

HERRICK DISTRICT LIBRARY
HOLLAND, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

Herrick District Library

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INDEPENDENT AUDITORS' REPORT

November 11, 2009

Members of the District Library Board
Herrick District Library
Holland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Herrick District Library**, as of and for the year ended June 30, 2009, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Herrick District Library. 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herrick District Library as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund 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 our report dated November 11, 2009 on our consideration of the Herrick District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Herrick District Library's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the Herrick District Library's basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Herrick District Library (the "Library"), we offer readers of the Herrick District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Again this year we did not use all funds that the Board budgeted for library operations for the year. We expended less money than we received this year, we did so within the Board's budget plan and, at year end, spent \$190,000 less than planned. Expenditures were \$190,000 less than planned as a result of:

Other Current Expenditures:

- The Library was able to spend \$40,000 less than budget for public utilities during the year as combination of milder weather and efforts to conserve. The Library is using both mechanical and deliberate personal efforts to reduce the use of electricity and natural gas.
- The Library spent almost none of the budgeted \$10,000 for the Education and Training budget in an effort to reduce cost.
- The Library spend approximately \$20,000 less than budgeted on building and ground maintenance, as some of the cost were paid through the Capital Project Fund.
- A community survey costing \$15,000 was budgeted, but was never spent.
- Lakeland Library Cooperative reduced charges to the Library by approximately \$20,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's financial statements. The Library's basic financial statements comprise three components:

1. Government-wide statements
2. Fund financial statements, and
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The *statement of net assets* presents information on all of the Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library is accounted for in governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and the government-wide statements.

The Library maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, and permanent fund, each of which are major funds for financial reporting purposes as defined by GASB Statement #34. The capital projects fund is reported in a separate column as a nonmajor fund.

The Library adopts an annual appropriated budget for the General fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

The Library maintains two proprietary funds. Financial statements can be found on pages 19-21 of this report.

The Library also maintains fiduciary funds, which can be found on page 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Library's financial statements. The notes to the financial statements can be found on pages 23-32 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Herrick District Library Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets:						
Current and other assets	\$ 6,055,016	\$ 6,012,957	\$ 1,844	\$ 1,763	\$ 6,056,860	\$ 6,014,720
Capital assets	9,086,193	9,510,100	-	-	9,086,193	9,510,100
Total assets	15,141,209	15,523,057	1,844	1,763	15,143,053	15,524,820
Liabilities:						
Long-term liabilities outstanding	3,838,755	4,625,039	-	-	3,838,755	4,625,039
Other liabilities	193,316	174,656	48	62	193,364	174,718
Total liabilities	4,032,071	4,799,695	48	62	4,032,119	4,799,757
Net assets:						
Invested in capital assets, net of related debt	5,491,193	5,110,100	-	-	5,491,193	5,110,100
Restricted	2,538,169	2,478,549	-	-	2,538,169	328,813
Unrestricted	3,079,776	3,134,713	1,796	1,701	3,081,572	5286,150
Total net assets	\$ 11,109,138	\$ 10,723,362	\$ 1,796	\$ 1,701	\$ 11,110,934	\$ 10,725,063

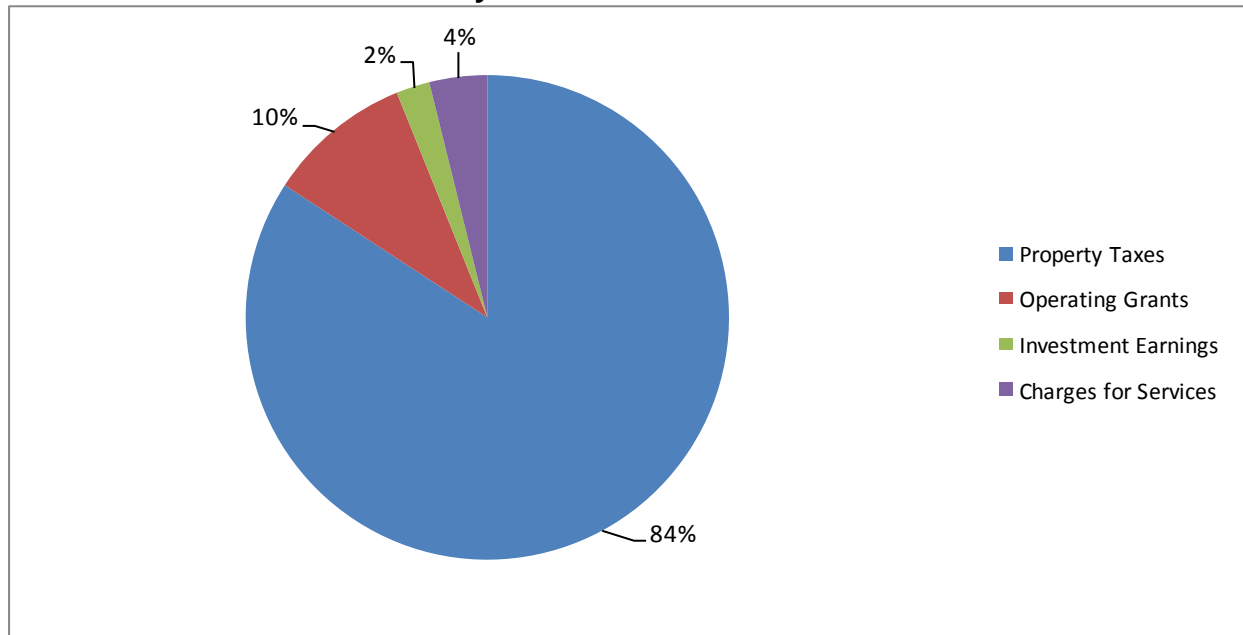
Herrick District Library Change in Net Assets

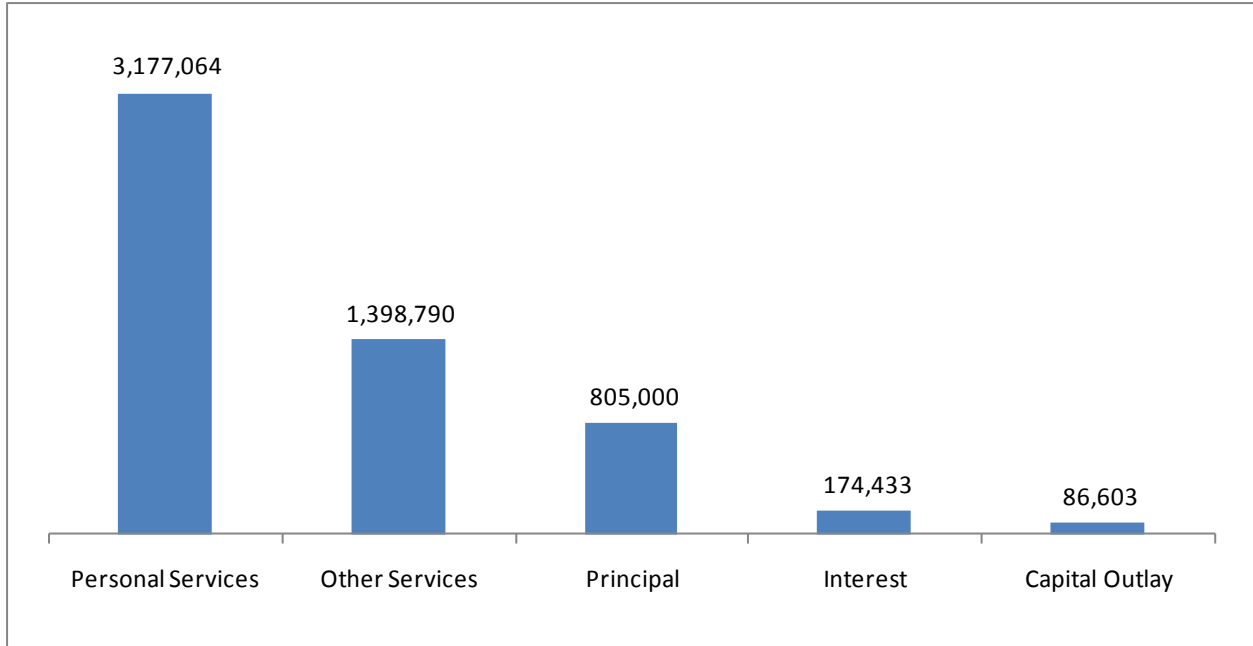
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue:						
Program revenue:						
Charges for services	\$ 217,397	\$ 230,111	\$ 1,152	\$ 1,402	\$ 218,549	\$ 231,513
Operating grants	547,265	479,025	-	-	476,611	479,025
General revenue:						
Property taxes	4,751,192	4,737,069	-	-	4,751,192	4,737,069
Unrestricted investment earnings	126,103	285,702	-	-	196,757	285,702
Total revenue	5,641,957	5,731,907	1,152	1,402	5,643,109	5,733,309

Herrick District Library Change in Net Assets (Concluded)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Expenses:						
Library services	\$ 5,081,348	\$ 4,955,379	\$ -	\$ -	\$ 5,081,348	\$ 4,955,379
Employee vending services	-	-	1,457	1,524	1,457	1,524
Interest on long-term debt	174,433	202,533	-	-	174,433	202,533
Total expenses	<u>5,255,781</u>	<u>5,157,912</u>	<u>1,457</u>	<u>1,524</u>	<u>5,257,238</u>	<u>5,159,436</u>
Increase (decrease) before transfers	386,176	573,995	(305)	(122)	385,871	573,873
Transfers	(400)	(400)	400	400	-	-
Increase (decrease) in net assets	385,776	573,595	95	278	385,871	573,873
Net assets – beginning of year	<u>10,723,362</u>	<u>10,149,767</u>	<u>1,701</u>	<u>1,423</u>	<u>10,725,063</u>	<u>10,151,190</u>
Net assets – end of year	<u>\$11,109,138</u>	<u>\$10,723,362</u>	<u>\$ 1,796</u>	<u>\$ 1,701</u>	<u>\$ 11,110,934</u>	<u>\$ 10,725,063</u>

Revenues by Source – Governmental Funds





General Fund Budgetary Highlights

There were no significant modifications from the original to the amended budget for the general fund during the current year.

There was no significant variances between the amended budget and final results.

Capital Assets and Debt Administration

Capital Assets

**Herrick District Library
Capital Assets (net of depreciation)**

	Governmental Activities	
	2009	2008
Land	\$ 617,975	\$ 617,975
Construction in progress	54,555	27,513
Buildings	7,593,393	7,969,450
Improvements other than building	106,006	115,558
Office equipment and furniture	530,381	587,191
Equipment and machinery	183,883	192,413
Total	\$ 9,086,193	\$ 9,510,100

Additional information on the Library’s capital assets can be found in Note 3 on page 29 of this report.

Long-term debt

Herrick District Library Outstanding Debt

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Capital lease agreements	<u>\$3,595,000</u>	<u>\$4,400,000</u>

Additional information on the Library's long-term debt can be found in Note 4 on page 30 of this report.

Economic Factors and Next Year's Budgets and Rates

Predicting next year's financial situation with any accuracy is simply not possible for two significant reasons:

- the State of Michigan's budget is uncertain (at this writing on October 6th the State has not determined what revenues and expenditures will look like for its fiscal year that began on October 1st), and
- local property values are in flux as a result of the uncertain nature of the area's economy.

The cataclysmic disruption of the State's automotive industry has thrown predictability for all governmental units out the window. The impact is understood to be a global shift of manufacturing that is more disruptive than earlier cycles (save that of the Great Depression) had ever been. At present Michigan is leading the nation in unemployment with automotive companies receiving financial support from the federal government in order to survive long enough to re-organize themselves in hopes of surviving in a global market with greatly reduced labor costs. The impact is global, nationwide, statewide, and local at the same time. In the Holland area we are seeing such a marked reduction in automotive parts manufacturing that some firms simply closing shop. Industrial properties values are declining. Even housing, normally a "hot" commodity in this area, is languishing with falling prices and values. It is impossible to predict what the next year will bring, in terms of library funding, with any certainty. We expect the following:

- lower support for public libraries from the State (state aid);
- lower penal fine support coming from a population less able to pay court assessed penal fines;
- declining property values will reduce local income for library services; but
- increased pressure to deliver more service to a population with fewer resources to purchase books and similar goods for themselves.

We can expect the trend of the recent past to continue:

PENAL FINE RECEIPTS

<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/06</u>
\$386,000	\$405,000	\$449,000	\$491,000

LIBRARY MILLAGE RECEIPTS

<u>MUNICIPALITY</u>	<u>MILLAGE THIS YEAR</u>	<u>MILLAGE LAST YEAR</u>	<u>DIFFERENCE AS PERCENT</u>
Holland City	\$1,551,341	\$1,571,495	(1.2%)
Holland Township	1,720,146	1,726,404	(0.4%)
Laketown Township	433,104	420,265	3.1%
Park Township	1,177,477	1,141,815	3.1%
All Jurisdictions	<u>\$4,882,608</u>	<u>\$4,859,979</u>	<u>0.5%</u>

In addition, we are concerned about the impact that last fall's disruption of the financial markets will ultimately have on our liability for pensions for our employees. The Michigan Employee's Retirement System, our pension provider, has suffered unprecedented losses and will require defined benefit providers like the Library to increase their annual payments in order to maintain benefits for retirees.

Discussions at both the federal and state levels concerning health insurance could have an impact on the Library as well. It is not possible to predict if our insurance costs will change. There is simply not enough information to tell if our cost would rise or fall at this time.

What we can anticipate with certainty is that our community will turn to this library in increasing numbers to provide services. We have already begun to see record use of library materials during the summer of 2009 and expect this trend to continue throughout the year. During the past two years the uses of our physical items were:

<u>LIBRARY</u>	<u>CIRCULATION THIS YEAR</u>	<u>CIRCULATION LAST YEAR</u>	<u>DIFFERENCE AS PERCENT</u>
Herrick	1,055,586	1,019,972	3.5%
North Branch	<u>266,152</u>	<u>254,964</u>	<u>4.4%</u>
Both libraries	1,321,738	1,274,936	3.7%

While it is not possible to predict with any certainty, it is likely that in the near future our ability to obtain materials from other libraries will become more difficult and may require a fee for service, and our policy of "free access" to residents of those communities which do not pay taxes to support this Library will end. If the State is not able to continue support for regional library services (i.e. Lakeland Library Cooperative) and statewide library services (i.e. MeL Cat – statewide interlibrary lending; MeL databases) the pressure on our operating budget and our collections will not be able to sustain the levels of sharing we presently provide. We are exploring options that will permit us to serve our community in ways that are close to present levels of service (e.g. a stand alone computer catalog of our holdings capable of providing reservations on our materials and providing control over our inventory; as well as stand alone interlibrary lending services).

We are hopeful that our fund balance will support construction to expand the North Side Branch Library and have begun the work to learn what costs would be required to “right size” this very busy and crowded 5,000 square foot branch library.

In addition, we continue to evaluate new information products for the value they could provide to our community of users as we watch developments in information technology all around us. We are making an effort to increase our electronic reference resources, in many cases dropping hard copy of these familiar tools. Our website has also been re-developed to improve its utility including notes about new resources and events that our community members might have missed as well as improving access to our electronic subscriptions – some that are provided by the State for all Michiganders and that we license for residents of this community are available from home or office 24 hours a day, while others are only available from library computers.

We are actively seeking more appropriate level of financial support from the neighboring townships that contract with us for library service. We are requesting the equivalence of 0.3 mil on a township’s taxable property value to support the service Herrick provides to their residents. Five neighboring townships will need to decide by next fiscal year if they wish to continue to contract for full services for their residents with us.

We are also exploring our practices that might prevent our being of greater service to community. In December 2008 we suspended our \$1.00 charge to use our adult market DVD feature film collection. The use of these DVDs more than tripled during the month as sign that some members of our community find a \$1.00 charge an impediment to using this part of our collection. We anticipate changing this practice with the next fiscal year.

The one positive development we will experience in the next fiscal year is the ability to return our millage to its original 1.1 mil level. Headley reductions have controlled our combined debt and operational levy during the past ten years and a retirement of bonded indebtedness provides an opportunity to lift our operational millage while not increasing our combined levy. This is one piece of good news for the Herrick District Library’s operational budget in several otherwise bleak years. It is also good news for our taxpayers: tax relief that does not diminish service.

Requests for information

This financial report is designed to provide a general overview of the Library’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director, Herrick District Library, 300 South River Avenue, Holland, Michigan 49423.

BASIC FINANCIAL STATEMENTS

Herrick District Library

Statement of Net Assets

June 30, 2009

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 5,663,657	\$ 1,844	\$ 5,665,501
Receivables, net	63,726	-	63,726
Due from other governmental units	327,633	-	327,633
Capital assets:			
Not being depreciated	672,530	-	672,530
Being depreciated, net	8,413,663	-	8,413,663
Total assets	15,141,209	1,844	15,143,053
Liabilities			
Payables, net	193,316	48	193,364
Long-term debt:			
Accrued compensated absences:			
Due within one year	124,300	-	124,300
Due after one year	119,455	-	119,455
Capital leases payable:			
Due within one year	435,000	-	435,000
Due after one year	3,160,000	-	3,160,000
Total liabilities	4,032,071	48	4,032,119
Net assets			
Invested in capital assets, net of related debt	5,491,193	-	5,491,193
Restricted:			
Nonexpendable:			
Permanent fund corpus	1,266,978	-	1,266,978
Expendable for:			
Specific purposes	962,252	-	962,252
Capital projects	308,939	-	308,939
Unrestricted	3,079,776	1,796	3,081,572
Total net assets	\$ 11,109,138	\$ 1,796	\$ 11,110,934

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

Herrick District Library

Statement of Activities

For the Year Ended June 30, 2009

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities			
Library services	\$ 5,081,348	\$ 217,397	\$ 547,265
Interest on long-term debt	174,433	-	-
Total governmental activities	5,255,781	217,397	547,265
Business-type activities			
Employee vending	1,457	1,152	-
Total primary government	\$ 5,257,238	\$ 218,549	\$ 547,265

General revenues

Property taxes
 Unrestricted investment earnings
 Transfers - internal activities

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - ending of year

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

**Net (Expenses) Revenue and
Changes In Net Assets**

Governmental Activities	Business-type Activities	Total
\$ (4,316,686)	\$ -	\$ (4,316,686)
(174,433)	-	(174,433)
(4,491,119)	-	(4,491,119)
-	(305)	(305)
\$ (4,491,119)	\$ (305)	\$ (4,491,424)
4,751,192	-	4,751,192
126,103	-	126,103
(400)	400	-
4,876,895	400	4,877,295
385,776	95	385,871
10,723,362	1,701	10,725,063
\$ 11,109,138	\$ 1,796	\$ 11,110,934

Herrick District Library

Balance Sheet Governmental Funds

June 30, 2009

	General	Endowment Permanent	Nonmajor Fund - Capital Projects	Total
Assets				
Cash and pooled investments	\$ 2,880,475	\$ 2,230,013	\$ 309,414	\$ 5,419,902
Receivables:				
Taxes	993	-	-	993
Interest	62,733	-	-	62,733
Due from other governmental units	327,633	-	-	327,633
Total assets	\$ 3,271,834	\$ 2,230,013	\$ 309,414	\$ 5,811,261
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 101,013	\$ 783	\$ 475	\$ 102,271
Accrued payroll and benefits	66,989	-	-	66,989
Total liabilities	168,002	783	475	169,260
Fund balances				
Reserved for:				
Permanent fund corpus	-	1,266,978	-	1,266,978
Permanent fund expendable	-	962,252	-	962,252
Unreserved:				
Designated for:				
Replacement of equipment	71,835	-	-	71,835
Undesignated	3,031,997	-	308,939	3,340,936
Total fund balances	3,103,832	2,229,230	308,939	5,642,001
Total liabilities and fund balances	\$ 3,271,834	\$ 2,230,013	\$ 309,414	\$ 5,811,261

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

Herrick District Library

Reconciliation of the Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2009

Fund balances- total governmental funds \$ 5,642,001

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

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

Add - land	672,530
Add - capital assets being depreciated	13,375,396
Deduct - accumulated depreciation	(4,961,733)

Certain liabilities, such as leases payable, are not due and payable in the current
period and therefore are not reported in the funds.

Deduct - capital leases payable	(3,595,000)
Deduct - accrued interest on capital leases	(24,056)

Net assets of governmental activities \$ 11,109,138

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

Herrick District Library
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2009

	<u>General</u>	<u>Endowment Permanent</u>	<u>Nonmajor Fund - Capital Projects</u>	<u>Total</u>
Revenues				
Property taxes	\$ 4,751,192	\$ -	\$ -	\$ 4,751,192
Intergovernmental	436,530	-	-	436,530
Charges for services, fines and fees	217,397	-	-	217,397
Investment earnings	115,696	70,654	10,407	196,757
Miscellaneous	11,190	28,891	-	40,081
Total revenues	5,532,005	99,545	10,407	5,641,957
Expenditures				
Current:				
Personal services	3,177,064	-	-	3,177,064
Other services and charges	1,373,675	20,051	5,064	1,398,790
Debt service:				
Principal	805,000	-	-	805,000
Interest	174,433	-	-	174,433
Capital outlay	61,386	-	25,217	86,603
Total expenditures	5,591,558	20,051	30,281	5,641,890
Revenues (under) over expenditures	(59,553)	79,494	(19,874)	67
Other financing uses				
Transfers out	(400)	-	-	(400)
Net changes in fund balances	(59,953)	79,494	(19,874)	(333)
Fund balances, beginning of year	3,163,785	2,149,736	328,813	5,642,334
Fund balances, end of year	\$ 3,103,832	\$ 2,229,230	\$ 308,939	\$ 5,642,001

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

Herrick District Library

Reconciliation of the Net Change in Fund Balances on the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Change in Net Assets of Governmental Activities on the Statement of Activities

For the Year Ended June 30, 2009

Net change in fund balances - total governmental funds	\$ (333)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - purchase of capital assets	84,108
Deduct - depreciation expense	(508,015)

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term capital leases	805,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest on capital leases	5,016
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Change in net assets of governmental activities	\$ 385,776
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The accompanying notes are an integral part of these financial statements.

Herrick District Library

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual General Fund

For the Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance Over (Under)
Revenues				
Property taxes	\$ 4,754,634	\$ 4,754,634	\$ 4,751,192	\$ (3,442)
Intergovernmental	484,174	484,174	436,530	(47,644)
Charges for services, fines and fees	194,950	194,950	217,397	22,447
Investment earnings	100,000	100,000	115,696	15,696
Miscellaneous	20,000	20,000	11,190	(8,810)
Total revenues	5,553,758	5,553,758	5,532,005	(21,753)
Expenditures				
Current:				
Personal services	3,137,530	3,187,530	3,177,064	(10,466)
Other services and charges	1,534,162	1,540,662	1,373,675	(166,987)
Debt service				
Principal	805,000	805,000	805,000	-
Interest	174,846	174,846	174,433	(413)
Capital outlay	112,000	72,500	61,386	(11,114)
Total expenditures	5,763,538	5,780,538	5,591,558	(188,980)
Revenues under expenditures	(209,780)	(226,780)	(59,553)	167,227
Other financing sources (uses)				
Transfers in	75,000	75,000	-	(75,000)
Transfers out	(400)	(400)	(400)	-
Total other financing sources (uses)	74,600	74,600	(400)	(75,000)
Net changes in fund balances	(135,180)	(152,180)	(59,953)	92,227
Fund balances, beginning of year	3,163,785	3,163,785	3,163,785	-
Fund balances, end of year	\$ 3,028,605	\$ 3,011,605	\$ 3,103,832	\$ 92,227

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

Herrick District Library

Statement of Fund Net Assets Proprietary Funds

June 30, 2009

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Employee Vending Fund</u>	<u>Compensated Absences Internal Service Fund</u>
Assets		
Cash and pooled investments	\$ 1,844	\$ 243,755
Liabilities		
Current liabilities:		
Accounts payable	48	-
Accrued payroll and benefits	-	124,300
Total current liabilities	48	124,300
Non-current liabilities		
Accrued compensated absences	-	119,455
Total liabilities	48	243,755
Net assets		
Unrestricted	\$ 1,796	\$ -

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

Herrick District Library

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2009

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Employee Vending Fund</u>	<u>Compensated Absences Internal Service Fund</u>
Operating revenues		
User fees and charges for services	\$ 1,152	\$ 18,716
Operating expenses		
Operations	1,457	18,716
Operating loss	(305)	-
Transfers		
Transfers in	400	-
Change in net assets	95	-
Net assets, beginning of year	1,701	-
Net assets, end of year	\$ 1,796	\$ -

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

Herrick District Library

Statement of Cash Flows Proprietary Funds

For the Year Ended June 30, 2009

	Business-Type Activities	Governmental Activities
	Employee Vending Fund	Compensated Absences Internal Service Fund
Cash flows from operating activities		
Receipts from interfund services provided	\$ -	\$ 18,716
Receipts from customers	1,163	-
Payments to suppliers	(1,471)	-
<hr/>		
Net cash (used in) provided by operating activities	(308)	18,716
Cash flows from noncapital financing activities		
Transfer in	400	-
<hr/>		
Net increase in cash and pooled investments	92	18,716
Cash and pooled investments, beginning of year	1,752	225,039
<hr/>		
Cash and pooled investments, end of year	\$ 1,844	\$ 243,755
<hr/>		
Cash flows from operating activities		
Operating loss	\$ (305)	\$ -
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	11	-
Accounts payable	(14)	-
Compensated absences payable	-	18,716
<hr/>		
Net cash (used in) provided by operating activities	\$ (308)	\$ 18,716
<hr/>		

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

Herrick District Library

Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2009

Assets

Cash and pooled investments	\$	61,680
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Liabilities

Other accrued liabilities and deposits	\$	61,680
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The accompanying notes are an integral part of these financial statements.

Herrick District Library

Notes to Financial Statements

For the Year Ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Herrick District Library (the "Library") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Library. There are no component units to be included. Criteria for including a component unit include entities for which the Library is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of 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 statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Herrick District Library

Notes to Financial Statements

For the Year Ended June 30, 2009

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 are recorded only when payment is due.

Intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major funds:

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

The *Endowment Permanent Fund* is used to record the activity and balance of endowments which are restricted for specific purposes.

Additionally, the Library reports the following fund types:

The *Capital Projects Fund* accounts for the accumulation of resources and disbursements for construction projects of governmental funds.

The *Enterprise Fund* is used to account for the balances and activities of the various activities benefiting employees which is financed through user charges which support this service.

The *Internal Service Fund* accounts for the accumulation of both the liability and the resources to pay the compensated absences liability at year end.

Agency Funds are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise fund include cafeteria expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

Herrick District Library
Notes to Financial Statements
For the Year Ended June 30, 2009

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general fund as required by generally accepted accounting principles. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the District Library Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the Library are governed by Public Act 621, which was followed for the year ended June 30, 2009. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the District Library Board.
7. Budgets for expenditures are adopted at the fund level.
8. Budgeted amounts are as originally adopted, or as amended by the District Library Board.

Cash and Pooled Investments

For purposes of the statement of cash flows, the Library considers all assets held in the cash and investment pool to be cash equivalents because the investments are not identifiable to specific funds and the assets can be withdrawn at anytime, similar to a demand deposit account.

Statutory Authority

State statues authorize the Library to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

Herrick District Library

Notes to Financial Statements

For the Year Ended June 30, 2009

- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets of the Library is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-20
Buildings	40
Equipment and machinery	7-10
Office equipment and furniture	5-7

The Library has elected not to capitalize its collection of library books because management feels that to do so would be impractical. Purchases of books are recorded as current expenditures in the year purchased. Purchases of library books for the year ended June 30, 2009 amounted to \$321,808.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Herrick District Library

Notes to Financial Statements

For the Year Ended June 30, 2009

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Intergovernmental Revenue

The Library's primary source of funding is intergovernmental revenue. This funding includes contributions by the City of Holland, Holland Charter Township, Park Township and Laketown Township based on collection of a unified millage on property values. This revenue source also includes Library State Aid and fines collected by other governments.

Accrued Vacation Time

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accrued vacation leave is recorded as an internal service fund liability at June 30, 2009.

Interfund Transactions

During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services and subsidies. The accompanying financial statements generally reflect such transactions as revenues and expenditures and transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by the Library. The only transfer was from the General Fund to the Employee Vending Fund for \$400.

Transfers are used to move revenues earned in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2009, the Library carried commercial insurance to cover all risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in the past fiscal year.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2009, the most recent statement of net assets presented herein, through the auditors' report date, the date these financial statements were available to be issued. No significant such events or transactions were identified.

Herrick District Library
Notes to Financial Statements
For the Year Ended June 30, 2009

2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to deposits and investments are as follows:

	Governmental Activities	Business- type Activities	Fiduciary Funds	Total
Cash and pooled investments	\$ 5,663,657	\$ 1,844	\$ 61,680	\$ 5,727,181

Cash and pooled investments consist of the following:

Checking/savings accounts	\$1,335,710
Certificates of deposit (due within one year)	4,390,000
Petty cash	1,471
	\$5,727,181

Deposits and certificates of deposit are in five (5) financial institutions located in Michigan. State law limits the Library's depository options to financial institutions located in Michigan. All accounts are in the name of the Library.

The Library chooses to disclose its investments by specifically identifying each. As of year-end, the Library did not have any investments.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 (summary of significant accounting policies). The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The Library investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. The Library minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the Library's investment policy. As of year end, \$1,900,000 of the Library's bank balance of \$5,737,074 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Herrick District Library

Notes to Financial Statements

For the Year Ended June 30, 2009

Custodial Credit Risk – Investments. For an investment, 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 Library minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the Library's investment policy. Money market funds are not subject to custodial credit because there are no specifically identifiable securities associated with the Library's portion of each fund.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 (summary of significant accounting policies). The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk.

3. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2009, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 617,975	\$ -	\$ -	\$ 617,975
Construction in progress	27,513	28,555	1,513	54,555
Total capital assets, not being depreciated	<u>645,488</u>	<u>28,555</u>	<u>1,513</u>	<u>672,530</u>
Capital assets, being depreciated				
Buildings	11,368,578	6,840	-	11,375,418
Improvements other than buildings	203,513	-	-	203,513
Equipment and machinery	585,124	41,936	-	627,060
Office equipment and furniture	1,161,115	8,290	-	1,169,405
Total capital assets being depreciated	<u>13,318,330</u>	<u>57,066</u>	<u>-</u>	<u>13,375,396</u>
Less accumulated depreciation for:				
Buildings	3,399,128	382,897	-	3,782,025
Improvements other than buildings	87,955	9,552	-	97,507
Equipment and machinery	392,711	50,466	-	443,177
Office equipment and furniture	573,924	65,100	-	639,024
Total accumulated depreciation	<u>4,453,718</u>	<u>508,015</u>	<u>-</u>	<u>4,961,733</u>
Total capital assets, being depreciated, net	<u>8,864,612</u>	<u>(450,949)</u>	<u>-</u>	<u>8,413,663</u>
Governmental activities capital assets, net	<u>\$ 9,510,100</u>	<u>\$ (422,394)</u>	<u>\$ 1,513</u>	<u>\$ 9,086,193</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Library services	<u>\$508,015</u>

Herrick District Library
Notes to Financial Statements
For the Year Ended June 30, 2009

4. LONG-TERM DEBT

The following is a summary of debt transactions of the Library for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital lease payable to the City of Holland Building Authority, due in one annual installment of \$350,000 on May 1, 2009; interest at 4.375%.	\$ 350,000	\$ -	\$ 350,000	\$ -	\$ -
Capital lease payable to the City of Holland Building Authority, due in annual installments of \$430,000 to \$475,000, through May 1, 2017, interest at 3.00% to 4.35%.	<u>4,050,000</u>	<u>-</u>	<u>455,000</u>	<u>3,595,000</u>	<u>435,000</u>
Subtotal – installment debt	4,400,000	-	805,000	3,595,000	435,000
Compensated absences	<u>225,039</u>	<u>255,394</u>	<u>236,678</u>	<u>243,755</u>	<u>124,300</u>
Total	<u>\$ 4,625,039</u>	<u>\$ 255,394</u>	<u>\$ 1,041,678</u>	<u>\$ 3,838,755</u>	<u>\$ 559,300</u>

The following is a schedule of annual future minimum lease payments required under the capital leases payable at June 30, 2009:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 435,000	\$ 144,332	\$ 579,332
2011	445,000	131,282	576,282
2012	460,000	111,924	571,924
2013	475,000	93,526	568,526
2014	455,000	74,524	529,524
2015-2017	<u>1,325,000</u>	<u>110,650</u>	<u>1,435,650</u>
Total	<u>\$ 3,595,000</u>	<u>\$ 666,238</u>	<u>\$ 4,261,238</u>

Herrick District Library
Notes to Financial Statements
For the Year Ended June 30, 2009

5. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined pension plan providing retirement, death and disability benefits covering full-time and part-time Library employees. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The Library is required to contribute at an actuarially determined rate; the current rate is 13.51% and 10.71% of annual covered payroll for nonunion and union employees, respectively. Participating employees are not required to contribute to the Plan. The contribution requirements of the Library are established and may be amended by the MERS Retirement Board.

The required contribution of \$226,253 was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, the date of the latest actuarial valuation, was 28 years.

The Library's Annual Pension Cost and Net Pension Obligation for the current year are as follows:

Annual pension cost	\$ 226,253
Contributions made	<u>(226,253)</u>
Decrease in net Pension Obligation	-
Net Pension Obligation beginning of year	<u>-</u>
Net Pension Obligation end of year	<u>\$ -</u>

Herrick District Library

Notes to Financial Statements

For the Year Ended June 30, 2009

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2007	\$ 209,702	100%	\$ -
2008	246,782	100%	-
2009	226,253	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/06	\$ 3,972,045	\$ 5,051,239	\$ 1,079,194	79%	\$ 1,773,941	61%
12/31/07	4,345,630	5,426,909	1,081,279	80%	1,883,507	57%
12/31/08	4,614,326	5,701,205	1,086,879	81%	1,863,142	58%

Deferred Compensation Plan

The Library also maintains a Section 457 defined compensation plan administered by ICMA Retirement Corporation (ICMA). All employees of the Library are eligible to participate in the Plan. Participants may contribute annual compensation as defined in the Plan up to the maximum allowed by the Internal Revenue Service. The Library's contributions are limited to one employees plan based on their employment contract to pay 11% of the participant's salary. The Library's contribution for fiscal year 2009 was \$10,375 and the employees' contribution was \$70,141.

6. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 5, the Library provides postemployment health care benefits, in accordance with union contracts and approved personnel policy for full-time permanent employees, to all employees who retire from the Library on or after attaining age 55, but prior to attaining age 65. Currently, there are no retirees that meet the eligibility requirements. The Library provides for single person coverage up to \$155 per month or two-person coverage up to \$300 per month. No benefit is provided if the retiree can obtain no cost coverage through other employment or through a spouse's employment. However, retired employees who are eligible to receive hospital, surgical and medical coverage from another employer-sponsored plan may request reimbursement for any premium cost up to the maximum amounts as stated above. All retirees and their spouses, including surviving spouses and/or dependents, are eligible for participation in the Library's Group Health Insurance by paying the established premiums. During the fiscal year, there were no expenditures for postemployment health care benefits paid. Such premiums are expected to be funded on a pay-as-you-go basis. An actuarial valuation of the Library's liability for these benefits in accordance with GASB Statement No. 43 has not been performed. Insomuch as the plan is only open to a small number of Library employees, management has determined that the actuarially accrued liability would be immaterial to the financial statements taken as a whole.

COMBINING FINANCIAL STATEMENTS

FIDUCIARY FUNDS

Herrick District Library

Combining Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2009

	<u>Imprest Payroll</u>	<u>Employees' Flexible Benefits Plan</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 55,450	\$ 6,230	\$ 61,680
Liabilities			
Other accrued liabilities and deposits	\$ 55,450	\$ 6,230	\$ 61,680

Herrick District Library
Combining Statement of Changes in
Fiduciary Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2009

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
<u>Imprest Payroll</u>				
Assets				
Cash and pooled investments	\$ 52,640	\$ 8,124,881	\$ 8,122,071	\$ 55,450
<hr/>				
Liabilities				
Other accrued liabilities and deposits	\$ 52,640	\$ 8,124,881	\$ 8,122,071	\$ 55,450
<hr/>				
<u>Employees' Flexible Benefits Plan</u>				
Assets				
Cash and pooled investments	\$ 2,647	\$ 31,212	\$ 27,629	\$ 6,230
Accounts receivable	65	916	981	-
Total assets	\$ 2,712	\$ 32,128	\$ 28,610	\$ 6,230
<hr/>				
Liabilities				
Other accrued liabilities and deposits	\$ 2,712	\$ 32,128	\$ 28,610	\$ 6,230
<hr/>				
<u>Total - All Agency Funds</u>				
Assets				
Cash and pooled investments	\$ 55,287	\$ 8,156,093	\$ 8,149,700	\$ 61,680
Accounts receivable	65	916	981	-
Total assets	\$ 55,352	\$ 8,157,009	\$ 8,150,681	\$ 61,680
<hr/>				
Liabilities				
Other accrued liabilities and deposits	\$ 55,352	\$ 8,157,009	\$ 8,150,681	\$ 61,680
<hr/>				

COMPLIANCE AND INTERNAL CONTROL

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

November 11, 2009

Members of the District Library Board
Herrick District Library
Holland, Michigan

We have audited the financial statements of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of **Herrick District Library** as of and for the year ended June 30, 2009, and have issued our report thereon dated November 11, 2009. 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 the Herrick District Library's internal control over financial reporting 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 Herrick District Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Herrick District Library's internal control over financial reporting.

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

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

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Herrick District 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 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 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 Library Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

November 11, 2009

Members of the District Library Board
Herrick District Library
Holland, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *Herrick District Library* (the “Library”) for the year ended June 30, 2009, and have issued our report thereon dated November 11, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated July 6, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Library’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on September 23, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated November 11, 2009.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Herrick District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

Herrick District Library

Comments and Recommendations

For the Year Ended June 30, 2009

In planning and performing our audit of the financial statements of the *Herrick District Library* (the "Library") as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

Other Postemployment Benefits (OPEB)

The Library offers other postemployment benefits (retiree healthcare subsidies) to retirees. The Library did not have a full actuarial valuation performed (or to engage a specialist to complete a calculation under the alternative method for plans with less than 100 members). Accordingly, no calculation of the actuarially accrued liability or annual required contribution was available for the June 30, 2009 audit, as required by generally accepted accounting principles. For the June 30, 2010 audit, the Library will be required to either (1) begin actuarially funding its OPEB liability, or (2) record a liability for the unfunded portion in its financial statements. Since an actuarial valuation of the Library's liability for these benefits was not performed, we calculated an estimated liability, using an alternative method permitted by the GASB for small plans, which amounted to approximately \$81,674, with an estimated Annual Required Contribution of \$9,537. Management has determined that this estimate was not material to the financial statements for the year ended June 30, 2009.

Herrick District Library

Comments and Recommendations (Concluded)

For the Year Ended June 30, 2009

Unless substantial changes are made to the current plan, management believes that the liability will likely continue to be immaterial. Accordingly, we recommend that if the Library ever considers making changes to its OPEB plan, that management either arrange for a full actuarial valuation to be performed or engage a specialist to do a complete calculation under the alternative method for plans with less than 100 members.

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