a net pension asset	23,278,573
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. Long-term liabilities at year-end consist of:

Compensated absences	(4,515,191)	
Advance payable to other governmental units, net	(24,068,781)	
Deferred swap termination fees	(780,489)	
Accrued workers compensation payable	<u>(141,028)</u>	
		<u>(29,505,489)</u>

Net assets of governmental activities **\$ 52,371,038**

See accompanying notes to financial statements.

Detroit Public Library

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 41,989,080	\$ -	\$ 41,989,080
Intergovernmental	3,505,543	-	3,505,543
Fines and forfeits	360,161	-	360,161
Charges for services	8,686	189,485	198,171
Interest and rents	457,092	1,253,398	1,710,490
Other	524,202	652,864	1,177,066
	46,844,764	2,095,747	48,940,511
TOTAL REVENUES			
EXPENDITURES			
Current			
Recreation and cultural	38,990,211	1,232,437	40,222,648
Capital outlay	4,264,527	-	4,264,527
	43,254,738	1,232,437	44,487,175
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCES	3,590,026	863,310	4,453,336
Fund balances, beginning of year	22,254,966	8,383,228	30,638,194
Fund balances, end of year	\$ 25,844,992	\$ 9,246,538	\$ 35,091,530

See accompanying notes to financial statements.

Detroit Public Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Net change in fund balances - total governmental funds **\$ 4,453,336**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 4,249,334	
Depreciation expense	<u>(2,132,718)</u>	
 Excess of capital outlay over depreciation expense		 2,116,616

The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to decrease net assets	(2,500)
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Payments to the pension system increased the net pension asset	487,317
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Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental funds	933,483
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued compensated absences	481,429	
Decrease in deferred swap termination fees	27,875	
Amortization of deferred issuance costs	(50,773)	
Amortization of deferred amounts on refunding	<u>(27,003)</u>	
		<u>431,528</u>

Change in net assets of governmental activities **\$ 8,419,780**

See accompanying notes to financial statements.

Detroit Public Library

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Private Purpose Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 54,345
Investments	<u>462,651</u>
TOTAL ASSETS	516,996
LIABILITIES	<u>-</u>
NET ASSETS	
Held in trusts for private purposes	<u>\$ 516,996</u>

See accompanying notes to financial statements.

Detroit Public Library

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2007

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Investment earnings	\$ 77,718
DEDUCTIONS	
Miscellaneous	<u>283</u>
CHANGE IN NET ASSETS	77,435
Net assets, beginning of year	<u>439,561</u>
Net assets, end of year	<u><u>\$ 516,996</u></u>

See accompanying notes to financial statements.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Detroit Public Library (the Library) is governed by the Detroit Library Commission, whose members are appointed by the Detroit Board of Education as authorized by Local Act 314 of 1881 (an amendment to Act 233 of 1869, "The Free School Act"). The Detroit Library Commission has six (6) members appointed by the Detroit Board of Education and the President of the Board of Education serves as an *ex-officio* member. Under the authority of Public Act 26 of 1921, the annual budget of the Detroit Library Commission shall be submitted to and passed upon by the Detroit City Council.

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Library:

1. Reporting Entity

The Library is considered a component unit of the City of Detroit. 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 the Library's financial report.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Library as a whole.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, investment earnings, and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major funds and aggregated nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The General Fund is the Library's only major fund. The General Fund is the general operating fund of the Library. It is used to account for all financial resources not accounted for in other funds. General Fund activities are financed by revenue from general property taxes, penal fines, and other sources.

The Library also reports fiduciary funds to account for assets held by the Library as an agent for Wayne State University.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus - Continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

If/when both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements used the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenses.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. Revenues susceptible to accrual include property taxes, and state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

The Library reports deferred revenue on its statement of net assets and its governmental funds balance sheet. Under the modified accrual basis of accounting, deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Under both the accrual and modified accrual basis of accounting, deferred revenues also arise when the Library receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

Budgets were prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data.

The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Library's administration prepares budgetary estimates for consideration by the Detroit Library Commission.
- b. In December of the preceding fiscal year, the Detroit Library Commission transmits budgetary estimates to the City of Detroit's Budget Director.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - Continued

- c. The City's Budget Director compiles budgetary estimates from all City departments for transmission to the Mayor of the City of Detroit in February of the preceding fiscal year for consideration and revision if deemed necessary.
- d. The Budget Director retabulates the budget as revised by the Mayor and transmits the revised budget to the Detroit City Council in April of the preceding fiscal year.
- e. The Detroit City Council reviews and approves the Library's budgets at the functional level and encompasses the budget within the City's budget.
- f. Prior to incurring significant expenditures, the budget is legally enacted through action by the Detroit Library Commission.

6. Cash, Cash Equivalents, and Investments

The Library's cash consists of money market checking and savings accounts. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the Library's cash equivalents and investments. Cash equivalents consist of temporary investments in certificates of deposit, money markets, and investment trust funds with an original maturity of 90 days or less. The investment trust funds have the general characteristics of demand deposit accounts in that the Library may deposit and withdraw additional cash at any time without prior notice or penalty.

Investments consist of certificates of deposit, municipal and corporate bonds, stocks, mutual funds, and investment pools with an original maturity of over 90 days. Investments are stated at fair value.

7. Receivables

Receivables consist of property taxes, penal fines, interest, and other amounts due from other funds, organizations, or governments.

8. Property Taxes

As a component unit of the City of Detroit, the Library's property taxes are levied and collected by the City on behalf of the Library. The City's property tax is levied each July 1 of the fiscal year and is payable without penalty either on or before August 31, in full or one-half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. The Library records property tax revenue when available. Available is defined as due and receivable within the current fiscal year and collected within the current fiscal year or expected to be collected within 60 days thereafter. The City is permitted to levy up to \$4.6307 per \$1,000 of assessed valuation for Library operations. For the year ended June 30, 2007, the City levied 4.6307 mills for Library operations.

9. Capital Assets

Capital assets include land, land improvements, buildings and improvements, works of art, machinery and equipment, books, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Generally, capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. In addition, all land, land improvements, land rights and easements, library materials and rare materials (including works of art and historical treasures) are considered capital assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Capital Assets - Continued

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in the governmental funds and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings and improvements	20 - 50 years
Works of art	10 - 20 years
Machinery and equipment	5 - 10 years
Books	5 years
Vehicles	5 years

10. Compensated Absences

In accordance with the Library personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of June 30, 2007, including related payroll taxes, is recorded in the government-wide financial statements.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

With respect to the endowments held by the Detroit Public Library, deposits and investments are made in accordance with the Uniform Management of Institutional Funds Act, Public Act 157 of 1976. In addition to an investment otherwise authorized by law or by the endowment agreements, the Detroit Library Commission, subject to specific limitations set forth in the endowment agreements, may:

1. Invest and reinvest the Fund in real or personal property deemed advisable by the governing board, whether or not it produces a current return, including mortgages, stocks, bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government, or subdivision, or instrumentality thereof.
2. Retain property contributed by a donor to the Fund for as long as the governing board deems advisable.
3. Include all or any part of the Fund in a pooled or common fund maintained by the institution.
4. Invest all or any part of the Fund in any other pooled or common fund available for investment, including shares or interest in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of Detroit Public Library. As of June 30, 2007, the carrying amount of the Library's deposits was \$8,099,125 and the bank balance was \$8,245,898, of which \$473,315 was covered by Federal depository insurance. The balance of \$7,772,583 was uninsured and uncollateralized. The financial statements include \$8,800 of imprest cash.

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

Detroit Public Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

As of June 30, 2007, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 7,800,841	\$ 7,947,614
Savings	34,502	34,502
Certificates of deposit	<u>263,782</u>	<u>263,782</u>
TOTAL	<u>\$ 8,099,125</u>	<u>\$ 8,245,898</u>

Investments

The Detroit Public Library has investments that are held in various investment vehicles. Following is a summary of the Library's investment securities which were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Library's name:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
Short-term investments	\$ 867,585	N/A
U.S. government obligations	131,510	7.26
U.S. federal agencies	350,479	3.42
Federal Home Loan Bank	2,985,940	0.28
Federal National Mortgage Association	2,995,000	1.18
Inflation index bonds	12,810	1.55
Mortgage backed securities	49,838	5.20
Collateralized mortgage obligations	73,829	2.85
Asset backed securities	55,917	3.96
Domestic and foreign corporate bonds	1,769,673	9.36
Domestic and foreign stocks	4,723,453	N/A
Uncategorized pooled investment funds	<u>117,177</u>	N/A
Total investments	<u>\$14,133,211</u>	

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Detroit Public Library does not have a policy for custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Detroit Public Library does not have a policy that restricts investment maturities.

Credit Risk

The Uniform Management of Institutional Funds Act does not limit investments of the endowment funds to certain credit ratings issued by nationally recognized statistical rating organizations. Similarly, the Detroit Public Library has no investment policy that limits its investment choices.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Credit Risk - Continued

The investments held by the Library were rated by Standard & Poor's as follows:

	<u>Fair Value</u>
AAA	\$ 529,599
AA+	20,719
AA	102,256
AA-	125,613
A+	92,568
A	53,795
A-	10,408
BBB	25,029
Not rated	<u>13,173,224</u>
	<u>\$14,133,211</u>

Concentration of Credit Risk

The Detroit Public Library places no limit on the amount that may be invested in any one issuer.

Foreign Currency Risk

The Detroit Public Library, as administrator for the Fund, does not have a policy for foreign currency risk. The Fund's exposure to foreign currency risk is as follows:

	<u>Fair Value</u>
Foreign stock	\$ 153,732
Foreign bonds, notes and debentures	<u>15,145</u>
	<u>\$ 168,877</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2007, were as follows:

Due to General Fund from:	
Nonmajor governmental funds	\$ <u>30,000</u>
Due to nonmajor governmental funds from:	
General Fund	\$ 16,350
Nonmajor governmental funds	<u>444,920</u>
	<u>\$ 461,270</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Restated Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>
Capital assets, not being depreciated				
Land	\$ 1,371,996	\$ -	\$ -	\$ 1,371,996
Capital assets, being depreciated				
Land improvements	138,444	-	-	138,444
Buildings and improvements	28,033,917	-	-	28,033,917
Works of art	18,745,260	1,130,175	(100,000)	19,775,435
Machinery and equipment	2,639,356	79,533	(18,426)	2,700,463
Books	120,544,786	3,039,626	-	123,584,412
Vehicles	<u>656,458</u>	<u>-</u>	<u>-</u>	<u>656,458</u>
Total capital assets being depreciated	170,758,221	4,249,334	(118,426)	174,889,129
Less accumulated depreciation for:				
Land improvements	(136,093)	(672)	-	(136,765)
Buildings and improvements	(16,975,052)	(357,686)	-	(17,332,738)
Works of art	(18,745,260)	-	100,000	(18,645,260)
Machinery and equipment	(2,278,289)	(38,311)	18,426	(2,298,174)
Books	(114,907,710)	(1,670,964)	-	(116,578,674)
Vehicles	<u>(425,859)</u>	<u>(65,085)</u>	<u>-</u>	<u>(490,944)</u>
Total accumulated depreciation	<u>(153,468,263)</u>	<u>(2,132,718)</u>	<u>118,426</u>	<u>(155,482,555)</u>
Net capital assets, being depreciated	<u>17,289,958</u>	<u>2,116,616</u>	<u>-0-</u>	<u>19,406,574</u>
Capital assets, net	<u>\$ 18,661,954</u>	<u>\$ 2,116,616</u>	<u>\$ -0-</u>	<u>\$ 20,778,570</u>

NOTE E: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations (including current portion) of the Library for the year ended June 30, 2007:

	Restated Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>	Amounts Due Within <u>One Year</u>
Compensated absences	<u>\$ 4,996,620</u>	<u>\$ -</u>	<u>\$(481,429)</u>	<u>\$ 4,515,191</u>	<u>\$ 238,086</u>

In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused sick and vacation time under the formulas and conditions specified in the personnel policies. The dollar amount of these rights including related payroll taxes amounted to \$4,515,191 for compensated absences at June 30, 2007. This amount has been recorded in the government-wide financial statements. An additional \$277,432 has been recorded in the fund financial statements as accrued liabilities and represents only the portion of compensated absences that has matured and is considered a current liability.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: ADVANCE PAYABLE TO OTHER GOVERNMENTAL UNITS

In June 2005, the Detroit Retirement Systems Funding Trust issued \$1,440,000,000 (\$640 million of fixed rate, Series A, and \$800 million of floating rate, Series B) of taxable Pension Obligation Certificates (POC). The Trust was created by the General Retirement System Service Corporation (GRSSC) and the Police and Fire Retirement System Service Corporation (PFRSSC), both blended component units of the City of Detroit. The City entered into service contracts with the GRSSC and PFRSSC to facilitate the transaction.

The POC were issued for the purpose of funding certain unfunded accrued actuarial liabilities (UAAL) of the two retirement systems of the City, which include the General Retirement System (GRS) and the Police & Fire Retirement System (PFRS), and a portion of the then current year normal contribution. The GRS includes employees and retirees of the Detroit Public Library.

The Library was prorated a portion of the POC liability assumed, representing the Library's share of the UAAL reduction in 2005, which was recorded as an advance from other governmental units.

On February 8, 2006, the governing board of the GRS extended the amortization period for UAAL from 20 to 30 years. Taxable Certificates of Participation, Series 2006, were issued to enable the City of Detroit to replace certain scheduled payment obligations payable over the extended 30-year period under the 2006 service contracts.

Accordingly, the Detroit Retirement Systems Funding Trust issued \$948,540,000 (\$148,540,000 of fixed rate, Series A, and \$800 million of floating rate, Series B) of taxable Series 2006 POC. The City also terminated the swap agreements entered into in the 2005 transaction and received \$48,932,455. Again, the Library was prorated a portion of the POC liability assumed, as well as a portion of the deferred swap agreement termination fees. The deferred revenue resulting from the swap agreement termination is being amortized over a period of 29 years.

In June 2006, the City refinanced the POC's issued in June 2005 that were used to fund certain unfunded accrued actuarial liabilities. The City incurred costs of insurance policies, underwriter's discounts, tender fees, and other expenses associated with the 2006 transaction (collectively, costs of issuance). The Library was allocated a portion of these costs of issuance. The costs of the 2006 issuance are being amortized over a period of 29 years.

The total deferred amount on refunding is comprised of the amount transferred from Series 2005 issuance costs plus tender and redemption premiums paid. It is being amortized over the remaining life of the old POC's Series 2005 (19 years), which is the shorter than the life of the new POC's Series 2006 (29 years).

The following summarizes the Pension Obligation Certificates activity related to the Library for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Advance payable	\$ 24,554,826	-	-	\$ 24,554,826
Deferred amounts on refunding	(513,048)	-	27,003	(486,045)
Net advance payable	<u>\$ 24,041,778</u>	<u>\$ -0-</u>	<u>\$ 27,003</u>	<u>\$ 24,068,781</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G: RISK MANAGEMENT

The Library is exposed to various risks of loss for liability, property, employee dishonesty, and employer's liability for which the Library carries commercial insurance.

The Library, through the City of Detroit, is self-insured for workers' compensation losses. Separate analysis of such liabilities is not available for the Library. The Library reimburses the City for all costs incurred related to workers' compensation. The Library has recorded a related liability in the government-wide financial statements.

NOTE H: PENSION PLANS

The City of Detroit Retirement System consists of the General Retirement System (GRS) and the Policemen and Firemen Retirement System (PFRS). Each system is a single-employer plan composed of a Defined Benefit Plan and a Defined Contribution Annuity Plan. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The Systems issued publicly available financial reports that include financial statements and the required supplementary information. The GRS provides retirement benefits to employees of the Detroit Public Library. The reports can be obtained from City of Detroit Retirement Systems, 2 Woodward Avenue, Coleman A. Young Municipal Center, Room 908, Detroit, Michigan 48226.

These plans are administered in accordance with the City Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to each plan's Board of Trustees. The Systems' investment policies are governed in accordance with the State Public Act 314 of 1965, as amended.

Funding Policy

The Library's policy is to fund normal costs and amortization of prior service costs. The Library is required to contribute at an actuarially determined rate. The actuarially computed employer contribution rate for the year ended June 30, 2007 was 11.33% of active annual payroll. The Library incurred pension expenses approximating \$1.7 million for the fiscal year ended June 30, 2007.

Employee Contribution Elections

Employees may also elect to contribute (a) 0 percent, (b) 3 percent of annual compensation up to the Social Security wage base and 5 percent of any excess over that, (c) 5 percent, or (d) 7 percent toward annuity savings. Contributions from all City employees during the year ended June 30, 2007 totaled \$19,438,360. Contributions from Library employees only were not readily determinable.

The contribution requirements of plan members and the City of Detroit are established and may be amended by the boards of trustees in accordance with the City Charter, union contracts, and plan provisions.

Members may retire with full benefits after attaining 30 years of service; age 55 with 30 years of service if hired after January 1, 1996; age 60 with 10 years of service; or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit. Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service.

Members of the GRS who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System. Pension benefits for all members of the GRS are increased annually by 2.25% of the original pension.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE H: PENSION PLANS - CONTINUED

Employee contributions for annuity savings may be withdrawn upon separation from the City. At retirement, members have the option to withdraw all or part of their accumulated annuity contributions plus interest in either a lump sum or to receive monthly annuity payments. Employees may withdraw their annuity balance if they have accumulated 25 years of service.

Significant actuarial assumptions used in preparing the General Retirement Systems' financial statements for the year ended June 30, 2007 follow:

Valuation date	June 30, 2007
Actuarial cost method	Entry Age
Amortization method	Level Percent
Remaining amortization period	30 years
Asset valuation method	3-year Smoothed Market
Actuarial assumptions:	
Investment rate of return	7.9%
Projected salary increases	4.0% - 9.5%
Includes inflation at	4.0%
Cost-of-living adjustments	2.25%

The annual pension costs and net pension assets of the Library as of June 30, 2007, are as follows:

Annual required contributions	\$ 1,737,487
Interest on net pension assets	(1,800,509)
Adjustment to annual required contribution	<u>1,279,538</u>
Annual pension cost	1,216,516
Employer contributions made	<u>1,703,833</u>
Change in net pension assets	487,317
Net pension assets, beginning of year	<u>22,791,256</u>
Net pension assets, end of year	<u>\$ 23,278,573</u>

Additional information regarding citywide employee participation, benefit obligations, and funding status for the GRS is available in the City's comprehensive annual financial report.

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The City of Detroit provides health care and certain other related benefits to retired employees, including retired employees of the Library. The Library reimburses the City of Detroit for costs incurred on behalf of its employees. Costs are accounted for in accordance with GASB Statement No. 12, *Disclosures of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers*. The benefits are provided in accordance with the City of Detroit Charter and union contracts. Post-employment benefits are financed on a pay-as-you-go basis by the City of Detroit. The Library's share of the post-employment benefits were as follows:

Benefits	City Cost	Retiree Cost	Total Cost
Hospitalization	\$ 1,225,640	\$ 380,923	\$ 1,606,563
Dental care	99,300	-	99,300
Eye care	20,150	-	20,150
Life insurance	41	-	41
Total	\$ 1,345,131	\$ 380,923	\$ 1,726,054

Upcoming Reporting Change

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" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

NOTE J: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Library has set aside for specific purposes.

The following are fund balance reserves as of June 30, 2007:

Nonmajor governmental funds:	
Burton Endowment	\$ 150,000
Walus Endowment	30,000
Cadillac Post Memorial	5,000
	\$ 185,000

The following are fund balance designations as of June 30, 2007:

Nonmajor governmental funds:	
Burton Historical Collection	\$ 3,051,994
Printed material pertaining to Poland and Polish-American society	24,212
	\$ 3,076,206

Detroit Public Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source preclude their use for unrestricted purposes. The following are the net asset restrictions as of June 30, 2007:

	<u>Expendable</u>	<u>Nonexpendable</u>	<u>Total</u>
Restricted for endowment purposes:			
Burton Historical Collection	\$ 3,051,994	\$ 155,000	\$ 3,206,994
Walus Endowment	<u>24,212</u>	<u>30,000</u>	<u>54,212</u>
	<u>\$ 3,076,206</u>	<u>\$ 185,000</u>	<u>\$ 3,261,206</u>

NOTE L: CONTINGENT LIABILITIES

There is legal action pending against the Library. Due to the inconclusive nature of the action, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. The legal action will be vigorously defended and the potential liability, if any, is considered by the Library's management to be immaterial to the financial statements taken as a whole.

NOTE M: RESTATEMENT OF NET ASSETS

Beginning net assets have been restated to reflect various corrections of accounting errors. Assets had been overstated by \$9,657,989 and liabilities had been overstated by \$8,492,362. The net adjustment of (\$1,165,627) results in restated net assets as of June 30, 2006 of \$43,951,258.

NOTE N: SUBSEQUENT EVENTS

In September 2007, the Detroit Library Commission approved contracts totaling \$955,000 for phase II of the redesign and implementation of new network infrastructure and related technical support. Also in September 2007, the Detroit Library Commission approved the purchase of hardware for network improvements in the amount of \$645,465. Fund balance and future anticipated operating revenues are expected to be sufficient to cover these commitments.

REQUIRED SUPPLEMENTARY INFORMATION

Detroit Public Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budget Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Property taxes	\$ 40,641,709	\$ 40,641,709	\$ 39,644,729	\$ (996,980)
Interest and penalties on taxes	875,000	875,000	461,728	(413,272)
Other taxes	1,463,099	1,463,099	1,882,623	419,524
Total taxes	42,979,808	42,979,808	41,989,080	(990,728)
Intergovernmental				
State shared revenue	1,600,000	1,600,000	1,599,404	(596)
State aid	760,000	760,000	751,932	(8,068)
Court fines	1,100,000	1,100,000	1,154,207	54,207
Total intergovernmental	3,460,000	3,460,000	3,505,543	45,543
Fines and forfeits				
Library fines	234,000	234,000	239,117	5,117
Other fees	105,000	105,000	121,044	16,044
Total fines and forfeits	339,000	339,000	360,161	21,161
Charges for services	20,000	20,000	8,686	(11,314)
Interest and rents				
Interest	71,000	71,000	446,447	375,447
Rent	8,000	8,000	10,645	2,645
Total interest and rents	79,000	79,000	457,092	378,092
Other revenues	206,000	206,000	524,202	318,202
TOTAL REVENUES	47,083,808	47,083,808	46,844,764	(239,044)
EXPENDITURES				
Current				
Recreation and cultural				
Salaries and wages	17,459,375	17,459,375	16,327,247	1,132,128
Fringe benefits	8,422,762	8,422,762	11,427,444	(3,004,682)
Supplies	390,000	390,000	592,927	(202,927)
Printing	70,000	70,000	8,286	61,714
Postage	70,000	70,000	17,759	52,241
Contracted services	3,802,835	3,802,835	2,528,402	1,274,433
Rent	337,269	337,269	272,070	65,199
Marketing	40,000	40,000	8,946	31,054

Detroit Public Library

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and cultural - continued				
Insurance	\$ 750,000	\$ 750,000	\$ 825,991	\$ (75,991)
Communications	450,000	450,000	861,856	(411,856)
Utilities	1,985,000	1,985,000	1,630,255	354,745
Training	25,000	25,000	23,423	1,577
Repairs and maintenance	298,500	298,500	933,842	(635,342)
Captured property taxes	4,843,447	4,843,447	3,476,086	1,367,361
Other	478,394	478,394	55,677	422,717
Total recreation and cultural	39,422,582	39,422,582	38,990,211	432,371
Capital outlay	7,661,226	7,661,226	4,264,527	3,396,699
TOTAL EXPENDITURES	47,083,808	47,083,808	43,254,738	3,829,070
NET CHANGE IN FUND BALANCE	-0-	-0-	3,590,026	3,590,026
Fund balance, beginning of year	22,254,966	22,254,966	22,254,966	-0-
Fund balance, end of year	\$ 22,254,966	\$ 22,254,966	\$ 25,844,992	\$ 3,590,026

OTHER SUPPLEMENTARY INFORMATION

Detroit Public Library
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 June 30, 2007

	Special Revenue	
	Grants and Gifts	O'Brien Trust
ASSETS		
Cash and cash equivalents	\$ 1,307,229	\$ 410,333
Investments	1,171,281	3,119,851
Due from other governmental units	6,666	-
Due from other funds	420,708	-
TOTAL ASSETS	\$ 2,905,884	\$ 3,530,184
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Due to other funds	\$ 54,212	\$ -
Deferred revenue	12,500	-
TOTAL LIABILITIES	66,712	-0-
FUND BALANCES		
Reserved for endowment purposes	5,000	-
Unreserved		
Designated for:		
Burton Historical Collection	379,024	-
Poland and Polish-American society material	-	-
Undesignated, reported in:		
Special Revenue Funds	2,455,148	3,530,184
TOTAL FUND BALANCES	2,839,172	3,530,184
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,905,884	\$ 3,530,184

Permanent		Total
Burton	Walus	Nonmajor
Endowment	Endowment	Governmental
		Funds
\$ 539,552	\$ -	\$ 2,257,114
2,687,776	30,000	7,008,908
-	-	6,666
16,350	24,212	461,270
<u>\$ 3,243,678</u>	<u>\$ 54,212</u>	<u>\$ 9,733,958</u>
\$ 420,708	\$ -	\$ 474,920
-	-	12,500
420,708	-0-	487,420
150,000	30,000	185,000
2,672,970	-	3,051,994
-	24,212	24,212
-	-	5,985,332
<u>2,822,970</u>	<u>54,212</u>	<u>9,246,538</u>
<u>\$ 3,243,678</u>	<u>\$ 54,212</u>	<u>\$ 9,733,958</u>

Detroit Public Library

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	Special Revenue	
	Grants and Gifts	O'Brien Trust
REVENUES		
Charges for services	\$ 178,058	\$ -
Interest and rents	158,722	720,275
Other		
Contributions and donations	53,791	-
Grants	213,283	-
Insurance recovery	380,587	-
Miscellaneous	3,932	459
TOTAL REVENUES	988,373	720,734
EXPENDITURES		
Current		
Recreation and cultural		
Supplies	11,748	-
Postage	6,000	-
Library reference materials	24,554	-
Programs	56,750	-
Publications and subscriptions	8,153	-
Contracted services	145,421	-
Marketing	7,135	-
Communications	4,593	-
Training	3,172	71,061
Repairs and maintenance	742,587	-
Other	64,813	8,381
TOTAL EXPENDITURES	1,074,926	79,442
NET CHANGE IN FUND BALANCES	(86,553)	641,292
Fund balances, beginning of year	2,925,725	2,888,892
Fund balances, end of year	\$ 2,839,172	\$ 3,530,184

Permanent		Total
Burton	Walus	Nonmajor
Endowment	Endowment	Governmental
		Funds
\$ 11,427	\$ -	\$ 189,485
373,288	1,113	1,253,398
-	-	53,791
-	-	213,283
-	-	380,587
812	-	5,203
385,527	1,113	2,095,747
-	-	11,748
-	-	6,000
48,751	-	73,305
-	-	56,750
-	-	8,153
29,179	-	174,600
-	-	7,135
-	-	4,593
-	-	74,233
-	-	742,587
139	-	73,333
78,069	-0-	1,232,437
307,458	1,113	863,310
2,515,512	53,099	8,383,228
<u>\$ 2,822,970</u>	<u>\$ 54,212</u>	<u>\$ 9,246,538</u>

Detroit Public Library

Private Purpose Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Biddle Endowment</u>	<u>McGraw Endowment</u>	<u>Total Private Purpose Trust Funds</u>
ASSETS			
Cash and cash equivalents	\$ 43,493	\$ 10,852	\$ 54,345
Investments	<u>419,336</u>	<u>43,315</u>	<u>462,651</u>
TOTAL ASSETS	462,829	54,167	516,996
LIABILITIES	<u>-</u>	<u>-</u>	<u>-0-</u>
NET ASSETS			
Held in trust for private purposes	<u>\$ 462,829</u>	<u>\$ 54,167</u>	<u>\$ 516,996</u>

Detroit Public Library

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2007

	<u>Biddle Endowment</u>	<u>McGraw Endowment</u>	<u>Total Private Purpose Trust Funds</u>
ADDITIONS			
Investment earnings	\$ 76,026	\$ 1,692	\$ 77,718
DEDUCTIONS			
Miscellaneous	<u>283</u>	<u>-</u>	<u>283</u>
CHANGE IN NET ASSETS	75,743	1,692	77,435
Net assets, beginning of year	<u>387,086</u>	<u>52,475</u>	<u>439,561</u>
Net assets, end of year	<u>\$ 462,829</u>	<u>\$ 54,167</u>	<u>\$ 516,996</u>

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS**

Members of the Detroit Library Commission
Detroit Public Library
Detroit, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Detroit Public Library as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Detroit Public Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Detroit Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Detroit Public 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America 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 controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 (SAS 112) titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with U.S. generally accepted accounting principles (GAAP).

The management of the Detroit Public Library understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process.

PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) has determined that it is necessary for all governmental entities to supplement their basic financial statements with a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Library has not presented a management's discussion and analysis because the financial statements for the previous fiscal year were unaudited and required significant adjustments. Any comparisons between the financial statements for the year ended June 30, 2007 and that of the previous fiscal year would likely not be meaningful.

We are communicating these circumstances as required by professional standards. We recommend the management of the Library consider the benefits of preparing a MD&A as well as the related costs to do so.

FRAUD RISK MANAGEMENT PROGRAM

During discussions with management, we noted that the Detroit Public Library had not developed or implemented a fraud risk management program as of June 30, 2007. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Library not developing a fraud risk assessment and monitoring program, it is unable to assess the Library's vulnerabilities to fraudulent activities and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Library's management develop and the Detroit Library Commission formally implement a fraud risk management program that is appropriate for the size and complexity of the entity. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the entity, and instructions for reporting fraud within the chain of command.

UNRECORDED PREPAID EXPENDITURES

During our analysis of the expenditures for the Burton Endowment Fund, we noted that invoices for publication subscriptions extending beyond the end of the fiscal year were not allocated to the appropriate fiscal year. While the amount of the expenditures that should have been classified as prepaid was not considered material, the Library does not have controls in place to report the prepaid expenditures in accordance with generally accepted accounting principles.

We recommend that Library personnel analyze invoices for subscriptions that overlap fiscal years to calculate the amounts attributable to each of the respective fiscal years. Prepaid expenditures should be recorded for the portion of the subscription that will be received after the end of the current fiscal year.

BUDGET PREPARATION AND MONITORING PROCESSES

During our consideration of the Library's internal controls, we noted that the budget approval process for the Library involves preparation of a budget by the management of the Library and subsequent approvals subject to revision by the Library Commission, the Mayor of the City of Detroit, and the Detroit City Council. Once the budget has been adopted by the Detroit City Council, it historically has never been amended. In order to remain in compliance with the Uniform Budgeting and Accounting Act (Act 2 of 1968, Budget Sections as amended), we recommend management prepare periodic interim budget vs. actual financial statements for the Detroit Library Commission to review. The budgetary information used in the periodic interim reporting should be the legally adopted budget.

BUDGET PREPARATION AND MONITORING PROCESSES - CONTINUED

Furthermore, the Uniform Budgeting and Accounting Act requires the original adopted budget to be amended "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

We recommend management provide the Detroit Library Commission with periodic budgetary comparison reports that utilize the budget that is legally adopted by the Detroit City Council. We also recommend that the Detroit Library Commission review such financial reports on a monthly basis. Management should recommend and the Detroit Library Commission should provide for budget amendments prior to exceeding amounts appropriated. To legally amend the budget, the budget amendment requests would need to be sent to the Detroit City Council for consideration.

IDENTIFICATION OF IMPAIRED ASSETS

During our audit, we noted that there was not a formal process for monitoring and tracking events that could cause an asset to be impaired. Not having an adequate process over monitoring the events that could cause an asset to be impaired could cause an error in the financial statements.

We recommend the Library develop a formalized internal control policy for monitoring the events that could cause an asset to be impaired.

ESCHEATING UNCLAIMED PROPERTY TO THE STATE OF MICHIGAN

During our discussions with management, it was noted that the Library's management does not have a documented procedure to ensure that unclaimed property (i.e., outstanding checks) is escheated to the Michigan Department of Treasury's Unclaimed Property Division. Because the Library does not have a procedure in place, there is a risk that the liabilities of the Library could be understated due to the potential existence of penalties and interest associated with not filing an annual claim file report per the State of Michigan's Unclaimed Property Act.

We recommend the Library develop internal controls procedures to ensure that the required escheatment documentation and the related escheatable property have been submitted to the Unclaimed Property Division in accordance with Michigan Compiled Law.

SUBMISSION OF INVOICES TO THE CITY OF DETROIT

During our audit, we noted a significant lag exists between the submission of invoices to the City of Detroit and the subsequent processing of the invoices through the DRMS accounting system maintained by the City of Detroit. As a result, the financial information generated through DRMS for budgetary comparison purposes is neither timely nor useful.

We recommend the management of the Library consider having the staff of the Library process invoices through DRMS rather than sending the invoices to the City for processing. This may require coordination and cooperation with the City of Detroit.

ACCOUNTING FOR ENDOWMENT AND GRANT FUND ACTIVITY

The Library does not account for various endowment and grant fund activity by fund throughout the fiscal year, rather there is one QuickBooks file that accounts for all endowments and other grants. The Library's accounting department is able to identify the line items attributed to each fund and when requested as part of our audit process, provided trial balances for each fund of the Detroit Public Library.

We recommend the Library consider maintaining separate "companies" within QuickBooks to be able to provide monthly financial reporting for each of the endowment and grant funds separately throughout year. This may require an enhancement to the current accounting system maintained by the accounting department of the Detroit Public Library.

DEPRECIATION EXPENSE CALCULATIONS

During our analysis of capital assets and related accumulated depreciation, we noted that the Library's current year depreciation expense did not recalculate correctly for four (4) of the fifteen (15) capital assets selected. Of the remaining eleven (11) capital assets selected, accumulated depreciation did not recalculate correctly for one (1) asset, although the current year's expense was correct. Inaccurate depreciation calculations and ineffective monitoring of those calculations could cause the financial statements of the Library to be materially misstated and go undetected.

We recommend the Library review the method for entering capital asset data into the capital asset management system to determine the cause of the misstated depreciation expense and accumulated depreciation. We also recommend that depreciation calculations be monitored for accuracy and any necessary corrections be made in a timely manner.

CASH RECEIPTING PROCESS

During our testing of receipts at the Main Library, we noted the following:

- Two (2) instances where documentation supporting general receipts could not be located.
- One (1) instance where the deposit was made more than one week following the week of the receipts.
- One (1) instance of clerical footing errors in a cash report.
- One (1) instance where the cash report was incomplete (i.e., significant lack of detail, copier fees were not included in the total, etc.).

We recommend that supporting documentation be retained for all cash receipts, that all deposits be made in a timely manner, and that cash reports be reviewed for completion and accuracy.

The following significant deficiency in internal control over financial reporting is specifically related to the branches (decentralized activities) of the Detroit Public Library.

IDENTIFICATION OF CASH REGISTER OPERATORS

During our discussions with various branch managers, we noted that the cash registers utilized by the branches do not identify the operator of the cash register via a log-in or operator number. As a result, transactions cannot be traced to a particular employee. The ability to trace transactions to a particular employee would increase accountability and internal controls over the cash receipting process at the branch locations.

We recommend the Library consider investing in technology that would allow management to implement stronger internal controls over the cash receipting process.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following significant deficiencies to be material weaknesses, as defined above.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by us throughout the audit process to correct misstatements noted in the financial statements. These misstatements were not detected by the Library's internal control over financial reporting. Statement of Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position and results of operations, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Library's internal controls.

We recommend that the Library take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk and through discussions with management, we noted that the Library did not have sufficient segregation of duties in its accounting structure. Specifically, we noted that the Business and Financial Operations Manager entered all receipts and journal entries in the general ledger. In addition, this individual also directly received bank statements and prepared the monthly bank reconciliation. We also noted that the Accounts Payable Manager is responsible for signing disbursement checks and is the individual in charge of petty cash. Reasonable segregation of duties is essential to sound internal control and necessary to prevent and detect errors and fraud.

While this is a common occurrence in many organizations due to the limited number of employees, the Detroit Library Commission should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In entities where the number of employees is limited and duties cannot be adequately separated, management must provide a greater review and supervision of employee functions and procedures. While greater review and supervision would serve as a mitigating control, it would not necessarily directly address the lack of segregation of duties described in this situation.

We recommend that management review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend management provide greater review and supervision of employee functions and procedures.

APPROPRIATE REVIEW OF GENERAL LEDGER REPORTING

During our audit planning and consideration of the Library's internal controls, we noted that the Library relies on the City of Detroit's Finance Department for financial reporting of the net pension asset, pension obligation certificates, property taxes receivable and revenue, workers' compensation payable, central services expenditures, and amounts due to and due from the City of Detroit. While all of these amounts were considered material to the financial statements of the Library, the Library does not currently have a policy in place that requires evaluation of internal controls of the City to assess the completeness and accuracy of the underlying data provided by the City.

Although the Library relies on the City of Detroit for a significant portion of their financial reporting out of necessity, we recommend that the Library's management assess the completeness of the data provided by the City, review all journal entries posted to the Library's general ledger by the City of Detroit, perform reconciliations between supporting documentation and amounts recorded in the general ledger, and independently verify the accuracy of significant general ledger balances on a periodic basis.

CASH AND INVESTMENT RECONCILIATIONS

During our audit, we noted various cash and investment accounts were not reconciled timely and contained unresolved differences. Unresolved differences on cash and investment reconciliations could result in misstatements, whether caused by error or fraud, in the financial statements that would go undetected. Additionally, reconciling items that are not resolved timely can become stale and are often more difficult to resolve as time passes.

We recommend that cash and investment reconciliations be completed within one month of receiving the statements from the financial institutions and all differences be investigated and resolved in a timely manner.

TIMELINESS OF FINANCIAL REPORTING

The financial reporting process should be designed to effectively accumulate, process, summarize, and present fairly a complete set of financial statements and supporting information on a timely basis. This should include the timely submission of the Library's audited financial statements to the Michigan Department of Treasury.

The audit fieldwork for the Detroit Public Library for the year ended June 30, 2007 did not commence until May 2008. After several significant adjustments, post-closing journal entries, and revisions, we were provided with a final working trial balance in August 2008.

The financial statement preparation process relies heavily on the City of Detroit's Finance Department and the City's DRMS general ledger. The process also requires a significant amount of manual intervention. These circumstances create an environment that lengthens the time necessary and increases errors occurring during the preparation of the financial statements.

Michigan Public Act 2 of 1968 requires annual financial reports of local units of government to be filed with the Local Audit and Finance Division of the State Department of Treasury within six (6) months after the end of the fiscal year. We recommend that the Detroit Library Commission assure that future audits of the Detroit Public Library are timelier.

ACCOUNTING FOR CAPITAL ASSETS

During our audit, we noted that capital assets recorded in the general ledger contained significant variances from the subsidiary records.

Finance Directive #95 issued by the City of Detroit's Finance Department, outlines the capital assets policy for all City agencies. Section IV of the Finance Directive establishes the requirement that each agency conduct a physical inventory of its capital assets prior to each year-end. A physical inventory of the Library's capital assets and subsequent comparison to the subsidiary and general ledgers would strengthen the internal controls over capital assets. Lack of such physical inventory counts and reconciliations to the ledgers could result in misstatements in the financial statements not being detected on a timely basis or misappropriation or theft of capital assets not being detected.

We recommend conducting physical counts of the Library's capital assets in accordance with City policies and subsequent reconciliation with the subsidiary and general ledgers. Physical counts should be conducted by individuals who are independent of the custody and recording of capital assets and independent of the purchasing and receiving of capital assets.

INTERBANK TRANSFERS

During our audit, we noted that the City of Detroit will process bank wire transfers, pulling funds from the Library's bank account for various charges for services. The Library is notified of such transfers after the fact and the transfers are performed without review or approval by the management of the Detroit Public Library. The Library does not currently have a policy in place that requires evaluation of internal controls of the City to assess the completeness and accuracy of the interbank transfers.

Although the Library relies on the City of Detroit for a significant portion of their financial reporting and financial management out of necessity, we recommend that the Library's management assess the completeness and accuracy of the data supporting the interbank transfers performed by the City.

RESTATEMENT OF NET ASSETS

During our audit, it was noted that the Library's previously issued financial statements, although not audited, were materially misstated. A restatement of net assets has been recorded to reflect the correction of the material misstatements.

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position and results of operations, including the notes to the financial statement, in conformity with accounting principles generally accepted in the United States of America. The Library's management has historically relied on external auditors and consultants for the fair presentation of the financial statements.

RESTATEMENT OF NET ASSETS - CONTINUED

We recommend the management of the Library provide ongoing and regular training to accounting and financial reporting employees to adequately perform the duties in the financial reporting function. The financial reporting function includes monitoring internal control procedures throughout the year to determine that they are being executed as designed.

The following significant deficiencies are specifically related to the branches (decentralized activities) of the Detroit Public Library. We consider these significant deficiencies to be material weaknesses, as defined above.

SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk and through discussions with management of the each of the Library's branches, we noted that the Library did not have sufficient segregation of duties in its accounting structure at the branch locations. Specifically, we noted that the Clerk is typically responsible for the entire transaction cycle for cash receipts (i.e., receipting transactions, balancing the cash drawer, preparing the deposits, preparing the cash reports, taking the deposits to the bank, etc.). Reasonable segregation of duties is essential to sound internal control and necessary to prevent and detect errors and fraud.

As stated previously, while this is a common occurrence in many organizations due to the limited number of employees, the Detroit Library Commission should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In entities where the number of employees is limited and duties cannot be adequately separated, management must provide a greater review and supervision of employee functions and procedures. While greater review and supervision would serve as a mitigating control, it would not necessarily directly address the lack of segregation of duties described in this situation.

We recommend that management review various areas of operation and consider additional segregation of duties at each of the branch locations. If duties cannot be adequately segregated due to the limited number of employees, we recommend management provide greater review and supervision of employee functions and procedures.

CASH RECEIPTING PROCESS

During our testing of internal controls over cash receipts at the branch locations of the Library, we noted the following:

- Four (4) instances at three (3) branches where the deposit amounts did not match the cash reports for a particular day or days. We did note, however, that by the end of the week, the total of the deposits for the week matched the total of the cash reports for the week. It appears that cash is being withheld or otherwise "borrowed" from the deposit rather than being transmitted to the bank.
- Three (3) instances at three (3) branches where the deposits were made more than one week following the week of the receipts.
- Three (3) instances at three (3) branches of minor clerical footing errors in the cash reports.
- One (1) instance where the cash report was \$3 higher than the bank deposit.
- One (1) instance where the amount on the cash report could not be traced to a subsequent deposit on the bank statement.
- One (1) instance where a negative amount (\$56.80) was reported for overdue books on a single day.

We recommend that all branch deposits be made in tact and in a timely manner. We also recommend that the bank receipt, cash register tape, and cash report be compared and verified for accuracy by someone independent of the cash receipting process.

PAYROLL PROCESS

During our testing of internal controls over the payroll reporting process at the branch locations of the Library, we noted the following:

- One (1) instance where the wage rate used did not match the approved rate for 8 out of the 40 hours worked. While the numerical difference was considered immaterial, the rate used did not match any prior approved rate or subsequent approved rates for that particular employee.
- One (1) instance where the hours reported on the time summary did not match the hours paid. The difference was one hour.

We recommend that management review all future time and wage rate reporting for accuracy and document such review by initialing or signing the time summaries submitted to the City of Detroit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Burton Endowment Fund's financial statements are free of material misstatement, we performed tests of the Detroit Public Library's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following noncompliance and other matters required to be reported:

CREDIT CARD POLICY

Based on our discussions with management, we noted that the Library has not formally adopted a written credit card policy as required by PA 266 of 1995 (MCL 129.241), although the Library holds two (2) credit cards.

We recommend that the Detroit Library Commission adopt a credit card policy that complies with the State of Michigan requirements. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee credit card issuance, accounting, monitoring, and compliance with the policy;
- b. The use of the credit card only for the purchase of goods and services for the official business of the local unit;
- c. User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
- d. Office or employee is responsible for credit card protection and custody and must report lost or stolen cards;
- e. Credit card to be returned to local unit at termination of official or employee;
- f. Internal control systems over the use of credit cards;
- g. Approval of credit card invoices prior to payment;
- h. The balance, including interest, must be paid within 60 days of the initial statement date;
- i. Disciplinary measures for unauthorized use of credit card; and
- j. Other matters the local unit considers advisable.

INVESTMENT POLICY

During discussions with management, we noted that the Library has not adopted an investment policy. Public Act 20 of 1943, as amended, requires governments to adopt an investment policy not more than 180 days after the end of their first fiscal year that, at a minimum, includes all of the following:

- a. A statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment.
- b. A delegation of authority to make investments.
- c. A list of authorized investment instruments. If the policy authorizes an investment in mutual funds, it shall indicate whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share or also includes securities whose net asset value per share may fluctuate on a periodic basis.
- d. A statement concerning safekeeping, custody, and prudence.

INVESTMENT POLICY - CONTINUED

Deposit resources represent significant assets of the Detroit Public Library. These resources are necessary for the delivery of the Library's services and programs. In addition to the Public Act requiring an investment policy, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Library's ability to provide services and meet its obligations as they become due. In the absence of policies that address such risks, GASB Statement No. 40 requires the Library to disclose that no such policies exist.

We recommend the Library adopt an investment policy as required by Public Act 20 of 1943, as amended. We also recommend that the investment policy address the types of deposit and investment risk as described in GASB Statement No. 40.

ELECTRONIC TRANSACTIONS POLICY

During discussions with management, we noted that the Library has not adopted a policy governing the use of electronic transactions and Automated Clearing House (ACH) arrangements. Public Act 738 of 2002 states, "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transactions Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- a. That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- b. That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- c. A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- d. The approval of ACH invoices before payment.
- e. Any other matters the treasurer or ETO considers necessary."

We recommend the Library adopt an electronic transactions policy as required by Public Act 738 of 2002.

NONCOMPLIANCE WITH THE TERMS OF THE ENDOWMENT AGREEMENT

During our analysis of expenditures, we noted certain expenditures that did not appear to comply with the terms of the Burton endowment agreement (i.e., purchases of publications that did not appear to enhance the collection of American and Canadian history and genealogy). As a result of our audit procedures, a journal entry was recorded to appropriately reflect those expenditures as expenditures of the General Fund.

We recommend that the Library's management review internal controls over the processing of accounts payable disbursements to assure that future expenditures are in compliance with the terms of the endowment agreements.

NONCOMPLIANCE WITH MICHIGAN COMPILED LAWS

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 office 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 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.

NONCOMPLIANCE WITH MICHIGAN COMPILED LAWS - CONTINUED

Additionally, the endowment funds of the Library are authorized by Michigan Public Act 157 of 1976 and the terms of the individual endowment agreements to invest real or personal property deemed advisable by the governing board, whether or not it produces a current return, including mortgages, stocks, bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government, or subdivision, or instrumentality thereof; property contributed by a donor for as long as the governing board deems advisable; pooled or common funds maintained by the institution; and pooled or common funds available for investment, including shares or interest in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

Based on our review and analysis of the Library's investments that are not held as part of the endowment funds, the Library currently holds assets in its Grants and Gifts Fund that are not in compliance with the Public Act 20 of 1943, as amended.

We recommend that the Library's management review the investment portfolio for compliance with Michigan Compiled Laws and develop a plan to bring the portfolio into compliance without incurring losses of principal, if possible.

COMINGLING OF CONTRIBUTIONS DESIGNATED FOR THE BURTON HISTORICAL COLLECTION

During our analysis of revenues, we noted that contributions designated for the Burton Historical Collection were recorded in the Burton Endowment Fund. Although the contributions received were designated for the same purpose as the endowment, they should not be comingled with the Burton Endowment Fund.

As a result of our audit procedures, journal entries were recorded to appropriately reflect the current and previous years' contributions designated for the Burton Historical Collection as revenue of the Grants and Gifts Fund.

We recommend the Library's management review internal controls over the recording of revenues to assure that any future contributions designated for the Burton Historical Collection, but not considered to be part of the Burton Endowment Fund, are recorded appropriately in the Grants and Gifts Fund.

STATUTORY TAX COLLECTION DISTRIBUTIONS

Section 43(3)(a) of Public Act 206 of 1893, the General Property Tax Act, provides that local units of government with a state equalized value of more than \$15,000,000 shall, within 10 business days after the first and fifteenth day of each month, account for and deliver to the County Treasurer and other tax assessing units, the tax collections on hand on the first and fifteenth day of each month.

The City of Detroit levies a millage for Library operations annually, yet has historically not distributed the tax collections to the Library in accordance with the statutory tax collection distribution dates noted above. Not only does this limit the operating funds of the Library with respect to the property taxes collected by the City, but it also limits the Library's investment earnings potential on those collections.

We recommend that the Library specifically request the City to comply with distribution provisions of the General Property Tax Act.

UNCOLLECTIBLE PROPERTY TAX COLLECTIONS

During our analysis of the Library's property tax revenue and receivables, we noted that the property taxes receivable include amounts for uncollected levies dating back to 1967.

While an allowance for uncollectible amounts is calculated and only the net receivable is reflected in the Library's financial statements, we recommend the Library coordinate with the City of Detroit to write off any amounts that clearly will not be collected. Any receivables removed (i.e., written off) from the Library's general ledger would need to be approved by the Detroit Library Commission as well as the Detroit City Council.

GENERAL LEDGER ACCOUNTING SOFTWARE

Currently the Library utilizes QuickBooks accounting software to process certain financial transactions (including the processing of purchase orders) and Civic Systems accounting software to process other financial transactions. In addition, the Library relies on the City of Detroit's DRMS accounting system for financial reporting related to the General Fund for the Library. By relying on various accounting systems, there is increased potential for the need for manual intervention and accordingly, the increased potential for errors occurring in the financial reporting process.

We recommend that the Library evaluate accounting software packages and consider transitioning all transactions that are processed by the Library's staff to a single accounting system. We further recommend that the accounting software selected have the capability to interface with the City of Detroit's DRMS accounting system. By streamlining the Library's accounting functions and interfacing with the City of Detroit's system, greater accuracy and efficiency in the Library's financial reporting process will be gained.

The following noncompliance and other matters are specifically related to the branches (decentralized activities) of the Detroit Public Library.

PHYSICAL SECURITY AND SAFEGUARDS

During our visits to each of the branch locations, we noted that the security system at several of the branches was inadequate. For example, we noted several instances where the security system's recording capabilities were not functioning properly. We also noted that the security cameras were not positioned to record activity at the cash register during the day or the secured locations of the cash drawers at night. Rather, the security cameras were typically positioned to record activity at the entrances of the branches.

We recommend the Library's management review the current status of the security systems at each of the branches and consider necessary replacement, repairs, and repositioning of the cameras to improve the physical security of the employees and the assets of the Detroit Public Library.

FORMAL TRAINING

During our visits to each of the branch locations, we noted through discussions with branch employees that they lacked formal training on how to process transactions through the cash registers. As a result, particular types of transactions are being processed in different ways depending on the branch (i.e., voided receipts are not processed in the same manner from branch to branch).

We recommend that branch employees charged with processing receipts be adequately trained on how to properly use the cash registers. In addition, they should also be informed of the types of transactions that require approval before processing.

This report is intended solely for the information and use of management, the members of the Detroit Library Commission, and others within the Detroit Public Library and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 29, 2008