

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 Pigeon District Library	County Huron
Fiscal Year End 6/30/07	Opinion Date 6/30/07 11/15/07	Date Audit Report Submitted to State 6/8/07 12/18/07	

We affirm that:

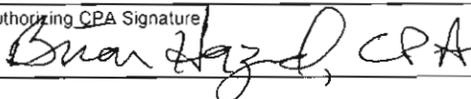
We are certified public accountants licensed to practice in Michigan.

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"/>	No other reports are required
Certified Public Accountant (Firm Name) Nietzke & Faupel, PC	Telephone Number 989-453-3122	
Street Address 7274 Hartley Street	City Pigeon	State MI
		Zip 48755
Authorizing CPA Signature 	Printed Name Brian Hazard	License Number 1101014007

**PIGEON DISTRICT LIBRARY
PIGEON, MICHIGAN**

**FINANCIAL STATEMENTS
JUNE 30, 2007**

PIGEON DISTRICT LIBRARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pigeon District Library
Pigeon, Michigan 48755

We have audited the accompanying financial statements of the governmental activities of the Pigeon District Library, Pigeon, Michigan as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pigeon District Library's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinions.

As described in Note 1, the Pigeon District Library prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position – cash basis of the governmental activities of the Pigeon District Library, Pigeon, Michigan, as of June 30, 2007 and 2006, and the changes in financial position – cash basis, thereof for the years then ended in conformity with the basis of accounting described in Note 1.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

November 15, 2007

FINANCIAL STATEMENTS

PIGEON DISTRICT LIBRARY

**STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCE
CASH BASIS
GOVERNMENTAL FUND**

	JUNE 30,	
	<u>2007</u>	<u>2006</u>
<u>ASSETS:</u>		
Cash and deposits	\$ 140,337	\$126,962
Restricted assets:		
Cash-State Aid	2,131	4,714
Cash-Capital Improvement	134,823	130,853
Cash-Furniture	7	7
TOTAL ASSETS	<u>\$ 277,298</u>	<u>\$262,536</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES:</u>		
Payroll taxes withheld	\$ 2,038	\$ 2,948
TOTAL LIABILITIES	<u>2,038</u>	<u>2,948</u>
<u>FUND EQUITY:</u>		
Fund balance:		
Reserved	136,961	135,574
Unreserved	<u>138,299</u>	<u>124,014</u>
TOTAL FUND EQUITY	275,260	259,588
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 277,298</u>	<u>\$262,536</u>

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

PIGEON DISTRICT LIBRARY

**STATEMENTS OF REVENUE, EXPENDITURES, AND
CHANGE IN FUND BALANCE - CASH BASIS
GOVERNMENTAL FUND**

	YEARS ENDED JUNE 30,	
	<u>2007</u>	<u>2006</u>
REVENUE:		
Local sources:		
Property taxes	\$ 174,998	\$ 124,111
Contributions from other local governments	2,700	3,800
Penal fines	30,272	34,191
Book fines	2,602	2,740
Donations	8,176	8,085
Memorials	460	559
Interest earned	5,531	4,945
Rentals	2,675	2,720
Copier	1,786	1,898
Video tape rentals	4,526	5,129
Miscellaneous	2,063	1,543
State sources:		
State aid	7,062	7,392
TOTAL REVENUE	<u>242,851</u>	<u>197,113</u>
 EXPENDITURES:		
Wages	109,956	98,964
Utilities	13,598	12,809
Insurance	3,563	3,152
Repairs and maintenance	4,664	6,101
Enrichment program	699	683
Education	1,951	1,924
Supplies	4,639	4,471
Postage	997	1,014
Books and magazines	18,829	20,245
Professional fees	3,838	3,425
Payroll taxes	8,558	7,714
Employee benefits	5,805	5,001
Dues and memberships	13,123	3,754
Cleaning	1,918	1,698
Kitchen supplies	762	685
Miscellaneous	475	748
Video tapes	3,552	3,576
Advertising	356	399
Appreciation dinner	1,011	698
Internet charges	650	595
Christmas decorations	165	181
Newspaper digitization	-	1,500
Homebound program	168	131
Capital outlay	25,138	2,226
Technology	2,764	2,386
TOTAL EXPENDITURES	<u>227,179</u>	<u>184,080</u>
 EXCESS OF REVENUE OVER EXPENDITURES	<u>15,672</u>	<u>13,033</u>
 FUND BALANCE - JULY 1	259,588	246,555
 FUND BALANCE - JUNE 30	<u>\$ 275,260</u>	<u>\$ 259,588</u>

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

PIGEON DISTRICT LIBRARY

**STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL -
CASH BASIS
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUE:				
Local sources:				
Property taxes	\$ 138,741	\$ 138,741	\$ 174,998	\$ 36,257
Contributions from other local governments	6,275	6,275	2,700	(3,575)
Penal fines	30,000	30,000	30,272	272
Book fines	3,000	3,000	2,602	(398)
Donations	9,500	9,500	8,176	(1,324)
Memorials	700	700	460	(240)
Interest earned	1,500	1,500	5,531	4,031
Rentals	2,500	2,500	2,675	175
Copier	2,000	2,000	1,786	(214)
Video tape rentals	5,500	5,500	4,526	(974)
Miscellaneous	1,175	1,175	2,063	888
Contigencies	25,242	25,242		(25,242)
State sources:				
State aid	7,392	7,392	7,062	(330)
TOTAL REVENUE	<u>233,525</u>	<u>233,525</u>	<u>242,851</u>	<u>9,326</u>
EXPENDITURES:				
Wages	111,200	111,200	109,956	1,244
Utilities	14,800	15,196	13,598	1,598
Insurance	4,100	4,100	3,563	537
Repairs and maintenance	8,800	4,664	4,664	-
Enrichment program	700	700	699	1
Education	2,000	2,000	1,951	49
Supplies	4,500	4,639	4,639	-
Postage	1,000	1,000	997	3
Books and magazines	18,500	18,802	18,829	(27)
Professional fees	6,200	4,104	3,838	266
Payroll taxes	8,900	8,900	8,558	342
Employee benefits	5,850	5,850	5,805	45
Dues and memberships	14,500	14,500	13,123	1,377
Cleaning	2,100	2,100	1,918	182
Kitchen supplies	650	762	762	-
Miscellaneous	1,025	1,025	475	550
Video tapes	3,500	3,552	3,552	-
Advertising	400	400	356	44
Appreciation dinner	700	1,011	1,011	-
Internet charges	700	700	650	50
Christmas decorations	250	250	165	85
Homebound program	150	168	168	-
Equipment	20,500	25,138	25,138	-
Technology	2,500	2,764	2,764	-
TOTAL EXPENDITURES	<u>233,525</u>	<u>233,525</u>	<u>227,179</u>	<u>6,346</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>15,672</u>	<u>15,672</u>
FUND BALANCE - JULY 1	259,588	259,588	259,588	
FUND BALANCE - JUNE 30	<u>\$ 259,588</u>	<u>\$ 259,588</u>	<u>\$ 275,260</u>	<u>\$ 15,672</u>

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

PIGEON DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

In evaluating how to define the Pigeon District Library for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Library is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no component units that should be included in the Library's reporting entity.

Fund Accounting

The accounts of the Library are organized into one general operating fund. The operations of the Library are accounted for in a separate set of self-balancing accounts which are comprised of the Library's assets, liabilities, fund equity, revenue and expenditures. The fund of Pigeon District Library is categorized as follows:

Governmental Fund Type

General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources of the Library.

Basis of Accounting

Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The General Fund of the Library is accounted for by using the cash basis of accounting. Under the cash basis of accounting, revenue is recognized when received and expenditures are recognized when the disbursement of cash is made. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles for governmental units. These financial statements are, therefore, not presented in accordance with generally accepted accounting principles.

Budgets

Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget is prepared on the cash basis of accounting, as explained above, and is consistent with the preparation of the financial statements.

The Board of Trustees prepares the budget 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.

(Continued)

PIGEON DISTRICT LIBRARY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

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

Unused appropriations lapse at the end of the year.

On June 21, 2007, the Board of Trustees amended the budget of the Library. The budget amendment did not change the total appropriations for the year ended June 30, 2007, but altered certain line item appropriations. The final amended budget is presented on page 5.

NOTE 2 - CASH AND DEPOSITS:

At June 30, 2007 and 2006, the carrying amount of the Library's deposits (checking and savings) were \$277,248 and \$262,486, respectively and the bank balances were \$278,050 and \$265,583, respectively. All but \$80,932 of the deposits with financial institutions are insured by the FDIC.

The carrying amount of the Library's deposits at June 30, 2007 and 2006, of \$277,248 and \$262,486 include restricted funds totaling \$136,961 and \$135,574, respectively. The funds are restricted for the following purposes:

	JUNE 30,	
	<u>2007</u>	<u>2006</u>
State aid funds to be used only for the purchase of circulation materials	\$ 2,131	\$ 4,714
Furniture Fund	7	7
Capital improvements	134,823	130,853
Total restricted cash	<u>\$136,961</u>	<u>\$135,574</u>

Fund equity has been reserved at June 30, 2007 and 2006, for the amount of restricted cash as detailed above.

NOTE 3 - RELATED PARTY TRANSACTIONS:

The members of the Board of Trustees are appointed by the townships and village of the legal service area of the Library and include the following local units of government: Chandler Township, McKinley Township, Winsor Township, Caseville Township, and the Village of Pigeon, all of which are in Huron County, Michigan. These local units of government also provide revenue to the Pigeon District Library in the form of property taxes. For the year ended June 30, 2007 and 2006, total revenue received from the legal service area amounted to \$174,998 and \$124,111, respectively.



Communication of Significant Deficiencies and Material Weaknesses

November 15, 2007

To the Library Board
Pigeon District Library,

In planning and performing our audit of the financial statements of the governmental activities of Pigeon 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 Pigeon 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:

Segregation of Duties:

Due to the limited number of people employed by Pigeon District Library, many critical duties are combined and given to the Library Director. Presently, a single individual prepares the bank deposits and cash disbursements, reconciles bank accounts, as well as maintains the general ledger. Employees who have both custodial and record keeping responsibilities for the same asset create a significant internal control weakness.

While we understand that a complete segregation of duties is impractical for a 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. We would recommend the individual who prepares the checks does not have the authority to sign them. We suggest that the cash custody duties be separated from the record keeping duties if possible. One individual on the library's staff could prepare the receipts while another prepares the bank deposits. As an additional check, a board member could review the check book, bank statement and computer detail reports each month.

Board Approval of Invoices for Payment:

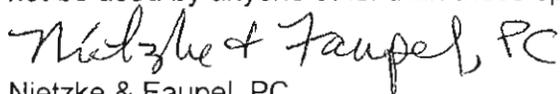
State statutes require the board to approve all invoices prior to payment. Currently, the Library Board does not approve the invoices before payment. The board should review the invoices before they are paid to comply with the state statutes.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result 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 Pigeon District Library have the capability to perform monthly internal accounting functions and reports as required by management with the exception of recording standard monthly journal entries. The personnel of Pigeon 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. We would recommend that the library director begin preparing and recording standard monthly journal entries as considered necessary.

This communication is intended solely for the information and use of management, the Board of Pigeon 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

November 15, 2007