

**PUBLIC LIBRARY OF CHARLOTTE
AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)**

Basic Financial Statements

For The Year Ended
June 30, 2007

**PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)**

Table of Contents

	Page
FINANCIAL SECTION	
Basic Financial Statements	
Independent Auditors' Report.....	1
Management's Discussion & Analysis	2 - 6
Government-wide Financial Statements:	
Statement of Net Assets.....	7
Statement of Activities.....	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	9
Reconciliation of the Fund Balance of Governmental Funds to Net Assets of Governmental Activities	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Net Change in Fund Balances of Governmental Funds to Change in Net Assets of Governmental Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Fund	14
Notes to Financial Statements.....	15 - 24
Accompanying Information:	
Independent Auditors' Report on Supplementary Information.....	25
Schedule of Expenditures – Governmental Funds	26
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund.....	27
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budgetary Basis (Non-GAAP) – Governmental Funds	28
Schedule of Expenditures – Budgetary Basis (Non-GAAP) – Governmental Funds	29
COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30 - 31
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major State Program and on Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act.....	32 - 33
Schedule of Findings and Questioned Costs.....	34 - 38
Schedule of Expenditures of Federal and State Awards	39
Note to Schedule of Expenditures of Federal and State Awards.....	40



Independent Auditors' Report

The Board of Trustees
Public Library of Charlotte and Mecklenburg County
Charlotte, North Carolina

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, each major fund, and the aggregate remaining fund information of the Library as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund and its special revenue 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 September 29, 2007 on our consideration of the Library's internal control over financial reporting and on 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.

Management's Discussion and Analysis contained on pages 2-6 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 supplementary information. However, we did not audit the information and accordingly, express no opinion on it.

Cherry Bekaert + Holland, C.C.P.A.

Charlotte, North Carolina
September 29, 2007

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Management's Discussion and Analysis

Introduction

Management's discussion and analysis provides narrative for the Public Library of Charlotte and Mecklenburg County (the Library's) financial activities for the fiscal years ending June 30, 2007 and 2006. The information complements the data presented in the financial statements and is to be used to enhance the reader's understanding of the Library's financial performance.

Overview

The basic financial statements consist of three components: government-wide financial statements, fund financial statements and notes to the financial statements. Schedules of required supplementary information follow the notes to the financial statements.

Government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities. Both of the statements provide data about the Library's financial activities as a whole, in a manner similar to a private-sector business. Accordingly, these statements use the accrual basis of accounting. The Statement of Net Assets presents assets less liabilities thus presenting the Library's financial position at the end of each fiscal year, while the Statement of Activities presents information on how those net assets changed during each fiscal year.

The Statement of Net Assets and Statement of Activities report the Library's information as a single unit government showing Governmental activities only. The Library does not have any Business type activities to report.

Reporting the Library's Significant Funds

Funds are sets of self balancing accounts that reflect the assets, liabilities, fund balance, revenues and expenditures of resources segregated for specific activities. The Library only uses Governmental funds which focus on how money flows into and out of those funds and the balances left at each year end that are available for spending. The modified accrual method of accounting is used to report the governmental funds.

Notes to the Financial Statements

The information reported in the notes to the financial statements provides additional disclosures necessary for a complete understanding of the data presented in the government-wide and fund financial statements.

Financial Analysis of the Library's Funds

The Library uses fund accounting to record revenues and expenditures in the organization's governmental type funds.

The Library's governmental funds focus on the inflows and outflows of current financial resources and measure the change in net spendable resources during the year. The Library's governmental fund types are comprised of the general fund and special revenue funds.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Management's Discussion and Analysis

Financial Analysis of the Library's Funds (continued)

Revenues from intergovernmental sources comprise 88.2% of total revenues received during the Library's fiscal year ending June 30, 2007 as compared to 90.3% for fiscal year ending June 30, 2006. Mecklenburg County, the City of Charlotte and the ABC Board comprise 86.5% of total revenues as of June 30, 2007 as compared to 85.4% for the fiscal year ending June 30, 2006 while the State of North Carolina and Federal revenue sources total 1.7% and 4.9% for 2007 and 2006 respectively. Revenues generated through fines, fees, charges for services and grants used to cover services account for 5.0% of total revenue, up 0.1% from the prior year. Other sources of revenue include general contributions to the Library of 2.1%, up 1.0% from the prior year and other of 4.7% up 0.7% over the June 30, 2006 report.

Governmental funds expenditures were comprised of the following: Personnel, 66.6%, Library materials (books, videos, software for public use, etc.) 8.7%, General Operations, 16.4%, Capital Projects 7.5% and Debt Service 0.8% as compared to 59.1%, 10.1%, 15.7%, 14.4% and 0.8%, respectively, from the prior year. The marked decrease in capital projects was due to the completion of the Library's ImaginOn children's facility.

General Fund Budget Highlights

The Library's annual balanced budget is prepared on the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of North Carolina General Statutes. The general fund is the most significant fund budgeted.

During the course of fiscal years 2007 and 2006, the Library amended the general fund budget to reflect current circumstances. The Library Director is authorized to transfer budget amounts up to \$25,000 without formal approval by the Library's Board of Trustees; any budget transfers over \$25,000 require Board approval. The general fund, as the primary fund supporting the majority of activities of the Library is monitored by the Finance Director for any shortfalls of revenue or overspending of budget. Purchase orders are pre-audited to ensure availability of funds for payment when goods or services are delivered.

Adjustments to increase original budgeted revenue for 2007 and 2006 totaled \$2,210,956 and \$1,650,868, respectively, and a corresponding increase in budgeted expenditures of an identical amount. During fiscal year 2007, grants received by the Library for programming account for \$254,500 of the adjustments to budgeted revenue while Mecklenburg County increased the Library's budget by \$1,100,134 for PC replacements, other Information technology projects and a roof replacement at the Library's South County Regional location. In addition to these, budgeted revenue was also increased by \$300,000 for contributions towards the Library's ImaginOn facility. The balance of the adjustments was for changes in operational needs.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Management's Discussion and Analysis

Government-wide Financial Analysis

This is the Library's reporting of comparative financial information under the guidelines of Governmental Accounting Standards Board (GASB) Statement 34.

The following is a summary of Net Assets:

	Government-wide Activities <u>June 30, 2007</u>	Government-wide Activities <u>June 30, 2006</u>
<u>Assets</u>		
Current Assets	\$ 5,964,914	\$ 5,055,077
Capital Assets, net of accumulated Depreciation	<u>75,331,642</u>	<u>75,540,570</u>
Total Assets	<u>\$ 81,296,556</u>	<u>\$ 80,595,647</u>
<u>Liabilities</u>		
Current and other liabilities	\$ 2,551,836	\$ 2,666,857
Long-term liabilities	<u>3,658,277</u>	<u>3,713,195</u>
Total Liabilities	<u>\$ 6,210,113</u>	<u>\$ 6,380,052</u>
<u>Net Assets</u>		
Invested in general fixed assets, net of related debt	\$ 73,672,858	\$ 73,676,650
Restricted	973,585	582,332
Unrestricted	<u>440,000</u>	<u>(43,387)</u>
Total Net Assets	<u>\$ 75,086,443</u>	<u>\$ 74,215,595</u>

While total net assets would normally reflect the financial position of a governmental entity, the Library does not include debt associated with the acquisition of land and buildings as, in accordance with North Carolina statutes, Mecklenburg County issues debt for the Library's capital purposes. The Library does not record the long term liability for debt issued by the County as it is not the obligor on the debt. The Library relies on Mecklenburg County to handle the debt associated with the acquisition and/or construction of capital facilities.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Management's Discussion and Analysis

Changes in Net Assets

	Governmental Activities <u>June 30, 2007</u>	Governmental Activities <u>June 30, 2006</u>
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 4,291,549	\$ 3,958,475
Operating Grants and Contributions	2,132,967	2,507,524
Capital Grants and Contributions	600,710	3,202,355
General Revenues:		
Mecklenburg County	32,796,622	28,761,039
City of Charlotte	589,822	2,500
Investment Earnings	210,938	92,657
ABC Board	<u>210,000</u>	<u>210,000</u>
Total Revenues	<u>40,832,608</u>	<u>38,734,550</u>
<u>Program Expenses</u>		
General Public Service	38,817,663	35,927,328
Program/Outreach Services	761,252	1,567,627
Copying Services	105,554	81,045
Publications	170,345	101,945
Interest on long-term debt	<u>106,946</u>	<u>119,047</u>
Total Expenses	<u>39,961,760</u>	<u>37,796,992</u>
Increase in Net Assets	870,848	937,558
Net Assets-Beginning, as previously reported	74,215,595	74,667,747
Prior period adjustment	-	<u>(1,389,710)</u>
Net Assets-End of Year	<u>\$ 75,086,443</u>	<u>\$ 74,215,595</u>

The Library maintains a good financial position. Operations generated an increase in net assets of approximately \$870,000 and \$1.9 million for the years ended June 30, 2007 and 2006, respectively. The most significant factor for the difference regarding increase in net assets between the two years is the completion of the Library's ImaginOn Children's facility. Completion of this facility significantly reduced the need for contribution of capital funding to the Library for construction projects. The Library was able to cover 15.8% and 19.7%, for the years ended June 30, 2007 and 2006, respectively, of operating expenditures through operating grants, contributions and charges for services.

Capital Assets and Long-Term Debt Activity

The Library's investment in capital assets net of accumulated depreciation for governmental activities as of June 30, 2007 and 2006 is \$75,331,642 and \$77,914,872, respectively. Capital assets include land, buildings and building improvements, furniture and fixtures and construction in progress.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Management's Discussion and Analysis

Capital Assets and Long-Term Debt Activity (continued)

During fiscal year 2006/2007, the Library initiated planning and design for purposes of replacing its Scaleybark, Carmel and Hickory Grove branches. Also initiated was the planning for an addition to the Beatties Ford Road branch with a renovation of the current branch space and a renovation of the Myers Park branch. At the South County Regional location, the Library accomplished a major roof replacement and at the Morrison Regional location the roof, HVAC and building stucco were replaced. Funding for all projects was provided by Mecklenburg County.

Capital Assets, Net of Accumulated Depreciation

	Governmental Activities <u>June 30, 2007</u>	Governmental Activities <u>June 30, 2006</u>
Land	\$ 11,251,992	\$ 11,251,992
Buildings	60,459,075	63,573,503
Furniture and Fixtures	1,048,421	512,613
Capital Lease	2,496,485	2,573,209
Construction in Progress	<u>75,669</u>	<u>3,555</u>
Total	<u>\$ 75,331,642</u>	<u>\$ 77,914,872</u>

As of June 30, 2007, the Library had total debt outstanding of \$1,658,784. The debt is secured by the related assets of the Library. Total debt includes capital lease obligations, which decreased by \$205,136 (11%) during the past fiscal year. There were no additions to long term debt during the current fiscal year.

Fiscal Year 2008 Highlights

In fiscal year 2007/2008, the Library plans to continue renovations to the Beatties Ford Road and Myers Park branches. Construction of the new Scaleybark, Carmel and Hickory Grove branches is expected to begin, as well. Funding for these projects will continue to be provided by Mecklenburg County.

In the near future, the Library will be seeking funding for two new locations in the Ballantyne and Highland Creek areas of Mecklenburg County. The Library has also requested dollars for a land purchase for a new Southwest Regional location. This request will be placed on the ballot for voter approval in November 2007.

Request for Information

This report is designed to provide an overview of the Library's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should contact the Director of Finance, Public Library of Charlotte and Mecklenburg County, 310 N. Tryon Street, Charlotte, North Carolina 28202.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Statement of Net Assets
June 30, 2007

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 4,640,569
Refundable sales tax	172,312
Other receivables	303,252
Inventory	22,861
Prepays	259,916
Due from other governmental agencies	566,004
Total current assets	5,964,914
Capital assets	
Land and other non-depreciable assets	11,327,661
Other capital assets, net of depreciation	64,003,981
Net capital assets	75,331,642
Total assets	81,296,556
LIABILITIES	
Current Liabilities	
Accounts payable - trade	181,390
Other payables	960,995
Current portion of compensated absences	1,200,000
Current portion of capital lease obligations	209,451
Total current liabilities	2,551,836
Unearned revenue	1,151,212
Compensated absences	1,057,732
Capital lease obligations	1,449,333
Total liabilities	6,210,113
NET ASSETS	
Investment in capital assets, net of related debt	73,672,858
Net assets	
Restricted for:	
Special purposes	973,585
Unrestricted	440,000
Total net assets	\$ 75,086,443

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Statement of Activities
Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Program Revenues</u>				Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General public service	\$ 38,817,663	\$ 3,994,501	\$ 1,659,925	\$ 600,710	\$ (32,562,527)
Program/outreach services	761,252	46,917	473,042	-	(241,293)
Copying services	105,554	196,185	-	-	90,631
Publications	170,345	53,946	-	-	(116,399)
Interest on long-term debt	106,946	-	-	-	(106,946)
Total governmental activities	<u>\$ 39,961,760</u>	<u>\$ 4,291,549</u>	<u>\$ 2,132,967</u>	<u>\$ 600,710</u>	<u>\$ (32,936,534)</u>

General revenues:

Mecklenburg County appropriation	32,796,622
City of Charlotte appropriation	589,822
Investment earnings	210,938
ABC Board	210,000
Total general revenues and transfers	<u>33,807,382</u>
Change in net assets	870,848
Net assets - beginning, as previously reported	76,589,897
Prior period adjustment (Note 15)	(2,374,302)
Net assets - beginning, as restated	<u>74,215,595</u>
Net assets - ending	<u>\$ 75,086,443</u>

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Balance Sheet
Governmental Funds
June 30, 2007

	(Major) General Fund	(Major) Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 4,006,920	\$ 633,649	\$ -	\$ 4,640,569
Refundable sales tax	170,888	1,424	-	172,312
Other receivables	31,895	271,357	-	303,252
Interfund receivables	118,710	-	-	118,710
Inventory	22,861	-	-	22,861
Prepays	185,277	-	-	185,277
Due from other governmental agencies	640,643	-	-	640,643
Total assets	<u>\$ 5,177,194</u>	<u>\$ 906,430</u>	<u>\$ -</u>	<u>\$ 6,083,624</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable - trade	\$ 179,881	\$ 1,509	\$ -	\$ 181,390
Other payables	960,995	-	-	960,995
Interfund payables	118,710	-	-	118,710
Total liabilities	<u>1,259,586</u>	<u>1,509</u>	<u>-</u>	<u>1,261,095</u>
Fund balances:				
Reserved for encumbrances	1,490,115	95,152	-	1,585,267
Reserved for special purposes	8,859	964,726	-	973,585
Reserved by State Statute	984,997	272,781	-	1,257,778
Reserved for prepaids	185,277	-	-	185,277
Unreserved	1,248,360	(427,738)	-	820,622
Total fund balances	<u>3,917,608</u>	<u>904,921</u>	<u>-</u>	<u>4,822,529</u>
Total liabilities and fund balances	<u>\$ 5,177,194</u>	<u>\$ 906,430</u>	<u>\$ -</u>	<u>\$ 6,083,624</u>

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Reconciliation of the Fund Balance of Governmental Funds to
 Net Assets of Governmental Activities
 June 30, 2007

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

Ending fund balance - governmental funds	\$	4,822,529
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Cost of capital assets		93,476,693
Accumulated depreciation		(18,145,051)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences		(2,257,732)
Capital lease obligations		(1,658,784)
Unearned revenue		(1,151,212)
Net assets of governmental activities	\$	75,086,443

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2007

	(Major) General Fund	(Major) Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental				
Mecklenburg County				
Appropriations	\$ 31,914,150	\$ -	\$ -	\$ 31,914,150
On behalf of payments	600,710	-	882,472	1,483,182
A.B.C. Board	210,000	-	-	210,000
City of Charlotte	589,822	-	-	589,822
North Carolina	-	601,614	-	601,614
Federal	-	62,319	-	62,319
Total intergovernmental revenues	<u>33,314,682</u>	<u>663,933</u>	<u>882,472</u>	<u>34,861,087</u>
Fines, fees and collections	1,170,518	-	-	1,170,518
Collections for photocopies	196,185	-	-	196,185
Interest	210,938	-	-	210,938
Contributions	713,372	128,206	-	841,578
Book rentals	135,335	-	-	135,335
Book sales	88,406	-	-	88,406
Special events	155,772	-	-	155,772
Miscellaneous	1,444,278	421,753	-	1,866,031
Total revenues	<u>37,429,486</u>	<u>1,213,892</u>	<u>882,472</u>	<u>39,525,850</u>
Expenditures				
Current:				
Personnel	25,539,383	108,019	-	25,647,402
Library materials	2,732,786	616,151	-	3,348,937
Facility maintenance	2,477,460	-	-	2,477,460
Fixed charges	1,088,921	-	-	1,088,921
Other	2,612,567	146,090	-	2,758,657
Capital outlay	1,980,746	-	882,472	2,863,218
Debt service:				
Principal	205,136	-	-	205,136
Interest	106,946	-	-	106,946
Total expenditures	<u>36,743,945</u>	<u>870,260</u>	<u>882,472</u>	<u>38,496,677</u>
Net change in fund balances	685,541	343,632	-	1,029,173
Fund balance - beginning	<u>3,232,067</u>	<u>561,289</u>	<u>-</u>	<u>3,793,356</u>
Fund balance - ending	<u>\$ 3,917,608</u>	<u>\$ 904,921</u>	<u>\$ -</u>	<u>\$ 4,822,529</u>

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Reconciliation of the Net Change in Fund Balances of Governmental Funds to
Change in Net Assets of Governmental Activities
Year Ended June 30, 2007

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

Net change in fund balances - total governmental funds	\$	1,029,173
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated</p>		
Expenditures for capital assets		1,849,191
Less current year depreciation		(2,058,119)
<p>The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of the principal of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal payments on capital lease obligations		205,136
<p>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 governmental funds.</p>		
Compensated absences in excess of benefits used over current provision		(186,292)
<p>Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the</p>		
Deferred revenue amortized		31,759
Change in net assets of governmental activities	\$	<u>870,848</u>

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - General Fund
 Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Intergovernmental				
Mecklenburg County				
Appropriations	\$ 32,681,278	\$ 32,690,278	\$ 31,914,150	\$ (776,128)
On behalf of payments	-	600,710	600,710	-
A.B.C. Board	210,000	210,000	210,000	-
City of Charlotte	2,500	589,822	589,822	-
	<u>32,893,778</u>	<u>34,090,810</u>	<u>33,314,682</u>	<u>(776,128)</u>
Fines, fees and collections	1,060,000	1,060,000	1,170,518	110,518
Collections for photocopies	130,000	130,000	196,185	66,185
Interest	-	-	210,938	210,938
Contributions	100,000	400,000	713,372	313,372
Book rentals	115,000	115,000	135,335	20,335
Book sales	90,000	90,000	88,406	(1,594)
Special events	165,000	165,000	155,772	(9,228)
Miscellaneous	1,216,255	1,930,179	1,444,278	(485,901)
Total revenues	<u>35,770,033</u>	<u>37,980,989</u>	<u>37,429,486</u>	<u>(551,503)</u>
EXPENDITURES				
Current:				
Personnel	26,464,890	25,974,490	25,539,383	435,107
Library materials	2,786,713	2,922,613	2,732,786	189,827
Facility maintenance	2,133,402	2,482,647	2,477,460	5,187
Fixed charges	1,190,260	1,089,028	1,088,921	107
Other	2,742,072	2,901,235	2,588,654	312,581
Capital outlay				
Amounts paid on behalf by Mecklenburg County	-	600,710	600,710	-
Other	450,000	2,269,500	1,403,949	865,551
Debt service:				
Principal	205,136	205,136	205,136	-
Interest	106,946	106,946	106,946	-
Total expenditures	<u>36,079,419</u>	<u>38,552,305</u>	<u>36,743,945</u>	<u>1,808,360</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(309,386)</u>	<u>(571,316)</u>	<u>685,541</u>	<u>1,256,857</u>
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	309,386	571,316	-	(571,316)
Total other financing sources (uses)	<u>309,386</u>	<u>571,316</u>	<u>-</u>	<u>(571,316)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>685,541</u>	<u>\$ 685,541</u>
FUND BALANCE - BEGINNING			<u>3,232,067</u>	
FUND BALANCE - ENDING			<u>\$ 3,917,608</u>	

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Special Revenue Fund
 Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Intergovernmental				
North Carolina	\$ 604,614	\$ 604,614	\$ 601,614	\$ (3,000)
Federal	69,276	69,276	62,319	(6,957)
	<u>673,890</u>	<u>673,890</u>	<u>663,933</u>	<u>(9,957)</u>
Contributions	-	-	128,206	128,206
Miscellaneous	276,000	276,000	421,753	145,753
Total revenues	<u>949,890</u>	<u>949,890</u>	<u>1,213,892</u>	<u>264,002</u>
EXPENDITURES				
Current:				
Personnel	139,640	139,640	108,019	31,621
Library materials	626,155	626,155	616,151	10,004
Other	233,946	233,946	146,090	87,856
Total expenditures	<u>999,741</u>	<u>999,741</u>	<u>870,260</u>	<u>129,481</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(49,851)</u>	<u>(49,851)</u>	<u>343,632</u>	<u>393,483</u>
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	49,851	49,851	-	(49,851)
Total other financing sources (uses)	<u>49,851</u>	<u>49,851</u>	<u>-</u>	<u>(49,851)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>343,632</u>	<u>\$ 343,632</u>
FUND BALANCE - BEGINNING			<u>561,289</u>	
FUND BALANCE - ENDING			<u>\$ 904,921</u>	

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
 June 30, 2007

Note 1 - Summary of significant accounting policies

Reporting entity - The Public Library of Charlotte and Mecklenburg County (the "Library") is a public library formed in 1902 by a charter granted by the State of North Carolina. The Library is a component unit of Mecklenburg County and is included in Mecklenburg County's basic financial statements. Mecklenburg County provides approximately 90 percent of the Library's general funding and appoints a majority of the Library's Board of Trustees. For financial statement reporting purposes, the Library includes all agencies that are either controlled by or financially dependent on the Library. Control by or financial dependence was determined on the basis of the Library being obligated for financing of deficits, guarantee of debt, selection of governing authority, approval of budget, ownership of assets, and scope of public service and special financing relationships where there was only partial or no oversight responsibility.

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 activities of the Library. For the most part, the effect of interfund activity has been removed from these statements. The Library does not have any *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the Library does not have any component units.

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 operations 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*.

The Library has three funds, its general fund, special revenue fund and capital projects fund.

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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Intergovernmental appropriations are recognized as revenues in the year for which they are appropriated by the other government. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider 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 government 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 and claims and judgments, are recorded only when payment is due.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
June 30, 2007

Note 1 - Summary of significant accounting policies (continued)

The Library reports the following major governmental funds:

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

The *special revenue fund* serves to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Generally, proceeds from federal and State grants are accounted for in the Library's Special Revenue Fund.

The Library has one capital projects fund which has been presented in the governmental fund statements as other governmental funds. The Capital Projects Fund serves to account for financial resources to be used for the construction of library facilities.

In accordance with North Carolina General Statutes, all funds of the Library are maintained during the year using the modified accrual basis of accounting.

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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary data - Budgets are adopted for all Library funds as required by State Statute. The budgets are approved by the Library's Board of Trustees, and any changes in the budgets must also be approved by the Board. Expenditures may not legally exceed appropriations unless approved by the Board. The level of budgetary control is by department for county funds and by activity for all other funds.

Cash and cash equivalents - The Library considers all highly liquid investments, including all certificates of deposit, to be cash equivalents.

Other receivables - Other receivables consist of miscellaneous amounts due from third parties that are all considered collectible within the subsequent year.

Capital assets - Capital assets, include land, buildings and improvements, furniture and equipment, and 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 \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of books are considered expenditures and are not capitalized.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
 June 30, 2007

Note 1 - Summary of significant accounting policies (continued)

Capital assets (continued) - The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Buildings	40 years
Furniture and equipment	5-10 years

Compensated absences - Vacation and sick leave time is earned by employees each pay period based on the number of years of their service. Upon termination of an employee, all accrued vacation time and eight hours for every thirty-two hours of accrued sick time is distributed to the employee, calculated on a first-in first-out basis. The liability for the accumulation of unused vacation and sick leave time is recorded in the government-wide statements. The current portion of this obligation is estimated based upon historical trends. A liability for this amount is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Unearned revenues - Unearned revenues consist of prepaid lease income (see Note 7).

Net assets and fund equity - For the government-wide statements, equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

For the governmental fund financial statements, equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reservations or restrictions of equity represent amounts that are not appropriate or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance or fund equity to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and unearned revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
 June 30, 2007

Note 1 - Summary of significant accounting policies (continued)

Net assets and fund equity (continued) - Fund balances are classified as follows:

Reserved for encumbrances – portion of fund balance available to pay for any commitments related to purchase orders and contracts which remain unperformed at year-end.

Reserved by State statute – portion of fund balance, in addition to amounts reserved for encumbrances, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is primarily comprised of receivables and due from other governmental agencies and other funds.

Reserved for special purposes – portion of fund balance related to the County Components of the General Fund and the Federal, State, Law Library and Miscellaneous Components of the Special Revenue Fund representing unexpended County allocations, grant monies and various funding to cover future approved construction and materials expenditures.

Reserved for prepaids – portion of fund balance related to prepaid expenditures.

Unreserved – portion of total fund balance available for appropriation which is uncommitted at year-end.

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. The Library acquires its risk management services through the City of Charlotte's Risk Management Division. The Library has commercial general liability insurance of \$1 million per occurrence, worker's compensation employers' liability coverage of \$500,000 and public officers' coverage of \$1 million per loss. There have been no significant reductions in insurance coverage from coverage levels in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

Payments on behalf - The Library has various construction commitments with respect to branch facilities. Under the terms of its agreements with the County, the County directly pays for the construction expenditures. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Non Exchange Transactions," the Library reflects those payments made on its behalf as revenue when made and increases the cost of its capital asset by a corresponding amount.

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
June 30, 2007

Note 2 - Noncompliance with North Carolina General Statutes

The Library's adoption of their fiscal year 2007 budget is not in accordance with State law (G.S. 159-13). State law requires that the budget ordinance be adopted by the governing board no later than July 1, making appropriations for the budget year in such sums as the board may consider sufficient and proper. The fiscal year 2007 budget was not approved until July 20, 2006. During the period July 1 through July 20, 2006, the Library was not in accordance with State law (G.S. 159-28). State law requires no obligation be incurred in a program, function, or activity accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation. As a result of not having an approved budget by the required date, the Library spent funds that were not properly appropriated until the budget was approved on July 20, 2006. The Library is committed to conducting a special session of the Board of Trustees necessary to approve the annual budget, timely, as required by State law.

Note 3 - Deposits and investments

All of the Library's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Library's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Library, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Library or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Library under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Library has no policy regarding custodial credit risk for deposits.

At June 30, 2007, the Library's deposits had a carrying amount of \$4,640,492 and a bank balance of \$5,843,471. Of the bank balance, \$736,492 was covered by federal depository insurance and \$4,179,194 was covered by collateral held under the pooling method. The remaining amount of \$927,785 was uncollateralized. At June 30, 2007, the Library's petty cash fund totaled \$77.

Included in the amounts above are money market accounts totaling \$1,388,895. The money market accounts are held at the Bank of Commerce which is unrated and the Bank of Granite which is unrated. The Library has no policy for managing interest rate risk or credit risk.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
June 30, 2007

Note 4 - Capital assets

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

	Beginning Balance (as adjusted, see Note 15) <u>June 30, 2006</u>	<u>Additions</u>	Disposals Retirements and Reclassifications	Ending Balance <u>June 30, 2007</u>
Governmental activities:				
Non-depreciable assets				
Land	\$ 11,251,992	\$ -	\$ -	\$ 11,251,992
Construction in progress	<u>3,555</u>	<u>72,114</u>	<u>-</u>	<u>75,669</u>
	<u>11,255,547</u>	<u>72,114</u>	<u>-</u>	<u>11,327,661</u>
Depreciable assets				
Buildings and building Improvements	76,262,618	1,091,335	-	77,353,953
Furniture and equipment	<u>4,109,337</u>	<u>685,742</u>	<u>-</u>	<u>4,795,079</u>
Totals at historical cost	<u>91,627,502</u>	<u>1,849,191</u>	<u>-</u>	<u>93,476,693</u>
Less accumulated depreciation				
Buildings	(12,490,208)	(1,908,185)	-	(14,398,393)
Furniture and equipment	<u>(3,596,724)</u>	<u>(149,934)</u>	<u>-</u>	<u>(3,746,658)</u>
Total accumulated depreciation	<u>(16,086,932)</u>	<u>(2,058,119)</u>	<u>-</u>	<u>(18,145,051)</u>
Capital assets, net	<u>\$ 75,540,570</u>	<u>\$ (208,928)</u>	<u>\$ -</u>	<u>\$ 75,331,642</u>

Included in buildings are assets under capital lease that had a cost basis and accumulated depreciation of \$3,068,972 and \$572,487, respectively, at June 30, 2007 (see Note 6). All depreciation expense was charged to general public service on the Statement of Activities. Additions to capital assets include approximately \$1.5 million of buildings and equipment transferred to the Library from Mecklenburg County, which is reflected as capital grants and contributions on the Statement of Activities. Mecklenburg County obtained the funds to purchase these assets through the issuance of general obligation bonds and certificates of participation, which are an obligation of Mecklenburg County and not the Library.

Construction contracts exist for various renovation and construction projects for the Library. At June 30, 2007, the remaining commitment on these contracts approximate \$17 million.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
June 30, 2007

Note 5 - Long-term obligations

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Beginning Balance <u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	Ending Balance <u>June 30, 2007</u>	Due Within <u>One Year</u>
Compensated absences	\$ 2,071,440	\$ 1,720,913	\$ 1,534,621	\$ 2,257,732	\$ 1,200,000
Capital lease obligations	<u>1,863,920</u>	<u> -</u>	<u>205,136</u>	<u>1,658,784</u>	<u>209,451</u>
	<u>\$ 3,935,360</u>	<u>\$ 1,720,913</u>	<u>\$ 1,739,757</u>	<u>\$ 3,916,516</u>	<u>\$ 1,409,451</u>

Note 6 - Leases

The Library leases certain branch facilities under lease agreements having initial terms of two to fifty years. The Library lease agreements include scheduled rent increases which management believes are intended to cover economic factors related to the underlying property, such as property value appreciation and inflation. Certain lease agreements also provide for renewal option periods of five years.

Two of the branch facility leases have been classified as capital leases. Monthly lease payments of \$6,097 and an annual rent payment of \$1,500 are required through September 2010 related to the first capital lease. Beginning October 2010 through September 2045, the base annual lease payment is \$1,501. The second capital lease requires monthly payments, which are changed annually (ranging from \$21,152 to \$6,560), through June 2017. Beginning July 2017 through July 2051 the annual lease payment is \$1.

Total rent expenses for all leases amounted to approximately \$624,000 during the 2007 fiscal year. The following is a summary of the future minimum lease payments under the capital leases together with the present value of net minimum lease payments, and approximate future minimum rental commitments under noncancelable operating leases with initial or remaining terms of one year or more as of June 30, 2007:

<u>Year Ending June 30.</u>	<u>Capital</u>	<u>Operating</u>
2008	\$ 304,078	\$ 280,890
2009	295,678	280,890
2010	287,074	280,890
2011	218,307	232,390
2012	198,013	164,489
2013 – 2017	789,845	822,446
2018 – 2022	7,505	356,398
2023 – 2027	7,505	5
2028 – 2032	7,505	5

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
June 30, 2007

Note 6 - Leases (continued)

<u>Year Ending June 30,</u>	<u>Capital</u>	<u>Operating</u>
2033 – 2037	\$ 7,505	\$ 5
2038 – 2042	7,505	5
2043 – 2047	2,998	5
2048 – 2051	<u>4</u>	<u>-</u>
Total minimum payments	2,133,522	<u>\$2,418,418</u>
Less amounts representing interest	<u>(474,738)</u>	
Present value of net minimum capital lease payments	<u>\$ 1,658,784</u>	

Total interest costs for the year ended June 30, 2007 were \$106,946, relating to the capital lease obligations.

Note 7 - Lease revenue

The Library has an informal leasing arrangement with the City of Charlotte (the "City") that relates to a joint venture project. The joint venture project was the construction of a building that incorporates a police station with a library branch. The Library and City agreed to share the cost of the construction, with the Library's portion being funded by Mecklenburg County. The City has paid the Library approximately \$1.27 million related to the arrangement. The payments from the City were recorded by the Library as unearned revenue. The Library is amortizing the prepayment on a straight line basis over the life of the building, which is estimated at 40 years. Rental income recognized in 2007 was \$31,759. Rental income is to be recognized as follows:

<u>Year ended June 30</u>	
2008	\$ 31,758
2009	31,758
2010	31,758
2011	31,758
2012	31,758
2013 – 2017	158,790
2018 – 2022	158,790
2023 – 2027	158,790
2028 – 2032	158,790
2033 – 2037	158,790
2038 – 2042	158,790
2043 – 2046	<u>39,682</u>
	<u>\$ 1,151,212</u>

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
June 30, 2007

Note 8 - Retirement plan

The Library contributes to the Statewide Local Governmental Employees' Retirement System (the "LGERS"), a cost-sharing, multiple employer, defined benefit pension plan administered by the State of North Carolina covering substantially all of the Library's permanent employees. LGERS provides retirement and disability benefits to plan members and beneficiaries. The benefits are based on minimum age and service requirements. Article 3 of G.S. Chapter 138 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, NC 27699-1410, or by calling (919) 981-5454.

The Library's total payroll for the year ended June 30, 2007 was \$19,876,833 of which \$18,451,228 was covered under this plan. Plan members (covered employees) are required to contribute 6 percent of their annual covered salary. Plan members' contributions to LGERS for the year ended June 30, 2007 totaled \$1,107,075, which equaled the Plan members' required contributions for the year. The Library is required to contribute an actuarially determined rate. For the Library, the current rate is 4.88 percent of annual covered payroll. The Library's contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$900,420, \$816,589, and \$713,992, respectively, which equaled the Library's required contributions in each year. The contribution requirements of plan members and of the Library are established and may be amended by the North Carolina General Assembly.

Note 9 - Employee benefit plan

Through the State of North Carolina the Library provides a supplemental retirement income plan to substantially all employees. This plan is a 401(k) savings plan under the IRC code. Eligible participants may contribute up to the maximum allowable under law as a percent of base salary, with the Library matching 100 percent of employee contributions up to 5 percent of compensation. Total expense relating to this plan was \$426,602 for the year ended June 30, 2007.

Note 10 - Postretirement health care benefits

The amount of postretirement health care benefits paid by the Library is dependent upon the length of service rendered by the employee. If a retiree worked less than ten years, no amount is paid. If a retiree worked ten to twenty years, 50 percent of insurance costs are paid. For more than twenty years of service, 100 percent of insurance costs are paid. Funding for these costs is included in budgeted appropriations in the annual budget. The cost of these benefits recognized as an expenditure for fiscal year ended June 30, 2007 was approximately \$230,000 for the fifty retirees covered.

Note 11 - Major supplier

For the year ended June 30, 2007, approximately 55 percent of all books and related items were purchased from one supplier.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Notes to Financial Statements
June 30, 2007

Note 12 - Deferred compensation

The Library offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all permanent employees who contribute to the Plan, permits employees to defer a portion of their salary until future years. The compensation so deferred is not available to employees until termination, retirement, death, unforeseen emergency, or until the employee attains age 55. The compensation deferred by employees for the year ended June 30, 2007 was \$18,430.

Note 13 - Endowment funds

The Library has been designated as the beneficiary of the income of several endowments. Under the terms of the agreements, the assets are held by a third-party and the annual investment income is distributable to the Library. In some instances, the Library may elect to have the income transferred to the principal of the endowment. There were no amounts received by the Library from those funds during the year ended June 30, 2007. Since the Library does not have, under the agreements, any rights to the principal of the endowments, they have not been reflected in the financial statements. At June 30, 2007, the approximate value of the principal in these endowments totaled approximately \$2,852,000.

Note 14 - Contributed rent revenue

The Library has entered into an agreement with the Children's Theatre of Charlotte, Inc. ("CTC") regarding the occupancy of ImaginOn: The Joe and Joan Martin Center ("ImaginOn"). This agreement provides lease terms and an operating agreement beginning May 2005, with an initial lease term of 20 years with 6 successive options to renew and extend the agreement for a period of 5 years each. Under this agreement, CTC has access to the theatres, classrooms and office space for \$1, upon execution of the agreement, and agree to share in 50% of the operating costs of the facility.

Estimating the fair value of the lease at \$25 per square foot, based on a furnished and equipped special purpose facility, and using a 5% discount rate, a net present value was calculated in the amount of \$19,087,608 at the inception of the agreement. Based on this calculation, the total annual value of the lease agreement is estimated at \$1,275,000. The estimated lease value for the year ending is \$1,275,000.

Note 15 - Prior period adjustment

In fiscal years 2005 and 2006, the Library inadvertently capitalized construction costs related to a project that was being financed by Mecklenburg County with certificates of participation that require the project to be collateral for the associated debt. Therefore, these construction costs should not be accounted for and capitalized until the debt is repaid and title is transferred to the Library. An adjustment was made to remove the capitalized costs and bring the related net assets to the correct balance at June 30, 2006.

ACCOMPANYING INFORMATION



Independent Auditors' Report on Supplementary Information

The Board of Trustees
Public Library of Charlotte and Mecklenburg County
Charlotte, North Carolina

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Public Library of Charlotte and Mecklenburg County (the "Library"), a component unit of Mecklenburg County, North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 29, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Library. The accompanying schedules on pages 26, 27, 28, and 29, as well as the accompanying schedule of expenditures of federal and State awards, on page 39, as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion; the information contained therein is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cherry Bekaert + Holland, C.C.P.A.

Charlotte, North Carolina
September 29, 2007

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Schedule of Expenditures
Governmental Funds
Year Ended June 30, 2007

	(Major) General Fund	(Major) Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Personnel				
Salaries, full-time employees	\$ 18,598,143	\$ 85,135	\$ -	\$ 18,683,278
Salaries, other	1,193,555	-	-	1,193,555
Retirement, social security and other employee benefits (includes workers' compensation)	5,747,685	22,884	-	5,770,569
Total personnel	25,539,383	108,019	-	25,647,402
Library materials				
Books and related items	2,718,101	616,151	-	3,334,252
Dues and subscriptions	14,685	-	-	14,685
Total library materials	2,732,786	616,151	-	3,348,937
Facility maintenance				
Utilities	1,041,562	-	-	1,041,562
Telephone	257,231	-	-	257,231
Building and grounds, maintenance and repairs	901,377	-	-	901,377
Equipment maintenance and repairs	277,290	-	-	277,290
Total facility maintenance	2,477,460	-	-	2,477,460
Fixed charges				
Building rent	803,549	-	-	803,549
Insurance, property and liability	285,372	-	-	285,372
Total fixed charges	1,088,921	-	-	1,088,921
Capital outlay				
Buildings, equipment and furnishings	1,546,711	-	882,472	2,429,183
Equipment rental	434,035	-	-	434,035
Total capital outlay	1,980,746	-	882,472	2,863,218
Debt service				
Principal payments on capital leases	205,136	-	-	205,136
Interest payments on capital leases	106,946	-	-	106,946
Total debt service	312,082	-	-	312,082
Other				
Supplies	380,243	4,128	-	384,371
Communications	257,639	-	-	257,639
Advertising and exhibits	37,626	-	-	37,626
Photocopying expenses	294,599	-	-	294,599
Publications	170,345	23,748	-	194,093
Postage	53,894	1,435	-	55,329
Auto mileage and allowance	35,351	-	-	35,351
Public relations	57,316	-	-	57,316
Professional fees	490,289	17,352	-	507,641
Travel	164,260	4,724	-	168,984
Special events	523,007	70,269	-	593,276
Miscellaneous	147,998	24,434	-	172,432
Total other	2,612,567	146,090	-	2,758,657
Total expenditures	\$ 36,743,945	\$ 870,260	\$ 882,472	\$ 38,496,677

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - Capital Projects Fund
 Year Ended June 30, 2007

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Intergovernmental					
Amounts paid on behalf by Mecklenburg County	\$ 17,820,000	\$ -	\$ 882,472	\$ 882,472	\$ 16,937,528
EXPENDITURES					
Myers Park project:					
Capital outlay					
Amounts paid on behalf by Mecklenburg County	629,500	-	-	-	629,500
Morrison Library project:					
Capital outlay					
Amounts paid on behalf by Mecklenburg County	1,209,000	-	810,359	810,359	398,641
Beatties Ford Road project:					
Capital outlay					
Amounts paid on behalf by Mecklenburg County	1,160,000	-	33,509	33,509	1,126,491
Scaleybark project:					
Capital outlay					
Amounts paid on behalf by Mecklenburg County	5,564,543	-	-	-	5,564,543
Sharon Road project:					
Capital outlay					
Amounts paid on behalf by Mecklenburg County	5,050,557	-	27,118	27,118	5,023,439
Hickory Grove project:					
Capital outlay					
Amounts paid on behalf by Mecklenburg County	4,206,400	-	11,486	11,486	4,194,914
Total expenditures	<u>17,820,000</u>	<u>-</u>	<u>882,472</u>	<u>882,472</u>	<u>16,937,528</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE - BEGINNING			<u>-</u>		
FUND BALANCE - ENDING			<u>\$ -</u>		

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

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
 (A Component Unit of Mecklenburg County, NC)

Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budgetary Basis (Non-GAAP) - Governmental Funds
 Year Ended June 30, 2007

	(Major) General Fund			(Major) Special Revenue Fund			Total Governmental Funds		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES									
Intergovernmental	\$ 32,690,278	\$ 31,914,150	\$ (776,128)	\$ -	\$ -	\$ -	\$ 32,690,278	\$ 31,914,150	\$ (776,128)
Mecklenburg County	210,000	210,000	-	-	-	-	210,000	210,000	-
A.B.C. Board	589,822	589,822	-	-	-	-	589,822	589,822	-
City of Charlotte	-	-	-	604,614	601,614	(3,000)	604,614	601,614	(3,000)
North Carolina	-	-	-	69,276	62,319	(6,957)	69,276	62,319	(6,957)
Federal	33,490,100	32,713,972	(776,128)	673,890	663,933	(9,957)	34,163,990	33,377,905	(786,085)
Fines, fees and collections	1,060,000	1,170,518	110,518	-	-	-	1,060,000	1,170,518	110,518
Collections for photocopies	130,000	196,185	66,185	-	-	-	130,000	196,185	66,185
Interest	-	210,938	210,938	-	-	-	-	210,938	210,938
Contributions	400,000	713,372	313,372	-	128,206	128,206	400,000	841,578	441,578
Book rentals	115,000	135,335	20,335	-	-	-	115,000	135,335	20,335
Book sales	90,000	88,406	(1,594)	-	-	-	90,000	88,406	(1,594)
Special events	165,000	155,772	(9,228)	-	-	-	165,000	155,772	(9,228)
Miscellaneous	2,530,889	2,023,202	(507,687)	276,000	421,753	145,753	2,806,889	2,444,955	(361,934)
Total revenues	37,980,989	37,407,700	(573,289)	949,890	1,213,892	264,002	38,930,879	38,621,592	(309,287)
EXPENDITURES									
Current:									
Personnel	25,974,490	25,538,730	435,760	139,640	108,019	31,621	26,114,130	25,646,749	467,381
Library materials	2,922,613	2,922,232	381	626,155	619,801	6,354	3,548,768	3,542,033	6,735
Facility maintenance	2,482,647	2,477,467	5,180	-	-	-	2,482,647	2,477,467	5,180
Fixed charges	1,089,028	1,088,921	107	-	-	-	1,089,028	1,088,921	107
Other	3,202,729	2,668,543	534,186	233,946	232,867	1,079	3,436,675	2,901,410	535,265
Capital outlay	2,568,716	2,105,002	463,714	-	-	-	2,568,716	2,105,002	463,714
Debt service:									
Principal	205,136	205,136	-	-	-	-	205,136	205,136	-
Interest	106,946	106,946	-	-	-	-	106,946	106,946	-
Total expenditures	38,552,305	37,112,977	1,439,328	999,741	960,687	39,054	39,552,046	38,073,664	1,478,382
Excess (deficiency) of revenues over (under) expenditures	(571,316)	294,723	866,039	(49,851)	253,205	303,056	(621,167)	547,928	1,169,095
OTHER FINANCING SOURCES (USES)									
Fund balance appropriated	571,316	-	(571,316)	49,851	-	(49,851)	621,167	-	(621,167)
Total other financing sources (uses)	571,316	-	(571,316)	49,851	-	(49,851)	621,167	-	(621,167)
Prior year encumbrances	-	294,723	294,723	-	253,205	253,205	-	547,928	547,928
Current year encumbrances	(1,099,297)	(1,099,297)	(4,725)	-	(4,725)	(4,725)	-	(1,104,022)	(1,104,022)
Net change in fund balance (per page 11)	\$ 685,541	\$ 1,490,115	\$ 804,574	\$ 95,152	\$ 95,152	\$ 95,152	\$ 1,585,267	\$ 1,585,267	\$ 804,574

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
 (A Component Unit of Mecklenburg County, NC)

Schedule of Expenditures
 Budgetary Basis (Non-GAAP) - Governmental Funds
 Year Ended June 30, 2007

	(Minor) General Fund			(Major) Special Revenue Fund			Total Governmental Funds		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Personnel									
Salaries, full-time employees	\$ 18,671,115	\$ 18,602,843	\$ 68,272	\$ 110,000	\$ 85,135	\$ 24,865	\$ 18,781,115	\$ 18,687,978	\$ 93,137
Salaries, other	1,222,720	1,181,262	41,518	-	-	-	1,222,720	1,181,262	41,518
Retirement, social security and other employee benefits (includes workers' compensation)	6,080,655	5,754,685	325,970	29,640	22,884	6,756	6,110,295	5,777,569	332,726
Total personnel	23,974,490	23,538,790	435,760	139,640	108,019	31,621	26,114,130	25,646,749	467,381
Library materials									
Books and related items	2,906,613	2,907,547	(934)	625,155	619,801	5,354	3,531,768	3,527,348	4,420
Dues and subscriptions	16,000	14,685	1,315	1,000	-	1,000	17,000	14,685	2,315
Total library materials	2,922,613	2,922,232	381	626,155	619,801	6,354	3,548,768	3,542,033	6,735
Facility maintenance									
Utilities	1,018,122	1,018,116	6	-	-	-	1,018,122	1,018,116	6
Telephone	268,740	268,716	24	-	-	-	268,740	268,716	24
Building and grounds, maintenance and repairs	923,510	918,369	5,141	-	-	-	923,510	918,369	5,141
Equipment maintenance and repairs	272,275	272,266	9	-	-	-	272,275	272,266	9
Total facility maintenance	2,482,647	2,477,467	5,180	-	-	-	2,482,647	2,477,467	5,180
Fixed charges									
Building rent	803,628	803,549	79	-	-	-	803,628	803,549	79
Insurance, property and liability	285,400	285,372	28	-	-	-	285,400	285,372	28
Total fixed charges	1,089,028	1,088,921	107	-	-	-	1,089,028	1,088,921	107
Capital outlay									
Buildings, equipment and furnishings	2,138,916	1,675,281	463,635	-	-	-	2,138,916	1,675,281	463,635
Equipment rental	429,800	429,721	79	-	-	-	429,800	429,721	79
Total capital outlay	2,568,716	2,105,002	463,714	-	-	-	2,568,716	2,105,002	463,714
Debt service									
Principal payments on capital leases	205,136	205,136	-	-	-	-	205,136	205,136	-
Interest payments on capital leases	106,946	106,946	-	-	-	-	106,946	106,946	-
Total debt service	312,082	312,082	-	-	-	-	312,082	312,082	-
Other									
Supplies	404,632	401,259	3,373	8,683	4,128	4,555	413,315	405,387	7,928
Communications	249,670	249,639	31	-	-	-	249,670	249,639	31
Advertising and exhibits	80,000	40,830	39,170	-	-	-	80,000	40,830	39,170
Photocopying expenses	295,000	286,035	8,965	-	-	-	295,000	286,035	8,965
Publications	170,350	170,345	5	124,260	109,180	15,080	294,610	279,525	15,085
Postage	43,401	43,379	22	1,440	1,435	5	44,841	44,814	27
Auto mileage and allowance	35,405	35,403	2	-	-	-	35,405	35,403	2
Public relations	58,350	58,348	2	-	-	-	58,350	58,348	2
Professional fees	491,290	491,188	102	22,053	18,697	3,356	513,343	509,885	3,458
Travel	165,600	165,594	6	6,660	4,724	1,876	172,200	170,318	1,882
Special events	542,537	526,490	16,047	63,273	70,269	(6,996)	605,810	596,759	9,051
Miscellaneous	666,494	200,033	466,461	7,637	24,434	(16,797)	674,131	224,467	449,664
Total other	3,202,729	2,668,543	534,186	233,946	232,867	1,079	3,436,675	2,901,410	535,265
Total expenditures	\$ 38,552,305	\$ 37,112,977	\$ 1,439,328	\$ 999,741	\$ 966,687	\$ 39,054	\$ 39,552,046	\$ 38,073,664	\$ 1,478,382

COMPLIANCE SECTION



**Independent Auditors' 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***

The Board of Trustees
Public Library of Charlotte and Mecklenburg County
Charlotte, North Carolina

We have audited the financial statements of the Public Library of Charlotte and Mecklenburg County (the "Library"), a component unit of Mecklenburg County, North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 29, 2007. 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 Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library'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 Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control. We consider the deficiencies, 2007-01 and 2007-02, described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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 Library's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2007-3.

We noted certain matters that we reported to management of the Library in a separate letter dated September 29, 2007.

The Library's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Library's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Trustees, others within the Library and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cheng Beckert + Holland, L.L.P.

Charlotte, North Carolina
September 29, 2007



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major State Program and on Internal Controls
Over Compliance in Accordance with Applicable Sections of
OMB Circular A-133 and the State Single Audit Implementation Act**

The Board of Trustees
Public Library of Charlotte and Mecklenburg County
Charlotte, North Carolina

Compliance

We have audited the compliance of the Public Library of Charlotte and Mecklenburg County (the "Library"), a component unit of Mecklenburg County, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major State programs for the year ended June 30, 2007. The Library's major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State program is the responsibility of the Library's management. Our responsibility is to express an opinion on the Library's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina* and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Library's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Library's compliance with those requirements.

In our opinion, the Library complied, in all material respects, with the requirements referred to above that are applicable to each of its major State program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Library is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the Library's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the Library's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-1, to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the Library's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

The Library's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Library's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the Board of Trustees, management and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cheng Bekert + Holland, C.C.P.A.

Charlotte, North Carolina
September 29, 2007

**PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

 Material weakness(es) identified? x yes no

 Significant deficiency(ies) identified that are not considered to be material weakness(es)? x yes none reported

Noncompliance material to financial statements noted? x yes no

State Awards

Internal control over major State programs:

 Material weakness(es) identified? yes x no

 Significant deficiency(ies) identified that are not considered to be material weakness(es)? x yes none noted

Noncompliance material to State awards yes x no

Type of auditor's report issued on compliance for major State programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with State Single Audit Implementation Act yes x no

Identification of major State programs:

Name of Program
North Carolina Department of Cultural Resources, Division of State Library:
Aid to Public Libraries (State Aid) Program

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section II - Financial Statement Findings

Significant Deficiency over Internal Controls

2007-1 Segregation of Duties

- a) **Criteria:** In an effective control environment, where duties are properly segregated, administrative activities should not be performed by the end users of the financial accounting system.
- b) **Condition:** The Finance Officer has access to all functions within all modules of the financial accounting system. The Finance Officer also has access to the system administration function and therefore maintains all access to the financial accounting system.
- c) **Effect:** The Finance Officer is in the position to override controls within the system such that a transaction can be initiated, executed and recorded without authorization. Also, an error in the execution or record of the transaction may not be prevented or detected.
- d) **Cause:** Due to the limited size of the accounting department, proper segregation of duties is not practical. Therefore, the Finance Officer is in the position of having responsibility to perform multiple activities that may not be consistent with an effective control environment.
- e) **Recommendation:** To strengthen the controls over the financial accounting system, the Finance Officer should authorize and review access rights, while the IT security administrator should grant access rights. Additionally, a review of the current system responsibilities should be made and an attempt to reassign duties in such a way that duties are more segregated.
- f) **Management's Response:** The Library is in the process of purchasing a new finance system which should be operational in early 2008. Security for this system will reside with the Library's Information Technology (IT) department. Access to the system's operations and processes will be determined by the Finance office and managed by IT.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section II - Financial Statement Findings

Material Weakness over Internal Controls

2007-2 Controls Over Financial Reporting

- a) **Criteria:** Understanding of financial reporting should be to a level that responsible personnel can accurately and completely identify all applicable accounting standards and disclosures.
- b) **Condition:** During the course of the audit, responsible personnel did not identify issues relating to non-exchange transactions with their primary government which led to a material prior period adjustment to assets on the entity-wide statements. In addition, management relies on its external auditors to recommend or propose entries to convert the modified accrual records to a basis of accounting consistent with generally accepted accounting principles. Some of these entries are chosen not to be made for financial statement purposes.
- c) **Effect:** There is the risk that financial statements might be inaccurate, incomplete or lack proper disclosure.
- d) **Cause:** Due to the relatively small size of the Library's accounting department, as well as the operational nature of the Library, the main focus of management is to account, monitor and report financial resources and activities on the modified accrual or budgetary basis. Thus, use of full accrual financial statements and related disclosures is not utilized to make normal business decisions.
- e) **Recommendation:** The Library should evaluate the best method to establish proper controls over financial reporting and implement the control as soon as is feasible. Examples of possible controls could be to further educate responsible personnel or potentially contract with a third party to provide these services.
- f) **Management response:** Other than establishing the need for the auditor's independence regarding the Library's financial reports in accordance with SAS 112, the comments are ambiguous. The Library will comply with SAS 112 either through in-house staff or by seeking third party assistance for this task.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section II - Financial Statement Findings

Material Instance of Noncompliance and Other Matters

2007-3 Noncompliance Over Budget Laws

Criteria: According to State law (G.S. 159-28), no obligation shall be incurred in a program, function, or activity accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation. Further, the governing board shall adopt a budget ordinance no later than July 1, according to State law (G.S. 159-13).

Condition: The Library did not approve their annual fiscal year 2007 budget until July 20, 2006, which was not in compliance with State law G.S. 159-13. This led to the Library operating without appropriated funds for twenty days of the current fiscal year.

Context: We observed the minutes of the Board of Trustees, which showed the approval of the annual budget did not occur until July 20, 2006.

Effect: By not approving the budget until later in the year, the Library was operating without the budgetary control function. This lack of control could lead to unplanned and unnecessary spending. Furthermore, a potential vendor could refuse to do business with an entity that does not have money properly appropriated.

Cause: Due to the meeting schedule of the Board of Trustees, a meeting does not normally fall within the necessary time frame to receive and approve the budget timely.

Recommendation: The Board of Trustees should make the necessary meeting arrangements to approve the budget timely.

Management Response: It has been determined by the management of the Public Library of Charlotte that in order to meet the requirement that the budget be approved prior to July 1, the budget for the Public Library will be submitted to the Board of Trustees for their approval at their regularly scheduled May meeting date. The Board will have at least 10 days prior to this meeting date for their review of the budget.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section III - Federal Awards
Findings and Questioned Costs

No matters were reported.

Section IV - State Awards
Findings and Questioned Costs

See finding 2007-1 in Section II.

Section V - Summary Schedule of
Prior Audit Findings

For prior year Finding No. 2006-1, relating to a material weakness over internal controls and a material instance of noncompliance, identified the budget as not being approved for fiscal year 2006 until September 15, 2005. A review of the current year revealed that the budget was not approved for fiscal year 2007 until July 20, 2006. See current year Finding No. 2007-3. Further, it has been noted that the fiscal year 2008 budget was timely approved in June 2007, thus the issue has been corrected.

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2007

	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Expenditures</u>
Federal grants distributed directly to the Public Library of Charlotte and Mecklenburg County:		
U.S. Department of Commerce:		
National Telecommunications and Information Administration:		
Telecommunications Opportunities Grant	11.552	\$ 6,000
 Federal grants distributed through the State of North Carolina to the Public Library of Charlotte and Mecklenburg County:		
Institute of Museum and Library Services:		
North Carolina Department of Cultural Resources, Division of State Library:		
LSTA Planning Grant	45.310	<u>56,319</u>
Total federal awards		62,319
 State grants distributed directly to the Public Library of Charlotte and Mecklenburg County:		
North Carolina Department of Cultural Resources, Division of State Library:		
Aid to Public Libraries (State Aid) Program		<u>601,614</u>
Total federal and State awards		<u>\$ 663,933</u>

PUBLIC LIBRARY OF CHARLOTTE AND MECKLENBURG COUNTY
(A Component Unit of Mecklenburg County, NC)

Note to Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2007

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state government activity of the Library and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *Audit Manual for Governmental Auditors in North Carolina*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.