To the Board of Directors
Putnam District Library
Nashville, Michigan

We have recently completed our audit of the basic financial statements of Putnam District Library for the year ended March 31, 2020. As an addition to the audit report, the following report on internal control and results of the audit are being provided to the Putnam District Library.

We are very thankful for the opportunity to be of service to the Putnam District Library. Should you have any questions regarding these reports, please do not hesitate to contact us.

Hastings, MI
August 10, 2020

Walker, Fluke & Sheldon, PLC

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To the Board of Directors
Putnam District Library
Nashville, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Putnam District Library as of and for the year ended March 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Putnam District Library's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Putnam District Library's internal control. Accordingly, we do not express an opinion on the effectiveness of Putnam District Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiencies in the Library's internal control to be a material weakness:

- The Library does not have the technical expertise to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, changes in capital assets, and to present required financial statement disclosures. This is a recurring comment. Currently, the Library contracts with Walker, Fluke & Sheldon, PLC to prepare the financial statements and assist with accrual entries, because the additional benefits derived from implementing a system, would not outweigh the costs incurred.

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

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August 10, 2020

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August 10, 2020

To the Board of Directors
Putnam District Library
Nashville, Michigan

We have audited the financial statements of the governmental activities and each major fund of Putnam District Library for the year ended March 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 15, 2020. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Matters</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Library are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2020. We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimate affecting the financial statements is depreciation.

> Putnam District Library's estimate of depreciation is based on estimated useful lives of capital assets. We reviewed these estimates used to calculate depreciation and believe they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, the following material misstatements detected as a result of none of the misstatements detected as a result of the audit procedures and corrected by management: adjust beginning balances, adjust accounts for certificate of deposit closed and new certificate of deposit started and to reclassify capital outlay.

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Disagreements with Management

For purposes of this letter, a disagreement with management is 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 management representation letter dated August 10, 2020.

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 Library'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 Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison schedule which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

Walker, Fluke & Sheldon, PLC

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ALG-CX-12.2: Audit Difference Evaluation Form

Governmental Unit:	Putnam District Library	Financial Statement Date:	3/31/2020
Completed by:	K. Sheldon	Date:	8/3/20
Opinion Unit:	General Fund	A Listing of Known Audit Differences Over:	2,000

Instructions: This form may be used to accumulate audit differences (AD) that are not considered trivial in amount or nature (documented at Step 5 of ALG-CX-2.1). This form should *not* include normal closing entries. At the end of the audit, evaluate all uncorrected audit differences, individually and in the aggregate, in the context of individual opinion units and conclude on whether they materially misstate the financial statements of an opinion unit taken as a whole. This form also provides a space to document any misstatements of disclosures (including quantitative and qualitative misstatements) that are considered when evaluating misstatements in aggregate. Before evaluating the effect of uncorrected misstatements, reassess whether materiality is still appropriate based on the entity's actual financial results. The notes following the table provide explanations and a listing of qualitative considerations in evaluating materiality. The form allows for quantifying the effect of misstatements, using both the rollover and iron curtain methods, as appropriate. You need to be familiar with the guidance in section 1010 before completing this form.

				Financial Statement Effect—Amount of Over- (Under-) statement of:						
Description (Nature) of Audit Difference (AD)	**Factual (F), Judgmental (J), or Projected (P)**	**Cause**	**W/P Ref.**	**Total Assets**	**Total Liabilities**	**Working Cap.**	**Fund Balance/Net Position**	**Revenues**	**Expen.**	**Change in Fund Balance/ Net Position**
Accrued Payroll -CY	F	Not Recorded	20-2		-2,874	2,874	2,874		-2,874	2,874
Accrued Payroll - PY	F	Not recorded PY	20-2				-2,985		2,985	-2,985
Total				0	-2,874	2,874	-111	0	111	-111
Less audit adjustments subsequently booked										
Net unadjusted AD—current year (iron curtain method)				0	-2,874	2,874	-111	0	111	-111
Effect of unadjusted AD—prior years										
Combined current year and prior year AD (rollover method)				0	-2,874	2,874	-111	0	111	-111
Financial statement caption totals				438,101	1,977	436,124	436,124	159,474	133,170	26,304
Current year AD as % of F/S captions (iron curtain method)				0.00%	-145.40%	0.66%	-0.03%	0.00%	0.08%	-0.42%
Current and prior year AD as % of F/S captions (rollover method)				0.00%	-145.40%	0.66%	-0.03%	0.00%	0.08%	-0.42%

Qualitative Factors: Describe qualitative factors that entered into your evaluation of whether uncorrected accumulated misstatements are material, individually or in the aggregate, in relation to specific accounts and disclosures and to the opinion unit financial statements as a whole, and the reasons why.

although the percentage of the liabilites is high, the overall amount is immaterial to the f/s

Misstatements of Disclosures: Accumulate and describe any misstatements of disclosures, including qualitative and quantitative disclosures, that entered into your evaluation of whether uncorrected accumulated misstatements are material, individually or in the aggregate, in relation to specific accounts and disclosures and to the opinion unit financial statements as a whole.

None

Conclusion: Based on the results of the evaluation performed above, as well as the consideration of qualitative factors and misstatements by nature or circumstances, uncorrected audit differences, individually and in the aggregate, ○ do ◉ do not cause the financial statements of opinion unit taken as a whole to be materially misstated.

Qualitative Considerations in Evaluating Materiality

The judgment about whether a misstatement is material is influenced by qualitative considerations as well as quantitative considerations. The following are examples of qualitative considerations:

1. The effect of the misstatement on overall trends, for example, a misstatement that changes a decrease in fund balance to an increase in fund balance.
2. The effect of the misstatement on other financial statement components (that is, the pervasiveness of the misstatement).
3. The effect of the misstatement on the government's compliance with legal and contractual provisions, such as revenue misstatements that might affect the entity's compliance with bond covenants.
4. A misstatement that affects management's compensation, for example by satisfying requirements for the award of bonuses or other forms of incentive compensation.
5. The significance of the financial statement element or portion of the entity's activities affected by the misstatement.
6. The effects of misclassifications that could be significant to the financial statement users, for example, misclassification between operating and nonoperating revenues or restricted and unrestricted assets.
7. The potential effect on future periods.
8. The character of the misstatement (for example, the precision of the audit differences).
9. The sensitivity of the circumstances surrounding the misstatement, for example, the implications of misstatements involving fraud, possible violations of laws and regulations, violations of contractual provisions, or conflicts of interest.
10. The motivation of management with respect to the misstatement, for example, (a) an indication of a possible pattern of bias by management when developing and accumulating accounting estimates or (b) a misstatement precipitated by management's continued unwillingness to correct weaknesses in the financial reporting process.
11. The significance of the misstatement or disclosures relative to politically sensitive matters or known user needs.
12. The existence of statutory or regulatory requirements affecting materiality thresholds.
13. Offsetting effects of individually significant matters.
14. Cost of making the correction.
15. Risk of possible additional uncorrected misstatements.
16. Other issues such as public interest, accountability, integrity, and ensuring effective legislative oversight, including particularly issues related to compliance with laws or regulations.
17. A misstatement that may alter key ratios that are used to evaluate the governmental unit's financial position, results of operations, or cash flows.
18. Misstatements that relate to transactions involving particular parties (for example, transactions with related parties) or significant unusual transactions.

The items in the above list are only examples of qualitative factors that may be pertinent to the auditor's evaluation of materiality. The auditor should consider additional qualitative factors that may exist.

Misstatements of Disclosures

In May 2019, the AICPA issued SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, a suite of auditor reporting standards. With regard to disclosures, SAS No. 134 amends a number of AU-C sections, including AU-C 450, *Evaluation of Misstatements Identified During the Audit,* and adds new application guidance on evaluation of misstatements in disclosures. SAS No. 134 is effective for audits of financial statements for periods ending on or after December 15, 2020, **with**

early adoption not permitted. AU-C 450, as amended by SAS No 134, clarifies that misstatements of disclosures, like those related to account balances and transactions, are to be accumulated and evaluated both individually and for their effect on the financial statements as a whole. Quantitative and qualitative information in disclosures may be misstated. Examples of such misstatements include incomplete, inadequate, or omitted disclosures; misleading or obscured information; or inappropriate classification, aggregation, or disaggregation of information. Like financial statement misstatements, misstatements of disclosures may also be deemed *clearly trivial* based on size, nature, or circumstances. Misstatements of disclosures may also be indicative of fraud.

Misstatements of qualitative disclosures may not be able to be quantified in the same way as misstatements of amounts. AU-C 450, as amended by SAS No. 134, however, clarifies that such misstatements are required to be considered when evaluating misstatements individually and in the aggregate. Determining whether such misstatements are material to the financial statements as a whole requires the exercise of professional judgment and skepticism. The following are examples of factors to consider when evaluating the materiality of misstatements by nature or circumstances, individually and in aggregate, with all other misstatements:

- Errors are persistent or pervasive in nature.
- Multiple misstatements relate to the same matter that, collectively, may potentially affect the financial statement user's understanding of the matter.
- One or more misstatements that are the result of management bias.
- One or more misstatements that indicate possible fraud.
- The misstatements undermine the overall presentation of the financial statements.

The auditor may determine qualitative misstatements that seem individually insignificant indicate a pattern, for example of management bias, and are therefore material in aggregate.