

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Harbor Beach Area District Library		County Huron	
Fiscal Year End 6/30/07		Opinion Date 9/20/07		Date Audit Report Submitted to State 10/17/07			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

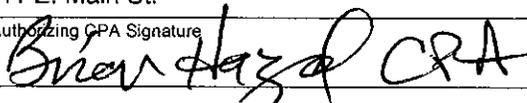
YES NO

Check each applicable box below. (See instructions for further detail.)

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

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

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

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>	Single audit not required	
Certified Public Accountant (Firm Name) Nietzke & Faupel, PC			Telephone Number (989)	
Street Address 41 E. Main St.			City Sebewaing	State MI
Authorizing CPA Signature 			Printed Name Brian Hazard, CPA	License Number 1101014007

**HARBOR BEACH AREA
DISTRICT LIBRARY
HURON COUNTY
HARBOR BEACH, MICHIGAN**

**FINANCIAL REPORT
JUNE 30, 2007**

HARBOR BEACH AREA DISTRICT LIBRARY

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Nietzke & Faupel, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Harbor Beach Area District Library
Harbor Beach, Michigan 48441

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

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

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

The management's discussion and analysis and budgetary comparison schedules information on pages ii through vi and 13 through 15, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nietzke & Faupel, PC

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

September 20, 2007

Management's Discussion and Analysis

This discussion and analysis of the Harbor Beach Area District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Library's financial statements.

Using this Annual Report

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

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. The second column includes information on the Library's Special Revenue Fund. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below shows key financial information in a condensed format between the current year and the prior year:

Assets	2006-07	2005-06
Cash & equivalents	\$ 589,547	\$ 499,912
Accounts receivable	0	2,428
Reserved & restricted cash assets	220,018	217,898
Capital assets	<u>632,240</u>	<u>624,527</u>
Total Assets	\$1,441,805	\$1,344,765
Liabilities		
Other liabilities	<u>\$ 24,156</u>	<u>\$ 16,486</u>
Net Assets		
Invested in capital assets – net of debt	\$ 632,240	\$ 624,527
Restricted for donor-restricted purpose	5,868	5,708
Restricted funds	214,150	212,190
Unrestricted Funds	<u>565,391</u>	<u>485,854</u>
Total Net Assets	<u>\$ 1,417,649</u>	<u>\$1,328,279</u>
Revenue		
Program Revenue:		
Grants	\$ 7,488	
Charges for services – Theatre	81,032	\$ 78,628
General Revenue:		
Property Taxes	348,639	336,891
Fines	25,067	27,669
Interest	29,255	19,643
Other revenue	<u>35,937</u>	<u>33,091</u>
Total Revenue	<u>\$ 527,419</u>	<u>\$ 495,922</u>
Program expenses:		
Library	311,028	301,032
Theatre	81,077	73,651
Depreciation	<u>45,944</u>	<u>47,776</u>
Total expenses	438,049	422,459
Change in Net Assets	<u>89,370</u>	<u>73,463</u>
Net assets – Beginning of the year	1,328,279	1,254,816
Net assets – end of the year	<u>\$ 1,417,649</u>	<u>\$ 1,328,279</u>

The Library as a Whole

The Library's main source of revenue is through a perpetual millage of 1.6000 mills approved in September of 1994. The millage has since been reduced by MCL 211.34d "Headlee" to 1.5781 mills. Even with the Headlee reduction, the Library's revenue from property tax collection has increased due to an increase in district property values. Property taxes represent 66% of the Library's total revenues.

Salaries and fringe benefits are a significant expense of the Library, representing 53% of the Library's total expenses.

The Library's revenue exceed the expenses this year by \$89,370. There were investments in the Library's book collection (\$16,580), technology equipment (\$11,330) and capital outlay (\$27,089). The excess revenue over expenses and capital improvements were offset by depreciation of \$45,944 to give the Library an increase of \$89,370 in net assets.

The Library's Funds

The Library has undesignated, reserved and restricted funds. The Library uses undesignated funds to pay regular operating expenses and other expenses as approved by the Board.

The reserved funds have been designated for specific purposes. Technology improvements, unemployment funding, sick pay, memorial & special projects and capital improvements are current designations for reserved funds. Money is set aside in the capital improvement funds for long range needs, such as: replacing the heating/cooling system, roof replacement, window replacement, and other major maintenance or improvement needs.

The Library also has the Willett Trust Fund. The donor restricted the use of the interest revenue of the fund for the purpose of purchasing new children's books. The principal in the Willett Trust Fund cannot be spent.

Special Revenue Fund (Theatre)

The Special Revenue Fund (Theatre) had gross income of \$86,050 for the fiscal year 2006-2007. It also had expenses for the same fiscal period totaling \$86,077. This resulted in an operating loss of \$26 compared to an income of \$4,692 in the previous year. Several factors attributed to the operating loss this fiscal year, including increases in minimum wage and advertising costs. However, the biggest factor in the loss was the decrease of over 1,100 patrons attending movies in 2006-07. Movie attendance was down from 14,354 patrons in 05-06 to only 13,249 patrons in 06-07.

Budgetary Highlights

As required by State of Michigan law, the Library amended the budget to take into account events during the year. There was a significant amendment to Interest Revenue due to higher interest rates offered by financial institutions on the Library's deposits. Fuel costs were much higher than anticipated, resulting in a large budget adjustment for that category. The reason for the large adjustments to Salaries and Insurance Benefits is because the

original budget was set to include insurance coverage for all of the full time employees. One of the employees chose to opt out of the insurance as allowed by the employee handbook and received an additional salary in lieu of insurance coverage.

The Library began offering an oil painting class in February, 2007. The class has been very successful. Students pay the instructor's fee for the class. The fees collected were entered into a new revenue category titled Program Fees. The expenses were posted to Adult Library Programs. Both of these categories had offsetting budget adjustments of \$6000.

The major project in the Library's capital outlay expenditures was a structural repair to the theatre stage area. On the recommendation of a structural engineer, a new beam was installed to carry the weight of the stage riggings, including the movie screen. The 2006-07 expenses for this project totaled \$22,144.

Capital Asset and Debt Administration

As of June 30, 2007, the Library had \$1,417,649 invested in a broad range of capital assets, including cash deposits, building, collections, and equipment. This is an increase in total net assets of 6.7% during the current fiscal year.

Custodial credit risk is the risk that in the event of bank failure, the Library's deposits may not be returned to it. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The largest portion of the capital outlay expenditures for fiscal year 2006-07 was spent on the theatre stage beam project discussed earlier in this report. The Library's largest equipment purchase was a microfilm viewer for viewing and printing the Harbor Beach Times on microfilm. This purchase totaled \$8,365.

The Library does not have any long-term debts.

Next Year's Budgets and Millage Rates

The Library's millage rate will not have a Headlee reduction for the taxes due December 1, 2007 and the property tax value increased by 4%. This will result in an increase in tax revenue for the next fiscal year.

The Board is developing a plan to improve accessibility to the Community House, increase library space, create a local history room, and correct a structural problem in the basement of the building. If the plan continues to progress as expected, the first phase of renovation will begin in the spring of 2008. The Board expects to borrow \$900,000 from the USDA Rural Development to finance the project. Repayment will be spread over 40 years. The 2007-08 budget includes a line item for Credit Repayment Reserve of \$38,600 in anticipation of the loan. However, the budget does not reflect the expenses of the proposed renovation. If the

plans progress as expected, the budget will be amended to cover the items relating to the construction.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the director, Vicki Mazure, at (989) 479-3417.

HARBOR BEACH AREA DISTRICT LIBRARY

**GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
JUNE 30, 2007**

<u>ASSETS</u>	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT OF NET ASSETS</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	
Cash and deposits	\$114,899	\$43,805		\$ 158,705
Investments	430,842			430,842
Accounts receivable		121	\$ (121)	
Restricted asset:				
Cash	220,018			220,018
Capital assets - net			632,240	632,240
TOTAL ASSETS	<u>\$765,760</u>	<u>\$43,926</u>	<u>\$ 632,119</u>	<u>\$ 1,441,805</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
LIABILITIES:				
Accounts payable	\$ 14,364	\$ 5,552	\$ (121)	\$ 19,796
Accrued payroll taxes	830	169		999
Accrued wages	2,793	568		3,361
TOTAL LIABILITIES	<u>17,987</u>	<u>6,290</u>	<u>(121)</u>	<u>24,156</u>
 FUND BALANCE/NET ASSETS:				
Fund balance:				
Unreserved, undesignated	527,754	37,637	\$ (565,391)	-
Reserved	<u>220,018</u>		<u>(220,018)</u>	-
TOTAL FUND EQUITY	<u>747,773</u>	<u>37,637</u>	<u>(785,409)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$765,760</u>	<u>\$43,926</u>		
 NET ASSETS:				
Invested in capital assets			632,240	632,240
Restricted			220,018	220,018
Unrestricted			565,391	565,391
TOTAL NET ASSETS			<u>\$ 1,417,649</u>	<u>\$ 1,417,649</u>

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

HARBOR BEACH AREA DISTRICT LIBRARY

**STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT OF</u>
	<u>GENERAL</u>	<u>SPECIAL</u>	<u>ADJUSTMENTS</u>	<u>ACTIVITIES</u>
REVENUES:				
Taxes	\$ 348,639			\$ 348,639
State grants	2,488			2,488
Charges for services		\$ 81,032		81,032
Fines and forfeits	25,067			25,067
Rentals	13,765	780		14,545
Program fees	6,270			6,270
Interest	28,267	988		29,255
Grants	5,000			5,000
Other revenue	16,872	3,250	\$ (5,000)	15,122
TOTAL REVENUES	<u>446,368</u>	<u>86,050</u>	<u>(5,000)</u>	<u>527,419</u>
EXPENDITURES:				
Salaries and wages	142,351	28,165		170,516
Employer FICA	11,141	2,119		13,261
Retirement	11,238	2,017		13,255
Employee benefits	31,513			31,513
Insurance - Workers Comp.	2,813			2,813
Unemployment	10			10
Books	16,580		(14,862)	1,718
Magazines & periodicals	2,415			2,415
Video cassettes	9,160			9,160
Computer software	2,736		(1,250)	1,486
White Pine contract	2,474			2,474
Copier lease	1,315			1,315
Furniture and equipment	534			534
Film rental		21,807		21,807
Concession purchases		13,818		13,818
Pickup & delivery		2,388		2,388
Supplies	3,583	1,119		4,702
Utilities	34,205	551		34,756
Water & sewer	674			674
Internet access	1,078			1,078
Telephone	2,501			2,501
Repairs & maintenance	14,474	1,840		16,314
Custodial service		5,000	(5,000)	

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

HARBOR BEACH AREA DISTRICT LIBRARY

**STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT OF ACTIVITIES</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	
(CONTINUED)				
Insurance	13,600	200		13,800
Advertising	1,172	7,053		8,225
Audit fees	2,400			2,400
Professional fees	1,418			1,418
Meals and mileage	1,296			1,296
Workshops	825			825
Friends of the Library	1,836			1,836
Adult library program	7,611			7,611
Concert series	2,135			2,135
Summer reading program	3,178			3,178
Technology equipment	11,330		(11,141)	189
Depreciation			45,944	45,944
Capital outlay	27,089		(26,404)	685
TOTAL EXPENDITURES	<u>364,685</u>	<u>86,077</u>	<u>(12,713)</u>	<u>438,049</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>81,683</u>	<u>(26)</u>	<u>7,713</u>	<u>89,370</u>
FUND BALANCE/NET ASSETS - JULY 1	666,089	37,663	624,527	1,328,279
FUND BALANCE/NET ASSETS - JUNE 30	<u>\$ 747,772</u>	<u>\$ 37,637</u>	<u>\$ 632,240</u>	<u>\$ 1,417,649</u>

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

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying policies of the Harbor Beach Area District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Harbor Beach Area District Library.

Reporting Entity:

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, the definition of the reporting entity is based primarily on the notion of financial accountability. The District Library is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

Based on the provisions of GASB 14, there are no organizations that are deemed to be component units of Harbor Beach Area District Library.

Basis of Presentation:

The accounts of the District Library are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

Governmental Funds:

The District Library reports the following major governmental funds:

General Fund – The General Fund accounts for the general operating expenditures of the District Library not recorded elsewhere. Revenues are derived primarily from property taxes, State distributions and penal fines.

Special Revenue Fund – The Community Theatre Fund is used to account for specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action.

Modified Accrual and Full Accrual Data:

The Library has two funds, the General Fund, which is the Library's primary operating fund, and the Special Revenue Fund, which is the Theatre's operating fund.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Modified Accrual and Full Accrual Data: (Continued)

Both the General Fund and the Special Revenue Fund are budgeted and accounted for 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

In addition to presenting information for the General and Special Revenue funds, the basic financial statements combine all fund activity and present information for the Library as a whole, 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.

Budgets:

Formal budgetary integration is employed as a management control device during the year for the Governmental Fund types. The budgets are adopted on a basis consistent with generally accepted accounting principles.

The Board of Trustees prepares the budgets on a line item basis. Any revisions that alter any line item appropriation must be approved by the Board of Trustees. Therefore, the level of budgetary responsibility is at the line item level.

Unused appropriations lapse at the end of the year.

Capital Assets:

Generally, capital assets are defined by the Library as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite their individually small cost.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and building improvements	20-40 years
Furniture and equipment	5-10 years
Library books, videos and DVDs	5 years

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes:

During 1994, the voters of the Harbor Beach Area District Library approved a millage of 1.6 mills on all real and personal property. This levy is collected by the Townships and City within the Library's boundaries based on the following schedule: Properties are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. These taxes have a final collection date of February 28 before they are added to the County's delinquent tax rolls. The delinquent real property taxes are purchased by the County's Revolving Tax Fund. Management's policy of revenue recognition for property taxes is to record the revenue in the year levied.

Use of 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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2 – BUDGET COMPLIANCE:

P.A. 621 of 1978, section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the required supplemental information, the District Library's actual and budgeted expenditures have been shown on a line item basis. The approved budgets of the District Library have also been adopted to the line item level.

During the year ended June 30, 2007, the District Library incurred expenditures which were in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Revenue Fund:			
Employer FICA	\$2,067	\$2,119	\$52
Supplies	1,114	1,119	5

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 3 – CASH AND INVESTMENTS:

Deposits are carried at cost. In accordance with Michigan Compiled Laws, the District Library is authorized to deposit and invest in banks, savings and loan associations or credit unions having a principal office or branch office in this state; obligations of the U.S. Treasury, the principal and interest of which are fully guaranteed by the United States; certificates of deposit of a state or national bank or state or federal savings and loan association; commercial paper rated prime and maturing within 270 days of purchase; securities issued or guaranteed by agencies or instrumentality's of the U.S. government; U.S. government or federal agency obligation repurchase agreements; bankers' acceptances issued by a bank which is a member of the F.D.I.C.; mutual funds composed of investment vehicles that are legal for direct investment by a district library; investment pools composed entirely of instruments that are legal for direct investment by a district library.

The District Library's deposit and investment policies are as follows:

Interest rate risk. In accordance with its investment policy, the District Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the library's deposits may not be returned to it. As of June 30, 2007, \$517,485 of the Library's bank balance of \$818,313 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investment to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District Library will do business.

Foreign currency risk. The District Library is not authorized to invest in investments which have this type of risk.

HARBOR BEACH AREA DISTRICT LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 – CASH AND INVESTMENTS: (CONTINUED)

As of June 30, 2007, the District had the following investments.

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>WEIGHTED AVERAGE MATURITY (YEARS)</u>	<u>%</u>
Pooled investment funds:			
Comerica Bank – Governmental cash Investment Fund J	\$430,842	0.0027	100%
Portfolio weighted average maturity		0.0027	
1 day equals 0.0027, one year equals 1.00			

NOTE 4 – CAPITAL ASSETS:

Capital asset activity of the Library is as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Land improvements	\$139,372			\$139,372
Building improvements	456,291	\$29,600		485,891
Equipment	133,622	16,651	\$6,156	144,117
Construction in progress	7,456		7,456	
Collections	<u>127,355</u>	<u>14,862</u>		<u>142,217</u>
	864,096	61,113	13,612	911,597
Less: Accumulated depreciation	<u>239,569</u>	<u>45,944</u>	<u>6,156</u>	<u>279,357</u>
Net capital assets	<u>\$624,527</u>	<u>\$15,169</u>	<u>\$7,456</u>	<u>\$632,240</u>

NOTE 5 – FUND BALANCE, RESERVED:

Various certificates of deposit have been designated for specific purposes. The following reservations have been made:

Unemployment Fund	\$ 13,575
Willet Trust Fund	5,868
Technology Fund	16,600
Memorial and Special Projects	11,943
Sick Pay Fund	21,735
Capital Outlay Funds	<u>150,297</u>
TOTAL FUND BALANCE RESERVATIONS	<u>\$220,018</u>

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 6 – PENSION PLANS:

Defined Contribution Pension Plan:

The District Library provides pension benefits for all its employees through a defined contribution SEP plan except as described below. Employees over the age of 21 are eligible to participate 90 days after their date of employment. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The plan requires the District Library to contribute an amount equal to 8% of the employee's base salary each quarter, but does not require or allow employee contributions. The District Library's contributions for each employee and the interest allocated to the employees' accounts are fully vested at all times.

The District Library's total payroll for the year ended June 30, 2007, was \$174,691. The District Library's contributions were calculated using the base salary amount of \$165,681 and the District Library made the required contributions amounting to \$13,255.

NOTE 7 – LEASE

The District Library is leasing a copier under a noncancelable operating lease which will expire May 2010. A new four year lease was signed. The following is a schedule by years of future minimum rentals under the lease at June 30, 2007:

<u>Years Ending</u> <u>June 30:</u>	
2008	\$1,298
2009	1,298
2010	1,190

This lease contains an option whereby the District Library can purchase the copier at fair value at the end of the lease term. Lease expense under this non-cancelable lease was \$1,315 for 2007.

NOTE 8 – RISK MANAGEMENT:

Property, liability and worker's compensation insurance and health and disability benefits are contracted by the District Library with commercial insurance providers. For the year ended June 30, 2007, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 9 – RECONCILIATION OF BASIC FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Total fund balance and the net change in fund balance of the Library's funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the balance sheet and statement of revenue, expenditures, and changes in Fund Balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified accrual basis	\$ 785,409
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	<u>632,240</u>
Net Assets – Full accrual basis	<u>\$1,417,649</u>
Net change in Fund Balance – Modified accrual basis	\$ 81,657
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library books and collection materials	14,862
Capital outlay	38,795
Depreciation	<u>(45,944)</u>
Change in Net Assets – Full accrual basis	\$ <u>89,370</u>

HARBOR BEACH AREA DISTRICT LIBRARY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes	\$ 349,675	\$ 347,850	\$ 348,639	\$ 789
State grants	2,300	2,300	2,488	188
Fines and forfeits	23,000	23,800	25,067	1,267
Rentals	9,000	12,100	13,765	1,665
Interest	8,000	19,625	28,267	8,642
Program fees		6,000	6,270	270
Other grants			5,000	5,000
Other revenue	<u>10,100</u>	<u>10,480</u>	<u>16,872</u>	<u>6,392</u>
TOTAL REVENUE	<u>402,075</u>	<u>422,155</u>	<u>446,368</u>	<u>24,213</u>
EXPENDITURES:				
Recreation & Cultural:				
Salaries & wages	132,000	146,500	142,351	4,149
Employer FICA	10,100	11,210	11,141	69
Retirement	10,600	11,700	11,238	462
Employee benefits	52,866	38,270	31,513	6,757
Insurance - Workers Comp.	2,850	3,050	2,813	237
Unemployment	600	500	10	490
Books	21,500	22,750	16,580	6,170
Magazines & periodicals	2,750	2,750	2,415	335
Video cassettes	10,500	11,850	9,160	2,690
Computer software	1,200	2,800	2,736	64
White Pine contract	2,500	2,500	2,474	26
HB historical video	10	10		10
Copier lease	1,200	1,500	1,315	185
Furniture and equipment	1,500	1,000	534	466
Supplies	4,200	4,200	3,583	617
Utilities	26,000	36,500	34,205	2,295
Water & sewer	600	900	674	226
Internet access	3,000	1,100	1,078	22
Telephone	3,000	3,000	2,501	499
Repairs & maintenance	18,000	21,000	14,474	6,526
Insurance	14,500	15,000	13,600	1,400
Advertising	1,800	1,500	1,172	328
Elections & legal fees	2,000	2,000	1,418	582

HARBOR BEACH AREA DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
(CONTINUED)				
Audit fees	2,400	2,400	2,400	
Meals & mileage	2,000	2,500	1,296	1,204
Workshops	1,250	1,350	825	525
Friends of the Library	1,400	2,000	1,836	164
Adult library programs	1,000	8,000	7,611	389
Concert series	5,000	3,750	2,135	1,615
Summer reading program	2,000	3,565	3,178	387
Technology equipment	501	11,500	11,330	170
Capital outlay	50,000	53,000	27,089	25,911
TOTAL EXPENDITURES	<u>388,827</u>	<u>429,655</u>	<u>364,685</u>	<u>64,971</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>13,248</u>	<u>(7,500)</u>	<u>81,683</u>	<u>89,184</u>
FUND BALANCE - JULY 1	666,089	666,089	666,089	
FUND BALANCE - JUNE 30	<u>\$ 679,337</u>	<u>\$ 658,589</u>	<u>\$ 747,773</u>	<u>\$ 89,184</u>

HARBOR BEACH AREA DISTRICT LIBRARY

BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2007

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Charges for services	\$ 79,000	\$ 81,031	\$ 81,032	\$ 1
Rentals	500	780	780	-
Interest	500	988	988	-
Other revenue	1,500	3,249	3,250	1
TOTAL REVENUE	<u>81,500</u>	<u>86,048</u>	<u>86,050</u>	<u>2</u>
EXPENDITURES:				
Recreation & Cultural:				
Salaries & wages	28,000	28,191	28,165	26
Employer FICA	2,050	2,067	2,119	(52)
Retirement	2,150	2,017	2,017	-
Film rental	20,000	21,807	21,807	-
Concession purchases	14,200	13,818	13,818	-
Pickup & delivery	2,000	2,388	2,388	-
Supplies	800	1,114	1,119	(5)
Utilities	600	551	551	-
Repairs & maintenance	1,000	1,841	1,840	1
Custodial service	5,000	5,000	5,000	-
Insurance	200	200	200	-
Advertising	5,500	7,054	7,053	1
TOTAL EXPENDITURES	<u>81,500</u>	<u>86,048</u>	<u>86,077</u>	<u>(28)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(26)</u>	<u>(26)</u>
FUND BALANCE - JULY 1	37,663	37,663	37,663	
FUND BALANCE - JUNE 30	<u>\$ 37,663</u>	<u>\$ 37,663</u>	<u>\$ 37,637</u>	<u>\$ (26)</u>



Nietzke & Faupel, PC

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Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

September 20, 2007

To the Board of Trustees of the
Harbor Beach Area District Library
Harbor Beach, Michigan

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the Harbor Beach Area District Library for the year ended June 30, 2007 and are submitted for your evaluation and consideration. We would like to emphasize that our audit was conducted for the purpose of expressing opinions on the aforementioned financial statements; therefore, the following comments are not necessarily all-inclusive.

Budget Compliance:

During our audit, we found a few instances where the Library was not in compliance with P.A. 2 regarding budget procedures. The Act provides that a local unit of government not incur expenditures in excess of the amount budgeted. During the year ended June 30, 2007, the Library incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>UNFAVORABLE VARIANCE</u>
THEATRE FUND:			
Employer FICA	\$ 2,067	\$ 2,119	\$52
Supplies	1,114	1,119	5

In order to avoid incurring expenditures in excess of the appropriated amounts, the Act requires that the budget be amended when necessary. This would include reducing the budgeted amount if actual revenues are less than the estimated revenues originally budgeted, and increasing the budget to allow expenditures in excess of the original budget if excess amounts are available for transfer within the fund or if additional revenues become available. This can only be done if there are periodic comparisons between budget and actual figures throughout the year. We recommend that monthly comparisons be made between budgeted and year-to-date actual revenue and expenditures. If it appears there are going to be unfavorable variances between the budgeted and actual year-to-date figures, the budget should be amended to eliminate the variance.

Capitalization Policy:

During our audit, we noted that the Library's capitalization policy includes any assets with lives two years and greater. This leaves the possibility that many immaterial assets could be recorded on the books. We suggest that the Board implement a written policy requiring all assets costing more than an established amount, such as \$1,000, to be capitalized and depreciated over the assets useful life.

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

Off-site Back-up of Records:

Currently, the Library's records are backed up and kept at the same location as the original records. We would recommend developing a disaster recovery plan and keeping a back-up of all the Library's records at an off-site location.

The above recommendations are being made in an effort to improve the Library's system of record keeping. If you have any questions regarding these recommendations, please contact us.

Nietzke & Faupel, PC
Nietzke & Faupel, PC
Pigeon, Michigan

September 20, 2007



Communication of Significant Deficiencies and Material Weaknesses

To the Board of Trustees of
Harbor Beach District Library,

In planning and performing our audit of the financial statements, the governmental activities and each major fund of Harbor Beach Area District Library as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Harbor Beach Area District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

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

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

Due to the limited number of people employed by Harbor Beach Area District Library, many critical duties are combined and given to the director. Presently, a single individual prepares and signs checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger. Also, the same person responsible for cash disbursements is responsible for handling and depositing of cash receipts, recording cash receipts and maintaining the accounts receivable. Situations where employees have both custodial and record keeping responsibilities for the same asset are considered a significant internal control deficiency.

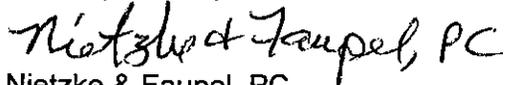
While we understand that a complete segregation of duties is impractical for a small library with limited personnel, we believe that some relatively minor changes could be made which would significantly improve controls. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible. The disbursement policy of requiring two individuals to sign the checks is an effective control that the library already has in place. We suggest that the cash custody duties be separated from the record keeping duties if possible. One individual on the library staff could prepare the library's receipts while another prepares the bank deposits and the director continues to prepare the bank reconciliations. As an additional check, the library's treasurer could review the check book, bank statement and computer detail reports each month.

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

The AICPA Auditing Standards Board issued Statements on Audit Standards (SAS) 112 which establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting and is effective for periods ending after December 15, 2006. According to SAS 112, it is considered to be a control deficiency if a client we are auditing has ineffective controls over the preparation of their financial statements such that client controls are absent or controls are not effective in preventing or detecting material misstatements in the preparation of the financial statements, including the related footnotes.

The personnel of Harbor Beach Area District Library have the capability to perform monthly internal accounting functions and reports as required by management. The personnel of Harbor Beach Area District Library do not have the expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report. We believe this meets the definition of a material weakness under Statement on Auditing Standards 112.

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


Nietzke & Faupel, PC
Pigeon, Michigan

September 20, 2007