

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Manistee County Library		County Manistee	
Fiscal Year End 9/30/06		Opinion Date 11/14/06		Date Audit Report Submitted to State 1/26/07			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Harris Group, Certified Public Accountants		Telephone Number 231-946-8930		
Street Address 1107 E. Eighth Street		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature		Printed Name Ronald G Harris CPA		License Number 1101024798

MANISTEE COUNTY LIBRARY
REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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INDEPENDENT AUDITORS' REPORT

November 14, 2006

Board of Trustees
Manistee County Library
Manistee, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Manistee County Library as of and for the year ended September 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Manistee County Library as of September 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2006 on our consideration of Manistee County Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Certified Public Accountants

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2006**

This section of Manistee County Library's annual financial report presents its discussion and analysis of the Library's financial performance during the fiscal year ending September 30, 2006.

Financial Highlights

The Library had higher than originally budgeted revenues in property tax and penal fine revenue. The parking lot project was completed in the beginning of the fiscal year. The total capital outlay cost decreased by \$10,600 from the previous year. The Library's material cost increased by \$44,000 during this fiscal year. There was a major improvement in the current net change in fund balance, which had an increase of \$35,398, while the prior year was a decrease of \$18,846.

Overview of the Financial Statements

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

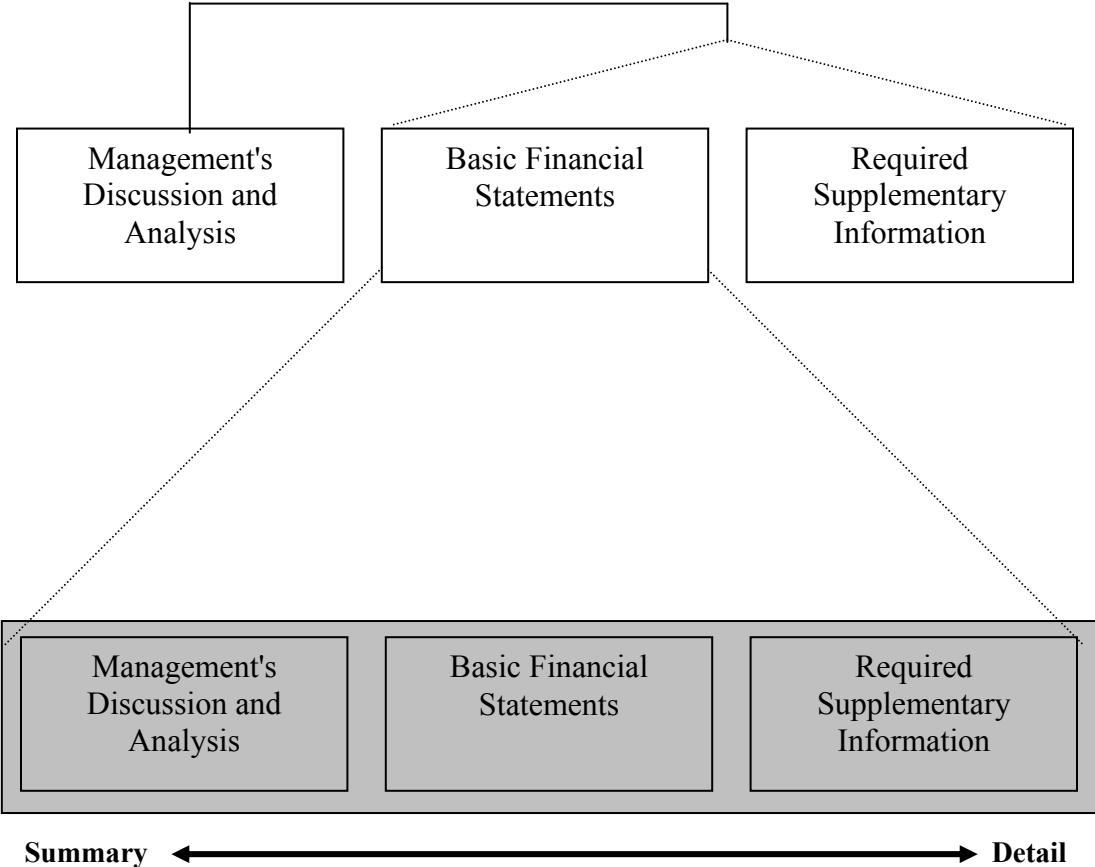
- The first two statements are *Library-wide financial statements* that provide both *short-term* and *long-term* information about the Library's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Library, reporting the Library's operations in more detail than the Library-wide statements.
- The *governmental funds statements* tell how basic services were financed in the short term as well as what remains for future spending.
- Capital Projects Funds statements provide information about capital projects during the year.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Library's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2006**

Figure A-1

Organization of Manistee County Library Annual Financial Report



**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2006**

Library-wide Statements

The Library-wide statements report information about the Library as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Library-wide statements report the Library's *net assets* and how they have changed. Net assets - the difference between the Library's assets and liabilities - is one way to measure the Library's financial health or *position*.

- Over time, increases or decreases in the Library's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Library's overall health, you need to consider additional non-financial factors such as changes in the Library's property tax base and the condition of buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Library's funds, focusing on its most significant or "major" funds: not the Library as a whole. Funds are accounting devices the Library uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law.
- The Library establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The Library has one kind of fund:

- *Governmental funds*: Most of the Library's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. Because this information does not encompass the additional long-term focus of the Library-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the Library-wide Statements and the Fund Financial Statements.

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2006**

Financial Analysis of the Library as a Whole

Net assets. The Library's combined net assets were \$1,159,146 on September 30, 2006, an increase of 7.05% from the prior year. Figure A-2 illustrates the valuation of net assets on September 30, 2006 and 2005.

Figure A-2

Condensed Statement of Net Assets

	9/30/06	9/30/05
Assets		
Current	\$ 384,541	\$ 440,825
Non-Current	997,662	952,141
	\$ 1,382,203	\$ 1,392,966
Liabilities		
Current	\$ 110,557	\$ 227,167
Non-Current	112,500	70,532
	223,057	310,199
Net Assets		
Invested in capital assets, net of assets, net of related debt	885,162	883,648
Unrestricted	273,984	199,119
	1,159,146	1,082,767
Liabilities and Net Assets	\$ 1,382,203	\$ 1,392,966

The Library's improved financial position is the product of many factors. The increased property tax and penal fine revenue along with a reduction in Wages and Fringe Benefits are the main contributing factors.

Changes in net assets. The Library's total revenue of approximately \$1,300,000 exceeded expenditures, increasing net assets by \$76,379 (see Figure A-3).

The Library's approximately \$1,225,000 of expenses are predominantly related to personnel (66.3 percent).

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2006**

Figure A-3

Changes in Net Assets from Operating Results

	2005-06	2004-05
REVENUES:		
Property taxes	\$ 901,083	\$ 863,308
Penal fines	287,870	286,430
State aid	21,701	27,728
Contributions	50,854	70,323
Interest income	13,518	11,830
Fines	9,188	7,801
Book sales	5,991	6,151
Other services	10,443	9,150
Total revenues	1,300,648	1,282,721
EXPENDITURES:		
Salaries and fringe benefits	812,029	836,766
Materials	23,895	
Supplies	9,931	10,459
Professional and contractual services	68,916	73,245
Branch expenses	40,591	94,408
Conferences, workshops and travel	3,741	6,389
Utilities	41,206	56,985
Building repairs and maintenance	32,345	25,005
Depreciation	183,413	171,239
Other expenditures	8,202	17,601
Total expenditures	1,224,269	1,292,097
INCREASE (DECREASE) IN NET ASSETS	\$ 76,379	\$ (9,376)

Financial Analysis of the Library's Funds

The strong financial performance of the Library as a whole is not reflected in its governmental funds. As the Library completed the year, its governmental fund reported combined fund balances of \$173,682.

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2006**

General Fund Budgetary Highlights

Over the course of the year, the Library revised the annual operating budget once. The significant items causing budget adjustments are enumerated below.

- Higher than expected revenue from property taxes and penal fines
- Lower Salaries and Fringe Benefit cost
- Higher Library and material cost
- Higher capital outlay cost

Although the Library's final budget for the general fund anticipated the expenditures would exceed revenues by \$21,346, the actual results for the year shows a \$35,398 excess. The chart presented in Figure A-4 compares the general fund budgets and actual expenditures, primarily by object.

Figure A-4

General Fund Expenditures - Budget versus Actual

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries and Benefits	\$ 837,692	\$ 814,370	\$ 23,322
Supplies	11,200	9,931	1,269
Library books and materials	184,273	185,569	(1,296)
Professional and Contractual Services	73,600	68,916	4,684
Branch Expenses	42,750	40,591	2,159
Conferences, Workshops, and Travel	4,000	3,741	259
Utilities	44,620	41,206	3,414
Building Repairs and Grounds	33,850	32,345	1,505
Capital Outlay	73,313	67,260	6,053
Other Expenditures	9,050	8,082	968
	<u>\$ 1,314,348</u>	<u>\$ 1,272,011</u>	<u>\$ 42,337</u>

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2006**

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the Library had invested \$2.45 million in a broad range of capital assets, including buildings improvements, books, computer and audio-visual equipment. Total depreciation expense for the year exceeded \$183,000. Figure A-5 details the historical costs, accumulated depreciation, and book value of the Library's capital assets.

Figure A-5

Statement of Capital Assets

	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>End of year</u>
Leasehold improvements	\$ 258,426	\$ 56,762	\$	\$ 315,188
Furniture and fixtures	122,790	3,688		126,478
Computer and related equipment	160,268	3,810		164,078
Library Books	<u>1,683,009</u>	<u>164,674</u>		<u>1,847,683</u>
	2,224,493	228,934		2,453,427
Accumulated Depreciation	<u>1,272,352</u>	<u>183,413</u>		<u>1,455,765</u>
Net capital assets	<u>\$ 952,141</u>	<u>\$ 45,521</u>	<u>\$</u>	<u>\$ 997,662</u>

Debt administration

The following is a summary of the changes in long-term liabilities for the year ended September 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities:					
Notes payable:					
Promissory note	\$ 68,493	\$ 56,507	\$ 12,500	\$ 112,500	\$
Other liabilities:					
Termination benefits	<u>19,539</u>		<u>2,341</u>	<u>17,198</u>	<u>5,000</u>
Total long-term liabilities	<u>\$ 88,032</u>	<u>\$ 56,507</u>	<u>\$ 14,851</u>	<u>\$ 129,698</u>	<u>\$ 5,000</u>

The County Board of Commissioners approved the deferment of the principal payment for a one year period, the interest charges during this one year period have been forgiven.

**Manistee County Library
Management Discussion and Analysis
For the year ended September 30, 2006**

Factors Bearing on the Library's Future

At the time these financial statements were prepared and audited, the Library was aware of two circumstances that could significantly affect its financial health in the future:

- Property Tax Millage will come up for renewal in 2007.
- The current facilities will need major capital improvements and maintenance.
- Request has been made for future library branch locals in Brethren and Copemish.

Contacting the Library's Financial Management

This financial report is designed to provide the Library's citizens, taxpayers, customers with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Manistee County Library Business Office, 95 Maple Street, Manistee, Michigan.

Basic Financial Statements

**MANISTEE COUNTY LIBRARY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 324,364
Restricted cash	20,688
Receivables:	
Accounts	7,200
Penal fines	29,272
Interest	3,017
	384,541
Total current assets	384,541
Noncurrent assets:	
Capital assets, net of accumulated depreciation	997,662
	997,662
	\$ 1,382,203

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 34,197
Current portion of promissory note payable	
Accrued expenses	76,360
	110,557
Total current liabilities	110,557
Long-term debt, less current portion	112,500
	112,500
Total liabilities	223,057
Net assets:	
Invested in capital assets, net of related debt	885,162
Unrestricted	273,984
	1,159,146
Total fund balances	1,159,146
	\$ 1,382,203

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Functions/Programs	Expenses	Program Revenues		Net (expenses) And changes in Net assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental activities:	\$ 1,224,269	\$ 18,502	\$ 72,555	\$ (1,133,212)
 General revenues:				
				901,083
				287,870
				13,518
				7,120
				1,209,591
				 76,379
				1,082,767
				\$ 1,159,146

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006**

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 324,364	\$	\$ 324,364
Restricted cash	20,688		20,688
Receivables:			
Accounts	7,200		7,200
Penal fines	29,272		29,272
CD interest	3,017		3,017
	<u>\$ 384,541</u>	<u>\$</u>	<u>\$ 384,541</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 34,197	\$	\$ 34,197
Accrued expenses	176,662		176,662
Total liabilities	<u>210,859</u>	<u>\$</u>	<u>210,859</u>
Fund balances:			
Unreserved:			
Designated:			
TES litigation	15,000		15,000
Short term disability	14,237		14,237
Sick leave	17,198		17,198
Gifts and bequests	48,464		48,464
Undesignated	78,783		78,783
Total fund balances	<u>173,682</u>	<u>\$</u>	<u>173,682</u>
	<u>\$ 384,541</u>	<u>\$</u>	<u>\$ 384,541</u>

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

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

Total Fund Balance - Governmental Funds	\$ 173,682
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:	
Cost of capital assets	2,453,427
Accumulated depreciation	(1,455,765)
Compensated absences not currently due are included as a liability	(12,198)
Total net assets - governmental activities	<u><u>\$ 1,159,146</u></u>

The notes to the financial statements are an integral part of this statement.

MANISTEE COUNTY LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES:			
Property taxes	\$ 901,083	\$	\$ 901,083
Penal fines	287,870		287,870
State aid	21,701		21,701
Contributions	50,854		50,854
Interest income	13,475	43	13,518
Fines	9,188		9,188
Book sales	5,991		5,991
Other services	9,314		9,314
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>1,299,476</u>	<u>43</u>	<u>1,299,519</u>
EXPENDITURES:			
Salaries and fringe benefits	814,370		814,370
Supplies	9,931		9,931
Library books and materials	185,569		185,569
Professional and contractual services	68,916		68,916
Branch expenses	40,591		40,591
Conferences, workshops and travel	3,741		3,741
Utilities	41,206		41,206
Building repairs and maintenance	32,345		32,345
Capital outlay	67,260		67,260
Other expenditures	8,082	120	8,202
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>1,272,011</u>	<u>120</u>	<u>1,272,131</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>27,465</u>	<u>(77)</u>	<u>27,388</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	6,804		6,804
Insurance proceeds	1,129		1,129
Operating transfers out		(6,804)	(6,804)
	<u> </u>	<u> </u>	<u> </u>
Total other financing sources (uses)	<u>7,933</u>	<u>(6,804)</u>	<u>1,129</u>
NET CHANGES IN FUND BALANCES	35,398	(6,881)	28,517
FUND BALANCES:			
Beginning of year	<u>138,284</u>	<u>6,881</u>	<u>145,165</u>
End of year	<u>\$ 173,682</u>	<u>\$</u>	<u>\$ 173,682</u>

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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

Total net change in fund balances – governmental funds **\$ 28,517**

Decrease in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements 2,341

Capital outlays to purchase capital assets and books are recorded in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and depreciated over their estimated useful lives as annual depreciation in the statement of activities.

This amount by which capital outlays exceeded depreciation in the period.

	Capital outlays	228,934		
	Depreciation expense	<u>(183,413)</u>		45,521

Change in net assets of governmental activities **\$ 76,379**

The notes to the financial statements are an integral part of this statement.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Manistee County Library (the Library) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

A. Reporting Entity

Manistee County Library is operated as a Special Revenue Fund and Capital Projects Fund of the County of Manistee. Manistee County Library is located in Manistee, Michigan, with branch libraries on Onkama, Arcadia, Bear Lake, Kaleva and Wellston, Michigan.

In evaluating how to define the Library, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

Based on the application of these criteria, the financial statements of Manistee County Library contain all the funds controlled by the Library's Board as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Library has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The library has no responsibility for any fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

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

The Library reports the following major governmental funds:

The *general fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the financial resources to be used for the acquisition of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, penal fines, interest and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Library and are recognized as revenue at that time.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity

1. Cash and investments

Cash includes amounts in demand deposits and certificates of deposit.

The Library reports its investments in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the Library intends to hold the investment until maturity.

State statutes authorize the Library to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Library is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet in the governmental fund financial statements.

3. Property Taxes

Property taxes levied by the Library are collected by Manistee County and periodically remitted to the Library. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. Library property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to November 14 are recognized as revenue when collected.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity (continued)

For the year ended September 30, 2006, the Library levied the following amounts per \$1,000 of taxable valuation:

Fund	Mills
General Fund	1.000

4. Capital Assets

The furnishings and equipment purchased by the municipalities in which the branch libraries are located are the property of these municipalities unless indicated in the agreements with the municipalities. All other purchases of equipment made and all other assets currently being used by the Manistee County Library are the property of Manistee County. The library has the right to use this equipment as long as the library is in operations.

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$500 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donations.

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

Property and equipment of the Library is depreciated using the straight line method over the following estimated useful lives:

Leasehold improvements	20 yrs
Books	7 yrs
Furniture and fixtures	20 yrs
Computer equipment	10 yrs

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity (continued)

5. Compensated Absences

Prior Library policy permitted employees to accumulate earned unused sick pay benefits. All sick pay is accrued in the government-wide financial statement. A liability for these amounts is reported in governmental funds only if they are expected to be liquidated with expendable available resources (generally sixty days). Current policy does not allow employees to carryover unused sick pay.

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

7. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute “available spendable resources.” The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

8. Use of Estimates

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

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

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

1. The Library Administrator submits to the Board of Trustees a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally adopted by the Board of Trustees resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
4. The Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to September 30th.

B. Excess of expenditures over appropriations

During the year ended September 30, 2006, the Library incurred expenditures in certain budgetary funds which were in excess of amounts appropriated.

Function	Appropriation	Expenditures	Variance
Library books and materials	\$ 184,273	\$ 185,569	\$ 1,296

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK

Cash and cash equivalents are held separately in the name of the Library by each of the Library's funds.

Deposits

At year-end, the carrying amount of the Library's deposits, including certificates of deposits of \$200,000, were \$344,502 and the bank balance was \$394,585 of which \$380,724 was covered by federal depository insurance and \$13,861 was uninsured and uncollateralized. The Library has \$550 in petty cash on hand.

The library has no investments as of September 30, 2006. The library has the following risk disclosures:

Interest Rate Risk – The library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State statutes authorize the library to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The library is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The library has no investment policy that would further limit its investment choices. As of September 30, 2006, the library has no investments that meet the above criteria.

Concentration of Credit Risk – The library places no limit on the amount the district may invest in any one issuer.

NOTE 4 – BRANCH CONTRACTS

Manistee County Library has entered into contracts with five local governments to provide locations for branch libraries. Manistee County Library operates the branch libraries within facilities owned and maintained by the governmental unit. All contracts specify reimbursements, renewal and termination procedures. Total expenditures under branch contracts for the fiscal year ended September 30, 2006, were \$40,591. As of September 30, 2006, only three of the five branches have signed contracts.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – RECEIVABLES

Receivables at September 30 consist of the following:

	<u>General fund</u>
Accounts	\$ 7,200
Penal fines	29,272
Interest	3,017
	\$ 39,489

Because of the Library’s favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 6 – LONG-TERM DEBT

At September 30, 2006, long-term debt and other long-term obligations currently outstanding are as follows:

Promissory note, payable in annual installments of \$12,500 through March 1, 2016, interest at 2.75%, fully issued at September 30, 2006	\$ 112,500
Termination benefits	17,198
	\$ 129,698

The annual requirements to amortize long-term obligations outstanding as of September 30, 2006 including interest of \$12,374 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ -	\$ -
2008	12,500	2,750	15,250
2009	12,500	2,406	14,906
2010	12,500	2,062	14,562
2011	12,500	1,719	14,219
2012 – 2015	62,500	3,437	65,937
	112,500	12,374	124,874
Termination benefits	17,198		17,198
	\$ 129,698	\$ 15,468	\$ 142,072

The County Board of Commissioners approved the deferment of the principal payment for a one year period, the interest charges during this one year period have been forgiven.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – LONG-TERM DEBT - continued

The following is a summary of the changes in long-term liabilities for the year ended September 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities:					
Notes payable:					
Promissory note	\$ 68,493	\$ 56,507	\$ 12,500	\$ 112,500	\$
Other liabilities:					
Termination benefits	<u>19,539</u>	<u> </u>	<u>2,341</u>	<u>17,198</u>	<u>5,000</u>
Total long-term liabilities	<u>\$ 88,032</u>	<u>\$ 56,507</u>	<u>\$ 14,851</u>	<u>\$ 129,698</u>	<u>\$ 5,000</u>

NOTE 7 – GOVERNMENTAL FUND TYPE INTERFUND TRANSACTIONS

Interfund transfers for the year ended September 30, 2006 were as follows:

<u>Fund Transferred Out</u>	<u>Fund Transferred In</u>	<u>Amount</u>
Capital projects fund	General fund	<u>\$ 6,804</u>

Funds were transferred to the general fund to facilitate the purchase of capital assets.

NOTE 8 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS

Capital asset balances and activity for the year ended September 30, 2006 were as follows:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>End of year</u>
Leasehold improvements	\$ 258,426	\$ 56,762	\$	\$ 315,188
Furniture and fixtures	122,790	3,688		126,478
Computer and related equipment	160,268	3,810		164,078
Library Books	<u>1,683,009</u>	<u>164,674</u>	<u> </u>	<u>1,847,683</u>
	2,224,493	228,934		2,453,427
Accumulated Depreciation	<u>1,272,352</u>	<u>183,413</u>	<u> </u>	<u>1,455,765</u>
Net capital assets	<u>\$ 952,141</u>	<u>\$ 45,521</u>	<u>\$</u>	<u>\$ 997,662</u>

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

Manistee County Library employees are covered under the Manistee County retirement program.

Plan Description – Manistee County participates in the Municipal Employees Retirement System of Michigan (MERS), a public employer and employee retirement system. MERS operates as an independent public nonprofit organization. The county retirement system also includes employees of the Sheriff Department and the Medical Care Facility. A separate account is maintained by MERS for these departments. Substantially all employees are covered by the MERS retirement system.

The benefits and conditions outlined below are for general information only.

Mandatory retirement: None

Deferred Retirement: Termination of membership before age 60, other than by retirement or death, after 8 years of credited service. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Right to an allowance is forfeited if a member's accumulated contributions are withdrawn.

Benefits are computed based on a five year average of final compensation multiplied by a factor of 2.5%, multiplied by the number of years of service. Death and disability benefits are also provided. Total contributions made to MERS for the year ended September 30, 2006 was \$63,724.

The funded status of the library's portion of the retirement plan is unavailable.

NOTE 10 – TRUST FUND BENEFICIARY

Manistee County Library was designated as an income beneficiary upon the death of a patron on August 31, 1996. As stated in the patron's trust agreement, the first 20 years of income, which will be distributed at least annually, is to be used for capital improvements to any branch library located in Manistee County other than the main branch located in the City of Manistee. Although the monies may be administered through the main branch of the Manistee County Library, the finds should be directed so that the money distributed is segregated from the general funds, being earmarked specifically for branch funding. After the first 20 years from the date of the patron's death, the trust income shall be used for capital improvements of any Manistee County Library branches, including the main branch in Manistee, Michigan. These distributions will continue for the next 68 years, ending August 31, 2086.

**MANISTEE COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 – CAFETERIA PLAN

On March 18, 1997, Manistee County adopted a Section 125 Cafeteria Plan effective June 1, 1997. The purpose of the plan is to provide the employees with a choice between cash and benefit coverages under various plans which are maintained by Manistee County. The plan year runs from January 1 to December 31.

NOTE 12 – CONTINGENT LIABILITY

In 1996, TES Filer City Station (Tondu) a Manistee County taxpayer, filed a petition with the Michigan Tax Tribunal contesting the 1993, 1994, 1995 and 1996 assessed value, State equalized value and taxable value of its industrial location in Filer Township, Manistee County, Michigan. TES Filer City Station has since contested the tax years 1997-2001. If this appeal is successful, all of the taxing jurisdictions which benefit from tax dollars generated by Tondu will be required to pay back these funds and incur a loss of future revenue.

It has been estimated by the County's Equalization director that the potential revenue payback, depending on the success of the appeal, will result in Manistee County Library returning \$225,943 for the years 1993 through 2001.

According to the county administrator, the library owed no additional legal fees for the period ending September 30, 2006.

In January of 2004, the Michigan Tax Tribunal ruled against Tondu. The ruling is currently under appeal.

NOTE-13 – PRIOR PERIOD ADJUSTMENT

During the year it was determined that a calculated interest receivable accrual was incorrect. An adjustment of \$2,154 has been made to the beginning fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

**MANISTEE COUNTY LIBRARY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS
YEAR ENDED SEPTEMBER 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget- Favorable (unfavorable)
	Original	Final		
REVENUES:				
Property taxes	\$ 865,000	\$ 891,637	\$ 901,083	\$ 9,446
Penal fines	267,500	287,500	287,870	370
State aid	22,500	21,200	21,701	501
Contributions	40,550	50,279	50,854	575
Interest income	6,600	10,000	13,475	3,475
Fines	7,400	9,300	9,188	(112)
Book sales	4,300	5,905	5,991	86
Other services	6,975	9,100	9,314	214
Total revenues	<u>1,220,825</u>	<u>1,284,921</u>	<u>1,299,476</u>	<u>14,555</u>
EXPENDITURES:				
Salaries and fringe benefits	861,626	837,692	814,370	23,322
Supplies	9,000	11,200	9,931	1,269
Library books and materials	148,949	184,273	185,569	(1,296)
Professional and contractual services	80,900	73,600	68,916	4,684
Branch expenses	55,000	42,750	40,591	2,159
Conferences, workshops and travel	4,000	4,000	3,741	259
Utilities	34,800	44,620	41,206	3,414
Building repairs and maintenance	26,700	33,850	32,345	1,505
Capital outlay	26,550	73,313	67,260	6,053
Other expenditures	7,300	9,050	8,082	968
Total expenditures	<u>1,254,825</u>	<u>1,314,348</u>	<u>1,272,011</u>	<u>42,337</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(34,000)</u>	<u>(29,427)</u>	<u>27,465</u>	<u>56,892</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	4,000	6,881	6,804	(77)
Insurance Proceeds		1,200	1,129	(71)
Revenue sharing grant				
Total other financing sources	<u>4,000</u>	<u>8,081</u>	<u>7,933</u>	<u>(148)</u>
NET CHANGES IN FUND BALANCES	<u>\$ (30,000)</u>	<u>\$ (21,346)</u>	<u>35,398</u>	<u>\$ 56,744</u>
FUND BALANCES:				
Beginning of year			<u>138,284</u>	
End of year			<u>\$ 173,682</u>	

* The Board of Trustees intended to use unrestricted fund balance to make up for the budgeted revenue shortfall.



HARRIS GROUP

Certified Public Accountants

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

November 14, 2006

To the Board of Trustees
Manistee Public Library
Manistee, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Manistee County Library as of and for the year ended September 30, 2006, which collectively comprise the Manistee County Library's basic financial statements and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Manistee County Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Manistee County Library, in a separate letter dated November 14, 2006.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

1107 East Eighth Street Traverse City, MI 49686 | tel. 231-946-8930 | fax. 231-946-1377



November 14, 2006

To the Board of Trustees
Manistee County Library

In planning and performing our audit of the financial statements of Manistee County Library for the year ended September 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Manistee County Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Credit card receipt documentation

As part of our testing, we reviewed documentation supporting credit card charges. We found that in every month there were charges that did not have supporting documentation. The Library should not pay items that do not have the proper support. It is the responsibility of the individual using the credit card to document the charges. The Library needs to make it a practice of requiring all original receipts accompany the credit card invoice before approving the payment of the invoice. Also noted during our testing, charges on the credit card included purchases of personal items. These items were paid by the individual that made the charge. We would recommend a policy that does not allow for personal purchases on the Library's credit card.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

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

Certified Public Accountants